First Eagle Investments

First Eagle Reflections

2022–2023 Edition

AS OF NOVEMBER 30, 2022, EXCEPT AS INDICATED

Inside

Multi-Asset Class Returns

Annual Returns for Selected Asset Classes in Order of Performance

2013	2014	2015	2016	2017
US Small Cap 38.6%	Global Real Estate 14.7%	Direct Lending 5.5%	Gold Miners 60.4%	EM Equity 37.3%
US Large Cap 32.2%	US Large Cap 13.6%	US Large Cap 1.4%	US Small Cap 21.2%	EAFE Equity 25.0%
EAFE Equity 22.7%	Direct Lending 9.6%	US Treasuries 0.8%	US High Yield 17.1%	US Large Cap 21.8%
Direct Lending 12.7%	Global Agg ex-US 8.3%	US Aggregate 0.5%	US Large Cap 11.9%	Global Real Estate 15.0%
US High Yield 7.4%	US Aggregate 5.9%	Global Agg ex-US 0.3%	Commodities 11.4%	US Small Cap 14.6%
Leveraged Loans 5.3%	US Treasuries 5.1%	Global Real Estate -0.4%	Direct Lending 11.2%	Gold 13.5%
Global Real Estate 2.2%	US Small Cap 4.9%	Leveraged Loans -0.7%	EM Equity 11.1%	Gold Miners 10.2%
Global Agg ex-US 1.5%	US High Yield 2.4%	EAFE Equity -0.8%	Leveraged Loans 10.2%	Direct Lending 8.6%
Commodities -1.2%	Leveraged Loans 1.6%	US Small Cap -4.4%	Gold 8.1%	US High Yield 7.5%
US Aggregate -2.0%	Gold -1.4%	US High Yield -4.5%	Global Agg ex-US 6.2%	Commodities 5.8%
EM Equity -2.6%	EM Equity -2.2%	Gold -10.4%	Global Real Estate 4.6%	Leveraged Loans 4.1%
US Treasuries -2.7%	EAFE Equity -4.9%	EM Equity -14.9%	US Aggregate 2.6%	Global Agg ex-US 4.1%
Gold -28.3%	Gold Miners -14.1%	Gold Miners -20.4%	US Treasuries 1.0%	US Aggregate 3.5%
Gold Miners -52.1%	Commodities -33.1%	Commodities -32.9%	EAFE Equity 1.0%	US Treasuries 2.3%

* Through September 30, 2022.

Source: FactSet, Bloomberg, Cliffwater; data as of December 31, 2022.

US Large Cap: S&P 500 Index. **US Small Cap**: Russell 2000 Index. **EAFE Equity**: MSCI EAFE Index. **EM Equity**: MSCI Emerging Markets Index. **US Aggregate**: Bloomberg US Aggregate Bond Index. **US High Yield**: Bloomberg US Corporate High Yield Bond Index. **Gold Miners**: FTSE Gold Mines Index. **Global Real Estate**: FTSE EPRA Nareit Global Real Estate Index. **Gold**: Gold spot price. **Commodities**: S&P GSCI Index. **Leveraged Loans**: Morningstar LSTA US Leveraged Loan Index. **Direct Lending**: Cliffwater Direct Lending Index. **US Treasuries**: Bloomberg US Treasury Index. **Global Agg ex-US**: Bloomberg Global Aggregate ex-USD Bond Index.

Index definitions can be found in the back of the book.

