

# First Eagle Is Who We Thought They Were

There may be a new regime, but it's awfully familiar.

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Nobody likes the uncertainty that can come with change, particularly when the status quo is pretty darn good. So, when Charles de Vault abruptly left the successful First Eagle funds in March 2007, his departure naturally worried the funds' shareholders. They may have breathed a sigh of relief when the funds' advisor, First Eagle Investment Management, brought the funds' previous longtime manager and value legend Jean-Marie Eveillard out of retirement to run the portfolios while a longer-term solution was determined. But the concerns mounted again when a number of other key managers, analysts, and operations folks also departed from First Eagle a few months after de Vault had headed out the door.

Back at First Eagle, questions abounded. Could the diversified First Eagle funds, including First Eagle Global (SGENX), First Eagle Overseas (SGOVX), and First Eagle U.S. Value (FEVAX), maintain the disciplined and uncommon value approach with a new set of managers and analysts? Would the eclectic portfolios endure? And importantly, would the funds behave as investors expected and be successful overall as they had been for the most part for more than two decades?

## Starting (Mostly) Over

Eveillard wasn't the only one left at First Eagle who knew the strategy and the funds. For one, Abhay Deshpande was still there. Deshpande, a former Morningstar fund analyst, had worked with Eveillard as an analyst when he joined the advisor in 2000 but then had moved off the funds into separate accounts and thus had not worked closely with de Vault during the latter's tenure as the funds' sole manager. Deshpande re-engaged with Eveillard and the firm's Global Value Team. And Alan Barr also remained as an analyst.

But the team needed a leader to succeed Eveillard as well as more analysts to replace those who had left. More than a year passed before the team would hire another portfolio manager, not surprising given the firm's cautious style. What was surprising, however, was its choice of a portfolio manager, Matt McLennan, who didn't have a lot of U.S. mutual fund experience. While McLennan had nearly

two decades of value-investing experience under his belt, his most recent and most extensive role was as the lead of a global-value team working for Goldman Sachs' private-wealth group in London. He didn't have a public performance record, nor could investors take a look at the portfolios he had put together. He talked the talk, but would he walk the walk?

Meanwhile, the firm also rebuilt its analyst ranks. A couple, including Kimball Brooker Jr., have since been promoted to the portfolio-management ranks. One interesting and unusual move was the hiring of the highly regarded value-investing author and professor Bruce Greenwald in late 2007. Greenwald, who had long known Eveillard, served First Eagle in a part-time role of director of research and helped primarily with the hiring and training of its analysts. It was a smart move. That Greenwald was well-known and respected probably quelled some nervousness on the part of investors. But the hire wasn't for show: Greenwald shares the fund's investment philosophy and has experience imparting how to think about the important facets of it. And he's seen enough students to help be able to determine who had the temperament to execute it.

Today the Global Value Team comprises six portfolio managers and seven analysts. Both Eveillard and Greenwald officially serve First Eagle as Senior Advisers, but their active involvement in choosing investments and portfolio construction is minimal. Eveillard is also the funds' board of trustees since June 2008.

## A Familiar Look and Feel

In some ways, the portfolios look different than they did in 2007. For example, the funds' average market cap has increased, and Global and U.S. Value have been moving more into U.S. technology stocks, an area they had previously tread lightly in. There's also more in financials, averaging roughly 11% since October 2007 through September 2011, up from 7% between October 1992 and September 2007. Global's and Overseas' investments in emerging Asia are historically high.

But it's plain to see the value spirit of the funds is still intact. Large-caps, particularly U.S. technology stocks, have been widely considered cheap, and the funds have remained in the blend column of the Morningstar Style Box. Deshpande says that many of these companies, such as Texas Instruments (TXN) and KLA-Tencor (KLAC), had been on the firm's wish list for some time, and that they'd finally reached attractive enough valuations to make it into the portfolios. And while even Eveillard once said "Asia is the future" and while the research team has been looking hard at the region, valuations haven't been overly tempting. In both Global and Overseas, the emerging-Asia stake is less than 5% of assets. Still in character, First Eagle is being patient.

