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First Eagle: "Passive Investing Could Prove to be an Expensive Mistake"

By Robert Huebscher
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First Eagle's Global Fund (SGENX) is its flagship fund, with over $55 billion in assets. Its mission is to seek long-term growth of capital by investing in a range of asset classes from markets in the United States and around the world.

As of April 30, 2018, since inception (1/1/79), the Fund has returned 13.15% annually, versus 9.67% for the MSCI World Index. Over the last 15 years, it has been in the top 2% of its peer group, as well as in the top 4% for 10 years and the top 10% for 5 years, based on Morningstar data. It was the winner of the Lipper Best Flexible Portfolio Fund Award for 2015. It is rated 5-stars by Morningstar. Its managers are Matthew B. McLennan and Kimball Brooker, Jr.

I spoke with Matt and Kimball on May 1.

The First Eagle Global Fund is described as a go-anywhere, multi-asset fund. Tell me more about its flexibility and the key tenets of your investment philosophy.

Kimball: Our investment philosophy centers on the notion that the protection of wealth is the most important ingredient to the long-term creation of wealth. We are bottom-up investors, so we underwrite each investment on its own with the primary objective of avoiding permanent impairment of capital.

We focus on two criteria when we select investments for the Fund.

The first is price. When we think about investing in a security, we are always looking to do so at a discount from what we estimate the business's intrinsic value to be. That is a very important part of what we consider to be risk management, because we realize that bad things can happen to companies or the economy, or we can make analytical errors. We always want to have a buffer between what we pay for a security and what we think it is worth.

The second criterion is the persistency of the business—the durability of a company. We review things like its market position, its balance sheet and the quality of its management to satisfy ourselves that, if and when trouble comes, the business is likely durable enough to survive and hopefully thrive.

In terms of the flexibility that you referenced, we have the ability to look across market caps and geographies. On the one hand, having the ability to look at businesses in different industries or geographies and across the capital structure increases the likelihood that we will uncover something that fits our investment criteria.

At the same time, that flexibility allows us to avoid certain pockets of the market. We construct our portfolio from the ground up, without regard to a benchmark. From time to time there are entire regions or industries that fail to meet our investment criteria. If that is the case, we just avoid them. In the past, there have been periods of time where we've been out of industries or regions.

Sometimes what you don't own can have an important or even larger impact on returns compared to what you do own. Flexibility is very important to us.

Matthew McLennan

You don't have a strategic allocation to cash, rather it ebbs flows with opportunities in the market. Given your current level of around 20%, does it mean the opportunities are few and far between?

Matt: As Kimball alluded to, we like to take money out of cash and invest it in securities only if we see a suitable margin of safety. That is to balance the price, the underlying persistence of the business and the character of management. We have the benefit of looking globally, and across market caps and capital structure to identify opportunities. There is usually something to do.

Having said that, there are some environments that would appear to be "opportunity rich." An example of that would be in the wake of 2008 and 2009; valuations were

broadly depressed across most industry groups. There were plenty of opportunities to put money to work with, in our view, a margin of safety. Perhaps not surprisingly, our cash levels were pretty low back then.

But then there are other environments throughout the business cycle where confidence is high around the world and where many industries appear not only fully valued but doing pretty well, and have high margin structures. It becomes more difficult to identify opportunities to put capital to work. Our cash levels peaked at around the 20% level back in 2007, at the peak of the prior cycle.

At the end of last year cash was getting up to around 20% as well. It is slightly lower today at around 18%. The recent market volatility has helped us identify some opportunities. But you are absolutely right that the higher cash level is signifying that because we keep to our absolute investment standards one security at a time, this may be an environment where we are trimming some positions that have exceeded our sense of intrinsic value and it is more difficult to redeploy that cash in new positions.

The ebb and flow of the cash position is not based on top-down considerations. There is no view of where the market is going to be in 12 or 18 months. It is based on the bottom-up opportunity set. A higher-than-average cash level signifies that we are in a scarcer opportunity environment.

One other thing you said in your question is we don't have a strategic allocation to cash. This is an important observation. We are very long-term investors. We typically have a decade-long cycle time for the Fund's investments. We think through the business cycle. That means that the Fund's portfolio turnover is pretty low—slightly above 10% typically. If we wound up having 30%, 40% or 50% in cash, it is unlikely that we would have the option value of putting that cash to work in a better environment given the low turnover. It would become a strategic allocation to cash.