2018	2019	2020	2021	2022
Direct Lending 8.1%	**Gold Miners** 42.5%	**Gold** 25.1%	**Commodities** 40.4%	**Commodities** 26.0%
Global Agg ex-US 1.7%	**US Large Cap** 31.3%	**Gold Miners** 24.7%	**US Large Cap** 28.6%	**Direct Lending** 4.2%*
US Treasuries 0.9%	**US Small Cap** 25.4%	**US Small Cap** 19.8%	**Global Real Estate** 22.9%	**Gold** -0.3%
Leveraged Loans 0.4%	**Global Real Estate** 23.5%	**US Large Cap** 18.2%	**US Small Cap** 14.8%	**Leveraged Loans** -0.6%
US Aggregate 0.0%	**EAFE Equity** 21.9%	**EM Equity** 18.2%	**Direct Lending** 12.8%	**US High Yield** -11.2%
Gold -1.6%	**EM Equity** 18.3%	**US Treasuries** 8.0%	**EAFE Equity** 11.2%	**US Treasuries** -12.5%
US High Yield -2.1%	**Gold** 18.3%	**EAFE Equity** 7.8%	**US High Yield** 5.3%	**Gold Miners** -12.8%
US Large Cap -4.4%	**Commodities** 17.6%	**US Aggregate** 7.4%	**Leveraged Loans** 5.2%	**Global Agg ex-US** -13.0%
Global Real Estate -5.5%	**US High Yield** 14.3%	**US High Yield** 7.1%	**Global Agg ex-US** -1.2%	**US Aggregate** -13.0%
Gold Miners -10.0%	**Global Agg ex-US** 9.2%	**Direct Lending** 5.5%	**US Aggregate** -1.5%	**EAFE Equity** -14.5%
US Small Cap -11.0%	**Direct Lending** 9.0%	**Global Agg ex-US** 5.3%	**US Treasuries** -2.3%	**US Large Cap** -18.1%
EAFE Equity -13.7%	**US Aggregate** 8.7%	**Leveraged Loans** 3.1%	**EM Equity** -2.5%	**EM Equity** -20.1%
Commodities -13.8%	**Leveraged Loans** 8.6%	**Global Real Estate** -9.1%	**Gold** -3.6%	**US Small Cap** -20.4%
EM Equity -14.5%	**US Treasuries** 6.9%	**Commodities** -23.7%	**Gold Miners** -10.3%	**Global Real Estate** -23.6%

Welcome to First Eagle Reflections

In my letter to you last year, I referenced the famous opening lines of Charles Dickens's *A Tale of Two Cities* to highlight the extant dualities in the investment environment: Was it the "best of times" or the "worst of times"? In recent years, First Eagle has consistently warned of financial markets' complacency in the face of mounting distortions and risks. With inflation that turned out to be more persistent than initially assumed and a newly resolute Federal Reserve, the balance in 2022 shifted to the "worst of times" for those unaccustomed to market corrections.

We think the equity markets' pullback in 2022 largely represented a rational and mathematical response to higher interest rates. When rates are 0%, a $100 payout 10 years from now is worth $100 today; with interest rates at 4%, the same 10-year payout is worth only $60. As the cost of money rose in 2022, assets with uncertain, option-like payoffs far in the future declined significantly in value, including some of the most speculative pandemic-era success stories—from special purpose acquisition companies (SPACs) to emerging tech names to cryptocurrencies. Meanwhile, stocks with consistent cash flows fared much better, as sectors like health care, consumer staples and materials demonstrated relative resilience in the challenging environment. At an aggregate level, the MSCI World Value Index outperformed the MSCI World Growth Index by more than 2,000 basis points year-to-date through November. [1]

Bondholders may have been the cohort of investors most surprised by the year's events. After 40 years of steadily declining yields, most market participants had a limited frame of reference for the Fed's aggressive pace of rate hikes. For context, the Bloomberg US Aggregate Bond Index has lost money on an annual basis only four times since its inception 46 years ago, the worst of which was a decline of only 2.9%; year-to-date 2022 through November, the index was down 12.6%![2] We wonder the extent to which this episode will alter investors' perceptions of risk in bond markets and structurally impact approaches to portfolio construction that were heretofore widely accepted, such as target date funds that tilt heavily toward supposedly "safe" fixed income investments for those in or near retirement. We have been wary of the very low yields available in public fixed income markets for some time and, in our view, were positioned appropriately for what transpired in 2022—whether through shorter-than-benchmark durations or exposure to floating-rate investments, depending on the specific mandate.

Though the Fed may have initially underestimated the persistence of inflation in the United States, it has since acted decisively and heads into year-end with a hawkish tilt. Despite this, futures markets currently assume that the fed funds terminal rate will peak shy of 5% before the central bank pivots to rate cuts in the second half of 2023.[3] We think this can be interpreted in one of two ways: Markets are either 1) confident in the Fed's ability to engineer a soft landing as it combats inflation, or 2) skeptical of the Fed's resolve if the economy slows. While

1,2. Source: FactSet; data as of November 30, 2022.
3. Source: Bloomberg; data as of December 13, 2022.

