



**First Eagle Fund of America Conference Call  
Semi-Annual Update & Market Commentary  
July 20, 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 Chief Investment Officer of First Eagle Investment Management, which is the adviser to the Fund.

Today we will share our current investment thinking and provide an update on the Fund of America. After Harold Levy's comments, we will answer questions that we have previously received, but please feel free to submit a question live by the webcast or telephone.

We're fortunate to have Harold here with us today. Harold has been the manager of First Eagle Fund of America since its inception in 1987. Harold and his team of nine analysts and fellow co-manager David Cohen have one of the most successful long-term mutual fund records in the industry.

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

I want to thank you for your continued support and we look forward to many rewarding years ahead.

Harold Levy:

Good afternoon, everyone. I think the first thing to talk about is philosophy, because philosophy is really what drives our investments turnout. Our mission is to compound the value of the dollars that have been entrusted to us. We understand that every dollar we have invested was earned by someone else, maybe some was earned with less than hard labor, but, nevertheless, it was earned. And so we take our fiduciary responsibilities to manage that and care for it very seriously. So our goal is, number one, to compound that money.

The next goal is that we want to compound it greater than the rate of inflation. There aren't many things I can guarantee you, other than, over a long period of time, the dollars that you possess today will buy less than they will 10 years from now and will be even less than that 20 years from now. And that's been because from time immemorial governments take assets from savers, take assets from workers, some of which workers and the public voluntarily agree to, through taxes, and some of which is involuntary through printing money. And we are running huge deficits as a country, and there's no doubt in my mind that the value of our paper dollars, will, over time, be worth less. Whether that's a year from now, two years from now or five years from now, at some point in the future that will be the case. So the goal is to make sure that we compound our money at a rate such that your purchasing power at least maintains itself and, hopefully, grows.

The third thing is to do it better than everyone else, but that's an egocentric goal and it's a manager's goal and it's not a business goal. And if we really do a good job taking care of one and two, I think the third goal will become less important.

What do we do? We start out with a premise that we have to have a reason to own an investment. Again, we've been entrusted with capital and so we have a choice. We can do nothing with it. We can sit and we can hold cash and, in fact, in today's environment, the reasons why we want to own equities, I think, are somewhat even more compelling than other times. But we



have the mission of trying to grow value. How do we do that in a way that we think is consistent with not losing it? Well, you can't compound money if you take huge losses. So we research everything we do very carefully. What we try to look for or uncover are inefficiencies in the way things are priced: inefficiencies in the terms of, we look for an A-plus balance sheet with an A-plus management with an A-plus cash flow, which for some reason has a C-minus valuation.

The C-minus valuation can be the result of many things. It can be the result of temporarily an industry is out of favor; maybe a company is engaged in a huge capital spending project that's about to end, so they have large depreciation expenses which aren't sustainable; maybe there's a big R&D project that they're investing in that's about to come to fruition and one way or another, it's either going to work or the R&D dollars are going to stop; maybe the company has done an acquisition and there are huge consolidation savings that are about to take place, either because they're the buyer or the case is maybe they decide to sell the business, that maybe they're the number three or four producer and they're not making good returns. If you combine these factors with the number two producer, suddenly you have a good competitor with the number one producer and so that asset which wasn't worth much to you is worth a lot more in someone else's hands.

We've got examples of all those. But essentially we try to get something for nothing, where we think our valuation case is somewhat containable on the downside. And I say valuation case, distinguishing between trading case, because stocks can trade anywhere at any time and we've all seen ample evidence why that's the case.

Then the question is, if we have a containable downside, do we put ourselves in a position to get lucky? And that's really what we try to do. Luck can be in the form of the market recognizing it; it can be in the form of a corporate buyer or an LBO (leveraged buyout) fund recognizing it. But, somehow we want to see the potential for that valuation gap, which we think exists, to be narrowed over time, either through natural causes like earnings and ordinary shareholders like us doing it or through extraordinary causes like corporate acquisition. We tend to do really well during periods of strong M&A activity, because, as you can guess, if we own companies with all the characteristics I talked about, the A-plus balance sheet, cash flow and managements, that the market's not valuing properly, usually those things get arbitrated out over time.