Meanwhile, much of the portfolios should be quite familiar to investors. Several of Global's positions, including top holding Secom (SOMLY) and Shimano, Pargesa (PRGAF), and Sodexo (SDXAY), have been in the portfolio for nearly 10 years or more. The funds have also maintained a comparatively heavy commitment to its Japanese stocks—something that sets it apart from its competition. First Eagle has also maintained its long-term orientation, with the funds' turnover ranging between 9% and 30% since 2008.

The portfolios have also kept up their distinctiveness. Their active share figures (a measure of how different the funds are from their respective indexes) are about 90%—a very high figure compared with other funds. And while some of the portfolios' newer large-cap holdings are household names and widely held, the funds still move off the beaten path. Global and Overseas, for example, are two of fewer than a dozen U.S. mutual funds to put about 1% of assets in HeidelbergCement.

### Beyond Equities

With an absolute-return mentality, Eveillard and de Vaulx had long kept cash in the portfolios. The amount of cash would fluctuate, depending on the opportunities in the market, and the funds weren't afraid to keep large amounts of cash on hand. McLennan and his team have followed in those footsteps. The funds' cash stakes dipped in early 2009—to less than 10% of assets in both Global and Overseas and less than 15% in U.S. Value—when stock valuations were low and bargains abounded. As the market rallied, cash crept up in all of the portfolios: Global had 15.2% as of the end of July 2011; Overseas had 16.3%; and U.S. Value had 21.7%. (Those numbers have fallen a bit lately, as the managers have been net buyers during the most recent market turmoil.)

Bonds also remain part of the portfolios, if in smaller doses than in the past. Typically, these funds have looked for equitylike returns

from their bonds, often homing in on high-yield corporate issues, and Deshpande says the funds' smaller bond stakes of late are a function of low interest rates and tight credit spreads.

Finally, one of the more unusual attributes of these funds has been their constant inclusion of gold bullion. Eveillard and de Vaulx had long used physical gold as potential hedge against market meltdowns. Even despite the historically high price of gold, bullion remains in the portfolios, which have historically kept between 5% and 10% of assets in the metal. (As of the end of July, the fund kept between 5% and 7% of assets in gold.)

### A Performance Check

Clearly, there are some familiar traits among the portfolios, bringing some comfort to shareholders that the funds can continue to behave as expected for the long haul. But how have they performed?

While the past three years is hardly enough time to make an airtight judgment, the tumultuous market has given us a lot to observe, and so far, investors should like what they see. Most important, as one would expect, the funds have held up better than their peers in tough times. In 2008, Global, Overseas, and U.S. Value held down their losses more than most rivals, landing well into their respective categories' best quartiles. Similarly, since the end of April 2011, while all three funds have suffered around 10% declines, their benchmarks have experienced much worse. Thus far, the funds' resiliency and lower-risk profile appear to have endured.

The funds' protective stance and lighter losses in down markets have gone a long way in explaining the funds' longer-term success. So, even though the 2009 rally proved a challenge for all three offerings, their annualized three-year returns through Sept. 30, 2011, are strong. Global's three-year Morningstar Rating for funds, which is a risk-adjusted performance measure, is 4 stars; Overseas and U.S. Value have earned 5 stars.

### Conclusion and Caveats

Investors seem to be taking notice. While all of the funds suffered redemptions in the wake of the manager uncertainty—and like many others, during 2008's and early 2009's tough markets—they've been taking money in since October 2010, seeing their biggest inflows since early 2005.

That's easy to understand. These remain attractive, well-run funds that have maintained their unusual focus on capital preservation while not sacrificing decent gains during rallies. But caveats do remain. Most

important, although individual managers and analysts have experience, that experience came at different places; the team is still fairly new at working together.

And while the recent trends in the portfolios' market caps, along with the highly flexible approaches, suggest the firm can handle more assets, there could come a time when the funds' options are limited—particularly in the less liquid realm of international small caps and high-yield bonds.

