



**First Eagle Funds Global Value Team Conference Call
Year-end Update & Market Commentary
January 26, 2012**

Robert Bruno: Good afternoon and thank you all for joining us for the First Eagle Funds Global Value Team conference call. This is Robert Bruno and I'm the President of the Funds' distributor and head of the retail sales effort here at First Eagle.

We will begin today's call with an update on our current investment thinking by Portfolio Managers Matt McLennan, Abhay Deshpande, Kimball Brooker and Rachel Benepe. At the end of the call, we'll do our best to answer all of your questions.

Before I turn the call over to the team, I'd like to review the performance of our various funds for the calendar year ending December 31st, 2011.

In 2011, the Global Fund's A share returned -0.19% and the I share returned 0.06% compared to the MSCI World's return of -5.54%.

The Overseas Fund's A share returned -5.60%. The I share returned -5.37% compared to its benchmark, the MSCI EAFE's return of -12.14%.

The U.S. Value Fund's A share returned 5.70%. and the I share returned 5.99% compared to the S&P 500's return of 2.11%.

And finally, the Gold Fund's A share returned -11.13% and the I share returned -10.94% compared to the FTSE Gold Mines Index's return of -15.88%.

More detailed information on our funds' performance and allocations can be found on our website at www.firsteaglefunds.com.

I want to thank you for your continued support and we look forward to many rewarding years ahead. Now I will turn the conversation over to Matt.

Matt McLennan: Many thanks, Robert, and thank you all for joining us on the call today.

2011 was a transition year. A transition year from the inevitabilities of deleveraging in the developed markets to one perhaps better characterized by what we would call fault line vulnerabilities. At the heart of this transition was a pronounced deterioration in the quality of money as policy makers used easy policy to cushion economic challenges.

Government debt levels and deficits have moved even closer to the point of irreversible vulnerability. Central bank holdings of government paper have ballooned in size and lengthened in maturity, causing one to question the collateral behind paper money. Real interest rates have collapsed to negative territory, which is well below their natural levels.

At the heart of this has been a notion that printing money can solve our economic woes, but, by its nature, it cannot be a solution to structural productivity shifts, wealth distributional issues, demographic burdens and real energy costs. In fact, a weak currency policy probably exacerbates energy risk as the price of oil has quintupled over the past decade and its volatility now arguably moves the economy around more than monetary policy.

Energy price volatility is one of the fault lines in a world of easy money and political unrest. Shale gas and oil are an offsetting positive, but there's a long way to go before that moves the dial on the energy supply curve.

As the quality of man-made money has eroded, gold has served as valuable ballast and Rachel will elaborate further on gold later on in the call.

I mentioned earlier that we had a transition year from inevitable deleveraging in the private sector. This is, perhaps, most evident in the United States.

Debt to EBITDA in the corporate sector is now below 1x and there's been somewhat of a normalization of business confidence.

When we look at household debt service ratios, they're actually better than the 30-year median, as reported by the Federal Reserve, and some of the healthier banks have now started to grow their loan portfolios on attractive terms. Kimball will discuss our holdings in BB&T and U.S. Bancorp later in the call. This is certainly not a bullish statement on the part of First Eagle, but just a statement that the deleveraging that has beset the economic landscape in the private sector of the United States is now less inevitable than, perhaps, it was.

What has made the private sector improvement possible was one part time, prudence and loan restructuring, and one very large part government stimulus. The consequence of this is that the deleveraging risk has moved or it's been transferred, in part, from the private sector to the public sector.

So the fault line has moved from the private sector to the public sector. And the nature of the fault line is as follows. If we ignore the need for fiscal consolidation, we could ultimately invoke a confidence crisis in the world reserve currency. On the other hand, if we embark upon rapid austerity, we're likely to dive into a deflationary recession.

So, policy makers will need to walk a fine line of incremental tightening within the speed limit of the economy, which will require deft political compromise. The political state, however, is uncertain and the possibility of compromise remains a question mark.

Looking across the Atlantic, Europe is set to slow down as a consequence of its fiscal austerity policies, but there are some balancing considerations here. In particular, Europe is the home of big government and fiscal consolidation is arguably a step in the right direction, long term, for Europe.

Furthermore, the consolidation is concentrated on those economies with current account deficits which have competitiveness issues. This fiscal consolidation will reduce their labor costs relative to those that don't and will help in their long-term adjustment to being more competitive.

So, ironically, in a back-handed kind of way, Europe is at least on the path to adjustment. They're biting the bullet and it's interesting to reflect on whether Merkel, for all of her criticism, will one day be seen as the fiscal equivalent of Volcker.

There are, however, fault lines yet to be crossed in Europe. We're going to need to restructure the Greek and the Portuguese debt. The outcome for Italy, Ireland and Spain will be a

function of political will, but, at least for now, it looks a little more sound than the situation in Greece and Portugal.

The banks will need to recapitalize and so we've been wary, but the recent long-term liquidity provided by the ECB will help buttress the banks' profits as they undertake somewhat of a carry trade, owning their own sovereigns.

The fault lines, when we think about Europe, tend to be more of an intra-Europe nature and paradoxically are not necessarily implying a negative inevitability to the European currency as a whole. When we look at Europe as a whole, it has a better current account and a better fiscal picture than the United States and the currency does not trade far away from its long-term real averages to the dollar.

As such, our hedges have moderated over the past 12 months. In the 1.40 to 1.45 range, we were close to 45% hedged on the euro. Our hedges are now in the low 30s range.

