First Eagle News

The Value of Go-Anywhere Investing

We feel that investment managers should not be rewarded for high returns that are merely the result of a rising market tide.

"In a recent issue of Barron's, a money manager was quite critical of a particular stock, but said he owned it, although he was underweighted. Which leads to the question: What's the point of holding a stock at all if one deems it unattractive? But that is precisely what many professional investors have been doing in an attempt to match or modestly beat their benchmark over a short period of time. Is any attention being paid to the fiduciary duty to fund shareholders? We [at First Eagle] believe that both closet indexing and shooting for the stars expose financial [intermediaries'] clients to undue risk. Both are a result of benchmark tyranny."

(Jean-Marie Eveillard, *Financial Planning Magazine*, November 2000)

FIRST EAGLE
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At First Eagle we feel that investment managers should not be rewarded for high returns that are merely the result of a rising market tide. However, benchmarking, like many widely-accepted bad ideas, began life with a respectable purpose. Over time, a fund's performance should be measured against an appropriate standard, such as the return on a broad-based market index, like the S&P 500 or the MSCI World. But it is our opinion that benchmarking as it is applied today does far more harm than good.

Managers who are given the flexibility to go anywhere and own out-of-benchmark stocks and who make independent investment decisions, in our view, are more likely to outperform over the long term.

The principal source of this harm is the inappropriately short time horizons over which an investment manager's performance is judged. A good investment manager with the flexibility to invest where the opportunities lie, who is dedicated to the preservation of client capital and focused on generating positive absolute returns over time, will often invest in ways that differ significantly from capital market benchmarks. This is especially the case when markets are in the grip of a mania. Some examples include Japan in the late 1980s, tech and Internet stocks in the late 1990s and financial stocks and natural resources more recently. As mania stocks rise in value, they come to dominate benchmark indices. Yet, these are precisely the investments whose temporary, but wildly inflated, prices should not tempt investors. Since manias have surprisingly long lives, an investment manager's refusal to buy the "glamour" stocks can lead to benchmark performance dispersion, or rather benchmark underperformance, potentially lasting for several years. However, we believe that the stocks of valuable businesses with solid balance sheets and sustainable earnings power will win over time. Thus, managers who are given the flexibility to go anywhere and own out-of-benchmark stocks and who make independent investment decisions, in our view, are more likely to outperform over the long term.

A second potentially harmful effect that arises from benchmarking is the tendency to measure performance on a relative basis. For example, if a market benchmark is up 40% and a fund is up only 25%, the fund has underperformed on a relative basis by 15%. Now, if a market benchmark loses 30% and a fund loses only 15%, some would consider the fund to have outperformed by 15% and the manager would be rewarded. In our minds, the two situations are not even remotely comparable. In the second scenario, there is potential for a permanent loss of capital that will affect the fund's shareholders regardless of its out-performance relative to a benchmark. As Jean-Marie Eveillard has always said, "You can't eat relative returns." An investment manager committed first and foremost to the preservation of client capital should not be rewarded for incurring a loss. In striving for absolute returns and, above all, the preservation of capital, a value manager's goal should be to perform well over time, regardless of industry benchmarks.

Investment managers who build portfolios to mirror that of a benchmark, minimize the risks of relative underperformance. But this can have several undesirable consequences. First, as we have already noted, it leads managers to buy, rather than avoid, high-priced "glamour" stocks. Second, it means that they will often not take full advantage of their best ideas. A large investment in an attractive opportunity that may be out-of-benchmark and best for clients may result in too much benchmark-related risk. At First Eagle, our go-anywhere approach to global value investing allows some of our funds the flexibility to invest across the capital structure and in a variety of countries and sectors, all without regard for industry benchmarks. Third, when risk is not defined in terms of permanent loss of capital, but rather in terms of deviation from a benchmark, the overall risk to investors increases.

"In the short run the market is a voting machine, but in the long run it is a weighing machine."
— Benjamin Graham

At First Eagle, we invest in businesses that we feel offer the best underlying values available. We look for strong balance sheets, sustainable earnings and careful management stewardship.

For example, benchmark-sensitive managers will ignore investments in assets such as gold, whose historical returns are negatively correlated with overall market conditions and may act as a potential hedge against extreme outcomes. Thus, it is our view that those investment managers who are influenced by benchmarking will likely achieve lower returns with increased levels of risk.