So that's what we do. We're not interested in making huge macro calls. We want investments where, to the largest extent possible, the success or failure of the investment is much more dependent on what management does versus whether GDP growth is 2%, or 2.5% or 1.5%. We understand that the economic environment affects everything, but, again, to the largest extent possible, we want companies which, if they execute their game plan, we will be successful investing with them.

Our largest holding is **Valeant Pharmaceuticals**, which is a specialty pharmaceutical company which we got involved with when a new manager came aboard; **Ball Corp.**, producer of metal cans; gold we can talk about a little later; **Dresser-Rand** a manufacturer of oilfield service equipment; **Eastman Chemical**, a chemical company; **General Dynamics**, defense; **Devon Energy**, essentially a gas company; **Amgen**, biotech; **Baxter**, medical devices; **Precision Castparts**, aerospace.

So if you said, 'What are you betting on to happen?' We're betting that on an individual basis these companies are undervalued that have, in all these cases, good balance sheets, good management and can execute their game plan, not independent of the overall economy, but certainly with some protection from the overall economy.



Just a few comments on macro and why we think stocks are interesting today. But essentially, there are not many things one can do with cash right now, and sometimes that's not always the case. But for now, if one invests short-term, one essentially makes zero, on a risk-free basis. If you want to invest long-term in fixed income, you can make, on a risk-free basis, 3%. And frankly, I don't know that I would sleep at night if I was lending money to the U.S. government for 30 years or even 20 years at that kind of rate.

Or, you can own equities. And I look at our portfolio, and we have a free cash flow yield of, depending on the particular day, 8% or 9%. I understand we can be wrong about any investment at any time, but I think it is doubtful we're wrong on all 10 altogether. So I look and say, well, we can earn that kind of return, and that assumes nothing about making good investments, just where we are today. These companies' free cash flow I'm talking about is after they have spent the capital, which presumably, they are spending in a way which increases the value of the company over time.

So we see what we own as being very compelling relative to most alternatives that exist today. Understand that we live in a risky world. We've always lived in one. Sometimes the risks are apparent. Sometimes they are hidden, but they always exist and so, to me, this environment is frustrating because, you know, we're sitting midway through a year and we're barely on the side of positive and so that's not fun. On the other hand, we can't predict when values get realized. All we can do is make sure that every day we are doing things that make sense. Our own capital is invested the same way. So we believe, long-term, that this is a very, very sensible and, I think, in today's values, a compelling way to manage one's excess cash.

That's what we do. We've been doing it for a while. Some years are better than other years, but we keep doing the same thing because it works, not because we're smarter, not because any of those things. It's just because philosophically we're trying to do things with our own capital that we think make sense and I think there's a difference between people who get in the business of trying to build a business versus people who get in the business who are trying to manage capital. And we are in the latter form, not the former. Not that we don't want to have a bigger business, but the business started to manage family money and I think that just sets the tone for the whole way that we go about managing assets which are our own and those which you choose to entrust to us.

John Arnhold: We have a few questions that were given beforehand and also some live on the webcast. Let me take one that we got beforehand. "Why do you own gold? And, what is your cash level and what is the thinking behind those two allocations?"

Harold Levy: Our cash level is about 3%, and it's just a function of buying and selling. I understand that the cash makes exactly zero today. So there's no benefit in owning cash, other than waiting for an opportunity in a particular security that you're looking to buy. So we are constantly having orders in, often below the market, so we average a pretty low percentage of cash, except when we get some very, very big, broad macro concern, and most of the time those concerns are troublesome, but going to cash is tactical and we just don't do it very often.