Over time, to seek to protect the Fund's purchasing power, we strive to identify what we feel are persistent businesses that can keep pace with nominal GDP and money supply growth, and have the potential to generate free-cash flow along the way. The manner in which we seek to protect purchasing power will hopefully also generate the Fund's long-term capital growth. Unfortunately, in a world of excessive leverage, the real rate of return on cash has been very depressed as economies struggle to handle more normal rates. If you had a strategic allocation to cash, that would not protect your wealth relative to the growth in nominal incomes and money supply. Cash is only there as deferred purchasing power for the Fund. We intend to use it when we believe there is a more propitious moment within the business cycle to invest in good businesses at sound prices.

What would you say to advisors who prefer to manage cash on their own rather than have a manager such as yourself do it for them?

Matt: If you look at when we've put the Fund's cash to work, or when we have countercyclically had an increase in the Fund's cash level, it was driven by bottom-up considerations. It's very difficult for an advisor who is looking at the world from a top-down standpoint to have the same peripheral vision of the opportunity set. They are more likely to make judgments based on their overall market views. Market timing from a top-down standpoint is a difficult enterprise. I will give you one example of that.

In the late 1990s, markets got to very elevated levels, so if you were just looking top down you may have felt you needed a high level of cash. Yet that valuation excess was concentrated in tech, media and telecom. The old economy was cheap. If you look at the Fund in the late 1990s, it was virtually fully invested because we determined there were numerous opportunities bottom up.

We tend to put the Fund's cash to work when many investors may feel least comfortable doing so themselves. In an environment of distress, it is easy to turn on the television and see what's wrong with the world, or look at your Bloomberg screen and see the pervasive negative sentiment. Yet, bottom up we may be seeing businesses that have been on our wish list, that we really admire, at what we view as low valuations. That gives us the comfort to put the Fund's money to work that others may not have.

Likewise, at the end of a bull market when investors see in the rear-vision mirror the fact that just owning stocks was a great way to create wealth over the last five or six years, it's very difficult for them to contemplate having any form of cash drag in their portfolios. But, were one to invest capital bottom up, one would be more comfortable selling businesses at great prices and waiting to find reinvestment opportunities at better prices.

Gold bullion remains your largest position. Why is that?

Kimball: Gold bullion is roughly 7% of the Fund's portfolio and it holds an additional 4% or so in gold-mining and gold-royalty companies. The total gold-related investments within the Fund's portfolio is closer to 11%.

We consider gold to be a potential

hedge for the Fund's portfolio. We believe it can be a hedge against adverse outcomes that we can't foresee, and particularly those potential outcomes that relate to the use and abuse of fiat money. I would consider gold to be a portfolio hedge more than an investment. It's not a bet on the price of gold one way or the other. It's to attempt protect the principal of the Fund's portfolio.

Matt: As a potential hedge, we feel that gold is the least-worst choice. Buying put options on the broader market can be extremely expensive; you are forced to time the market because you can't carry put option positions all the time. We don't think you can time the market with precision. We also don't like complex derivatives with counterparty risk because the whole point of having a potential hedge is to avoid counterparty risk.

We've opted for a real asset as a potential hedge. Gold is unique in that its chemical inertness doesn't render it that useful as a commodity, so its price is not driven by the business cycle like copper or iron ore. Historically, it has behaved in a far more resilient manner than commodities. Because of its inertness, the gold that has been mined historically is still in existence. The supply of gold is stable because the above-ground stock of gold is roughly 50-times what is mined annually.

You have an element—a real asset—that has been resilient and with steady supply. If we look over the last 45 years or so since the breakdown of the Bretton Woods agreement, it's actually been quite attractive in terms of its long term returns because you can't print it. Furthermore, its valuation peaks have tended to occur when risk assets have been depressed. It is a potential hedge to the Fund's portfolio, but also has the potential to protect the Fund's value in real terms unlike a lot of other sovereign securities that are priced for very low or even negative real returns.

Why do you prefer to invest in physical bullion as opposed for example, to an ETF?

Kimball: There are various ETFs that have done a decent job in mirroring the price of gold, and some purport to be convertible into gold., What you own in an ETF is a paper claim and that involves some degree of risk—whether it is counterparty risk or other types of risk. We would rather own the physical gold outright. There are some substitutes to gain exposure to gold indirectly, but we prefer, given our view that gold should serve as a potential hedge for the portfolio, to own the physical gold bullion instead of a derivative.

