

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Global Value-Oriented Investing



KIMBALL BROOKER is Portfolio Manager of the Overseas and U.S. Value funds at First Eagle Investment Management. He is a graduate of Yale University and was awarded his MBA from Harvard University in 1998. He began his career in 1992 as a Financial Analyst at Lazard Frères & Co. and went on to join JPMorgan as an Associate in the investment banking department, specifically the billion-dollar private equity fund Corsair. Following the completion of his MBA, Mr. Brooker returned to JPM and was named Chief Investment Officer of Corsair Funds and Managing Director in 2005. By 2006 he completed Corsair's spinoff from JPM and successfully managed nearly \$3 billion. Mr. Brooker covers banks, commercial services, financial services and holding companies.

SECTOR — GENERAL INVESTING

TWST: Please begin with a brief introduction to the First Eagle funds and tell us a bit about your role there.

Mr. Brooker: The Global Value Team manages four funds at First Eagle that collectively account for about \$44 billion in assets. One is the Global Fund, which can invest anywhere in the world; one is the Overseas Fund, which invests in companies domiciled abroad; and one is the U.S. Value Fund. We also have a dedicated Gold Fund for investors looking for exposure to gold bullion and gold mining companies. I am an Analyst on the funds and one of the portfolio managers of the Overseas Fund and the U.S. Value Fund. I am also an Associate Portfolio Manager for the Global Fund. I should note that the funds share a common investment philosophy and the same investment team. We have a very collaborative approach to our investment process and view our mandate as trying to deliver absolute returns while mitigating risk to principal.

TWST: I'll focus my questions on the Global Fund and the Overseas Fund. Would you tell us specifically about your investment philosophy as it relates to those two funds?

Mr. Brooker: We are very much indebted to the thinking of Ben Graham, which has deeply informed our investment philosophy. Graham drew a distinction between investing and speculating by defining an investment as something that offered safety of principal and an adequate return — in that order. We recognize that the markets are going to move up and down, and we accept that there will be volatility in the equity markets, but our primary focus is on avoiding permanent impairments to capital. In

practice, this means both avoiding certain kinds of businesses and acquiring businesses at a discount to their intrinsic value. We tend to gravitate towards businesses that have fairly wide economic moats and occupy a meaningful position within their niche of their economic ecosystem.

What we also try to do is we try to invest with a meaningful margin of safety, and all that really means is that we believe that businesses have an intrinsic value. This is simply defined as the value that a reasonably well-informed, rational acquirer would pay for a business in cash, and the stock price may or may not reflect that intrinsic value. Sometimes it can be higher than the intrinsic value, sometimes the stock price reflects the intrinsic value. But once in a while the stock price trades at a meaningful discount to intrinsic value, and by meaningful I mean 30% to 40%, which is where we tend to become interested in investing. We think investing with that margin of safety is important because we know we'll make mistakes, we know that bad things can happen to a company or to an economy and that discount to intrinsic value is meant to be a buffer for the unforeseen.

I would also say that one of the things about avoiding permanent impairments of capital is that they can come in two forms. One is pretty clear if it happens and occurs when you make a catastrophic error about a business or a management team and the stock price goes to zero. And you know when that happens that you've permanently impaired your capital. But the other way that this can happen is that you overpay for a business. It can be a good business, but you just paid too much for it. And if you've bought **Cisco Systems** (CSCO) in 1999, the actual operations of the

business, the business itself has done very, very well, it's just that the valuation was too high. So there is a balance there that we try to navigate where we're trying to avoid overpaying for businesses, but we're also trying to avoid businesses that have certain characteristics that we've found over the years can lead to trouble, and these are things like financial leverage, an overly competitive industry, a business with no discernible competitive advantages, a reckless management team — these kinds of things are areas we avoid. And we think that if you focus on avoiding these pitfalls, over time you should do okay.

TWST: For the Overseas Fund, broadly speaking, what would you say are the main advantages to investing in companies based outside the U.S. at this point in time?

Mr. Brooker: I would say that an average investor can get a reasonable amount of diversification through U.S. companies, many of which have substantial overseas operations. However, the U.S. doesn't have a monopoly on great businesses, nor does it have a monopoly on great management teams. If you think about investing as buying interests in distinct businesses instead of just allocating money to a given region, I'd think the fact that there are some very attractive businesses that aren't domiciled in the U.S. would lead you to at least consider investing outside of the U.S. I suppose a related reason might be some diversification out of the U.S. dollar, but given the significance of the dollar globally it's harder to do.

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TWST: You talked about buffering your capital from a permanent impairment. Would you talk a little bit about how being invested outside of the U.S. contributes to that goal?