I think gold is a pretty straightforward way to invest in what I described earlier as almost the necessity of governments to attack savings through diminishing the value of the paper dollars that they print. And sometimes that's less obvious, but, over time, it's an inexorable process where the value of dollars decreases. I think it's particularly interesting now or particularly timely now. Gold has done very well over the last couple of years, but we have unprecedented deficits, and that's just current deficits, not counting liabilities that we are establishing and that we



continue to establish. I think one would have to have their head in the sand to think that we are going to tax our way out of this, that it's not going to be some kind of combination of taxes, of spending control and of currency depreciation, to essentially get us out of this mess that we're in. So, to me, gold is both an offensive and a defensive investment.

John Arnhold: Let's take one of the live questions from the webcast. "Do you feel there will be a more business-friendly disposition from the administration going forward?"

Harold Levy: Well, you read the papers and it seems like, perhaps, someone in this administration has figured out that businesses are the ones who hire people and I guess we should be happy for those revelations. So I think this administration has viewed the corporate world as if it's a goose or a chicken to be plucked whenever it's useful.

I think they're paying the price and that the anti-business rhetoric which they have promulgated against virtually all industries, whether it's energy, whether it's healthcare, whether it's insurance, whether it's finance, they are reaping what they sowed. And, they've sowed an atmosphere of anti-business, anti-capital, that if you earn money, it's mine, it's not yours. So I think the lack of hiring is a part of the process that the businesses have gone through and said, 'I just don't know what is going on. If I have a chance to open up a factory, where's the best place to do it?' And it used to be the United States.

Now, obviously, other countries are growing quicker, so I'm not saying that we're responsible for China growing at 10% and us growing at 2%. But, on the margin, if I were in government, I would be encouraging corporate America. I would be doing things to make us less tax-onerous and if they wake up to that, it would be good. I'm skeptical, though. I think this is probably tactical. We have an election coming up and business finally got up a little bit of their nerve and started speaking up, as opposed to hiding in the shadows as they've done and been supporters, even while their ox was being gored.

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John Arnhold: Do you have any view on where capital gains rates may be going?

Harold Levy: They're not going down. I know that. I suspect they go up. I think as part of the charm offensive this administration is now engaged in making people think it's a lot worse and then they're happy. You threaten someone's life, and then you only take one arm and then they feel good, because they still have one arm left.

I think they'll go up. Do I think they'll be as bad as possible? No. I would guess somewhere in the mid-20s, 20% to 25%. Others can make that prediction a lot better than me. I know a little bit about the companies I invest in. My guess on this, I think, is worthless.

John Arnhold: "Given the deflationary trends in effect, what are the implications for the Fund that has heavy concentration in materials and energy stocks?"

Harold Levy: Long-term, I just don't believe in countries which aren't on the gold standard, which have no discipline, that deflation will be an ongoing phenomenon. And I know other very smart people feel differently. I just don't think there's any stopping what governments will do, because governments cannot deal with deflation. We can deal with inflation. We cannot deal with deflation on a long-term basis.

So there will be, whether it's the government making direct car loans, whether it's the government, making housing loans, we will not, on a long-term basis, have deflation, I don't



think, where there's no balance of payments mechanism where we have to ship gold back and forth. We have a printing press. We're not Greece where we're dependent on the EU. We have a printing press and we know how to use it.

So I just don't see that happening, long term. The other thing is, our materials position is, I think, somewhat mischaracterized, because materials includes **Ball Corp** and **Crown Holdings**, which are both metal can producers, and they really have no material risk. They buy aluminum and steel and it's actually contractual that their customers pay for and they get a margin. So I think our material exposure is a lot less than that.

Now we do own some gas companies. The gas/oil spread today is probably near historic levels. Gas is cheap and abundant and, there is a big decline curve in gas. So if you don't keep drilling, eventually you run out of the stuff. If you look at the forward curve, it does let you hedge out a year or more, and the returns on doing this are not that bad. So I don't think we have a huge materials bet because if you look at our top 10 positions, 40% of the portfolio is there, there's really none, other than **Devon**, that I would consider a materials company.

**Eastman Chemical** is a chemical company, but about 40% of their business is chemical, but it's not economically sensitive. They produce filter tow used in cigarettes, which are, again, not that economically sensitive.