As Benjamin Graham noted in *The Intelligent Investor*, "In the short run the market is a voting machine, but in the long run it is a weighing machine." At First Eagle, we invest in businesses across the globe that we feel offer the best underlying values available. We look for strong balance sheets, sustainable earnings and careful management stewardship. Our investment decisions are made without reference to any benchmark portfolio. We select only what we believe are the best opportunities and our first question is always, "What can go wrong?" Our approach to value investing requires us to sometimes ignore "hot" sectors and go against the herd. However, over the long term we are confident that this approach will help to create attractive results for First Eagle's shareholders.

Average Annual Returns as of 03/31/2010

	YTD	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund – Class A (without sales charge) (SGENX)	4.23%	39.66%	8.45%	12.64%	1.19%
First Eagle Global Fund – Class A (with sales charge) (SGENX)	-0.98	32.68	7.34	12.21	
First Eagle Overseas Fund – Class A (without sales charge) (SGOVX)	4.37	39.33	8.20	12.50	1.20%
First Eagle Overseas Fund – Class A (with sales charge) (SGOVX)	-0.85	32.36	7.09	11.93	
	YTD	1 Year	5 Years	Since Inception 09/04/01	Expense Ratio
First Eagle U.S. Value Fund – Class A (without sales charge) (FEVAX)	3.23%	35.51%	5.08%	9.21%	1.26%
First Eagle U.S. Value Fund – Class A (with sales charge) (FEVAX)	-1.93	28.74	4.01	8.56	

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 Class A Shares "with sales charge" of First Eagle Global and Overseas Funds give effect to the deduction of the maximum sales charge of 3.75% for periods prior to March 1, 2000 and of 5.00% thereafter. The average annual returns for First Eagle U.S. Value reflect the maximum sales charge of 5.00%.

There are risks associated with investing in funds that invest in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. 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 portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

Standard & Poor's 500 Index is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the U.S. economy and is not available for purchase. Although the Standard & Poor's 500 Index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also considered a proxy for the total market. The MSCI World Index is a widely followed, unmanaged group of stocks from 23 international markets and is not available for purchase. The index provides total returns in U.S. dollars with net dividends reinvested.

The commentary represents the opinion of the Global Value Team Portfolio Managers as of April 2009 and is subject to change based on market and other conditions. Performance for periods prior to January 1, 2000 occurred while Mr. Eveillard was affiliated with another firm. Mr. Eveillard transitioned to Senior Adviser on March 26, 2009, a position he also held from January 2005 to March 2007, and continues to be a member of First Eagle Funds' Board of Trustees and a Senior Vice President of First Eagle Investment Management, LLC. The opinions expressed are not necessarily those of the firm. First Eagle Investment Management, LLC (FEIM) became investment adviser to the Funds 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 here 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.

The First Eagle Funds are offered by FEF Distributors, LLC, 1345 Avenue of the Americas, New York, New York 10105. **This collateral is not authorized for distribution unless accompanied or preceded by a prospectus. Investors should consider investment objectives, risks, charges and expenses carefully, which are detailed in our prospectus and summary prospectus and may be obtained by asking your financial adviser, visiting our website at firsteaglefunds.com or calling us at 800.334.2143. Please read our prospectus carefully before investing. For further information about the First Eagle Funds, please call 800.334.2143. Investments are not FDIC insured or bank guaranteed, and may lose value.**

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Average Annual Returns as of 09/30/2010:	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund – Class A (w/o sales charge) (SGENX)	7.73%	10.06%	7.46%	12.61%	1.19%
First Eagle Global Fund – Class A (w/ sales charge) (SGENX)	2.34	4.56	6.37	12.03	
First Eagle Overseas Fund – Class A (w/o sales charge) (SGOVX)	9.56	10.22	7.56	12.78	1.20%
First Eagle Overseas Fund – Class A (w/ sales charge) (SGOVX)	4.08	4.71	6.46	12.21	
				Since Inception 09/04/2001	
First Eagle U.S. Value Fund – Class A (w/o sales charge) (FEVAX)	4.65%	9.55%	4.45%	8.84%	1.26%
First Eagle U.S. Value Fund – Class A (w/ sales charge) (FEVAX)	-0.59	4.07	3.38	8.23	

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