We also face complexities in China. China is cooling with a slowdown in the property sector. A decade of interest rates well below the nominal growth rate of the economy has fueled a property investment boom of epic proportion in China. We've commented on this in the past.

The market is now anticipating a reflationary easing in China, with the rally in copper prices that we have seen of late, but we caution that property busts often reduce the elasticity to easier policy, as we saw in the United States.

Meanwhile, the export model for China is coming under huge pressure from rising wages and the prospect of tariffs being imposed by trading partners. China, like the United States, faces an uncertain leadership transition in 2012.

What has been seen as inevitable over the last few years is Chinese growth. It's been a pillar of global growth expectations. Could this assumption come under pressure?

China has been the benefit of massive savings because of their strong competitive positioning, but the task of deploying these savings is becoming more complicated for a central government to handle.

Japan had a tough 2011. It's economically recovering from the tsunami, but the power constraints that have resulted from the tsunami and the high value of the yen has pressured the export sector and we see Japan recently reporting a trade deficit.

Like the United States, Japan faces the daunting task of substantial fiscal consolidation and, despite having a better current account position than the U.S., credit default swaps for Japanese government debt are implying growing risk. We are 40% hedged on the yen and I'll remind you that our focus in Japan is not on calling the business cycle, but rather on identifying good businesses at good prices.

So, we see many fault lines but few inevitabilities. In fact, the one inevitability is probably commerce. So, we've continued to be invested primarily in resilient equities that are priced for some degree of imperfection.

Here, volatility has been our friend, as it has provided more opportunities to invest with a margin of safety. Unfortunately, the equity market is no longer in distress, but equities have

remained the least worst hunting ground for margin of safety seekers. Valuations feel less stretched than 10-year TIPS trading at negative real yield and business behavior in the corporate sector remains more prudent than that of government.

From a micro standpoint, we've been dealing with several challenges. In a world where real interest rates are negative and gold has quintupled over the past decade, we're having to seek some portfolio ballast in defensive equities to secure a satisfactory real return.

Over the past year, we've made small investments in an eclectic range of industries, from instant noodles to wireless telecom, toothpaste, over-the-counter consumer health products, utilities, lawn and garden care and food retailing. On the whole, defensive stocks were not bargains during 2011, during a period of risk aversion. So, our actions were very selective.

Where we did invest, we picked up royalty-like, strong franchise businesses at single-digit EBIT multiples with sustainable free cash flow yields in the mid-single-digit range or higher and dividend yields in each case more than Treasuries, Bunds, Gilts and JGBs where, unlike the sovereigns, the balance sheets of what we bought were simple and strong and the prospects decent for preserving earnings power in real terms.

We hope these securities provide a modicum of ballast for our portfolio in future years. We also took advantage of windows of economic uncertainty to plant a number of new seeds in businesses that ought to participate in a better economic backdrop going forward, also across a range of eclectic industries such as silicon wafers, PVC, optical and lens technology, and logistics.

During points of distress in the European crisis, we invested in non-bank investment holding companies that traded at deeper discounts to intrinsic value. These were the innocent victims, in some cases buying back, rather than issuing, stock.

The scarcity may have been less in the supply-protected business model in these cases, but more in the extreme price margin of safety. And, ironically, in Europe the market was actually firm for a number of leading franchises with a more global footprint, and we lightened up on some of those long-term holdings. Abhay is going to discuss that in more detail.

Before handing it off to Abhay, let me just touch briefly on the performance highlights for the year. Robert mentioned our returns and what I will say, as a whole, is that as a team we were disappointed with the absolute return character of our performance over the past 12 months.

At First Eagle, we're very focused on absolute underwriting standards and we're very focused on avoidance of permanent impairment of capital. But this was a year that showcased that mundane can be beautiful. Some of our top performers were, indeed, amongst the categories of more mundane businesses – Cintas in uniform rentals; Comcast, the cable company; FirstEnergy, the utility; Lorillard, in menthol cigarettes; Ono Pharmaceuticals, a relatively unknown Japanese pharmaceutical company; Visa and MasterCard in payment processing.

And perhaps the best example of good performance in the past year and of the style of investing in First Eagle, looking for mundane, well capitalized and conservatively managed businesses, was a company called Société Sucrière de Pithiviers le Vieil, managed by the Delloye family in France. This was a sugar refiner that we originally purchased in the early 1990s.

Elizabeth Tobin, who is with us here today, was the analyst on the security at its original purchase in the early 1990s. We've owned this security for the better part of two decades and it has compounded out at a very attractive rate. The business was finally acquired in the past year at a premium of north of 100% above the trading price prior to the bid.

I did mention, however, that there was disappointment in the absolute performance in the portfolio over the past year and, perhaps, the underperformance in the portfolio was a little bit more thematic in nature. Some of our holdings were perceived as victims of financial repression.

In particular, companies like Bank of New York, who earn a return on money market mutual funds or the float from custodial accounts, are obviously earning lower amounts of money on those businesses at the moment. And also, holders of excess, but low-yielding capital, such as Keyence, the electrical sensor company with roughly half its market cap in cash, or NKSJ and MSAD, the over-capitalized Japanese insurance companies, also suffered in a low-interest rate environment.

Other companies that suffered were those as perceived victims of fiscal consolidation, particularly in the construction sector, companies like HeidelbergCement and Bouygues.

