



**First Eagle Fund of America Conference Call
Semi-Annual Update & Market Commentary
January 26, 2010**

John Arnhold:

Good afternoon and thank you all for joining us for the First Eagle Funds semi-annual conference call for First Eagle Fund of America. My name is John Arnhold and I'm the President of First Eagle Funds and the Chairman and CEO of First Eagle Investment Management, formerly known as Arnhold and S. Bleichroeder Advisers, which is the adviser to the funds.

Today, we will share our current investment thinking with you and provide an update on Fund of America. At the end of the call, we will answer questions that we have previously received from our shareholders.

We are fortunate to have Harold Levy here with us today. Harold has been the manager of First Eagle Fund of America since its inception in April 1987. Harold, alongside co-manager David Cohen and their analyst team, has one of the most successful long-term mutual fund records.

Fund of America has a unique, event-driven bias that focuses on identifying companies poised to benefit from changes that it believes the market has yet to recognize. The Fund, like all First Eagle Funds, applies a fundamental, bottom-up value approach to investing.

Before I turn the call over to Harold, I wanted to highlight that the name of the funds' adviser was recently changed. On December 7th, 2009 Arnhold and S. Bleichroeder Advisers renamed itself First Eagle Investment Management. The primary reason for the change in our name is a result of our having sold the rights to the S. Bleichroeder name to Natixis in 2002 with the sale of our investment banking and brokerage businesses. The agreement to continue to use the name expires this year.

We selected First Eagle Investment Management as the name of the First Eagle Funds' adviser in order to unify the name of the funds with the firm. This change will not have any impact on our clients, employees or shareholders.

I want to thank you for your continued support and we look forward to many rewarding years ahead. Now, I'll turn the conversation over to Harold.

Harold Levy:

Hello. Since this is the first call we've had, it's worth reviewing how we got here and what we do and why. We started First Eagle [Fund of America] almost 23 years ago, as a vehicle for the capital of family and friends of the firm, and that philosophy has essentially continued. And that is, while we are very interested in having a successful business and in growing the assets, our first and primary mission is to grow the value of our owners' capital. That's easily said, but not so easily accomplished because one often gets distracted. When certain things are in favor or disfavor in a market, if one's not disciplined and if one doesn't have the philosophy, one can stray from what the mission is.

I'll just state it again. Our mission is to grow our value, number one; number two, greater than the rate of inflation. Our third goal is to do it better than everyone else. But importantly, we never let goal number three interfere with one and two.

So, we're very focused on doing things which increase the value of our owners' capital. And what does that mean? That means we only buy businesses -- and I say businesses versus stocks. We



do buy stocks, but we look at it as we are buying a business. A stock represents a unit of ownership that has a call on the cash flow of the business. So, we are very, very focused on cash flow.

And, we understand that the market and the world focus on earnings. We have learned over time that cash flow is a much, much more ambiguous measure of value. It's something you can touch and feel. We find that, by focusing on cash rather than on earnings, we tend to find many more situations where things are interesting, and we also tend to avoid many situations where earnings tend to be a misleading indicator of what's going on.

I started out in the venture capital business, so I was always focused on paying bills and what happens when you don't have enough capital. This philosophy has just continued on to public companies.

So, what we have is a portfolio of anywhere from, on the low side 40, sometimes on the high side 60, but generally 40 to 45 companies where we have what we think are A-plus managements, where we have businesses which we believe can generate cash for an extended period of time. We're not looking for something where we're going to see a recovery this year and we think we can outsmart the market and then sell it before everyone realizes that earnings are going to be peaking. A-plus management, A-plus cash flow generation and a balance sheet that is conducive to executing the business plan is what we look for in our holdings.

Some say, well, you have A-plus this and A-plus that, so why do these things exist? Why, if they're so easy and you have all these A-plus characteristics, isn't the world focused on them? There are reasons. The reason is that we often look for companies that are misunderstood, where there is something going on; either the management has changed, either the balance sheet is changing or the business dynamics are about to change, just in broad strokes, as to why these situations exist.

The other thing we've noticed is that, because the market focuses on earnings and not cash, it very often neglects the effect that cash flow has on valuation. In other words, just like a home mortgage. If you buy a business at a certain price and you pay it down, even if nothing happens to the overall value, the de-levering aspect of it creates value for the equity. We look at stocks the same way. Businesses that have the incredible ability to generate cash day by day take the risk out of investing from the cash that is generated, assuming that management manages the cash flow effectively.

