FIRST EAGLE
INVESTMENT MANAGEMENT



# Rob Hordon on Income Opportunities in Asia

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*The PM's Perspective* is a series of interviews with senior members of First Eagle's investment teams. As a firm with a long tradition of independent thinking, we invite you to read these market views and strategic insights.

**Q: Asian markets generally have been associated with growth. Given the Global Income Builder Fund's focus on value and income, how does Asia fit in?**

Asian securities have become a meaningful part of the portfolio. As of September 30, 2015, Asian equities represented approximately 12% of the fund—roughly 3% in Japan and 9% elsewhere in the region. We also have some modest exposure to Asian sovereign debt in the form of Government of Singapore bonds.

It is certainly true that Asia is home to some high-growth economies—not just China but also others in Southeast Asia. This provides an interesting long-term backdrop for investing in those markets, but it does not preclude the possibility of finding securities at attractive valuations that potentially deliver material income streams as well.

Our largest exposures in Asia are to stocks listed in Hong Kong and Singapore, with roughly 5% and 3% of the portfolio invested in those countries, respectively, as of September 30, 2015. We believe these markets offer attractive dividend yields compared with other world markets—an average of 3.2% in Hong Kong and of 4.0% in Singapore.[1] We think there are various reasons for this, but one important factor likely is Hong Kong and Singapore's historical ties to the United Kingdom, where investors have traditionally expected to receive dividends. Income-oriented sectors like property and infrastructure also figure prominently in these geographies.

For dividend investors, Japan is not a particularly fertile place. The Japanese equity market is among the lowest yielding in the world, with a 2.0% average dividend yield.[2] That said, Japan seems to be moving in the direction of higher dividend payouts, driven in part by Abenomics and the pressure being applied to Japanese corporates to deliver higher returns on equity. We do have a number of dividend-paying Japanese stocks in the fund.

It's also worth mentioning that at 2.1%,[3] the average dividend yield of S&P 500 Index stocks is not much higher than Japan's. This underscores the importance for income investors to consider a global opportunity set. Income-oriented investors who focus only or primarily on the United States are limiting themselves to one of the least dividend-rich stock markets. And dividend-paying stocks in the U.S. are not especially diverse. Higher-yielding stocks generally tend to be concentrated in sectors like regulated utilities, for example, which have proven vulnerable in the past to upward movements in interest rates.

**Q: How has your exposure to Asia evolved since the inception of the Global Income Builder Fund? Are there any discernible themes?**

Since the inception of the fund in May 2012, we have incrementally grown our exposure to Asian equities from approximately 7% to 12%. This was not driven by any sort of top-down geographical call but rather is the result of our team's ability to find, on a stock-by-stock basis, interesting investment opportunities that meet our value and income criteria.

In terms of themes, as I mentioned earlier, Asian stock markets tend to have significant representation from the property sector, and we've built a number of positions in real estate companies and businesses that are anchored by real estate assets. In contrast with our recent experience in Western markets, in Asia we have been able to identify a number of companies with high-quality real estate assets that were available at healthy discounts to our sense of intrinsic value. These stocks often have above-average dividend yields.

We have also had success in identifying a number of small-cap income opportunities in Asia. In the U.S., small-cap stocks have a low propensity to pay dividends, and the

1 Source: Factset. As measured by the MSCI Hong Kong and MSCI Singapore indices.

2 Source: Factset. As measured by the MSCI Japan Index.

3 Source: Factset.

yield on the Russell 2000 index is approximately 1.7%.[4] By contrast, we have found a number of smaller companies in Asian markets that not only have paid substantial dividends, but also appeal to us from a valuation and business-quality perspective.

**Q: Can you walk us through some specific examples?**

On the property side, we have a meaningful position in Hopewell Holdings, a Hong Kong-listed property and infrastructure conglomerate in which First Eagle has been invested for many years. The stock trades at what we believe is an attractive discount to its net asset value. In addition to a controlling interest in a listed toll road that connects Hong Kong to Guangzhou in the Pearl River Delta, Hopewell owns properties in Hong Kong that have experienced very significant rental growth in recent years. It is also undertaking a redevelopment program of its real estate in Wan Chai (on Hong Kong Island) that we think has the potential to create substantial value.

In Singapore, we are investors in Frasers Commercial Trust, a small office-property REIT that owns buildings in Singapore and Australia. The company has a high-quality real estate portfolio in good locations, with some interesting rent reversion and asset enhancement potential that could drive distributable income.

On the small-cap side, Mandarin Oriental, a luxury hotel chain based in Hong Kong, is among our ten largest positions in the portfolio. Real estate plays a key role here, as we believe the fair value of Mandarin's owned hotels around the world exceeds the company's enterprise value. Mandarin also has a growing hotel management business that we believe represents a high-margin, capital-light way to take advantage of the value of the brand with minimal financial risk.

Another interesting small-cap holding is Asian Pay Television Trust (APTT). APTT is a Singapore business trust that has a controlling interest in Taiwan Broadcasting Company, which is one of three major cable-TV operators in Taiwan. As a trust, the company is obligated to distribute essentially all its free cash flow to investors as income. We view the underlying business in Taiwan as stable and highly cash generative, with reasonable growth prospects over time. We have had constructive meetings with managers of both the trust in Singapore and the operating company in Taipei, and we think management is sensible.