And finally, the gold miners underperformed bullion, which actually gave us the opportunity to recently lift our stake selectively.

I'm now going to turn the call over to Abhay, who will talk more about the evolution of our country and sector weightings over the past year, as well as some of the changes in our existing holdings. Kimball will then discuss how we approach the European crisis in financials and Rachel will discuss trends in the world of gold and gold miners. Abhay, over to you.

Abhay Deshpande:

Thank you, Matt. Hello to all of our long-term shareholders and welcome to our new ones. Just to reiterate to all of you, we at First Eagle are long-term, global value investors. Our objective is the long-term preservation of our shareholders' capital. An objective we believe we can obtain by investing in a diversified collection of undervalued securities, with sound balance sheets, sound management teams and sound business models. Importantly, in buying companies with such characteristics we try to minimize the risk of the permanent impairment of capital, that is, buying something for more than what it's worth.

I think it's also a good time to reiterate a few other things. First, as somewhat cautious investors, our results may frequently be out of line with market averages and our peers. So, one thing to keep in mind is that our funds often lag in strong markets. Our experience over time is that our investment approach leads to satisfactory results, but the key variable is time, for instance an entire market cycle.

It's been worth it to hang on during the performance droughts in order to get that full cycle return, which, again, historically has been satisfactory for most of our shareholders, but to conclude my disclaimer, do be prepared for periods where we lag. Certainly don't expect heroic performance in bull markets and have patience with us through the entire cycle.

In our last call in July, I had spoken about our migration out of Europe and Asia ex-Japan, over the past few years, while touching on our increasing U.S. stock exposure, which now stands at a decade high. At the time I provided an example of Sysco, the food services

company, and, as is typical as soon as we mention anything public, I'm sure that the stock price collapsed soon after, but I think it's recovered.

I had mentioned that Europe seemed frustratingly efficiently priced and that global franchise companies seemed fairly priced, while distressed prices were often associated with distressed balance sheets. The situation has not really changed that much and our weightings reflect the situation. Europe now represents about 14% of Global Fund assets – down from the mid-20s three years ago.

Were we braver, perhaps we'd have piled into the banks there, but balance sheet concerns remain, despite the ebullient beginnings in the year and perhaps Kimball will touch on that a little later.

Now, with that said, many European stocks are revisiting their 2008 lows and we have selectively added to existing positions. Clearly, the distress is evident and we are looking. It's just not as easy as one would expect, given the steep declines in the indices.

That said, around the world, there is an intense, almost singular focus on the macro. This seems to be the case even among value investors.

In fact, it may be a key reason why we've been able to purchase companies that would not normally qualify for our portfolio. I mentioned that our U.S. holdings are at a 10-year high and the main reason for that is our double-digit allocation to high-quality technology companies.

As long-term shareholders know, the tech industry is a tough one for a long-term investor because, in most cases, the very short product life cycles conflict with our long-term holding period. However, several things have changed over the last decade.

One, prices are a fraction of what they used to be. Two, due to consolidation and other factors, many sub-industries are much less fragmented. The resulting scale advantages of Microsoft, Intel and Cisco gives us some comfort as long-term investors as to the durability of their respective franchises. Three, many companies have adopted more shareholder-oriented capital return policies and, four, balance sheets have sometimes turned Japanese.

And here's an example of that. Last time I mentioned Sysco. This time, let's use the other Cisco as an example.

Cisco Systems, as you all know, is broadly known as the world's largest networking company. Its products are used to sort, organize, aggregate and route data streams from one data point to another. Customers include small businesses, large enterprises and government agencies. Having begun life simply as a router company, Cisco has grown and evolved to meet the changing landscape of global communications. Oftentimes, the company's products are an enabler of an emerging trend, such as cloud services and database virtualization.

The business does operate in a competitive industry, though, with such companies as Juniper, Hewlett Packard and Huawei, the Chinese company, aggressively pursuing market share. The biggest threats we see to Cisco's position is aggressive pricing by well-financed competitors, such as Huawei, and, of course, technological obsolescence.

In terms of both the dynamic competitive environment and risk of obsolescence, we believe that Cisco's technological lead is sustainable, undoubtedly aided by its large R&D effort. For instance, Cisco's R&D budget is six times greater than that of Juniper, which does make it difficult to dislodge Cisco from its leadership position.

With regards to price, if you remember Cisco's \$0.5 trillion market capitalization in 2000 briefly made it the world's most valuable corporation. But after peaking at 160 times earnings in 2000, Cisco traded for 10 times earnings this past summer, a multiple compression of 94%. At that moment, the company's net cash was equivalent to 40% of market cap. There's some similarity to the example of Keyence that Matt had mentioned where the cash was equivalent to 50% of market cap.

So at that time, clearly the price was right, as was the balance sheet. But was management sound, was the business model sound? After talking it over with our analysts, we became more confident in both management and the business model and we bought nearly \$500 million worth of stock last year at what we feel are quite attractive prices.

Now, clearly, there are short-term headwinds for this company. You know, in being a tech stock, we expect the price to be volatile. For instance, its government clients are increasingly cash constrained.

Instead, our attention is on the intrinsic value of the business, which we estimate at a materially higher level than the current price and as so long as we believe that the business model remains intact and its scale advantage continues to translate into healthy margins and returns on capital, we don't mind riding out the inevitable volatility in both the business results and the stock price.