Across market cycles, macroeconomic conditions and disruptive events, we remain focused on our goal of delivering long-term shareholder value while avoiding the permanent impairment of your capital.

we don't presume to be able to predict inflation, we note that the stickiness of prices, particularly in the labor market, could result in a more circuitous path toward target-level inflation than soft-landing proponents expect. Labor-availability issues have pushed wage inflation to levels nearly double their norm, and wages historically have been difficult to walk back without job losses or an economic slowdown.[4]

While conditions over the past year have been painful for owners of virtually all financial assets, such a cleansing reintroduces rational thinking into capital allocation and valuation and can be healthy over the long run. Covid-19—and the consequent policy reaction—unleashed a rapid and concentrated appreciation of speculative assets not seen since the dot-com bubble in 2000; however, it seems those widening relative valuations served to increase the velocity of their eventual snap back, like a rubber band stretched to its breaking point before release. Thus far, value stocks have been the primary beneficiary of the nascent mean reversion, led by the energy sector. As investors recalibrate their thinking to the new investment landscape, there are reasons to believe that future returns could be driven more by fundamentals than they have in recent years. Amid that backdrop, we think certain other long-neglected areas of the markets appear favorable—for instance, European equities, especially since Europe's high inflation levels are largely due to war-related energy-supply constraints as opposed to labor market tightness or wage growth.

There's no way of knowing if the worst is behind or lies ahead. Monetary policy takes time to transmit through the system, and it's reasonable to expect that the Fed's actions have yet to fully manifest in the economy. We are only just beginning to see the impact through lower housing and autos sales, and we likely need another few quarters to thoroughly gauge the impact of higher financing costs and tight labor markets on corporate earnings and growth trajectories. Meanwhile, numerous other risks persist—the war in Ukraine, ongoing global supply chain disruptions and a flagging Chinese property sector, to name a few—as does the potential for an idiosyncratic threat to emerge somewhere in what is already a less-forgiving environment.

So, to continue on the Dickens theme, do we have *Great Expectations* for the coming year? Not broadly, as we think the path ahead will remain volatile. We will continue to look for opportunities where we can find them, but we remain wary. As always, we seek to offer clients a differentiated range of investment strategies that meet their specific investment needs and we believe will demonstrate the potential for resilience through different states of the world. Across market cycles, macroeconomic conditions and disruptive events, we remain focused on our goal of delivering long-term shareholder value while avoiding the permanent impairment of your capital.

Sincerely,

Mehdi Mahmud
President and Chief Executive Officer,
First Eagle Investments
December 2022

4. Source: Bloomberg, Haver/Federal Reserve Bank of Atlanta, First Eagle Investments; data as of November 30, 2022.

Global Equities

Returns by Style and Capitalization: US Equities

Full-Year 2022

	Value	Core	Growth
Large Cap	-7.5%	-18.1%	-29.1%
Mid Cap	-12.6%	-17.7%	-26.9%
Small Cap	-14.5%	-20.4%	-26.4%

Source: FactSet, Bloomberg; data as of December 31, 2022.