4 Source: Bloomberg

**Q: Is it more difficult to follow investments in Asia?**

Both as a team and as individuals, we make many trips to Asia every year. One of the advantages of cities like Hong Kong, Singapore, and Tokyo is that you can arrange many company meetings over a short period of time. Also, financial disclosure and investor relations efforts tend to be pretty robust in these markets.

The prevalence of holding companies and conglomerate structures is an interesting characteristic of Asian equity markets and one that matches up well with First Eagle's investment approach. We have historically been drawn to such companies, not just in Asia but around the world, as we are keen to benefit from conglomerate discounts that may be available. Holding companies may also present an opportunity to own assets and businesses that other investors may shy away from because of structural complexity, narrow investment mandates or a general reluctance to coinvest with a controlling shareholder. Within the Global Income Builder Fund, we have investments in a number of Asian holding companies, including Hopewell, mentioned above, and names like Jardine Matheson and Great Eagle Holdings.

From a research perspective, an interesting side note is that we have been able to identify several investment opportunities in Asia because they are subsidiaries of holding companies with which we have been involved for many years. Mandarin Oriental is approximately 75% owned by Jardine Matheson, for example, and through our interactions with the parent company over the years, we've developed an appreciation for the asset value within Mandarin as well as the way the brand has been nurtured. The investment in Frasers Commercial Trust grew out of our prior involvement in a property/beverage conglomerate in Singapore, which is its largest shareholder. APTT was a spin-off from a listed investment fund that was in the process of being unwound.

**Q: Asian companies generally generate a lot of revenue in emerging economies, and there have been some high-profile cases of fraud, particularly in China. How do you manage risk?**

Investing in Asia, like anywhere else, is certainly not without risk. Avoiding permanent capital impairment is the foundation of our investment approach at First Eagle. We look at Asian investment opportunities through the same risk lens we use when considering any investment. We ask ourselves the same questions: What is the price we are paying versus the underlying value of the business—is there a substantial margin of safety? Do we own the securities in countries that offer strong shareholder protections (and in particular, minority shareholder protections if a controlling shareholder is present)? Is the balance sheet solid? Is the business resilient? Are we aligned with key shareholders and management teams that are focused on protecting and growing the value of the business?

With our holdings in Asia, we feel we are managing some of the risk by making investments in companies only when our answer to these questions is yes. Consider Jardine

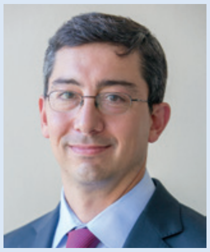
Matheson. We believe the stock has traded at a clear discount to the trading value of its subsidiary companies, some of which, like Mandarin Oriental, may be undervalued by the market. The company is headquartered in Hong Kong and listed in Singapore—developed markets with strong securities laws and favorable tax regimes. The company has net cash at the parent level. It is generally a collection of leading businesses with high market share throughout Southeast Asia. Finally, the company is controlled by the Keswick family of Scotland, which has been a commercial leader in the region for more than a century. Jardine Matheson has substantial interests in Indonesia, a high-potential economy but one whose legal system and capital markets are perhaps less evolved than those of Hong Kong or Singapore. We tend to prefer gaining access to that type of market through vehicles like Jardine Matheson, which are managed by established operators in strong jurisdictions.

When we buy a stock, we carefully consider the families or groups with which we are ultimately entrusting our investors' capital. We do not currently have any direct investments in mainland Chinese companies or companies that are controlled by Chinese state-owned enterprises.

**Q: Are there interesting opportunities in fixed income in Asia?**

As mentioned, we have an investment in Government of Singapore debt, which we generally view as a cash alternative. This investment is underpinned by our team's long-term constructive view on the Singapore dollar, which has weakened somewhat year-to-date relative to the U.S. dollar.

In high yield—or corporate credit generally—we have historically made a few select investments in Asia. Corporate credit markets are not as large or developed in Asia as they are in the U.S. or Europe, but they will likely grow over time. Additionally, we find that many of the credits there are tied to resource-based companies with a lot of exposure to the China commodities complex, which gives us pause. On a recent visit to the region, we spent time developing our credit market ties, and we will continue to monitor this opportunity set.



**Robert Hordon, CFA**

Since 2012, Rob has served as portfolio manager of the First Eagle Global Income Builder Fund. In addition, since 2008, Rob has been a research analyst for the Global Value Team and currently covers the construction materials, property, infrastructure and retail sectors. Rob joined First Eagle Investment Management in 2001 as a risk arbitrage analyst, working as a generalist on a wide range of merger arbitrage and event-driven investments.

Prior to joining First Eagle Investment Management, Rob was a research associate in the Equity Research department of Credit Suisse First Boston, where he covered the wireless telecommunications services sector.

Rob received his BA in politics from Princeton University and received his MBA from Columbia Business School. He holds the Chartered Financial Analyst (CFA) designation.

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*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 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 case 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. 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.*

*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.*

*Income generation is not guaranteed. If dividend paying stocks in the Fund's portfolio stop paying or reduce dividends, the fund's ability to generate income will be adversely affected.*

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 percentage of the total net assets of the First Eagle Global Income Builder as of December 31, 2015: Hopewell Holdings 1.01%, Frasers Commercial Trust 0.75%, Mandarin Oriental 1.66%, Asian Pay Television Trust 0.92%, Jardine Matheson Holdings Limited 1.12%, & Great Eagle Holdings Limited 0.47%. The portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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