Mr. Brooker: Again, buffering your capital from permanent impairments often comes down to the competitive advantages and financial health of the businesses you own and the price you pay for them. I'll give you some examples of businesses we own that meet our underwriting criteria. One of our largest holdings is a company called **FANUC** (TYO:6954). **FANUC** is a very high-quality company based in Japan with about a \$40 billion market capitalization. The company is the global leader in factory automation software and equipment. About 60% of its revenues come from the sale of computer numeric control systems, sometimes referred to as CNC systems, and they have a 60% market share globally. Their other business,

which is closely related to the CNC business, is industrial robotics, where they are also the global leader. **FANUC** stands at the center of the automation of many facets of production ranging from assembly to packaging and is critical for many high-end manufacturing, which involves production processes premised on very limited tolerance for errors. Over the years, **FANUC's** financial performance has reflected its dominant market share and entrenched customer base.

Over the last 10 years, operating margins have averaged 30% and returns on invested capital have been in the mid-30% range. There is no debt. In fact, cash represents about a quarter of the current market capitalization, so the balance sheet is very strong. And it's a business that trades at roughly nine times EBIT. So, to us, that seems like a reasonably interesting investment in the sense that you can own a globally dominant business franchise without a risky balance sheet, with a very competent management team at a reasonable price. And we have others that fit that bill.

One of our largest equity positions in the Overseas Fund is a company called **Shimano** (SHMDF.PK), which is another Japanese company, and it's a little bit more of a mundane business in a sense that they are the global leader in bicycle components. But still, it's a business with a very healthy balance sheet and dominant position globally. When we think of a portfolio construction, it's very bottoms up. And our belief is that if you own businesses that are very well positioned businesses

Highlights

Kimball Brooker discusses First Eagle Investment Management's U.S. Value, Global and Overseas funds, including the benefits and risks of investing in companies based outside the U.S. He says the goal is to avoid permanent impairments to capital, which is largely dependent on the financial health and competitive advantages of the individual company and the price paid for it. Mr. Brooker also provides an overview of the sectors and geographic regions represented in his funds, as well as some of the funds' top holdings.

Companies include: Cisco Systems (CSCO); FANUC (TYO:6954); Shimano Inc. (SHMDFPK); Nestle SA (NESN.VX) and HeidelbergCement (HEI.F).

and that you adhere to the disciples of investing with an appropriate margin of safety, you can create a portfolio that is reasonably insulated from the vicissitudes of the global economy, and that individual security selection should really be core to your risk management.

I would say there are some other features of our approach that also help with risk management. We don't have to be fully invested, and so we will tend to carry cash or cash equivalents that will move up and down as a percentage of the portfolio depending on where we're finding opportunities.

At the moment, the cash is about 17% or so of the Overseas Fund. We have the flexibility to own fixed income if it meets our investment criteria. We also have had and will continue to have a position in gold bullion and gold mining companies, and that's really meant to be a protection against the monetary architecture that we're operating within. So our portfolio is a

combination of the individual security selection which forms the bulk of the portfolio, the cash, which is a function of the opportunity set available to us and the gold, which is an anchor against broader uncertainties.

TWST: Are there any geographic regions or sectors that tend to include the types of companies you're looking for?

Mr. Brooker: We don't spend too much time thinking about where a company is domiciled because it may not have much of a link to where it's actually conducting business. Nestle (NESN.VX) is an example. Its headquarters are in Switzerland, but the amount of business generated within Switzerland is pretty limited. So the country-specific, or even the region, is not something that we spend a lot of time thinking about. In terms of sectors, we may worry top down but we're very bottoms up in terms of capital allocation decisions. New names or additions to existing holdings are made on a case-by-case basis, depending on our assessment of the business and where the stock price is relative to our assessment of intrinsic value. The additions to the portfolio over the last year or so have been in a somewhat eclectic mix of businesses, so I would say it's hard to discern a common theme or thread.

However, I would say that one area that has been of interest to us, would be around the construction sector, and in particular the aggregates business. So this would be gravel businesses. An example of one of those would be HeidelbergCement (HELF). HeidelbergCement, it's both a cement business and aggregates business with very, very strong positions in Northern Europe, in the U.K., in Western Canada, as well as their business in the U.S. The issue with the U.S. obviously is that residential construction has fallen off a cliff and is now averaging something like 600,000 starts a year, whereas 1.5 million starts are sort of the normal run rate just to support population growth. So there is a reason why some of these businesses and some of these stock prices are where they are. But with Heidelberg, eventually construction will return to normal and what we have is a very, very attractive collection of assets, some of which are underearning their potential massively right now.