That is why we are very focused on having, one, the business that generates the cash and, two, the management that has their heads on right in our opinion. Some management teams, are very focused on growth and they believe that growing earnings per share is the way to create value, or at least may be the way to create value for themselves, versus the philosophy of generating cash and doing the right things by it, whether that means giving it back to shareholders in the form of dividends, whether it means buying back stock or whether it means in some cases doing acquisitions.

We are not opposed to any of those three, we just want management teams that recognize the nature of their business, that recognize what their mission is and that execute what they say they plan to do and do it in a way that is conducive to the owners getting the benefits of the cash generation and investing.

So, it's a very simple, straight forward philosophy. And fortunately for us, it's one that most people don't tend to follow because it's not always exciting. A lot of our companies are never in



the headlines, although sometimes they are. We prefer that they're not. We prefer boring businesses that just generate cash and create value, and every once in a while it gets recognized and we make money.

That's what we've been doing for almost 23 years now. And I'd say in today's world, the circumstances always change, but the philosophy really does not. The ability to execute the philosophy really doesn't change.

I look at the overall portfolio today and we have a bunch of companies that probably have an inherent free cash flow yield of approximately 8 or 9%, which means that the companies that we own, if you put them all together and made them one company, are providing about an 8 to 9% return on the market value of our investment; which to me, compares very favorably with most any alternative out there. You look at short-term rates of essentially zero, government bonds at 3% and corporates maybe a little higher. So to me, there's just no better thing to do today.

Understand that investing in equities entails risk. Understand that no returns are certain. Understand all those caveats. But over time, if we are halfway right in our assessment of the ability of these businesses to continue to generate cash, that even from today's valuation levels, we as owners will continue to grow our value.

So it's, again, a pretty simple philosophy. The difficulty is in the execution. Are these franchises as good as we think? Will the ability of these companies to generate cash ever be compromised? Will managements do things which we don't think are conducive to growing value? That's why we buy and sell them because, at certain points in time, the market gets very excited about companies. Maybe it's something that we thought was exciting at one price and the market gets excited and prices it such that the relative tradeoffs of risk/return aren't there.

We don't fall in love with companies. We don't fall in love with managements. We understand that we are buying things at a particular point in time and we are prepared to own businesses for a very long period of time. The beauty of public markets is you can change your mind and you can take advantage of either other people's impatience or other people's excitement over events which you expect, but don't attach as much significance.

That's the overall philosophy. There's no real difference today than it's been in the last 20 years. There are always things to worry about, always huge issues, always reasons why any stock we own can be worth a lot less or worth a lot more. So, I think what you have to look to us for, or for any manager, is whether they consistently execute what they say they're planning on doing.

If you looked at our portfolio and you say, "Why do you own this?" I can tell you in about 20 seconds the reason why we own it. And you can agree or disagree, but it's going to be consistent with the philosophy that I just described. And again, it doesn't mean we're going to be right or wrong about a particular stock but, over time, if we apply the philosophy consistently, if we get the people right -- again, we're not going to get them all right, we're going to get some wrong, we're going to get businesses wrong. But overall, if you go in with the expectation that you're looking for certain things and, over time, if you look for those things, you're going to find them. The key is when you think you've made a mistake to correct it quickly. When you've got the wrong person and you've got the wrong people running the business, you figure that out quickly. When the business is supposed to generate cash and it doesn't for quarter after quarter, you realize, okay, I got the business wrong. It wasn't just a one-time event and I have to move on, even if I don't understand why.



It's really just a disciplined approach. It's a selfish approach to saying we want businesses that generate cash, that have the ability to create value for their owners. We're not interested in businesses that have to grow. We're not interested in businesses that have to hire more people. We're not interested in anything other than following the philosophy to find businesses where there's excess capital generation and that capital can go to its owners.

That's what we do. We've been doing it for, as I said, for close to 23 years now. It's not sexy, though it can be. It's not exciting, though it can be. And we believe that compounding money over time is the way to create long-term value in public securities. That's a long-winded way of explaining why we get up in the morning to do this job.

John Arnhold: You mentioned you have a background in venture capital. Who would you count as the major influences in your development as an investor? And were there certain events that influenced your thought process in stock picking?

