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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Viewing Gold as a Potential Hedge Against Macroeconomic Risks

THOMAS KERTSOS, Portfolio Manager, started as a senior research analyst covering precious metals and marine transportation at First Eagle Investment Management. He was promoted to associate portfolio manager of the First Eagle Gold Fund in March 2015 and became a portfolio manager in March 2016. He joined the Global Value team in May 2014. Prior to First Eagle, Mr. Kertsos spent six years as an associate analyst covering precious metals and mining in the Global Research Group of Fidelity Management & Research. Mr. Kertsos earned his B.S. in economics and finance from Athens University of Economics and Business, and his M.S. in accounting and finance from the London School of Economics and Political Science.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the First Eagle Gold Fund?

Mr. Kertsos: The goal of the First Eagle Gold Fund is to deliver long-term real returns and also serve as a potential hedge against macroeconomic risks. My Co-Portfolio Manager of the Gold Fund is Matt McLennan, who is also the Head of the Global Value Team. I also work with Max Belmont, the Research Analyst for the Gold Fund.

We analyze precious metals stocks in terms of valuation, resilience, duration and cyclical upside in an effort to choose the appropriate stocks and the appropriate capital-allocation framework to maximize investment returns for the Gold Fund. At the same time, we maintain a very important focus on seeking downside protection. The First Eagle Gold Fund has $1.4 billion in assets under management as of June 30, 2016, and as I said, we seek to generate long-term real returns for our clients with a focus on downside protection.

TWST: What's the difference between the Gold Fund that you work on and some of the other ones that are out there?

Mr. Kertsos: First Eagle has a very distinct philosophy regarding gold, and a long tradition in gold and precious metals investing. We have been investing globally with a long-term value investing framework for more than 35 years. The Gold Fund was started by Jean-Marie Eveillard in 1993. One distinctive characteristic about the investment culture is not only our focus on value investing but also on recognizing that macroeconomic risks may have an impact on long-term investment returns and that gold can serve as a potential hedge against those risks.

So specifically, at First Eagle, we view gold as a potential hedge against extreme market outcomes. We believe that gold bullion has unique characteristics as a potential hedge for investors that are willing to diversify their long-only equity exposure in that it potentially provides uncorrelated returns with broad stock-market indices and may help protect capital in real terms. We don't speculate on the price of gold. We don't make a directional bet on higher gold prices but rather view gold as a potential hedge. This focus on downside protection and using gold as a potential hedge is what differentiates us, I think, from other gold funds.

We've had a consistent capital allocation to gold bullion for many years. And this is due, again, to our focus on seeking downside protection. Additionally, we focus on avoiding low-quality speculative or preproduction gold mining companies, as we are trying to focus on gold equities that we believe may be resilient, and may provide duration and also potential cyclical upside. So we are very focused on quality and using gold as a potential hedge, rather than having a directional bet on the gold price.

TWST: And did you want to discuss a company that you find interesting?

Mr. Kertsos: There are two companies that I think are interesting to talk about. The first is **Newmont Mining** (NYSE:NEM). We think that this company has had an interesting turnaround over the last three years that has occurred under a new management team. We believe the new management team is focused on consistent and strong operational execution. They have demonstrated a focus on decreasing costs, paying down debt and generating free cash flow. I think they have not only decreased their cost structure, but they have also decreased net debt by approximately $2.5 billion over the last three years.

The capital allocation strategy is not yet fully proven, but we have already seen how **Newmont Mining** managed to successfully sell an important mine, the Batu Hijau asset in Indonesia, which had been an overhang on the stock. We believe this sale is good because it potentially removes a lot of the cyclicality from the cash flow and strengthens the balance sheet. The deal is expected to close in the third quarter of 2016, and its closure is still contingent on several conditions being met. However, we think that this cash flow could help fund internal opportunities at current gold prices or possible external opportunities at potentially lower gold prices.

Additionally, we believe that **Newmont Mining** will — if its capital allocation is successful — upgrade its asset portfolio. They have two internal growth projects, which are scheduled to start commercial production in the fourth quarter of 2016 and the first half of 2017. They are still moving according to schedule and are expected to add more than 400,000 gold ounces in terms of production. So overall, you have a gold mining stock that has increased its resilience to potentially lower gold prices through consistent operational execution, successful divestment of assets and has also significantly recapitalized its balance sheet. Apart from operational execution, it has also demonstrated sound capital allocation to upgrade its asset portfolio so far.

TWST: Did you want to talk about another company?

