Credit Opportunities Fund

Market Overview

The corporate loan market was firm throughout much of the first quarter as strong institutional and retail demand was met by a relatively limited amount of net new supply leading to a strong technical throughout the period.

The Credit Suisse Leveraged Loan Index returned 2.5% during the quarter, as loans outperformed the vast majority of fixed income asset classes. The Bloomberg US Corporate High Yield Index advanced 1.5% during the quarter, but rising interest rates weighed on longer-duration fixed-rate benchmarks like the Bloomberg US Aggregate Bond Index, which fell 0.8%.[1]

Technical Environment Benefitted Lower Quality Loans

The loan market saw consistent investor demand throughout the period as sentiment around credit fundamentals remained constructive. The two most transparent sources of demand are collateralized loan obligations (CLOs), which are institutionally dominated, and mutual funds/ETFs, which are driven predominantly by retail demand. Net CLO creation topped $48 billion during the first quarter, while mutual fund and ETF inflows added another $2.8 billion of demand.[2] While retail demand for loans historically has been mostly a function of interest rate sentiment and a desire to combat duration risk, the year-to-date inflows seem to indicate that retail investors may be looking more holistically at the relative value in loans.

Against that strong demand was a mere $37.8B of net supply. While the capital markets were extremely active during the quarter, roughly 88% of new-issue volumes consisted of refinancing and repricing activity.[3] While an open capital market allows issuers to lower borrowing costs and term out existing debt, it can also lead to some modest spread compression for investors.

Amid an environment where demand outstripped supply, another dynamic seen throughout the period was the outperformance of lower-quality assets. The broad technical lift in prices had a larger impact on loans trading at material discounts to par, which in many cases are of lower quality. On the other hand, better-quality assets tend to trade closer to par and have more limited upside in a technical rally. For the quarter, loans rated CCC rose nearly 1.5%, while BB rated loans lost 0.1% and B rated loans gained 0.1%.[4]

Tighter Risk Premiums and Higher Rates Warrant a More Defensive Posturing

The move higher in riskier names coupled with some incremental weakness within better-quality assets generally biases us toward a more defensive positioning, a view reinforced by the potential for a "higher for longer" interest rate scenario. Fundamentally, we expect higher rates to weigh on a number of more highly levered capital structures. We also believe that inflation—wage inflation, in particular—remains a variable with which issuers and private equity sponsors will need to contend.

Rating agency activity in the loan market reflects some of these risks. Downgrade activity in recent months has been centered on the healthcare and services, two labor-intensive sectors with exposure to persistent wage inflation. We continue to monitor the impact of both wage inflation and higher input costs more broadly. So far, however, operating results remain largely resilient despite these factors.

While default rates, perhaps not surprisingly, have moved moderately higher in recent months, the trailing 12-month default rate stands at 3.5%, only slightly above the average annual rate of 3%. Notably, a significant portion of that is concentrated in one large issuer—Envision Healthcare—that defaulted on $9.4B of loans in April 2023.[5]

Fundamentals and operating results for loan issuers have been mixed, but balance sheets remain in a relatively good position. While revenue and EBITDA both declined moderately quarter over quarter, they increased year over year. EBITDA margins also remain at the highest level in recent years. While interest coverage has come down amid higher interest expenses, leverage has receded to a post-pandemic low.

1. Source: Credit Suisse Plus, FactSet; data as of March 31, 2024.
2. Source: JPMorgan; data as of March 31, 2024.
3. Source: JPMorgan; data as of March 31, 2024.
4. Source: Credit Suisse Plus; data as of March 31, 2024.
5. Source: JPMorgan; data as of March 31, 2024.

Back to Basics: Managing for Downside Risk

While valuations arguably have become a bit stretched across risk assets—with the S&P 500 Index up roughly 28% since its late-October bottom and high yield spreads at their tightest levels since the global financial crisis—relative value in the loan market appears more balanced. This is particularly true of higher-quality paper, as lower-quality assets have driven the majority of the asset class's gains in recent months.[6]

We continue to find value in both the syndicated loan and direct lending markets. Although the syndicated market may come with more day-to-day volatility, its interim liquidity allows us to proactively attempt to manage risk. Plus, the larger borrowers that comprise this space typically have greater scale, better ability to defend margins and wider-moat businesses. On the direct lending side, we prefer to be more patient and selective, waiting for transactions that offer what we believe are wider "margins of safety"[7] and risk premiums than typical of the syndicated market.

For active loan managers who are accustomed to an asset class in which risk is asymmetric to the downside, the current environment is certainly not an outlier. While upside in the loan market appears limited today, we believe the corporate loan yields are attractive and even slightly higher than they were at the beginning of the year. While there is some potential that base rates begin to decrease later this year, we view the probability of a dramatic shift in interest rates as minimal. Though it's possible that the Federal Reserve will both successfully engineer a soft landing and reduce rates meaningfully from current levels, we believe credit investors are better served by less optimistic assumptions; as such, when underwriting new issuers and re-underwriting existing holdings, we do so with a base case that rates remain higher for longer.