> "In a nutshell, volatility is an emergent feature of markets in the later stages of the business cycle."

After a complacent 2017, volatility has come back in full force. What is driving that volatility?

Matt: In a nutshell, volatility is an emergent feature of markets in the later stages of the business cycle. The volatility that we have seen in the first part of this year is a return to more normal levels. It just feels elevated by virtue of the extremely low levels of volatility that we saw in 2017. In fact, if you look at markets that price volatility, such as options, implied volatility was pretty much at a generational low. We are seeing the return of some volatility as a healthy phenomenon. It is volatility that may provide us with margin of safety opportunities one security at a time.

It's worth reflecting on the cyclical forces. As the U.S. economy has gone from 10% to 4% unemployment, business and consumer confidence went from decade lows to decade highs. That process of confidence building sows the seeds of future volatility, because it means that expectations have risen as well. The market becomes more sensitive to any form of disappointment.

Secondly, as the economy and confidence recover, labor markets get tighter. We are starting to see the emergence or reemergence of wage growth. That can pressure margins for some businesses that have weaker competitive positions. As the economy has gotten stronger, commodity prices have picked up some; notably energy prices have doubled off their troughs. That pressures input prices for some businesses, and it starts to pressure consumer disposable income for those who don't have a lot of disposable income. Those things impact margins for more vulnerable businesses, and start to produce a higher frequency of earnings disappointments.

The other thing that you observe later in the cycle is that monetary forces tighten. We have seen interest rates not just move up but the yield curve flatten, and we've seen money supply growth moving down a notch in the key economies of the world, particularly the U.S. and China. That is pressuring the nominal growth of the economy. If you have emergent cost pressures and a tightening monetary backdrop, that starts to paint the prospects of a riskier profit outlook. Frankly, we are at a very elevated

level of profitability in the economy today.

All of those forces have come together to produce a bit more organic volatility. You also have to overlay the fact that we are in a world that has become genuinely geopolitically unstable. It is a multi-polar world. We have seen the emergence of populism, nationalism and strongman politics around the world. Those forces are intersecting.

Meanwhile, leverage levels remain elevated if you add consumer, non-financial corporate and sovereign debt, and you compare that to GDP. Total debt in the world is higher today than it was in 2007 if we just focus on non-financial debt. That's another risk factor. This recent pick up in volatility is arguably a healthy development for value investors like us, and the volatility we've seen in the first quarter may not be nearing its end. We may be at the front end of a more volatile period.

You've identified China as one of the potential destabilizing global geopolitical forces. Recent abolition of presidential term limits is a specific concern of yours. Can you elaborate on why, and what impact that can have?

Matt: If we look back over the last cycle, there is no doubt that China was a positive contributor to global growth. If you go back to 2009 when we were in the depths of a recession, the Chinese turned on their own domestic fiscal stimulus and construction cycle. There is also no doubt that the Chinese government has brought a vast number of people, not just from rural to urban areas, but from poverty to reasonable income levels. Let me acknowledge what has been accomplished in China, which is quite impressive over the last generation.

The reason we have some concerns is that if we look at the growth in China, particularly over the last cycle, it has been fueled by debt. It's had very high levels of fixed-capital investment, and very high levels of growth in debt-to-GDP. Historically, that combination has preceded most crises in financial history. That is a red flag.

We've seen the Chinese become much more overt about their geopolitical ambitions, such as their activities with respect to Taiwan and in the south China seas that have antagonized the Japanese and others. There is no question that China has become more front-foot forward geopolitically.

In this last quarter we saw one of the more important geopolitical developments of the last generation, which was the Chinese abolishing presidential term limits. There had been a consensus in the world that as Chinese wealth grew that they would converge to Western governance norms. But in fact, we are seeing a divergence.

In Xi Jinping's speech at the 19th National Party Congress last year, he talked about the fact that they had a unique model of consultative democracy. But the removal of presidential term limits is its own risk. It's a departure from the model of improved governance that people had been expecting from China. One has to ask the question, "Why did they choose this moment to abolish presidential term limit?" Perhaps it is because the forces that China has to manage have become more complicated. As they try to deleverage, their money supply growth rate has moved to a multi-decade low. At the same time the Chinese currency, which was cheap for many years and helped stimulate export growth, is arguably expensive. China has some headwinds to growth that complicate its ability to maintain

Kimball Brooker, Jr.

social equilibrium. Perhaps that's a motivating force for the removal of presidential term limits. Perhaps there were other things that have motivated it, whether it is concern over a trade war or its ambitions with respect to Taiwan or the like?