Mr. Kertsos: Tahoe Resources (NYSE:TAHO) is another interesting company that we own in the First Eagle Gold Fund. We believe that this company is also run by a good management team that has proven themselves in terms of operational execution. In our view, it is a low-cost producer and has a strong balance sheet with a net cash position. Their main asset is a high-quality silver mine in Guatemala that has a very long duration and is a low-cost producer of silver. They also operate some additional assets in Peru and Canada through their latest two acquisitions, and we believe that the current management team should be able to maximize the value of those assets and potentially increase free cash flow generation through successful operational execution. So overall, we think that operational execution is key, and we think that the current management team is very good at it. In our view, the company is also potentially resilient due to its low-cost structure and its relatively strong balance sheet.

TWST: And what are some of the trends that you are seeing now in the gold market?

Mr. Kertsos: Since September of 2015, we have seen that gold prices have effectively become very dependent on Fed announcements — hawkish or dovish — regarding potential rate hikes. Specifically, in September of 2015, the Fed was pretty hawkish about raising rates. It was an inflection point for the gold price, causing it to drop to a six-year low of $1,051 per ounce only for the Fed to become dovish in early January, which again proved to be an inflection point for gold as it started rallying early this year.

Then, we had specifically hawkish comments from the Fed about raising rates at the end of April, which created a sharp selloff for gold in May. This was followed by a weak employment report in early June and the dovish statement by the Federal Reserve about delaying rate hikes that has created the recent rally in the gold price. This rally was further reinforced by the Brexit referendum result that created an approximately $100 per ounce rally in the gold price. So we believe that the gold price has become extremely dependent on Fed announcements regarding potential rate hikes.

We continue to believe that the key catalyst for a possible structural increase in the demand for gold will be a potential slowdown for the U.S. economy. This should be a very important catalyst for the gold price in U.S. dollars. You have already seen how the gold price has performed since 2015 in currencies of other countries that have experienced a slowdown, like the Brazilian real, the South African rand, the ruble, and also, to some extent, the Canadian and Australian dollar. So a potential slowdown in the U.S. economy, or especially the countercyclical fiscal and monetary policies that policymakers would use to deal with such an economic slowdown, can prove to be an important catalyst from a demand point of view for gold price in U.S. dollars. Even though the gold price remains volatile, the demand side of the equation remains very hard to pinpoint.

On the supply side of gold, we have seen gold mining supply has most probably already peaked in 2015 and is expected to decline going forward. Consensus estimates of several mining consultants estimate an approximate 14% drop in gold mining supply in the next five years. And at the same time, you see that new discoveries of gold have been decreasing since 2006 despite the rise in gold price and a record increase in gold exploration capex, showing that not only is gold mining supply expected to decline going forward, but it is also increasingly

Highlights

Thomas Kertsos discusses First Eagle Investment Management and the First Eagle Gold Fund. Through the fund, Mr. Kertsos aims to generate long-term real returns. When it comes to stock selection and capital allocation, Mr. Kertsos analyzes precious metals stocks on valuation, resilience, duration and cyclical upside. Mr. Kertsos does not speculate on the price of gold or make directional bets. Rather, he views gold as a potential hedge against extreme market outcomes. According to Mr. Kertsos, gold has maintained its purchasing power over the long term and is unique in that it can serve as a potential hedge against both inflationary and deflationary risks. Mr. Kertsos believes his view of gold and his focus on downside protection is what differentiates the fund.
Companies discussed: Newmont Mining Corp. (NYSE:NEM) and Tahoe Resources (NYSE:TAHO).

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inelastic at current gold prices. These are two important trends from a gold mining supply perspective.

TWST: Some people see gold as more of an asset, like a house, than they would see it as an investment like a stock. What do you say to those people in response?

Mr. Kertsos: One of the key investment characteristics of the gold price is that it has maintained its purchasing power over the long term. Over the last few centuries, we have accumulated detailed statistical data that has shown that the gold price has maintained its purchasing power in real terms over the long term despite some volatility. It has also proven to be uncorrelated relative to financial assets. So we do think that gold has very unique risk/reward characteristics. It can be a potential hedge against both inflationary and deflationary risks, and it can be a potential hedge in an investor's portfolio as it can increase the diversification and possibly the resilience of the portfolio to adverse macroeconomic and political risks. There are several assets that can be a potential hedge against inflationary risks, and there are other assets that can be effective against deflationary risk, but gold has very unique characteristics to serve as a potential hedge to both of these adverse macroeconomic environments.