Outlook

While we expect default rates to remain elevated in the coming quarters as higher borrowing costs weigh on borrowers, we do not expect a dramatic increase, as the capital markets remain open and private credit investors have cash to deploy. We expect providers of private credit to continue playing a role in the refinancing of higher-risk broadly syndicated loans, as the CLO buyers with limited risk budgets that dominate the syndicated market remain more focused on performing credits. A mere 5% of new issues in the loan market year to date have been rated below B-.[8]

Despite a relatively benign backdrop in general, we believe that credit selection will be critical as dispersion increases off currently low levels. Wage inflation, higher energy costs, higher interest rates and the potential for economic weakness remain concerns. Overall, however, we believe that the risk/return proposition of the loan asset class should continue to drive demand both from income-oriented fixed income investors as well as investors turning to senior secured loans for the potential of equity-like returns with less risk and less volatility given their position at the top of the capital structure.

6. Source: Bloomberg; data as of March 31, 2024.
7. First Eagle defines "margin of safety" as the difference between a company's market price and our estimate of its intrinsic value. An investment made with a margin of safety is no guarantee against loss.
8. Source: JPMorgan; data as of March 31, 2024.

Average Annual Returns as of Mar 31, 2024

					Expense Ratio[1]			
	YTD	1 Year	3 Year	Inception	Gross[2]	Net[3]	Adjusted[4]	Inception Date
First Eagle Credit Opportunities Fund – Class A FECAX (without load)	2.28%	11.17%	5.64%	6.84%	4.72%	4.03%	2.25%	Dec 2, 2020
First Eagle Credit Opportunities Fund – Class A FECAX (with load)	-0.28%	8.38%	4.39%	5.70%	4.72%	4.03%	2.25%	Dec 2, 2020
First Eagle Credit Opportunities Fund – Class A-2 FCAAX (without load)	2.21%	10.72%	-	6.59%	5.35%	4.53%	2.75%	May 31, 2022
First Eagle Credit Opportunities Fund – Class A-2 FCAAX (with load)	-0.36%	7.93%	-	5.13%	5.35%	4.53%	2.75%	May 31, 2022
First Eagle Credit Opportunities Fund – Class I FECRX	2.41%	11.56%	6.08%	7.27%	4.44%	3.78%	2.00%	Sep 15, 2020

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. 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 First Eagle Credit Opportunities Fund give effect to the deduction of the maximum sales charge of 3.50%.

[1]The annual expense ratio is based on expenses incurred by the fund, as stated in the most recent prospectus. FEIM has contractually undertaken to waive and/or reimburse certain fees and expenses of the Fund 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 the Class A, Class A-2 and Class I shareholders are limited to 2.25%, 2.75% and 2.00%, respectively, of average net assets. This undertaking lasts until 30-Apr-2024 and may not be terminated during its term without the consent of the Board of Trustees. The Fund has agreed to repay the Adviser 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 2.25%, 2.75% and 2.00% of the class' average net assets, or such other lower amount as may be in place at the time of repayment. Any such repayment must be made within three years after the date in which the Fund incurred the fee and/or expense.

[2]The Gross Expense Ratio includes an estimate of interest payments the Fund expects to incur in connection with its use of leverage of 1.78% and Acquired Fund Fees and Expenses ("AFFE"), which are fees and expenses incurred by the Fund in connection with its investments in other investment companies, which are excluded from the expense waiver.

[3]The net expense ratio is the gross expense ratio after waivers and/or reimbursements.

[4]The Adjusted Expense Ratio of 2.00% for Class I, 2.25% for Class A and 2.75% for Class A-2 excludes certain investment expenses, such as interest expense from borrowings and repurchase agreements and dividend expense from investments on short sales, incurred directly by the Fund or indirectly through the Fund's investments in underlying First Eagle Funds (if applicable), none of which are paid to First Eagle.

The information is not intended to provide and should not be relied on for accounting or tax advice. Any tax information presented is not intended to constitute an analysis of all tax considerations.

The minimum initial investment for Class A Shares and Class A-2 Shares is $2,500 per account. The minimum subsequent investment amount for Class A Shares and Class A-2 Shares is $100. The minimum initial investment for Class I Shares is $1 million per account. There is no minimum subsequent investment amount for Class I Shares.

The initial investment minimums may be modified for certain financial firms that submit orders on behalf of their customers. The Fund or the Distributor may lower or waive the minimum initial investment for certain classes of shares or categories of investors at their discretion. The minimum initial investment may also be modified for current officers, trustees, directors, and employees of the Fund, First Eagle, the Adviser, the Subadviser, the Distributor, certain other subsidiaries of First Eagle, The Blackstone Group Inc., Corsair Capital LLC, employees of certain firms providing services to the Fund (such as the custodian and the shareholder servicing agent), and to the immediate family members of any such persons or to any trust, pension, profit-sharing or other benefit plan for only such persons. Please see the Statement of Additional Information for details.