China has been the largest marginal contributor to both money supply growth and fixed capital investment in the world over the last decade, and to see it move politically towards the removal of presidential term limits at a time when it is deleveraging is a question mark for us.

The Chinese economy is in some ways a closed economy as it runs a current-account surplus. Many of its financial entities are state controlled. It has many levers it can pull to muddle through an adjustment. We're not necessarily predicting a crisis per se, but we are acknowledging the fact that the largest contributor to global growth has more complex problems to deal with going forward.

Global debt levels are higher than they were just before the global financial crisis. At the same time,

rates and therefore the cost of financing are going up. Should investors worry about this, and why?

Matt: We mentioned earlier that if you add up household, nonfinancial corporate and government debt, you are correct; aggregate debt levels relative to GDP are higher than before the global financial crisis. There has been a shift in the mix of that debt away from residential debt in the West to sovereign debt. Often when you increase sovereign debt, the anatomy of economic adjustment is somewhat different from when you have private-sector debt crises.

If we remember back to the late 1990s when we had problems like Enron and WorldCom, we saw a traditional cycle where corporate credit spreads blew out and we had lots of defaults. Then in the mid-2000s, when the excess debt was in the residential sector, we saw mortgage defaults and spreads blow out for collateralized mortgage obligations, and there was a huge crisis. Paradoxically when you have excess sovereign debt, sovereigns can do something that companies can't; they can print money. Often you see very low levels of interest rates in economies with high levels of sovereign debt—Japan is a great example of that.

Amongst the industrialized nations, Japan has the highest level of sovereign debt and has had on average the lowest level of interest rates. Why is that? In part, if you have an excessive level of sovereign debt, one of the ways that you can shrink it relative to GDP is keeping nominal interest rates below nominal GDP growth. There is an incentive on the one hand to repress interest rates, and on the other hand there is an inability to withstand what we think of as normal interest rates.

This problem now affects the world as a whole. We have seen interest rates move up in the U.S., with 10-year bonds close to 3% and shorter dated paper moving up towards that as well. We've seen a flattening yield curve. What remains to be seen is what level of interest rates this economy can bear. Arguably it is lower than the levels of interest rates that we were accustomed to in prior cycles, given the elevated level of debt. We are in a danger zone as interest rates move up.

One of the ways in which we see this is that the fiscal deficit in the U.S. historically has been very tightly correlated with unemployment rates. If you have high unemployment you have high deficits. If you have low unemployment you have low deficits or even surpluses. Think back to the late 1990s. The reason for this is that fiscal deficits are linked to the business cycle. In the last year, unemployment has come down to around 4%, when we would typically expect to see the deficit close to being balanced. But it has been growing again, partly because of tax cuts, and partly because interest rates moved up as the government level of debt is high relative to GDP. That impacts the deficit as well. We've seen a decoupling of fiscal deficits from unemployment trends, which points to a secular deterioration in the quality of sovereign finances here in the U.S., and that's a risk. We may not know how high a level of interest rates we can absorb until it is too late.

Despite the risks, you remain predominantly invested in equities in the Global Fund. Why not go all cash?

Kimball: Cash is not a top-down decision; nor do we expect it to be a static number. Rather it is an output of the rest of the investment decisions within the Fund's portfolio, as well as the names on our watch/wish list. If we can't find investments that meet our investment criteria for the Fund, we'll wait in cash. On the flipside, if we do find opportunities, we'll invest the cash. Cash levels will move around depending on the opportunities set, as Matt alluded to earlier.

Recently we've had upwardly moving markets across the world. We've had more individual investments reach our sense of intrinsic value. We've been selling more than we have been adding to new names. So the cash levels have grown as a result of those very granular decisions that we've been making.

That could change. But it would be very unlikely based on our investment process and decision-making method that we undertake that the cash levels would go to 100%. It could move up from where it is today; that's possible. But it would be very unlikely that we wouldn't find any opportunities anywhere in the world to deploy some of the cash.