So, it's one example of where we've been able to take advantage of the singular focus on the macro to acquire a very high-quality franchise at a very reasonable price.

And with that, I'd like to hand it off to Kimball.

Kimball Brooker:

Thank you, Abhay, and thanks to everyone who's joining us this evening.

I did want to touch a little bit on our recent investments in some regional banks and comment a bit on Matt's observation about the differences between the banks in Europe and the banks in the U.S. from an investment perspective.

The first thing is that, for us, there are some reasonably high hurdles for investing in financials, partly because of the structural nature of some of these businesses. There is inherent leverage in the balance sheet of a bank. Typically, there's \$5 or \$10 of equity for every \$100 of assets. So, small movements in the value of those assets can have material damage to the equity of these businesses.

The second issue one often confronts with many financial institutions, usually large ones, is the complexity of their operations and the opacity of their balance sheets.

Unfortunately, the European banking system has got a lot of features that make it difficult for us to get very interested. Most of the banks have less capital than the U.S. banks. Most of them are less profitable, whether you're looking at it in terms of net margins or returns on equity or assets.

In the case of the so-called "universal" banks, they are very, very complicated and often impenetrable.

In addition to that, for many of the banks in Europe, their loans exceed their deposits. They're heavily reliant on the capital markets for funding. In some cases, the heavy reliance is on dollar-based funding.

At the moment, they are really facing two crises. One is, obviously, a more traditional banking crisis, which began with capital markets' losses on securities. There is also a property bust in loans in property markets in certain parts of Europe that are confronting the banks.

But, in addition to that, there is a sovereign debt crisis, as Matt mentioned. And what's been developing in Europe is a self-reinforcing loop of stress in sovereign funding, stress in bank funding and stress in solvency of the banking system, both from credit losses as well as from proposed regulatory changes.

I think, although there was some chance to deal with some of these funding and solvency issues through a recapitalization, it would have required the regulators to force the banks to raise money. Instead, the authorities have indulged many of them and very few have raised what we think of as necessary capital.

The result of all this, from an economic perspective, is continued deleveraging and retrenchment, which is occurring against a backdrop of austerity plans in many countries, many parts of Europe, and may result in impacting the real economies of many of these countries.

So, for a variety of reasons, although we've looked at few European financials, we don't own any and I suspect that we won't any time soon, despite what appear to be interesting valuations from a statistical perspective.

We do own some banks in the U.S. that are more recent additions. We own some regional banks, BB&T and USB and, as Matt alluded to, we own Bank of New York.

Both BB&T and USB are sort of mirror images of the situation in Europe. They are well capitalized businesses. They've got strong regional deposit franchises. They're reasonably simple banking businesses. They take deposits from their communities and they make loans.

We were impressed in both cases by the conservatism of the underwriting and the underwriting culture through the crisis. Neither company actually lost money in any quarter during the banking crisis or the 2008 crisis.

Both have long-tenured management who we feel quite comfortable with and both of them have very strong non-interest income, non-banking-related business segments, which provide some ballast to their core banking activities.

Interestingly enough, the crisis in Europe is impacting both BB&T and USB in the sense that both have been gaining market share in the regions where they operate and actually growing loan books, despite a very weak demand for credit in the U.S. That is partly through FDIC-assisted transactions and it's partly by taking market share from weaker domestic competitors.

But now we're seeing, as the European banks sort of retrench and return to Europe, both BB&T and USB are beneficiaries of that.

And so, we do own some banks that are regional in the U.S. and the Bank of New York, but I think we'll pass on Europe, for the moment.

And I guess with that, I'll turn it over to Rachel.

Rachel Benepe:

From banks to gold. That seems apropos. Thanks, Kimball. Thank you to our clients.

2011 was definitely an interesting year for the gold space. As Matt had mentioned, bullion was a positive for the portfolio. It was up 10%. But the FTSE Gold Mines Index finished the year down 15.88%, leading to the question of the moment, is this a trend and when will it reverse.

From our perspective, we like to rebalance and bring us back to what our investors already know, and that is that we view gold as a potential hedge against those extreme outcomes that we cannot forecast. We've always held a combination of both bullion and gold-mining stocks because we recognize that physical gold isn't always the cheapest way to buy those ounces.

We live in a world where negative headlines dominate the news and, as Matt mentioned, these fault lines become more and more apparent. The increase in the gold price reflects this greater uncertainty.

However, as we mentioned in the last call, just because these things are more apparent doesn't mean anything is going to actually happen. Many of the buyers of physical gold over the last 12 months are entities or investors that only have the option to buy gold. If they're a central banker, a consumer in China or a woman in Indian, shares in gold-mining stocks do not offer the hedge these types of investors need.

However, we, as U.S.-based investors do have a choice. While the mining industry is capital intensive and it's a difficult business from an operating basis, many of the gold-mining shares offer an opportunity to buy gold at a cheaper price today.

In 2011, a number of mining companies experienced problems at mines. This led to production numbers being lower than expected, maybe costs were higher or expectations just weren't met. But many of these situations are short term and by focusing only on the short term, the optionality that these ounces in the ground offer gets lost.

Gold mining companies offer a call option. Gold is a scarce asset and if it becomes hoarded by both institutional investors and central banks, the only option for new supply will be from these mining companies. They are currently, pardon the term, money-printing operations.

The only difference versus man-made [money], however, is that they don't have a printing press. Gold is getting harder to find and harder to dig out of the ground.

