

# Small Cap Opportunity Fund

## Market Overview

While the third quarter's weakness in equities—and in smaller stocks, in particular—persisted through the start of the fourth, hopes that a Federal Reserve policy pivot was near prompted a sharp year-end rally in Treasuries and propelled stock markets into year-end. After establishing a new bear-market bottom in late October, the Russell 2000 Index rallied nearly 24% over the balance of 2023 to deliver a 14.0% return for the quarter and 16.9% return for the year.<sup>1</sup>

The small cap surge to end 2023 was driven by those sectors of the market most sensitive to changes in interest rates—financials, most prominently. This dynamic helped fuel the outperformance of value versus growth, as financial stocks comprise about 27% of the Russell 2000 Value Index.<sup>2</sup>

### Markets Anticipate Fed Pivot

Corporate fundamentals, for the most part, were secondary considerations in the momentum-driven market of the fourth quarter. Market direction—as it did through much of 2023, with the exception of the dislocations that resulted from the regional bank failures of the first quarter—largely took its cue from expectations for Fed policy. While the prospect of “higher for longer” rates spurred a selloff in Treasuries that accelerated in late summer, the dovish sentiment that reemerged toward year-end fueled a furious rally in sovereigns and a wide range of risk assets. Heading into the new year, market dynamics seemed to suggest that investors were confident that a soft landing was just over the horizon and the Fed would soon cut policy rates.

Markedly improved inflation metrics have helped support the notion of a near-term pivot, as has the evolution of Fed rhetoric in recent months. While falling short of declaring victory over inflation, Fed Chair Powell reiterated at the December Federal Open Market Committee press conference that 2% inflation wasn't a prerequisite for rate cuts and noted his caution not to “overshoot” the target with restrictive monetary policy that would unnecessarily weigh on economic activity. The latest dot plot of economic projections pointed to a federal funds rate of 4.6% by end-2024—implying 75 basis points worth of cuts from the current 5.25–5.50% range. Futures markets continued to out-dove the Fed, however, assigning a greater than 50% probability that rates would end 2024 no higher than 4%.<sup>3</sup>

Though the Fed is primarily concerned with readings of core inflation, which strips out the prices of food and energy, we're also keeping a close eye on energy prices. The Russell 2000's constituents are

domestically oriented, deriving the vast majority of their revenues from US operations, and stable oil prices help support their end-markets. Oil prices have eased considerably since spiking in conjunction with Russia's invasion of Ukraine—perhaps surprising given the long period of money printing and the two wars currently being contested in oil-rich regions of the world—and the spot price per barrel of WTI crude oil now trades late-2018 levels.<sup>4</sup> The benefits of moderating energy costs should be evident in the financial reports of the companies we cover over the coming weeks.

Of course, the economic persistence we've seen throughout the current rate-hike cycle is not guaranteed. Conditions likely will become more challenging as the accumulated impacts of policy tightening continue to reverberate, especially if the Fed maintains its current policy settings, increasing the possibility of a hard landing. If the Fed pivots to rate cuts before inflation fully recedes to its target level, however, pricing pressures could quickly reignite and require even higher policy rates to extinguish.

### Small Caps Continue to Appear Cheap

Volatility throughout 2023 provided opportunities to acquire fundamentally solid companies at valuations we believe were distorted by cyclical forces. There are reasons to think that such an approach may be rewarded in 2024, especially if the widely anticipated Fed pivot comes to pass. Easier monetary conditions may bolster investor risk appetites while also providing small companies with greater operational and financial flexibility. Mergers and acquisition (M&A) activity by private equity vehicles—historically a source of support for small cap valuations—may also pick up in such an environment, especially given the massive stores of private equity dry powder waiting to be put to use.

Meanwhile, the Russell 2000 appears very cheap on a trailing price-to-earnings basis, relative both to its historical average and to the S&P 500. Notably, the last time small cap valuations hit similar lows was

1. FactSet; data as of December 31, 2023.

2. Source: FactSet; data as of December 31, 2023.

3. Federal Reserve, CME FedWatch Tool; data as of December 31, 2023.

4. Source: FactSet; data as of December 31, 2023.

in 2009 amid the global financial crisis, after which the Russell 2000 delivered returns of 30% for each of the next three years.<sup>5</sup> The Russell 2000's recent bear-market bottom is another datapoint supportive of future success, as these events historically have been followed by sharp, often S&P 500-surpassing, rallies.<sup>6</sup>

5. Source: FactSet; data as of December 31, 2023.

6. Source: Furey Research Partners, FactSet; data as of December 31, 2023.

## Portfolio Review

Small Cap Opportunity Fund A Shares (without sales charge\*) posted a return of 11.81% in fourth quarter 2023. Industrials, consumer discretionary and financials were the leading contributors among equity sectors; energy was the only detractor, and utilities and communication services also lagged. The Fund underperformed the Russell 2000 Value Index in the period.