Harold Levy: I guess you try to learn a little bit from everybody. And most successful investors develop their own MO. I certainly learned from Warren Buffett, from Ben Graham, from Peter Lynch. For anyone who's been successful with the business there is a reason why. Sometimes people are in the right place at the right time, but people who have been successful over long periods of time generally have a philosophy that works. So, you try to understand what people are good at and what they're not good at. I think it's important for an individual who's managing someone else's money to understand what they're good at and what they're not good at.

Now, we do very little in the way of financials. There was a period of time where we had a lot of financials. Some worked very well and some worked not very well. And so, it was an easy decision for me to look at myself and say, well, why are you doing something that you're mediocre at when you're good at this particular sector, or another particular sector, but you're not good at financials. Why invest in them? Even though someone may present you an idea that seems great, why do it if your batting average isn't great?

You look at Warren Buffett, who's probably the most successful investor of our time, and he was invested in US Air, he was invested in some financials that didn't do very well. In retrospect, the reasons why something didn't work are always very simple and it's obvious. And you say, well, why did I do that?

You try to learn both from people's successes and from people's mistakes. Eddie Lampert, another good investor. He invested in Citicorp. He went away from some of the things that I think he was incredibly successful at, like companies that generate cash and buy back stock, to a more philosophical investment in Citicorp.

I like to be in businesses where I can see what the results are, measure it every quarter, measure what's happening. And understand that, when you're wrong -- you're going to be wrong -- you can measure how much you were wrong. In the financials, you can be wrong big time. So, I try to learn from everyone, both from their successes and their mistakes.

John Arnhold: What has been your most successful investment and why? And what's been your least successful, and what did each of these teach you?

Harold Levy: I guess the best thing we've done over the last couple of years has been **Valeant**, which fit right into what we do. It was a turnaround situation with a new management, with a business which we thought had the ability to be an incredible cash generator, a good balance sheet, but assets



that weren't managed effectively with an A-plus manager. And it turns out that our targets have been wildly surpassed and we still think it's interesting.

I guess it highlights the fact that people really make a difference. This was a company that had several managers prior and none of them had been successful. Someone came in who had a cash philosophy of generating cash and deploying it effectively. He did acquisitions, he did share repurchases. So, it wasn't that he just bought back stock or just grew the business -- he did what was right and that created tremendous value for the owners. So, that's a perfect one.

An example of a negative one is a company in the oil and gas business where they had an interesting franchise. They did enhanced oil recovery and had one of the largest CO₂ depositories in the country. So, they had a real franchise in terms of using CO₂ for oil recovery.

They embarked on a capital spending program which consumed a lot of their capital. We made excuses for awhile and said, well, this is a one-time event. The capital kept getting larger and larger. And so, we found other things we didn't like and we were wrong about the people. We think the business, had they just stuck to their original knitting, would have been a decent business. But, they took on extra risk and destroyed value in the process. You know, it's possible that it works long-term. Companies that lever themselves up can work very big, and if it works big they're heroes and, if it doesn't work, then they go on to something else.

It's important to understand when things change and the cash flows change, that you're really focused on whether you're right about the investment.

John Arnhold:

In the early part of 2009 you had a very high level of cash and I was told you were very skeptical of a recovery. Gold appeared in the portfolio as well. Over the course of the year, it appears you've gradually added more to your stock positions. What were the factors in your thinking?

Harold Levy:

I believe that there are always opportunities to make money but, if you lose it, those opportunities are foreclosed. So, given the way I understood the market, the Fed was flooding the world with liquidity. But what I didn't understand was when the inventory cycle was going to be over and when production would increase.

Up until the end of last year, I never really thought about refinancing risk. And so, companies where we had balance sheets that we thought were temporarily leveraged, but were about to de-leverage, where we liked the people, and liked the business, we came to the conclusion that we couldn't own these given the fact that even good companies couldn't refinance.

So, we de-risked the portfolio. We didn't think we were taking risk before, but when companies can't get financing, there was a level of risk that we had not assumed existed. You assume it's the worst case if someone who's got to refinance goes from paying 6% to paying 7 or 8%, not going 6% to 12 or 13% or can't get money at all.

So, we had a couple of situations where we were concerned that if the environment continued, things could deteriorate very significantly. So, we took some precautionary steps. And obviously, in retrospect they were all wrong. But I'd do the same thing today because, again, the philosophy is you can always make money, but you only lose it once. If it's gone, it's gone.