Matt: If you take a decade-long cycle time on investing, investing in what you view as a good business at a good price may enable you to protect wealth relative to the rising monetary tide. If you were 100% in cash, while you might have the short-term security of wealth, you're going to erode your wealth and purchasing power over the long term. We view the ownership of businesses as a way of seeking to protect wealth long term. It's just that sometimes the opportunity set is scarcer.

You are overweight in Japan relative to your benchmark. What are the compelling opportunities there? Are you hedging the currency risk?

Kimball: I would categorize the Fund's investments in Japan in two different buckets. On the one

hand, the Fund has a collection of businesses that are listed or headquartered in Japan, but they are really leading global businesses that operate around the world and that we view as occupying very strong positions in their respective businesses.

The other group of companies are, in our assessment, cheap. They tend to be more domestic Japanese businesses—not global champions—that are available to us at what we view as attractive prices. Both kinds of companies are selected on a bottom-up basis.

We do hedge the yen. At the moment we are at a neutral hedge level, which reflects a view that the yen is more or less fairly valued relative to the U.S. dollar.

Where else are you currently seeing opportunities? Are you seeing more opportunities inside or outside the United States?

Kimball: There have been clusters of opportunities, including some energy companies as well as some businesses that are linked to the energy sector, for example, the fluid-control industry. We have found some interesting businesses in the U.S. in the health care services side. We've also identified a collection of businesses that are more idiosyncratic opportunities, which are mainly abroad.

If you looked at the open orders that we have now—where are we planning to allocate capital—it's mainly outside of the U.S. But I would caution that that could change and it is not a macro call. It just happens to be where we are finding interesting opportunities that meet our investment criteria. It shouldn't be taken as a top-down view.

Quantitative or factor-based portfolios continue to grow in popularity, especially those that are "tilted" toward the value factor. What guidance would you offer to advisors who are choosing between a quantitative value strategy and an actively managed value fund such as yours?

Matt: Superficially, a quantitative strategy with a factor tilt has the ostensible allure of a disciplined approach that is cheaper to implement than active management. But one of the things that we would caution investors against is the belief that there is a panacea in any one quantitative variable. If we look at quantitative variables that are used to proxy what constitutes value investing, they typically tend to focus on low price-to-book or low price-to-earnings ratios. That's a simplification, but we believe that value investing is best practiced if you identify a security that has conservative expectations for the future, that can deliver cash-flow stream that is more likely than not to exceed those conservative expectations.

The use of simple factors like price-to-book and P/E ratios is one way to try and get at that opportunity set. The problem with a quantitative or a statistical value approach is that it sometimes doesn't identify other risk factors that are present and have produced low valuations relative to book or relative to earnings. One of the key risks with many low price-to-book or low P/E ratio securities is financial leverage. Sometimes companies that have got themselves into vulnerable capital structures trade at excessively low valuations relative to book and earnings. But the risk is both businesses are highly vulnerable to a cyclical downturn in their end markets.

Secondly, both Kimball and I have spoken earlier about the importance of persistence in market position for a company. One of the risks that you have when you look at low price-to-book or low P/E ratio securities is that their market-share positions may be in structural fade. This was the Eastman Kodak problem. What looks like a statistical value opportunity could in fact be a melting ice cube. It's very important to make some assessment of whether the business you are looking at has a defensible market position; otherwise intrinsic value itself is very difficult to quantify.

The third thing that a quantitative factor-based approach may not adequately capture is the agency risk of poor management decision making. We try to identify management teams that exhibit a degree of discipline that focus on their core business and distribute cash flow. They need to distribute dividends to shareholders and be mentally flexible enough to buy back their own stock if it's cheap, or make easily digestible acquisitions designed to improve the competitive position of a company. But there are many management teams that are far more expeditionary and are trying to grow very quickly, buying unrelated assets and hoarding capital and reinvesting it with low returns.

It's important to factor in both the intangible asset of management acumen that doesn't show up on the balance sheet and what the value of the business may be a decade from now. The typical business is subject to management reinvesting cash flow approximately equivalent to its market cap once every decade based on a price-to-cash-flow ratio of 10-times.

We respect the attempt of investors to try and tilt their portfolio towards factors that have been correlated with excess returns historically, but we caution against the blind adherence to such rules, because regime risk does occur in industries and market-share positions come under risk. You want

to be sensitive to times of capital structure vulnerability. There are agency risks with management. One of the great books that was a parody of Wall Street was Fred Schwed's, *Where Are the Customers' Yachts?* He had a little anecdote in there where he highlighted the risk of young players at the roulette table finding the pattern, which was usually unfortunate for them.