Finally, investors who have been attracted to these funds for their ability to mitigate losses during an uncomfortable time should remember that they are likely to lag if the markets go on a sustained, long-term rally in which more-speculative shares and securities thrive.

That being said, this is one rebuild that has been a success.

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| Average Annual Returns as of 09/30/2011:                        | Year to Date | 1 Year | 5 Years | 10 Years | Expense Ratio |
|---|--------------|--------|---------|----------|---------------|
| First Eagle Global Fund - Class A (w/o sales charge)(SGENX)     | -5.26%       | 3.40%  | 5.02%   | 12.55%   | 1.16%         |
| First Eagle Global Fund - Class A(w/sales charge)(SGENX)        | -10.00       | -1.77  | 3.94    | 11.98    |               |
| First Eagle Overseas Fund – Class A (w/o sales charge)(SGOVX)   | -6.53        | 1.73   | 4.30    | 13.34    | 1.17%         |
| First Eagle Overseas Fund – Class A (w/sales charge)(SGOVX)     | -11.19       | -3.35  | 3.24    | 12.76    |               |
| First Eagle U.S. Value Fund – Class A (w/o sales charge)(FEVAX) | -3.12        | 3.89   | 3.79    | 8.87     | 1.24%         |
| First Eagle U.S. Value Fund – Class A (w/sales charge)(FEVAX)   | -7.96        | -1.31  | 2.73    | 8.32     |               |

**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 Global, Overseas and U.S. Value Funds give effect to the deduction of 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. Investments 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 Global Fund as of September 30, 2011: Texas Instruments Inc. 0.56%, KLA-Tencor Corp. 0.40%, Secom co. Ltd. 1.94%, Shimano Inc. 1.40%, Pargesa Holding S.A. 0.89%, Sodexo S.A. 0.85%, HeidelbergCement AG 0.93% and Gold Bullion 6.15%. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Overseas Fund as of September 30, 2011: Texas Instruments Inc. 0.00%, KLA-Tencor Corp. 0.00%, Secom co. Ltd. 2.10%, Shimano Inc. 2.70%, Pargesa Holding S.A. 1.56%, Sodexo S.A. 1.14%, HeidelbergCement AG 1.37% and Gold Bullion 7.66%. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle U.S. Value Fund as of September 30, 2011: Texas Instruments Inc. 1.17%, KLA-Tencor Corp. 0.75%, Secom co. Ltd. 0.00%, Shimano Inc. 0.00%, Pargesa Holding S.A. 0.00%, Sodexo S.A. 0.00%, HeidelbergCement AG 0.00% and Gold Bullion 5.48%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. Ratings are relative to a peer group and do not necessarily mean that the fund had high total returns. For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) First Eagle Global Fund was rated against the following numbers of U.S.-domiciled world allocation funds over the following time periods: 228 funds in the last three years, 146 over the past five years and 73 funds over the past 10 years for the period ended 09/30/2011. With respect to these world allocation funds as of 09/30/2011, First Eagle Global Fund received a Morningstar Rating of five stars overall and for the 10-year period, and four stars for the 3- and 5-year periods. First Eagle Overseas Fund was rated against the following numbers of U.S. –domiciled foreign small/mid value funds over the following time periods: 55 funds in the last three years, 37 funds over the past five years and 29 funds over the past 10 years for the period ended 09/30/2011. With respect to these foreign small/mid value funds as of 09/30/2011, First Eagle Overseas Fund received a Morningstar Rating of five stars overall and for the 3-, 5- and 10-year periods. First Eagle U.S. Value Fund was rated against the following numbers of U.S. –domiciled large blend funds over the following time periods: 1,652 funds in the last three years, 1,408 funds over the past five years and 832 funds over the past 10 years for the period ended 09/30/2011. With respect to these large blend funds as of 09/30/2011, First Eagle U.S. Value Fund received a Morningstar Rating of five stars overall and for the 3-, 5- and 10-year periods. The Morningstar Rating is for the A share class only; other classes may have different performance characteristics.

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