

First Eagle High Yield Fund

Commentary
As of December 31, 2015

Energy Update

Class A	FEHAX
Class C	FEHCX
Class I	FEHIX

First Eagle High Yield Fund is maintaining its position in energy—as opposed to many of our peers—even though it’s been a driver of recent underperformance. Investors might wonder about this exposure amid falling oil prices, a seemingly growing supply glut and a potentially slowing global economy.

We believe that the market is over-assessing the probability of default in the sector. That’s not to say that there won’t be increased default activity in energy; we just believe that it will not rise to the level embedded in spreads. In our opinion, at current spreads to worst of 1,300 bps, the embedded default rate approximates 20%. Historically, maturities and (at times) coupon payments served as catalysts for a company’s bankruptcy filing. In the leveraged credit energy sector, there are relatively few maturities through 2018. Over the past few years, companies have generally slashed CapEx and are trying to spend within cash flow, as evidenced by a greater than 60% drop in domestic rig count.¹ To date, the decrease in spending has led to a slowdown in the growth of production, but hasn’t yet led to an absolute year-over-year decline. We believe a domestic production decline may occur at some point in the first quarter of 2016, which combined with a potential increase in demand should bring the market closer to supply/demand balance.

At the end of the day, it’s generally a race between a company’s liquidity, and the time it takes for the market to rebalance. To that end, we have chosen companies that we believe have liquidity through the coming year and in most cases through 2017. In fact, the only company that potentially will run out of liquidity next year is Basic Energy—a provider of pressure pumping, workover and completion services to domestic shale drillers. However, Basic is a company that has managed through downturns before and is trading at levels that we believe create the enterprise at attractive multiples, even if it were to restructure. Additionally, many of our holdings have other options to raise liquidity such as in-the-money hedges and monetizable property in attractive shale regions. In other words, these companies have levers that can help extend their runway to a more balanced market.

Because the high-yield portfolio consists of companies from several different subsectors of the energy market, they have different risk profiles. For instance, we own pipelines and gatherers that are fee-based and have very little commodity exposure (Crestwood and Genesis Energy). In contrast, we own upstream exploration and production companies that have direct commodity exposure to natural gas, natural gas liquids, and oil (Antero, EP Energy, Rex Energy). Those companies have varying levels of risk as well. We believe some are well hedged and are sitting on attractive assets in attractive shale regions, like EP energy and Antero while others are more on the margin such as Lightstream Resources and Atlas Resource Partners. Valuation has compressed between higher quality and lower quality energy.

As a result, companies within the Exploration & Production space have different risk levels, different levels of liquidity, and different flexibility in terms of potential asset dispositions. Every situation is unique. What we have attempted to do is buy companies based on asset coverage and liquidity, as provided by their reserve based lending agreements. We have underwritten companies that we feel have sufficient runway and flexibility to see the other side of an unbalanced energy market.

In addition to slowly rebalancing, we believe the market has completely ignored rising global tensions that have been brought about (in part) by falling energy prices. The risk of social unrest has increased in Venezuela, Nigeria, Libya, Iraq and also Saudi Arabia. Historically, energy has risen on news of tension among the Sunni and Shia within countries as well as between countries. This has been largely ignored while the supply overhang is fairly narrow between 1-2mm barrels per day.¹ As tensions rise, energy could again begin to be viewed as a more defensive sector within high-yield and domestic energy security could be a topic of conversation among the pundits. Lastly, if we were to see this current bout of risk aversion spread to other sectors, we believe that energy has the potential to outperform due to its extreme valuation.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investment Management, LLC

1. Tudor Pickering and Holt

Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner, or that negative perception of the issuer's ability to make such payments may cause the price of that bond to decline.

The Fund invests in high yield securities (commonly known as "junk bonds") which are generally considered speculative because they may be subject to greater levels of interest rate, credit (including issuer default) and liquidity risk than investment grade securities and may be subject to greater volatility. The Fund invests in high yield securities that are non-investment grade. High yield, lower rated securities involve greater price volatility and present greater risks than high rated fixed income securities. High yield securities are rated lower than investment-grade securities because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. All investments involve the risk of loss.

Bank loans are often less liquid than other types of debt instruments. There is no assurance that the liquidation of any collateral from a secured bank loan would satisfy the borrower's obligation, or that such collateral could be liquidated.

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 securities mentioned herein represent the following percentage of the total net assets of the First Eagle High Yield Fund as of December 31, 2015: Basic Energy Services, Inc. 7.75% 02/15/2019 0.16%, Basic Energy Services, Inc. 7.75% 10/15/2022 0.17%, Crestwood Midstream Finance Corp. 6.0% 12/15/2020 0.07%, Crestwood Midstream Partners LP 6.125% 03/01/2022 0.76%, Genesis Energy LP 6.0% 05/15/2023 0.41%, Antero Resources Corp. 5.625% 06/01/2023 1.07%, Antero Resources Finance Corp. 5.375% 11/01/2021 0.48%, EP Energy Corp. 9.375% 05/01/2022 0.76%, Rex Energy Corporation 6.25% 08/01/2022 0.13%, Rex Energy Corporation 8.875% 12/01/2020 0.16%, Lighstream Resources Ltd. 8.625% 02/01/2020 0.34%, Atlas Energy Holdings 7.75% 01/15/2021 0.25%, Atlas Energy Holdings 9.25% 10/15/2022 0.21%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The commentary represents the opinion of the High Yield Team Portfolio Managers as of December 31, 2015 and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the firm. These materials are provided for informational purpose 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. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

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 www.feim.com or calling us at 800.334.2143. Please read our prospectus carefully before investing. Investments are not FDIC insured or bank guaranteed, and may lose value.