And unlike gold bullion, which doesn't offer a yield, gold-mining ounces have an advantage in that companies can pay dividends. Another trend that we saw in 2011, and this one on a positive note, is many gold-mining companies took a hard look at their dividend policies and began introducing either gold-linked dividends or more defined payout ratios, which we hope is a trend that continues. As these companies generate record amounts of cash flow at today's

gold prices, we like to see them have these defined dividend programs, which we hope will instill some capital allocation discipline.

So, my comments above don't exactly answer the question of when will these stocks begin to outperform bullion and demonstrate that typical 2 to 3 times leverage, but they do kind of highlight the situation in terms of how we view gold. And I do want to highlight a point in time over the summer which does demonstrate why a 5% to 10% allocation to gold makes sense. As our investors know, the Global Fund remains allocated 10% to gold.

We live in a world where bad news and turbulence have become the norm. In those instances where there truly is, quote/unquote, new news, that uncertainty, such as the U.S. debt downgrade that occurred in 2011, both gold and gold miners acted as a safe haven.

The two weeks after the U.S. debt downgrade, the S&P 500 went down 6.2%. The FTSE Gold Mines Index was up almost 10% and physical gold was up 11%. It was in this instance that owning both provided a hedge against equity markets.

Taking that further, another two weeks, gold was up 9.7% for the month of August, starting from August 5th. While the S&P was up 1.85%, the FTSE Gold Mines Index in that time was up 12.4%. So, there does seem to come a point when owning a combination makes sense and that's in those times of distress.

Gold remains an important part of our portfolio, but we own it as a hedge. The last 10 years the trend has been on our side. Gold continues to go up every year and we worry that people have gotten used to this trend.

But the future remains uncertain. We have not adopted a view that we will see a complete global meltdown or any of these terrible things or that fault lines that have become more apparent will actually come to fruition.

But we sleep better at night knowing we, potentially, have some downside protection with the gold allocation. However, we remain hopeful, as ever, that eventually the gold position, once again, becomes an idle curiosity and equity markets and the global monetary system are healthy and roaring as ever.

Robert Bruno: Thank you, Rachel, and thank you, Matt, Abhay, and Kimball, as well. That will end our prepared remarks, but we look forward to answering the questions for those of you that are on the line.

Question: I wanted to ask in the Global Fund, you seem to have a significant overweight to industrials and somewhat to materials and I'm wondering if you could describe a little bit more what those holdings are made up of and your rationale for the overweight?

Matt McLennan: I think the first thing that's important to note is that our approach with respect to our holdings, in general, is not thematic in nature. So, when you see a high weighting to industrials, it doesn't necessarily mean that we're expressing a view on the direction of the economic cycle.

The second thing is, depending on the sector classifications you're looking at, sometimes the industrials include a wide array of different types of businesses. Included in there can be traditional industrials like Fanuc, which provides over half the market for the leading computer numerically controlled systems that power factory automation, but it also can include securities that are more commercial services in orientation, such as Secom, which provides annuity-like alarm services for companies in Japan.

So, there's a wide array of different companies. I think if you'd look at the thread of continuity that links the businesses in the industrial arena it is that most of the companies in that classification are very strong in terms of market position. Companies like Secom have over 50% market share, Fanuc around 50% market share. SMC, in pneumatics has a third of the market globally. You know, Keyence is the dominant player in electrical sensors and even companies like Cintas, which is commercial services, has somewhere around 40% of the uniform rental market in the Midwest.

So, they're all strong positioned businesses. They're all well capitalized and, I would say, as a whole, they're conservatively managed, as well. It's more about good businesses and good prices than a thematic bet on industrials.

Question: Could you comment on your thoughts on natural gas, maybe a position or two like Encana which you have in the Overseas Fund?

Matt McLennan: Clearly, natural gas has gone through a material decoupling from oil. If you look at the energy equivalence ratio between natural gas and oil, it's roughly 6 to 1, and yet the forward curves are different by a factor of more than 20 to 1 at this point in time.

What that largely reflects is the fact that oil is a global market and natural gas is a local market. Most natural gas is consumed in a fairly proximate geographic area. And there's been a meaningful improvement in the efficiency of extracting natural gas. And so the capital costs and the operating costs of extracting natural gas through horizontal fracking technologies is much lower on an MMBTU basis than the cost of extracting gas was five or six years ago.

And so, the collapse in long-term natural gas prices reflects the fact that in order to own a fair return on capital, the producers need a lower price. Companies like Encana have sold off in value because the replacement value of their reserves has gone down as the marginal cost of finding those reserves has gone down. And so, what you're seeing is a fairly extreme phase shift in the cost of extraction and it being reflected in the valuations for the securities.

I think the more interesting long-term thing to ponder is what are the arbitrage possibilities to bring the natural gas and the oil forward curves back into balance? You know, there are many potential paths and I think that will be a topic of great interest to the energy markets in the years ahead.

Question: I actually have a quick question with regard to the First Eagle Global Fund.

Is there any data that would calculate how much of the return of the fund can be attributable to the amount of gold that you've held over the years? I know it's something that you believe

heavily and I like the idea. Gold has had a pretty good run over the last 10 years. So, I'm just wondering if you're able to segment out how much of the absolute or total return is attributable to holding gold?

Matt McLennan: What you know as a general proposition is that gold is the minority of our portfolio. As Rachel said, we've owned it as a store of ballast that's been typically in the plus or minus 10% range. So, it's been a positive contributor of performance, but not the driver of performance.