John Arnhold:

Are there sectors or broad themes where you are finding particular value today?

Harold Levy:

Not particularly. I'm not saying there aren't, but if you look at our portfolio, we are very, very much in favor of diversity. So, you look at our big positions, **Baxter** is a healthcare company;



Crown Holdings, a food and beverage company; **Amgen**, a biotech company; **Dresser**, in the oil service business; **DirecTV**, satellite business; **General Dynamics**, defense sector; **Devon**, oil and gas sector. So, we are very diversified. Every once in a while we will have a real sector bet. We had it in banks, as I mentioned, earlier in our lifetimes, and in the early '90s we had it in cable companies. We had it in defense once too.

Right now, we have a portfolio that is [composed of] a lot of individual good holdings where we believe that the risk/reward is favorable. We'd much rather have a situation where the success of the investment is dependent on management's ability to execute rather than the external environment; obviously, understanding that every investment is influenced somewhat by the external environment. We prefer to have a lot of individually non-correlated positions where the merits speak for themselves or they don't. So, there's no real huge theme in the portfolio other than cash flow, which has always been our theme.

John Arnhold: How does merger and acquisition activity play a role in the portfolio?

Harold Levy: Well, the logical extension of what we do is, if we have companies which are underappreciated, which have great cash generating capabilities, they tend to attract outside interest. So, in good periods of M&A activity, we will get six or seven deals a year. It's been a slow period, but we see that picking up. So, in periods of high M&A activity, we tend to do very, very well. It may be a little self-serving, but I expect M&A to pick up pretty soon. In fact, I think we're seeing a lot of evidence that that's the case today.

John Arnhold: You have a number of biotech stocks in the portfolio. Why do you own them?

Harold Levy: Biotechs are very interesting for a value investor. And what's interesting is that the people who tend to own biotech are very focused on revenue growth. So, when revenue growth is accelerating, biotech investors are willing to pay virtually any price. And when revenue growth is decelerating or flat, they are unwilling to pay any price. So oftentimes, we find lots of situations where the same thing we look for in any other investments, whether it's balance sheet, cash flow, are totally underappreciated because the natural owners of biotech don't want to own it because there's always some other company with a sexier, faster-growing product. But that's where the real interest is and where the real valuation anomalies occur. You have businesses that generate cash and do all the things that our other companies do, their end product just happens to be a biotech drug, but they don't have the same sex appeal that someone does who has just had something approved by the FDA.

We've done extraordinarily well with biotech investments. In fact, if all we did was biotech, our results would be much, much better. We've had a 90% plus hit ratio, which is why I stopped doing financials. It's a lot easier doing biotech and taking advantage of what I believe is sometimes the silliness of the market. We have a couple biotech investments where we have great cash flow, very good managements and interesting dynamics. We look at them just as any other business, they just happen to produce something that is technologically difficult and what some people regard as sexy and high growth, but we buy them when they're not that way.

Again, it's simple if you get something for nothing. In every biotech investment we've ever made we believe that if nothing good happened in the future, that our principal, our capital, would be protected. The difference between where the stock trades and the principal is obviously key. But we don't think we're taking very much principal risk. So, we're not buying biotech companies where we're putting in all the money and then figuring out a year or two later whether we've got something that is of value. We think our downside is totally protected and we have the positive cash flow, positive balance sheets and we put ourselves in the position to get lucky.



John Arnhold: Despite the run up over the last nine months, your top holdings have not changed much. Why?

Harold Levy: Prices got down to very low levels. If you asked me at beginning of '08 whether General Dynamics, which is a defense contractor that depends on the government for 75% of its revenues, would be selling at six times earnings, a good balance sheet, good management, I would have told you that was very, very unlikely. Well, it happened.

So, you had a lot of companies that were priced not based on fundamentals, but were priced based on the system falling apart. Just to be very clear, I'm not talking about stocks in general, but companies that I know a little bit about. These companies were priced on a liquidity basis, not on the basis of what was going to happen over the next three years or five years and not what's going to happen over the next three months.

We have seen a huge recovery in all these companies but, again, from levels that were just absurd. And as I said at the start of the call, today the portfolio has a yield of 8 or 9%. General Dynamics, is selling today at \$70. It got down to \$36, so it's doubled off its low.