The Credit Opportunities Fund is an Interval Fund, a type of fund that, in order to provide liquidity to shareholders, has adopted a fundamental investment policy to make quarterly offers to repurchase between 5% and 25% of its outstanding Common Shares at net asset value ("NAV"). Subject to applicable law and approval of the Board of Trustees for each quarterly repurchase offer, the Fund currently expects to offer to repurchase 5% of the Fund's outstanding Common Shares at NAV on a quarterly basis.

The Credit Opportunities Fund's Common Shares are not listed for trading on any national securities exchange, have no trading market and no market is expected to develop.

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. **Collateralized Loan Obligations (CLO)** are a form of securitization where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches. A CLO is a type of collateralized debt obligation. **Exchange-traded funds (ETFs)** are a basket of securities that tracks an underlying index. ETFs can contain investments such as stocks and bonds. **Duration** is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. An **obligation rated 'CCC'** is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. The **BB credit rating** means that there is a higher probability for default of a debt issuer or a debt instrument. This is the grade by S&P and Fitch while the respective grade by Moody's scale is Ba2. The BB is the second-best non-investment grade. An **obligation rated 'B'** is considered more vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments. A **syndicated loan** is financing offered by a group of lenders—called a syndicate—who work together to provide funds for a borrower. **Direct Lending** is a form of corporate debt provision in which lenders other than banks make loans to companies without intermediaries such as an investment bank, a broker, or a private equity firm. **Default Rate** measures how often a particular type of bond (categorized by issuer, sector, credit rating, etc.) or other borrower has defaulted (missed or delayed scheduled payments) over a given period of time.

Risk Disclosures

All investments involve the risk of loss of principal.

An investment in the First Eagle Credit Opportunities Fund (the "Fund") involves a number of significant risks. Below is a summary of some of the principal risks of investing in the Fund. Before you invest, you should be aware of various risks, including those described below. For a more complete discussion of the risks of investing in the Fund, see the Fund's prospectus under the heading, "Principal Risks of the Fund."

There are risks associated with investing in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. These risks may be more pronounced with respect to investments in emerging markets.

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.

Investments in loans potentially expose the Fund to the credit risk of the underlying borrower, and in certain cases, of the financial institution. The Fund's ability to receive payments in connection with the loan depends primarily on the financial condition of the borrower. Even investments in secured loans present risk, as there is no assurance that the collateral securing the loan will be sufficient to satisfy the loan obligation. The market for certain loans is expected to be illiquid and the Fund may have difficulty selling them. In addition, loans often have contractual restrictions on resale, which can delay the sale and adversely impact the sale price.

Below investment grade securities or comparable unrated instruments may be subject to greater risks than securities or instruments that have higher credit ratings, including a higher risk of default, and the Fund might have difficulty selling them promptly at an acceptable price.

Investments in debt securities and other obligations of companies that are experiencing significant financial or business distress involve a substantial degree of risk, including a material risk that the issuer will default on the obligations or enter bankruptcy. The level of analytical sophistication, both financial and legal, necessary for successful investment in distressed assets is unusually high. There is no assurance that First Eagle Alternative Credit will correctly evaluate the value of the assets collateralizing the Fund's investments or the prospects for a successful reorganization or similar action in respect of any company.

Investors may not have access to all share classes at certain financial intermediaries. Please consult your financial professional for more information.

Investors should consider Common Shares of the Fund to be an illiquid investment. There is no guarantee that investors will be able to sell the Common Shares at any given time or in the quantity the investor desires.

An investment in the Credit Opportunities Fund is not suitable for investors who need certainty about their ability to access all of the money they invest in the short term.

Index Definitions

Credit Suisse Leveraged Loan Index (Gross/Total) measures the performance of investable universe of the USD-denominated leveraged loan market. The index inception is Jan-1992. The index frequency is daily, weekly and monthly. A total return index tracks price changes and reinvestment of distribution income. (0302-INDX)

Bloomberg US Corporate High Yield Bond Index (Gross/Total) measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below and is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both US and non-US corporations. A total return index tracks price changes and reinvestment of distribution income.

Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed rate agency MBS, ABS and CMBS (agency and non-agency).

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.

This commentary represents the opinion of the First Eagle Credit Opportunities Fund portfolio managers as of the date noted and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the entire 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.

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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. You may also request printed copies by calling us at 800-747-2008. Please read our prospectus carefully before investing.

The First Eagle Credit Opportunities Fund is offered by **FEF Distributors, LLC**, a subsidiary of First Eagle Investment Management, LLC, which provides advisory services.

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1345 Avenue of the Americas, New York, NY 10105 | www.firsteagle.com