TWST: What are some of the key risks, particularly for a U.S. investor, of investing in companies that are based outside the U.S.?

Mr. Brooker: While you'll subject yourselves to many of the same risks that you have in the U.S., from a business and financial perspective, I would say that there are different approaches to corporate governance depending on where you are, and different customs and cultural attitudes that may govern or factor into how a business functions that may be a risk. There are some countries, some emerging countries, where there are very basic questions of property rights and due process that one would have to think about before one invests. If we have these kinds of questions about basic rights, we're not interested in investing, but many people do. There is obviously the currency risk as well.

TWST: There is some overlap between your holdings in the Global Fund and the Overseas Fund, but what would you say are the primary differences between the two?

Mr. Brooker: There is a lot of overlap, as you're right to point out. The main difference is that the Global Fund includes U.S. companies, and the Overseas Fund does not. But other than that, it's really the same approach and the same process that drives the construction of both portfolios.

TWST: Do you think U.S. investors have a good understanding of global investing and/or investing in non-U.S. companies? If not, what are some common misunderstandings or misconceptions?

Mr. Brooker: Slowly but surely, I think that there is an interest developing among U.S. investors in global investing. I think that for many, many years, people in the U.S. had the luxury of not having to worry too much about what was happening outside of the U.S., because U.S. companies were such a significant part of business activity. Now that we've had many new markets open up and hundreds and millions of more people sort of enter the workforce and become consumers, I think that has caused people's interest to pick up a little bit. I think that the understanding of the true risks of investing abroad are reasonably well understood by U.S. investors in theory. That said, many investors are comfortable overlooking or downplaying some risks in the belief in the growth of companies in some regions.

TWST: Given everything we've talked about and your strategy and processes, how would you describe the type of investor who is likely to be best suited for First Eagle and specifically for these two funds?

Mr. Brooker: I would say we've got quite a conservative approach to investing. The history of the funds has been that they have provided reasonable downside protection because of the attention we devote to risk both in terms of price and business quality. There have been a number of times where we have not fully participated in upwardly drifting markets. This can be because our discipline on the sell side will cause us to sell securities and increase our cash as market prices converge with our estimates of intrinsic value. Once in while, we find ourselves completely out of popular segments of the market because of valuation or other factors. We steered clear of technology and telecom during the late 1990s, as well as financials before 2008, which had a short-term impact but which I think we're all thankful for in retrospect. I would say these funds are not appropriate for investors looking to get rich quick. They are designed to participate with the equity markets over time, hopefully outperform over time but to do so with as little risk as possible.

TWST: Thank you. (MES)

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| Average Annual Returns as of 06/30/2011: | Year to Date | 1 Year | 5 Years | 10 Years | Expense Ratio |
|---|--------------|--------|---------|----------|---------------|
| First Eagle Global Fund - Class A (w/o sales charge)(SGENX) | 5.20% | 25.48% | 7.80% | 12.84% | 1.16% |
| First Eagle Global Fund - Class A(w/sales charge)(SGENX) | -0.06% | 19.21% | 6.70% | 12.26% | |
| First Eagle Overseas Fund – Class A (w/o sales charge)(SGOVX) | 4.19% | 24.04% | 7.07% | 13.52% | 1.17% |
| First Eagle Overseas Fund – Class A (w/sales charge)(SGOVX) | -1.01% | 17.82% | 5.98% | 12.94% | |

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 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 holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Global Fund as of June 30, 2011: Cisco Systems Inc. 1.24%, Fanuc Corp. 1.71%, Shimano Inc. 1.31%, Gold Bullion 5.59%, Nestle S.A. 0.93% and Heidelberg Cement AG 1.24%. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Overseas Fund as of June 30, 2011: Cisco Systems Inc. 0.00%, Fanuc Corp. 2.09%, Shimano Inc. 2.47%, Gold Bullion 6.67%, Nestle S.A. 1.37% and Heidelberg Cement AG 1.75%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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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 | |

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The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Global Fund as of September 30, 2011: Cisco Systems Inc. 1.68%, Fanuc Corp. 1.49%, Shimano Inc. 1.40%, Gold Bullion 6.15%, Nestlé S.A. 0.97% and Heidelberg Cement AG 0.93%. The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Overseas Fund as of September 30, 2011: Cisco Systems Inc. 0.00%, Fanuc Corp. 2.03%, Shimano Inc. 2.70%, Gold Bullion 7.66%, Nestlé S.A. 1.49% and Heidelberg Cement AG 1.37%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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