Lastly, passive investing has had a terrific run since 2008. What would you say to advisors who are considering investing in passive funds and ETFs?

Matt: The passive opportunity has not just occurred since 2008. It's been one that has been generational in nature. In fact, Kimball and I often reflect on what it would have been like to be managing an endowment, or some other long-term pool of capital a generation ago back in the early 1980s. All you had to do was to own market risk, whether it was equity market risk or fixed income duration risk, to get satisfactory real returns. You had double-digit interest rates and single digit P/E ratios. Ahead of you for the next generation was a window of U.S. dominance geopolitically, after the fall of the Berlin wall. You had globalization as a positive variable initially, and you had a leveraging cycle, which gave you good nominal growth in addition to the high starting yields.

Looking in the rear-vision mirror, just owning market exposure seemed like a great bet. The problem is that, as Warren Buffett has reminded us in an insurance context, sometimes it's difficult to differentiate between what your experience has been and what your exposure is. Cheap beta in the form of passive investing could become an expensive mistake in the generation ahead for the simple reason that all of the conditions that I just mentioned that characterized the beginning of the last generation have somewhat reversed today. We have price-to-peak-earnings ratios north of 20. We have bond yields in the 2% to 3% range. Owning market risk is not as well compensated today as it was a generation ago. We have an over-levered global economy, so nominal growth could be challenged in the future generation. We have a complex multi-polar geopolitical world, so there are geopolitical considerations that can negatively impact the business cycle.

There are a whole host of risk factors that mean that the world ahead could be one characterized by more disappointing muddle-through returns with volatility. It could feel more like a nominal "Ice Age" with downside risk episodically. This is exactly the kind of environment where an active approach focused on risk mitigation has the potential to make a great deal of sense even though the rear-vision mirror has been extremely rewarding to passive investing.

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Average Annual Returns as of 03/31/2018:	Year to Date	1 Year	5 Years	10 Years	Expense Ratio
First Eagle Global Fund - Class A (w/o sales charge) (SGENX)	-1.15%	6.42%	6.83%	6.64%	1.11%
First Eagle Global Fund - Class A (w/sales charge) (SGENX)	-6.10%	1.09%	5.74%	6.10%	

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 Global Fund gives effect to the deduction of the maximum sales charge of 5.00%.

Performance for periods prior to January 1, 2000 occurred while a prior portfolio manager of the fund was affiliated with another firm. Inception date shown is when this prior portfolio manager assumed portfolio management responsibilities.

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.

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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 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 holdings mentioned herein represent the following percentages of the total net assets of First Eagle Global Fund as of 03/31/2018: gold bullion 7.4%.

The Fund may invest 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.

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accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Morningstar percentile ranking for the First Eagle Global Fund was derived using the total return of the performance figure associated with its 1-, 3-, 5- and 10-year periods, as of 03/31/2018. Morningstar percentile rankings were: World Allocation Category; A shares; 1-year 78% (355/464), 3-year 11% (30/376), 5-year 13% (36/329), 10-year 5% (7/151). Different share classes may have different rankings.

First Eagle Global Fund Class A shares rated five stars overall by Morningstar among 376 World Allocation funds for the 3-, 5- and 10-year periods ended 3/31/2018. The Overall Morningstar Rating for First Eagle Global Fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year Morningstar Rating metrics. First Eagle Global Fund Morningstar ratings – A Shares: World Allocation Category; Three-year rating: 5 stars/376 funds. Five-year rating: 4 stars/329 funds. Ten-year rating: 5 stars/151 funds. Different share classes may have different ratings.

2015 Best Flexible Portfolio Fund is based on the ten-year risk adjusted performance among 93 eligible flexible portfolio funds for the period ended November 30, 2014. Classification average are calculated with all eligible share classes for each eligible classification. The calculation periods extend over 36, 60, and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five, or ten years. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. This is not an offer to buy or sell securities. Additional information is available at www.lipperweb.com. Lipper leader ratings copyright 2015, Reuters, All Rights Reserved.

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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 obtained by asking your financial adviser, visiting our website at feim.com or calling us at 800.334.2143. Please read our prospectus carefully before investing. For further information about the First Eagle Funds, please call 800.334.2143.

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