Question: Rachel could you elaborate on the gold miners situation? She said that the 2011 variance between the miners and the bullion might be primarily due to some short-term problems at the mines?

Rachel Benepe: Sure. You know, gold mining is a really difficult industry. And so I think it's become easier for people with GLD to just buy physical gold and because there are large buyers of physical gold, if they're central banks or the Chinese and/or Indians who use it as part of a dowry. When people see the big price movements or they see the movements in the physical and they haven't seen that follow with the miners, I think a lot of investors are taking the view that that's some kind of confirmation that there's something wrong with the mining industry.

What doesn't help is that many of the miners did, in fact, have difficult years. It wasn't a majority of them, but there were a few high-profile situations that occurred over the year. But most of them are short term in nature, either a mine startup going slower than expected or costs being slightly higher due to something that might be short term like a kitchen fire at a mine that's in the Arctic Circle.

We think about these companies as they represent our hedge. From a fundamental perspective, these companies are often in the business of solving problems and it's really how well they solve those problems over the long term that's important. And these short-term things that happen, it's very difficult to mine exactly where you're meant to mine on a quarterly basis. But, on an annual basis, most of them hit their results and they're generating record amounts of free cash flow and we expect that to continue.

And as that continues, they'll have more cash available to return to shareholders. Hopefully that will serve as something that entices generalist investors to come into the space and to start to take a look.

The reality is, when you get into a situation where, let's say, the gold hedge is actually working because something is wrong in the world, it's our expectation that both bullion and the stocks will react to that as they did with the U.S. debt downward and as it has in the past, with other situations that have occurred. I think it's important to take on more of the view of the longer term and the fact that they have proven and probable reserves that are call options.

And stock picking is important in the gold space.

Question: I'm wondering what your current cash positions are in the fund?

Abhay Deshpande: We have cash and we also have cash alternatives. So, rather than putting all our cash in U.S. commercial paper, for instance, we'll also allocate some to the sovereign debt of well-financed governments around the world, typically in Asia.

So, in the Global Fund, this is as of the end of December, 14% cash, but then we also own about 2% of these sovereign debt bonds, so about 16% cash and equivalent overall in the Global Fund.

In the Overseas Fund, it's about 15%, which is about 11% cash and 3% or 4% in sovereigns.

In the U.S. Value Fund, we don't have any sovereigns in there, but we have about 17% cash in a mix of T-bills and commercial paper.

And one last follow-on to that in terms of cash, the cash has ranged anywhere from close to zero in April of 2009 all the way up to 20%, 25% at various periods.

For instance, at the beginning of last April 2011, we were about 20% cash. So, the cash does fluctuate based on market cycles and, specifically, on our ability or inability to find suitable candidates to invest in. So, cash is sort of our default position. Until we find something to do with it, we don't mind holding the cash aside from the uncomfortable fact that interest rates are very low.

Matt McLennan: And one thing I would just reiterate, perhaps where we differ from many others in terms of the cash that we hold in our portfolios is, when people invest in money markets, they're looking for the maximum yield on their cash. We think that's a little bit like picking up pennies in front of a steam roller.

When we think of cash, we think of security of principal, first and foremost. We're not looking to maximize yield and that's why we own individual pieces of commercial paper where we feel comfortable with the underlying credit portfolio of the issuers. That's why we own some T-bills. That's why, as Abhay highlighted, we own some very well capitalized short-dated positions in Asian sovereigns.

None of this is done for yield pickup. It's done for surety of principal.

We want the money to be there in moments of distress. So your return on that cash is not just the yield, but it's the option on deployment in a distressed environment.

Question: When it comes to gold, I know that your fund has compounded 22% for 10 years, so it gets awfully hard to feel good about getting into a market that has just done that over a 10-year period. How would you respond to that?

Rachel Benepe: I think if you look over the 10-year period – I don't know the specifics, actually, going on the last 10, but if you went from 2000 to 2010, the S&P was basically flat over the period, but gold was up 14.1%, unrelated to what our fund did.

And I think if you think about everything that happened over that point in time, it highlights why we believe you want gold. It's to serve as a potential hedge for those moments.

The difficult thing with gold is because it's had these price moves, people get very grounded in that. But when you look at the environment we're in, we're not in an irrational price for gold. Every movement we've seen in the price of gold over this period of time has been for a rational, fundamental reason. And the reality is, while the fault lines are much more apparent to the world and I think that is why you see gold above \$1,700, but none of these things have actually happened.

So, I think the biggest challenge that I see, from my end, is, just ensuring that people understand why you own gold as a hedge and it's not something you want to be doing well. When it's doing well, it means there's something really wrong in the world.

Matt McLennan:

If you're talking about 10 years ago versus today, think about the change in the quality of man-made money during that period. A decade ago before the tech bubble peaked, we had great belief in the system. We had 3% to 4% real interest rates and we had a fiscal surplus.

Today we have negative real interest rates as far as the eye can see. Even a 10-year TIP has a negative yield. The credit worthiness of the government hasn't been worse for a generation and gold has symmetrically moved up to reflect that.

What happens from here is anyone's guess. If there are policy blunders gold can go higher. If any of those fault lines open up, as Rachel said, gold can go higher.

On the other hand, if the system self-heals and real interest rates move up and the creditworthiness of the government improves, gold may moderate in value. We'd be quite happy to see that for our equity holdings.