TWST: Are there similarities there with silver?

Mr. Kertsos: There are several similarities. We have done a lot of work on silver similar to the work we have done on gold. And with silver, what is important to say is that it is used more in industry, and therefore, silver is more dependent on the business cycle. Due to the fact that a lot of the above-ground silver bullion inventories have been practically consumed with industrial applications since the industrialization of silver in the 1930s, it has become a tight market. So what we see is that during dollar weakness, we tend to see silver rally more than gold, and during periods of dollar strength, the silver price generally drops more than the gold price.

So effectively, gold has unique risk/reward characteristics in providing real-return potential both in periods of inflation and deflation. We see that silver is more of a potential inflationary hedge than gold but a possibly weaker deflationary hedge. We saw this relationship in the 1970s but also in 2008, 2010 and 2011. When an investor owns silver, risk management is very important, as you can have very big rallies in the silver price but also very sharp retracements. So while gold can be volatile as well, it has historically been more stable than silver. We do own silver, and we still think there are very important investment qualities from a portfolio standpoint in owning silver and silver equities, but risk management is very important when owning silver and silver equities.

TWST: And if we look at the different political climates, like Britain and the United States right now, there seems to be skepticism about traditional investments. You saw the Brexit vote in England, and in the United States, at least one of the presidential candidates is kind of skeptical about globalism and wants probably more protectionism. How does that kind of climate impact the interest in gold? It seems that people are sometimes more skeptical about traditional investments.

Mr. Kertsos: This has increased the investment demand for gold. However, what I think is important to understand is that despite the Brexit vote and the corresponding rally we saw in the gold price, it is very important to realize that this happened alongside a continued backdrop of Federal Reserve communications regarding rates. We have seen several economic and geopolitical events over the last few years that have created a lot of uncertainty and have had an impact on the gold price but didn't really manage to provide more structural support for the gold price. These are very important developments, and we have yet to see the full impact of what they mean for the financial markets.

It is very important that we focus on consistent fundamental drivers that may have a more tangible effect on the gold price, such as the physical demand we have seen in China and India, but also the monetary policy of the Federal Reserve. And again, I don't want to discount the Brexit, but I just think that you have several elections coming this year and next year, and those can have very important ramifications in terms of geopolitical developments and economic trends. We will have to see how these developments progress in order to understand how they may impact the short-term and long-term gold price environment.

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TWST: Do you sense that some people are more interested in gold because of something almost like an emotional response to skepticism about traditional investments or currencies? It seems like for some of the people who voted in the Brexit vote, it was more of an emotional reaction than maybe a well-thought-out intellectual reaction?

Mr. Kertsos: Well, I think that is correct. Fundamentals for gold are very strong, but sentiment is running high currently in the gold space. We have seen a strong increase in the gold price, and we have seen a strong participation in the gold market from the futures market but also in the gold ETFs. And as we said, there's been quite an emotional response, and people have been buying gold on the backdrop of this increased uncertainty.

TWST: Thank you. (ES)

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Average Annual Returns as of 06/30/2017:	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Gold Fund - Class A (w/o sales charge) (SGGDX)	7.54%	-14.87%	-8.07%	0.55%	1.27%
First Eagle Gold Fund - Class A (w/sales charge) (SGGDX)	2.19%	-19.13%	-9.01%	0.04%	

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 feim.com or by calling 800.334.2143. The average annual returns for Class A Shares "with sales charge" of First Eagle Gold Fund gives effect to the deduction of the maximum sales charge of 5.00%.

The average annual returns shown above are historical and reflect changes in share price, reinvested dividends and are net of expenses. Investment results and the principal value of an investment will vary.

The annual expense ratio is based on expenses incurred by the fund, as stated in the most recent prospectus.

There are risks associated with investing in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. These risks may be more pronounced with respect to investments in emerging markets.

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.

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 principal risk of investing in value stocks is that the price of the security may not approach its anticipated value or may decline in value.

All investments involve the risk of loss.

The Fund invests in gold and precious metals through investment in a wholly-owned subsidiary of the Fund organized under the laws of the Cayman Islands (the "Subsidiary"). Gold Bullion and Commodities include the Fund's investment in the Subsidiary.

The information is not intended to provide and should not be relied on for accounting or tax advice. Any tax information presented is not intended to constitute an analysis of all tax considerations.

The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Gold Fund as of June 30, 2017: Newmont Mining 4.41% and Tahoe Resources 4.63%. Portfolio is actively managed and holdings can change anytime. Current and future holdings are subject to risk.

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