Leading contributors in the First Eagle Small Cap Opportunity Fund this quarter included CareDx, Inc., Triumph Group, Inc., Amkor Technology, Inc., Chef's Warehouse, Inc. and Century Aluminum Company.

CareDx provides diagnostic surveillance solutions for organ-transplant recipients, including testing products and services to match donors with recipients and monitor post-transplant care. Stabilizing test volumes prompted CareDx to increase its earnings guidance for the year, while investors also welcomed the company's plans to transition from its current CEO to new leadership. As management focuses on gaining coverage from both Medicare and private insurers, the company's strong balance sheet appears adequate to support operations until the business reaches profitability.

Triumph Group is a supplier of highly engineered aerospace components, including actuation and power transmission systems. In addition to benefiting from improving build rates at customers Airbus and Boeing, the company's \$725 million cash sale of its after-market components division should enable it to accelerate the deleveraging of its balance sheet. Resilient air-travel trends both domestically and internationally should support the aerospace market and serve as a tailwind for Triumph.

Amkor Technology is the world's largest provider of outsourced semiconductor packaging and test services and has strategic manufacturing partnerships with leading semiconductor companies, foundries and electronics manufacturers around the world. Strong revenues in the quarter were driven by advanced packaging solutions for its communications end market; this notably included smart-phones, where the increased complexity of chips more than offset unit declines. Though it has facilities globally, Amkor's US domicile is unusual in its industry and further amplifies the advantages of its size and scale.

As compelling as small cap valuations may be at the index level, buying the index is not likely a path to optimal returns, in our view. Regardless of the central bank's actions in 2024, it seems likely companies that are cheap for a reason will continue to face a challenging operating environment, while many of those with solid businesses and catalysts for improvement may progress toward valuations more consistent with historical levels.

Chefs' Warehouse is a distributor of ingredients and supplies to restaurants, with a focus on independent and higher-end establishments. Revenue in the quarter exceeded expectations, easing fears that consumers would trade down to casual or fast-casual restaurants in the face of inflation pressures or that the popularity of drugs like Ozempic would impact volumes. The company continues to gain share in a large and fragmented market, bolstered by expansion into new markets including Texas and Florida.

Century Aluminum is a global metals and mining company focused on bauxite, alumina and primary aluminum, with a significant presence in the US. The company benefited significantly from recent Treasury Department guidance clarifying the tax implications of the Inflation Reduction Act on the US primary aluminum industry. Century Aluminum stands to realize significant ongoing tax benefits as a result of the Treasury Department's guidelines, bolstering its EBITDA and net income and highlighting the strategic importance of the company's difficult-to-replicate primary aluminum business.

The leading detractors in the quarter were Ameresco, Inc. Class A, Belden Inc., SMART Global Holdings, Inc., Callon Petroleum Company and Astec Industries, Inc.

Ameresco provides energy-efficiency and renewable-power services and assets. The company reported lower-than-expected earnings for its most recent quarter and reduced its forward guidance, citing project delays due to supply-chain and labor shortages and adverse weather conditions. Despite these short-term challenges, Ameresco's backlog remains healthy and the longer-term demand for clean energy should be a tailwind.

Belden designs and manufactures cable, connectivity and networking products for industrial, enterprise, broadcast and consumer electronics applications. The company fell shy of expectations for its most recent quarter due to soft demand in the industrial and broadband markets, where customers have been destocking and reducing inventory. Despite this recent weakness, Belden's higher-margin solutions business remains healthy, and the secular trends driving demand in automation are still intact.

Smart Global designs and manufactures specialty solutions for the computing, memory and light-emitting diode markets. The company

\* Performance for Class A shares without the effect of sales charges and assumes all distributions have been reinvested, and if a sales charge was included values would be lower.

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reported lower-than-expected results for its most recent quarter due to the timing of customer billings and deployment schedules. We believe that the longer-term demand for Smart Global's high-performance computing solutions, fueled by investment in artificial intelligence, remains healthy.

Callon Petroleum is an oil and natural gas company with assets in the Permian Basin in West Texas. Robust M&A activity in the energy space drove shares of Callon higher earlier during the year, but the stock gave back some gains in the fourth quarter. In early January, the company entered into an agreement to be acquired by APA Corporation in an all-stock transaction valued at about \$4.5 billion. The deal is expected to close in the second quarter.