Question:

What do you think your most important defensive move has been within the past, let's say, two years?

Abhay Deshpande:

The biggest, I guess, help, other than having gold as a ballast, as Matt says, has been our focus on intrinsic values and just remaining very disciplined in terms of our valuation approach and our investment approach.

It's hard to remember, but, this time last year people were quite excited about the economy and stock prices had been moving up and we stuck to our discipline and were raising cash as prices reached their intrinsic values.

So, I think sometimes that the hardest thing to do for any investor is to maintain discipline in the face of evidence at the time that seems contrary to what you're doing.

So, sticking to that discipline, having the flexibility, which you provide us, to hold that cash and to have the time to deploy it when we find opportunities that present themselves.

Matt McLennan:

And, you know, just furthering Abhay's point, when people think about defensive moves, they usually think about creative master strokes, buying the right CDS or the right hedge or what-not.

But if you look at the history of First Eagle, the best defensive moves were acts of omission. Such as being out of Japan in the late '80s, being out of tech in the late '90s, being out of U.S.

financials in '07.* And I think over the last couple of years things that have helped us were not rushing into the European banks, as Kimball said. That's a very big part of the value benchmarks around the world and we were willing not to be there. That act of omission has avoided a permanent impairment of capital.

Not rushing headlong into the BRICs at the heat of enthusiasm, at the end of 2010, I think is an act of omission that's helped preserve capital.

And so, as important as what we invest in is what we don't invest in and we view the art of this business as saying no to most things.

Question: I have a question about how you view dividends when you're evaluating a company. There's a lot of discussion of investors moving into dividends. Have dividend-paying stocks gotten relatively expensive as a result of that?

Kimball Brooker: So, dividends, to us, are nice to have. They're not, necessarily, a must have and there are some companies in the portfolio that don't pay dividends.

And the issue for us, when it comes to valuation, is that we're looking at operating income of the business relative to its enterprise value, which would dictate our valuation, which would in turn dictate whether we would be interested in adding a company to the portfolio.

I will say, though, that because of our investment approach, where we're looking for understandable businesses with competent management teams, many of them are relatively mature businesses. They generate more cash than they need to support their growth.

And so we do spend quite a bit of time looking at and thinking about capital allocation, which can take the form of new investment, share repurchases, or dividends. I think that dividends are probably our preference, unless the company is trading at a sufficient discount to intrinsic value where share repurchases would accrete value to the owners of the company.

Abhay Deshpande: One final thing. When you're looking to invest in a high-yielding stock, I think it's important to understand why the stock is high-yielding. Is it because the price is low or is it because they're paying out all of their income to their shareholders.

Matt McLennan: And some of our best long-term securities haven't paid a dividend. You have to bear that in mind. Ultimately, if the management's deploying capital rationally, we're happy for them to retain their earnings on a tax-deferred basis. And Berkshire Hathaway has been a good example of that for many decades.

Robert Bruno: So that was our last question. Thank you, Matt, Abhay, Kimball, and Rachel, and thank you, all, for joining us. Once again, thank you all for your continued confidence and support.

* Performance for periods prior to January 1, 2000 occurred while former Portfolio Manager Mr. Jean-Marie 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. First Eagle Investment Management, LLC (FEIM) became investment adviser to the Funds commencing January 1, 2000.

Average Annual Returns as of 12/31/2011	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund - Class A (w/o sales charge)(SGENX)	-0.19%	-0.19%	4.59%	12.02%	1.16%
First Eagle Global Fund - Class A(w/sales charge)(SGENX)	-5.18	-5.18	3.52	11.45	
First Eagle Overseas Fund - Class A (w/o sales charge)(SGOVX)	-5.60	-5.60	3.07	12.42	1.17%
First Eagle Overseas Fund - Class A(w/sales charge)(SGOVX)	-10.31	-10.31	2.02	11.85	
First Eagle U.S. Value Fund - Class A (w/o sales charge)(FEVAX)	5.70	5.70	4.41	8.05	1.24%
First Eagle U.S. Value Fund - Class A (w/sales charge)(FEVAX)	0.41	0.41	3.35	7.50	
First Eagle Gold Fund - Class A(w/o sales charge)(SGGDGX)	-11.13	-11.13	12.01	22.15	1.22%
First Eagle Gold Fund - Class A(w/sales charge)(SGGDGX)	-15.58	-15.58	10.86	21.52	

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, Overseas, Gold and U.S. Value Funds 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. Funds whose investments are concentrated in a specific industry or sector, such as the Gold Fund, may be subject to a higher degree of risk than funds whose investments are diversified and may not be suitable for all investors. Investment in gold and gold related investments present certain risks, including political and economic risks affecting the price of gold and other precious metals, like changes in U.S. or foreign tax, currency or mining laws, increased environmental costs, international monetary and political policies, economic conditions within an individual country, trade imbalances and trade or currency restrictions between countries. The price of gold, in turn, is likely to affect the market prices of securities of companies mining or processing gold, and accordingly, the value of investments in such securities may also be affected. Gold related investments as a group have not performed as well as the stock market in general during periods when the U.S. dollar is strong, inflation is low and general economic conditions are stable. In addition, returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets. All investments involve the risk of loss.