So we not interested in making big economic bets. We're just not interested in doing that.

John Arnhold:

Could you talk a little bit more about some of the top 10 holdings and why you like them?

Harold Levy:

**Valeant** has been a great holding for us. Every time we think it's fully valued, management does something that creates additional value, and they just did it a month ago where they entered into a merger agreement with another company where there's significant cost takeouts. At the end of the day, we have a company that's going to be generating very, very significant free cash flow with a management that has been absolutely nothing short of phenomenal.

**Ball Corp** is a metal can producer. There are really three producers of cans in the U.S. and no one tells their son and daughter to go in the can business, which is one of the reasons why I think it's a decent business. There's not a lot of capital coming in. Really, their free cash this year is in excess of \$5 a share. Debt pay down probably is done. Their balance sheets, both them and **Crown Holdings**, which is not a top 10 position, but close, are in good positions. The money's going to come back to the owners, whether it's in the form of share repurchases, which I think make sense at this point – sometimes they don't make sense, but for these companies they do – or, in the case of **Ball Corp.**, modest dividend increases.

**General Dynamics** is an incredibly cheap company, probably the best defense company for a generation. There are legitimate concerns about what defense spending is going to be going forward. Legitimate because defense is a big piece of the budget, but it's probably one of the more legitimate things that government needs to spend money on.

So I don't see draconian cuts here. The world is not getting any safer. Unfortunately, it's getting much more dangerous as we speak. We can talk all we want about not being able to afford defense, but it is a very legitimate function of government and I think, even with very modest budget growth, as opposed to budget declines that some are predicting, this company will do very, very well.



They also have a big commercial piece of **Gulfstream Aerospace**, which is about 25% of the business, which is on a pretty decent ramp-up.

But this company has a free cash flow yield today of probably 11% or 12%. To me, that's just extraordinary.

**Baxter** actually has hurt us this year. For the first time in a long, long time, the company had some troubles with one of their businesses and the stock is probably down 25% this year. Earnings are going to be up this year versus last year, but they were somewhat disappointing in the first quarter as one of their product lines was losing market share, and they decided they were unwilling to lose market share any more and so they cut prices to match competition. The company is selling at 9% free cash flow yield, minimal debt.

The really interesting thing about **Baxter**, which we don't know whether it's going to happen or not, is they have some products under investigation, which really seemed to have some help in if not curing, at least ameliorating, Alzheimer's Disease. Now if that turns out to be correct, **Baxter** will be a very big stock from here. But I wouldn't pay for that to happen, but I think as an option, it's pretty interesting.

So we think we're getting a very good company at a very reasonable price, with good dynamics, many other products. But then we have this big sleeper that could turn out to be something. Again, it's speculative, though.

John Arnhold: Do you see cash-heavy companies paying out special dividends in advance of potential tax increases?

Harold Levy: I had a conversation with a company this morning about that very topic, and I think they think it's too cute. If the dividend tax rate winds up going – right now it's at 15 – but if it winds up going to 40, I think there's compelling reason why companies should do that. If it goes to 20, then I think you're not going to see that happen.

In fact, I've been on a personal campaign of getting companies to think about dividends differently. One thing companies have done over this last cycle is they've done a tremendous job managing their business. Companies, certainly in industrial America, I don't talk for financial America because we really don't do much in that area, but industrial America is in extraordinary shape in terms of their balance sheets. At some point, they should do something with it.

That doesn't mean they should go buy companies, but they should give it to the people who give them the capital and that's the owners. I think it's time that shareholders start demanding that. Investing in a company isn't just a theoretical exercise, but you deserve to get something back. I tell that to every company and until the rest of the world does it, I think I'll be Don Quixote trying to get this to happen. Payout ratios have gone down for probably the last 20 years and there's no reason for that to continue.

John Arnhold: Regarding your option-writing strategy, selling calls: what is your current position regarding selling options?

Harold Levy: When someone gives you something for nothing, you take it. To me, writing an option is like being an insurance company, except you know what the exact risk is. And the exact risk is, if you're prepared to own the equity, then you have no risk at all writing an option, because all you do is you give up some opportunity costs for a period of time.