Astec makes equipment for asphalt road building, aggregate processing and concrete production. The company reported worse-than-expected results for its most recent quarter, driven by higher expenses and lower sales. Despite this disappointing quarter, we

believe that Astec's plan to simplify, focus and grow its business by centralizing its operations, streamlining its internal structure and rebranding remains on track. We also believe that infrastructure spending represents a longer-term tailwind for road building.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investments

## Average Annual Returns as of Dec 31, 2023

	YTD	1 Year	Since Inception	Expense Ratio Gross <sup>3</sup>	Expense Ratio Net <sup>2</sup>	Inception Date
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/o load	16.55%	16.55%	-0.94%	1.42%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/ load	10.68%	10.68%	-2.94%	1.42%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class I (FESCX)	16.76%	16.76%	0.45%	1.18%	1.01%	Apr 27, 2021
First Eagle Small Cap Opportunity Fund Class R6 (FESRX)	16.88%	16.88%	-0.70%	1.29%	1.01%	Jul 1, 2021
Russell 2000® Value Index <sup>1</sup>	14.65%	14.65%	0.39%			Apr 27, 2021
Russell 2000® Index	16.93%	16.93%	-3.22%			Apr 27, 2021

1. Primary index.

2. The annual expense ratio is based on expenses incurred by the fund, as stated in the most recent prospectus. These are the actual fund operating expenses prior to the application of fee waivers and/or expense reimbursements. First Eagle Investment Management, LLC ("First Eagle") has contractually agreed to waive and/or reimburse certain fees and expenses of Classes A, I and R6 so that the total annual operating expenses (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend and interest expenses relating to short sales, and extraordinary expenses, if any) ("annual operating expenses") of each class are limited to 1.26%, 1.01% and 1.01% of average net assets, respectively. Each of these undertakings lasts until February 29, 2024, and may not be terminated during its term without the consent of the Board of Trustees. The Fund has agreed that each of Classes A, I and R6 will repay First Eagle for fees and expenses waived or reimbursed for the class provided that repayment does not cause annual operating expenses (after the repayment is taken into account) to exceed either: (1) 1.26%, 1.01% and 1.01% of the class's average net assets, respectively; or (2) if applicable, the then-current expense limitations. Any such repayment must be made within three years after the year in which First Eagle incurred the expense.

**The performance data quoted herein represent past performance and do 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 are available at [www.firsteagle.com](http://www.firsteagle.com).**

**Investments are not FDIC insured or bank guaranteed and may lose value.**

**The average annual returns for Class A Shares "with sales charge" or "w/load" of the First Eagle Small Cap Opportunity Fund gives effect to the deduction of the maximum sales charge of 5.00%.**

**Class I Shares require \$1MM minimum investment and are offered without sales charge. There is no minimum subsequent investment amount for Class I Shares.**

**Class R Shares are offered without sales charge.**

Inception date shown for the Russell 2000 Value and Russell 2000 Indices matches the Small Cap Opportunity Class I shares, which have the oldest since inception date for the Small Cap Opportunity Fund.

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

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

The **federal funds rate** is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Dry powder** is a term referring to marketable securities that are highly liquid and considered cash-like. Dry powder can also refer to cash reserves kept on hand by a company, venture capital firm or individual to cover future obligations, purchase assets or make acquisitions. **Bear market** refers to a period during which a market experiences a prolonged decline in price.

### Risk Disclosures

All investments involve the risk of loss of principal.

There are risks associated with investing in foreign investments (including depository receipts). Foreign investments, which can be denominated in foreign currencies, are susceptible to less politically, economically and socially stable environments, fluctuations in the value of foreign currency and exchange rates, and adverse changes to government regulations.

The value and liquidity of portfolio holdings may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the United States or abroad. During periods of market volatility, the value of individual securities and other investments at times may decline significantly and rapidly. The securities of small and micro-size companies can be more volatile in price than those of larger companies and may be more difficult or expensive to trade.

A 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. "Value" investments, as a category, or entire industries or sectors associated with such investments, may lose favor with investors as compared to those that are more "growth" oriented.

Strategies 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.

**Russell 2000® Value Index** (Gross/Total) measures the performance of the small cap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). A total return index tracks price changes and reinvestment of distribution income. **Russell 2000® Index** (Gross/Total) measures the performance of the small-cap segment of the US equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. A total return index tracks price changes and reinvestment of distribution income. **S&P 500 Index** (Gross/Total) is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the US economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 80% coverage of US equities, it is also considered a proxy for the total market. The S&P 500 Index includes dividends reinvested. A total return index tracks price changes and reinvestment of distribution income.

Indices are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

The holdings mentioned herein represent the following total assets of the First Eagle Small Cap Opportunity Fund as of 31-Dec-2023: CareDx, Inc 0.74%; Triumph Group, Inc. 0.58%; Amkor Technology, Inc. 0.73%; Chef's Warehouse, Inc. 0.79%; Century Aluminum Company 0.59%; Ameresco, Inc. Class A 0.19%; Belden Inc. 0.35%; SMART Global Holdings, Inc. 0.31%; Callon Petroleum Company 0.64%; Astec Industries, Inc. 0.45%.

The commentary represents the opinion of the Small Cap team as of the date noted. The opinions expressed are not necessarily those of the firm. These materials are provided for informational purposes only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any

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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, hold or sell or the solicitation of an offer to buy or sell any fund or security.

The Fund's portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The opinions expressed are not necessarily those of the firm. These materials are provided for informational purposes 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.

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**Investors should consider investment objectives, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds and may be viewed at [www.firsteagle.com](http://www.firsteagle.com). You may also request printed copies by calling us at 800-747-2008. Please read our prospectus carefully before investing.**

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