FIRST EAGLE
INVESTMENT MANAGEMENT

First Eagle | Gold Update

Commentary
June 2013

On Monday, June 24th, gold continued its 2013 downward slide closing at $1,277, a price last seen in April of 2011. A number of factors caused the initial weakness including rising interest rates, U.S. dollar strength, lack of inflation fears, a slowdown in emerging markets and indications from Federal Reserve Chairman Ben Bernanke that Quantitative Easing (QE) may be reduced. The sell-side has also contributed to gold's price weakness. Major sell-side firms have followed current trends and have lowered their gold price expectations. In fact on Monday, Goldman Sachs, HSBC, Morgan Stanley and UBS all lowered their gold price forecasts.

Gold miners are faring worse than gold bullion as sell-side research firms have recently focused on the negative aspects of gold miners' business models and largely ignored what we feel are the depressed valuations of many of these firms. In addition, many market participants have ignored gold's role in a portfolio through recent tough times. Now that gold is selling off, it is easy for some analysts to forget how gold at least partially protected portfolios during the turbulent times over the last twelve years.

Most Common Current Market Myth – "Gold Doesn't Act as a Hedge"

Investors who have abandoned gold in recent weeks probably feel vindicated by the sell-off of the last several days where, in the short-term, gold has been weak and has not acted as a hedge. In our view, many of these investors did not buy gold as a potential hedge in the first place. It is therefore not surprising that, with the gold price weakening, these investors are selling indiscriminately.

Over the past twelve years, many investors added gold to their portfolios, not because they had a specific thesis about gold or its role in a broader portfolio, but because they did not want to be left out of the herd. From 2000 to 2012, their faith in gold was rewarded as gold bullion ended every year at a price higher than the previous year and many investors developed a false sense of security, believing that their gold holdings would always increase.

Even among those who had originally thought of gold as a potential hedge, this period changed their expectations for their gold holdings. They wanted the general market to go up AND gold holdings to increase. In fact they probably lost sight of the possibility that gold may have been acting as a very real hedge during this period.

The period of strength in the price of gold persisted for so long that the positive impact gold offers as a potential hedge during tough times was largely hidden. For much of the mid-2000s, investors felt pretty good about their portfolios. The decade began with the dot.com boom followed by the housing boom and during these times, many investors may have viewed First Eagle's gold holdings as a somewhat unnecessary oddity. However, when looking at the decade in its entirety, this was a period of extreme volatility and uncertainty around the globe, when gold—although also volatile—did fulfill its role as a potential hedge. From 2000 to 2010, the S&P 500 Index was up 0.41% , while gold increased 15.4%.[1] Having a portion of a diversified portfolio in gold provided partial protection during this turbulent time. In fact, in 2008, when the Lehman crisis caused global markets to collapse, bullion finished the year up over 5%. Another example we will point to is the U.S. debt downgrade in August of 2011, which led gold to its highest price during the bull market when it touched $1,895 that September. During this period, financial markets were extremely weak as a result of uncertainty about what the future held.

1 Returns represent the compound annual growth rates of the S&P 500 Index and the gold spot price from 12/31/1999 – 12/31/2010. Past performance does not guarantee future results.

These moments of uncertainty that were positive for gold, but negative for the U.S. financial markets, shared one characteristic—they came out of nowhere. As we have repeatedly told our shareholders, the future is uncertain and our allocation to gold in our Global Value Funds is there in an attempt to partially protect our portfolio for those events we cannot forecast. We would expect gold to be weak in periods of stock market optimism, but we are willing to give up the upside of stock market optimism by maintaining our allocation to gold in the event that something happens that would create a very negative situation for our equity holdings. We believe it is important to put the emotions caused by a rough market aside and to remember the role gold has historically played in a diversified portfolio.

Gold Stocks Already Pricing in Gold's Collapse

Finally, we want to touch on the gold mining stocks. Generally, we believe the stocks are currently offering a compelling investment opportunity as the market seems to be completely ignoring underlying fundamentals and is more focused on the negative noise surrounding these stocks. Many gold mining companies are trading at market capitalizations that they last traded at in 2005, well before gold hit $1,000. Investors are extremely focused on the short-term and potential earnings downgrades and asset write-downs. Beginning in 2013, the price correction seems to have created an environment where many gold companies can reduce their workforce and begin to cut costs that have become bloated. Furthermore, the mining industry (across all metals) has been generally clamping down on capital spending and has been cutting operating costs. We believe that all of these cuts will have a trickledown effect and the all-in cost of mining an ounce of gold will likely move to a lower level. The mines that are being shuttered or seeing reduced allocation of capital and labor are truly marginal in our view. Now that many of the mining companies have shifted focus from growing at any cost toward free cash flow generation, marginal ounces may no longer be mined. We feel this should also help improve the cost structure of some of the miners and improve cash flow generation. In our view, many investors have become too focused on the short-term as it relates to the mining industry. We feel that this makes little sense given the long-term nature of operating a mine.

At First Eagle, we focus on the quality of proven and probable reserves and try to invest in the cheapest, highest quality ounces possible. We continue to believe the opportunity for investment is in the miners (versus bullion). In our view, the market needs to push emotions aside and examine the proven and probable ounces in the ground and the cost to extract those ounces. Even taking what we feel is a conservative view of many of the factors that drive valuation, we continue to feel that we have found opportunities in a number of high-quality gold mining stocks.

Conclusion

Global markets remain turbulent. We are starting to see fade in emerging markets; it is unclear how the U.S. will react to higher interest rates; Central Bankers continue to experiment with policy, and there are numerous geopolitical problems occurring across the globe. In our view, an allocation to gold in a diversified portfolio continues to make sense and current market conditions have led prices of these ounces to trade at levels we have not seen since 2005 (in the case of miners) and 2010 (in the case of bullion). Given the uncertainty in the markets, we believe "the death of gold" as a potential hedge is exaggerated. As always, we hope we never have to call on our potential gold hedge, but in those cases when uncertainty is driving financial markets lower, we are comfortable with the allocation to gold we have historically held in our portfolios.

Average Annual Returns as of 9/30/2013 (%)

				YTD	1 Year	5 Years	10 Years	Expense Ratio*
First Eagle Gold Fund	Class A	without sales charge	SGGDX	-38.29	-44.50	-0.33	5.99	1.21
		with sales charge	SGGDX	-41.37	-47.28	-1.35	5.45	
FTSE Gold Mines Index				-45.05	-53.18	-7.68	0.16	

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

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

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 and a tax risk subjecting the Fund's income to federal income tax that reduces returns to shareholders. The price of gold, in turn, is likely to affect the market prices of securities of companies mining or processing gold, and accordingly, the value of investments in such securities may also be affected. Gold related investments as a group have not performed as well as the stock market in general during periods when the U.S. dollar is strong, inflation is low and general economic conditions are stable. In addition, returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets. Investment in gold and gold related investments may be speculative and may be subject to greater price volatility than investments in other assets and types of companies.

There can be no assurances that gold will act as a hedge.

There are risks associated with investing in funds that invest in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates.

Funds whose investments are concentrated in a specific industry or sector may be subject to a higher degree of risk than funds whose investments are diversified and may not be suitable for all investors.

The Gold Fund is non-diversified. Investing in a non-diversified fund involves the risk of greater price fluctuation than a more diversified portfolio.

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The FTSE Gold Mines Index is an unmanaged index composed of approximately 19 mining companies, is available without dividends reinvested, and is not available for purchase.

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