The holdings mentioned herein represent the following percentage of the total net assets of the **First Eagle Global Fund** as of December 31, 2011: BB&T Corp. 0.78%, U.S. Bancorp 0.68%, Cintas Corp. 1.46%, Comcast Corp. 1.32%, FirstEnergy Corp. 1.38%, Lorillard Inc. 0.67%, Ono Pharmaceutical Co. Ltd. 0.94%, Visa Inc. 0.73%, MasterCard Inc. 0.68%, Societe Sucriere de Pithiviers le Vieil 0.42%, Bank of New York Mellon Corp. 0.99%, Keyence Corp. 1.22%, NKSJ Holdings Inc. 0.94%, MS&AD Insurance Group Holdings Inc. 0.77%, HeidelbergCement AG 1.00%, Bouygues S.A. 0.65%, Gold Bullion 5.28%, Sysco Corp. 1.51%, Microsoft Corp. 1.45%, Cisco Systems Inc. 1.82%, Intel Corp. 0.97%, Juniper Networks 0.00%, Hewlett Packard Corp. 0.00%, Huawei Technologies Co. Ltd 0.00%, Fanuc Corp. 1.60%, Secom Co. Ltd 1.72%, SMC Corp. 1.40% and Encana Corp. 0.00%. The holdings mentioned herein represent the following percentage of the total net assets of the **First Eagle Overseas Fund** as of December 31, 2011: BB&T Corp. 0.00%, U.S. Bancorp. 0.00%, Cintas Corp. 0.00%, Comcast Corp. 0.00%, FirstEnergy Corp. 0.00%, Lorillard Inc. 0.00%, Ono Pharmaceutical Co. Ltd 1.41%, Visa Inc. 0.00%, MasterCard Inc. 0.00%, Societe Sucriere de Pithiviers le Vieil 0.83%, Bank of New York Mellon Corp. 0.00%, Keyence Corp. 1.51%, NKSJ Holdings Inc. 1.47%, MS&AD Insurance Group Holdings Inc. 1.36%, HeidelbergCement AG 1.58%, Bouygues S.A. 1.04%, Gold Bullion 7.07%, Sysco Corp. 0.00%, Microsoft Corp. 0.00%, Cisco Systems Inc. 0.00%, Intel Corp. 0.00%, Juniper Networks 0.00%, Hewlett Packard Corp. 0.00%, Huawei Technologies Co. Ltd. 0.00%, Fanuc Corp. 2.28%, Secom Co. Ltd 1.97%, SMC Corp. 1.97% and Encana Corp. 0.21%. The holdings mentioned herein represent the following percentage of the total net assets of the **First Eagle U.S. Value Fund** as of December 31, 2011: BB&T Corp. 1.53%, U.S. Bancorp 1.35%, Cintas Corp. 1.98%, Comcast Corp. 2.52%, FirstEnergy Corp. 2.13%, Lorillard Inc. 1.16%, Ono Pharmaceutical Co. Ltd 0.00%, Visa Inc. 1.35%, MasterCard Inc. 1.08%, Societe Sucriere de Pithiviers le Vieil 0.00%, Bank of New York Mellon Corp. 1.94%, Keyence Corp. 0.00%, NKSJ Holdings Inc. 0.00%, MS&AD Insurance Group Holdings Inc. 0.00%, HeidelbergCement AG 0.00%, Bouygues S.A. 0.00%, Gold Bullion 4.40%, Sysco Corp. 2.65%, Microsoft Corp. 2.45%, Cisco Systems Inc. 3.10%, Intel Corp. 1.78%, Juniper Networks 0.00%, Hewlett Packard Corp. 0.00%, Huawei Technologies Co. Ltd 0.00%, Fanuc Corp. 0.00%, Secom Co. Ltd 0.00%, SMC Corp. 0.00% and Encana Corp. 0.00%. The holdings mentioned herein represent the following percentage of the total net assets of the **First Eagle Gold Fund** as



of December 31, 2011: BB&T Corp. 0.00%, U.S. Bancorp 0.00%, Cintas Corp. 0.00%, Comcast Corp. 0.00%, FirstEnergy Corp. 0.00%, Lorillard Inc. 0.00%, Ono Pharmaceutical Co. Ltd. 0.00%, Visa Inc. 0.00%, MasterCard 0.00%, Societe Sucriere de Pithiviers le Vieil 0.00%, Bank of New York Mellon Corp. 0.00%, Keyence Corp. 0.00%, NKSJ Holdings Inc. 0.00%, MS&AD Insurance Group Holdings Inc. 0.00%, HeidelbergCement AG 0.00%, Bouygues S.A. 0.00%, Gold Bullion 17.20%, Sysco Corp. 0.00%, Microsoft Corp. 0.00%, Cisco Systems Inc. 0.00%, Intel Corp. 0.00%, Juniper Networks 0.00%, Hewlett Packard Corp. 0.00%, Huawei Technologies Co. Ltd. 0.00%, Fanuc Corp. 0.00%, Secom Co. Ltd 0.00%, SMC Corp 0.00% and Encana 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 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 MSCI EAFE Index is an unmanaged total return index, reported in U.S. dollars, based on share prices and reinvested net dividends of approximately 1,100 companies from 21 countries and is not available for purchase.

The S&P 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 S&P 500 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 S&P 500 Index includes dividends reinvested.

The FTSE Gold Mines Index is an unmanaged index comprised of approximately 19 mining companies, is available without dividends reinvested, and is not available for purchase.

The commentary represents the opinion of the Global Value Team Portfolio Managers as of January 26, 2012 and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the firm. 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. 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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