



Portfolio Manager Insights | What is Driving the Price of Gold?

August 23, 2011

Over the past year, a prevailing question in the gold market has centered on why gold equities are lagging gold bullion. This is a highly unusual occurrence, given that gold equities have historically displayed two to three times leverage in price movements to gold bullion. The FTSE Gold Mines Index is up 2.72% year to date as of August 22, 2011, while gold bullion is up 33.56% over the same period. At First Eagle, we perceive this disparity to be the result of fear and a misunderstanding by the overall market as to what is driving the price of bullion.

Many generalist investors, new to the gold space, assume that gold trades like a typical commodity, where stock prices lead the commodity price. As the price of gold has moved higher while many mining stocks have lagged, investors may interpret this as a sign that the price of gold is going to correct downward, rather than anticipating a rise in mining stocks. At First Eagle, we take a different view. We believe that gold bullion's move above \$1,800 has been driven by certain fundamental factors. Growing monetary and fiscal issues across the globe have driven fear into the market, pushing demand for gold up as widespread currency concerns come to the forefront.

Traditionally, the biggest driver of gold prices is central bank buying and selling. Exposure to gold is one way central banks have sought to protect themselves from other nations' currencies, and they cannot typically make direct equity purchases or gain exposure to gold aside from accumulating gold bars. Many feel that gold has become a substitute currency in today's environment, and we believe we will continue to see central bank buying, particularly as newly rich regions like Asia and Latin America look to diversify their holdings.

Gold is viewed as a scarce asset, and if demand from both institutional investors and central banks continues to rise, a source of new supply is gold mining companies. The miners have a limited product in strong demand due to global currency issues. According to our estimates, many are currently generating \$750-\$1,200 of cash flow per ounce of extracted gold. While gold mining stocks currently trade at relatively low price-to-cash flow multiples, we believe prices may correct upwards as the market recognizes their cash generating capabilities.

Despite the recent price increase gold bullion has experienced, our view on gold remains unchanged. At First Eagle, we view gold not as an absolute return investment, but as a potential hedge against uncertain economic conditions.



Average Annual Returns as of 06/30/2011	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund - Class A (w/o sales charge)(SGGDY)	-5.48%	15.62%	14.27%	24.23%	1.22%
First Eagle Gold Fund - Class A (w/sales charge)(SGGDY)	-10.21	9.84	13.10	23.59	
FTSE Gold Mines Index	-10.15	4.37	7.79	16.46	--

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 Gold Fund give effect to the deduction of the maximum sales charge of 5.00%.

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. Investment in gold and gold related investments may be speculative and may be subject to greater price volatility than investments in other assets and types of companies. 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 may be subject to a higher degree of risk than funds whose investments are diversified and may not be suitable for all investors.

The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Gold Fund as of June 30, 2011: Gold Bullion 14.83%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The FTSE Gold Mines Index is an unmanaged index composed of approximately 19 mining companies. Dividends are not reinvested and it is not available for purchase.

The commentary represents the opinion of the firm as of August 23, 2011 and is subject to change based on market and other conditions. **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.

The First Eagle Funds are offered by FEF Distributors, LLC, 1345 Avenue of the Americas, New York, New York 10105.

Investors should consider the investment objectives, risks, charges, and expenses of a fund carefully before investing. The prospectus and summary prospectus contain this and other information about the fund, and may be obtained by contacting your financial advisor, visiting our website at firsteaglefunds.com or calling us 800.334.2143. Please read the prospectus carefully before investing. Investments are not FDIC insured or bank guaranteed, and may lose value.