When premiums are high and it makes sense to take some capital off the table for short periods of time – understanding that one will never get rich by writing options. That won't happen. But there come points in time where you think companies have done very well in the stock market. You're not interested in losing your long-term position and creating a taxable event, but you do think that there's a period of time where the stock may not go anywhere, just because of what's happened and you can take some capital off the table with options, again, without taking an ounce of risk, other than opportunity cost.

The other time we use options is sometimes you're looking at something to buy and, oftentimes, others are looking, or maybe an event has occurred and you like it and you want to establish a position, but you just don't feel like paying current market price, and if you set it up with an option, you can buy something below market. Again, your return is finite, because if the stock goes straight up, you will wind up not really owning the position, but at least you'll own something and you will have made some money.

Options are tactical. They are not strategic. Options can, especially in a market like this, add modestly to returns. But the essentials are coming from making good investments, not from options.

John Arnhold: Harold, what are you most optimistic about?

Harold Levy: I think valuations today are extraordinary and maybe there's an impending disaster happening that's going to supersede all the macro events. The macro will supersede micro, so that no matter what a company does, you've got a great house, but the neighborhood is just really bad and it's getting worse.

I'm optimistic that companies that we invest in are run for the owners; that they do the right things, over time; that they are businesses that are based on needs, not wants, and so they are essential; that if they didn't exist, they'd have to be invented by someone, and that's what I'm optimistic about.

I think corporate America, as I said, did a phenomenal job during the last downturn. Remember, in the third quarter of 2008 people were thinking we were in a growth world and post-Lehman, in a few days, that that assumption changed very quickly. Corporations did a pretty good job of adjusting, cutting. You can argue they cut too much.

Now, it's anticipatory and real-time information. I think management information systems are light years better than they were 10 years ago. So I think companies do a very, very good job of running their business, not necessarily their balance sheets, but their business.

John Arnhold: Following up on the topic of sleeping at night, aside from being the steward of our clients' capital, what keeps you up at night nowadays?

Harold Levy: I feel like we, in this country, are living in a dream world, and the dream world is that we've all lived in an environment where the U.S. was the dominant economic power, the dominant military power and that whatever we did, everything would always work out.

I think, unfortunately, we are no longer in that world. It doesn't mean the U.S. isn't still a dominating military power, but military power follows economic power and as our economic power, even on a relative basis, declines, we will have rivals. That's not two years from now, but longer-term.



Secondly, we lose political influence by how we run our country. Unless we stand up for what we believe in, the world will lose respect for us, which I think is really happening.

So I worry about the big macro things, not whether **Crown Holdings** is going to earn \$0.50 or \$0.55 this quarter. Are we ever going to live in a society where people have realistic expectations that they can't have everything they want without paying for it? And not that someone pays for it.

So we've got a lot of work to do to be competitive. That's a long-term troubling phenomenon.

John Arnhold:

Thank you, Harold, and thank you all for joining us. If you have any questions, please feel free to call our Sales and Marketing Department at 800.747.2008.

Once again, thanks for your continued support and your confidence.



Disclosures

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](http://firsteaglefunds.com) or by calling 800.334.2143. The average annual returns for Class A Shares "with sales charge" of First Eagle Fund of America 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 use of options presents certain risks. When trading options, the Fund may incur losses or forgo otherwise realizable gains if market prices do not move as expected. 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%, Ball Corp. 4.71%, SPDR Gold Shares ETF 4.68%, Dresser-Rand Group Inc. 4.33%, Eastman Chemical Co. 4.04%, General Dynamics Corp. 3.95%, Devon Energy Corp. 3.93%, Amgen Inc. 3.77%, Baxter International Inc. 3.74%, Precision Castparts Corp. 3.23%, Crown Holdings, Inc. 3.12%, Gulfstream Aerospace Corp. 0.00%. 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 July 20, 2010 and is subject to change based on market and other conditions. 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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