We're not interested in creating extra work. So, if we have the things we like and we don't have to do anything, there's no reason not to just sit there.

John Arnhold: Harold, do you share Warren Buffett's outlook that America's best days are ahead, or do you feel that perhaps we're seeing the decline of the American Empire?

Harold Levy: I hesitate to use the word "empire" because countries that had empires sought to control and exploit. So I don't use the "American Empire" as the same category as the British Empire or the Roman Empire.

But, I do think the question is what the people of this country want, and are we going to be satisfied with the system and the politicians that we have today, who tell us that we can have everything we want and whenever something does go wrong, it's someone else's fault.

So, it remains to be determined. It won't just happen. We are never going to be, in my view, in the same relative position that we've been in for the last 30 years, where, up until perhaps 10 years ago, our major enemy had a horrible economic system and the rest of the world during the post-war period, had huge industrial damage, where Japan and Germany were decimated and China and Russia and Brazil didn't exist as industrial powers.

On a relative basis, we look at our relative share of world GDP. We're not going to be the same share just because, obviously, Germany and Japan have recovered and China and India are emerging as economies whose people want to have a better life.

We will not be in the same relative position that we've been in. That doesn't mean that our best days are behind us because, depending on how things turn out and what the people of this country want, whether they want the system which has brought them where they are today, or whether they look back at the financial debacle and say, well, the whole capital system doesn't work so we're going to throw that out. I think that's the question. Are the people smarter than the politicians? And I think they are. But right now, our leadership is far from satisfactory in making that happen.

John Arnhold: What are your biggest concerns in the near term and what keeps you awake at night?



Harold Levy:

I think it's pretty clear on a worldwide basis that the world economies are recovering. So, we are seeing a broad-based economic pickup, whether it's big, who knows. But what I've found is getting things moving in the right direction is 90% of the battle. So, that's positive.

We are running incredible deficits in this country and we are about to increase them. So, the fiscal discipline has totally left our system. As a country we are putting ourselves in danger of destruction on a long-term basis; not today, not tomorrow, but you can't run these kind of deficits and tell productive people that they don't get to keep the fruits of their labor, that it belongs to somebody else. It's not to say that we can't do a lot of things better in this country, but unless we have people who create value, there's not going to be a lot of value to distribute to others.

What bothers me is that we need to have leadership that tries to create value, not to seek blame. I said before that I think we have a leadership that has its own agenda and that agenda, whether they're well meaning or not – and we can debate that one – but that agenda that you can say anything you want, you can spend any amount of money and the consequences don't matter, is ultimately destructive. So, that's what keeps me awake at night. And whether the people in this country are going to put up with that and demand things to be done differently.

John Arnhold:

Thank you, Harold. And thank you all for joining us.

Once again, thank you for your continued confidence and support.



Average Annual Returns as of 06/30/2010	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Fund of America - Class A (w/o sales charge) (FEFAX)	-1.66%	14.94%	3.50%	6.05%	1.51%
First Eagle Fund of America Class A (w/ sales charge) (FEFAX)	-6.57	9.19	2.44	5.51	

The performance data quoted herein represents past performance and does not guarantee future results. Market volatility can dramatically impact the fund's short-term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance data through the most recent month end is available at firsteaglefunds.com or by calling 800.334.2143. The average annual returns for Fund of America Class A Shares "with sales charge" reflect the maximum sales charge of 5.00%.

The event-driven investment style used by First Eagle Fund of America carries the additional risk that the event anticipated occurs later than expected, does not occur at all or does not have the desired effect on the market price of the securities. Investment in gold and gold related investments present certain risks, and returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Fund of America as of June 30, 2010: Valeant Pharmaceuticals International 6.75%, Baxter International Inc. 3.74%, Crown Holdings Inc. 3.12%, Amgen Inc. 3.77%, Dresser-Rand Group Inc. 4.33%, DIRECTV 2.83%, General Dynamics Corp. 3.95%, Devon Energy Corp. 3.93%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The commentary represents the opinion of Harold Levy as of January 26, 2010 and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the firm. First Eagle Investment Management, LLC (FEIM) became investment adviser to the Fund commencing January 1, 2000. **These materials are provided for informational purpose only.** These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. **The views expressed herein may change at any time subsequent to the date of issue hereof.** The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

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