Returns by Style and Capitalization: Non-US Equities

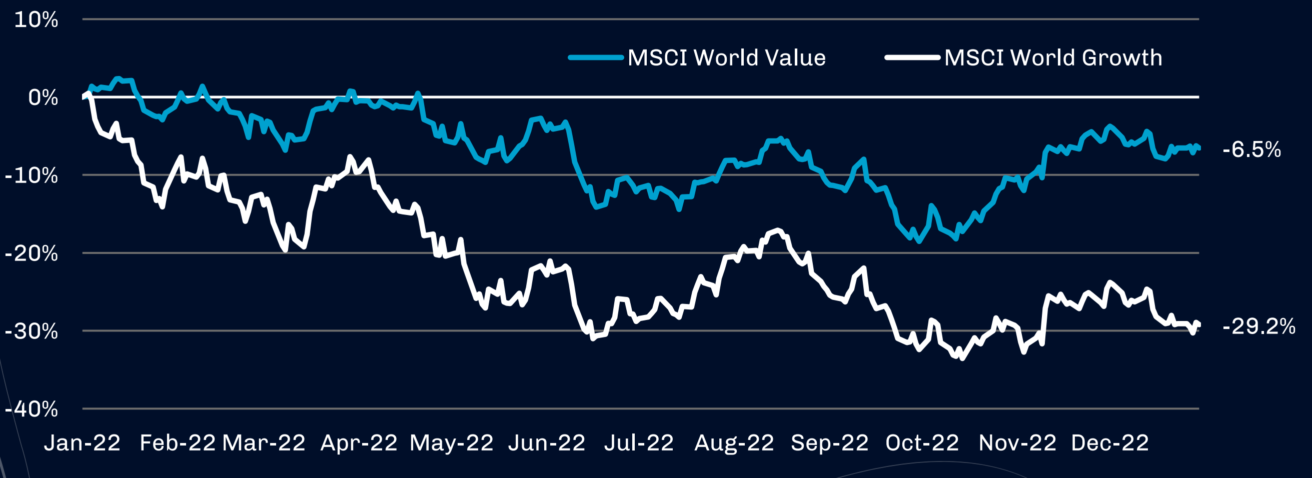
Full-Year 2022

	Value	Core	Growth
Large Cap	-5.6%	-14.5%	-22.9%
Mid Cap	-12.6%	-20.3%	-27.8%
Small Cap	-15.0%	-21.4%	-27.6%

Source: FactSet, Bloomberg; data as of December 31, 2022.

Year-to-Date Returns: Global Value Versus Global Growth

January 1, 2022, through December 31, 2022



Source: FactSet; data as of December 31, 2022.

US Equity

Large Cap Value: Russell 1000 Value Index. **Large Cap Core**: S&P 500 Index. **Large Cap Growth**: Russell 1000 Growth Index. **Mid Cap Value**: Russell Midcap Value Index. **Mid Cap Core**: Russell Midcap Index. **Mid Cap Growth**: Russell Midcap Growth Index. **Small Cap Value**: Russell 2000 Value Index. **Small Cap Core**: Russell 2000 Index. **Small Cap Growth**: Russell 2000 Growth Index.

Non-US Equity

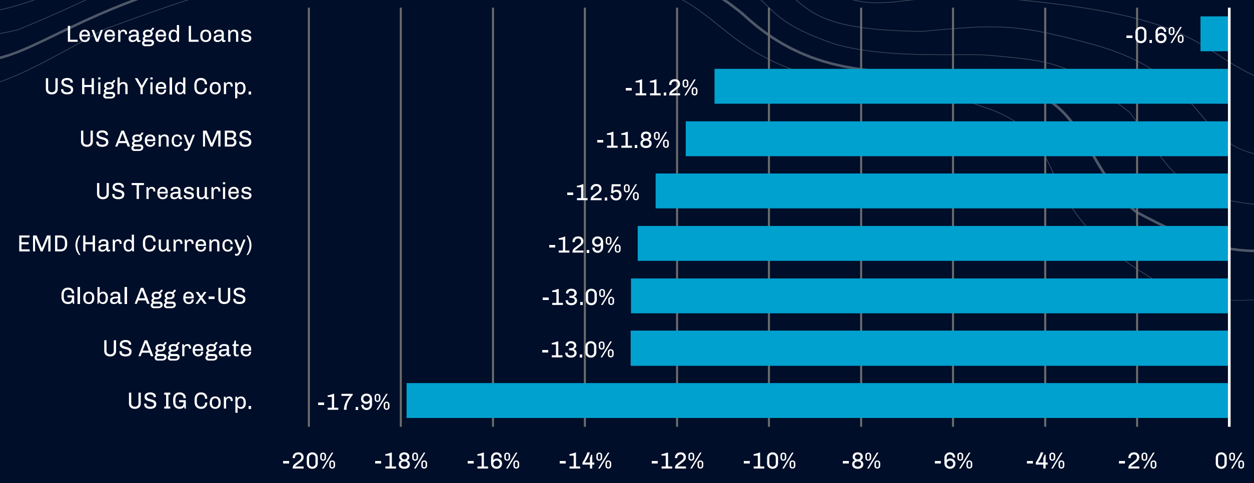
Large Cap Value: MSCI EAFE Value Index. **Large Cap Core:** MSCI EAFE Index. **Large Cap Growth**: MSCI EAFE Growth Index. **Mid Cap Value**: MSCI EAFE Mid Cap Value Index. **Mid Cap Core**: MSCI EAFE Mid Cap Index. **Mid Cap Growth**: MSCI EAFE Mid Cap Growth Index. **Small Cap Value**: MSCI EAFE Small Cap Value Index. **Small Cap Core**: MSCI EAFE Small Cap Index. **Small Cap Growth**: MSCI EAFE Small Cap Growth Index.

Index definitions can be found in the back of the book.

Public Fixed Income

Returns by Asset Class

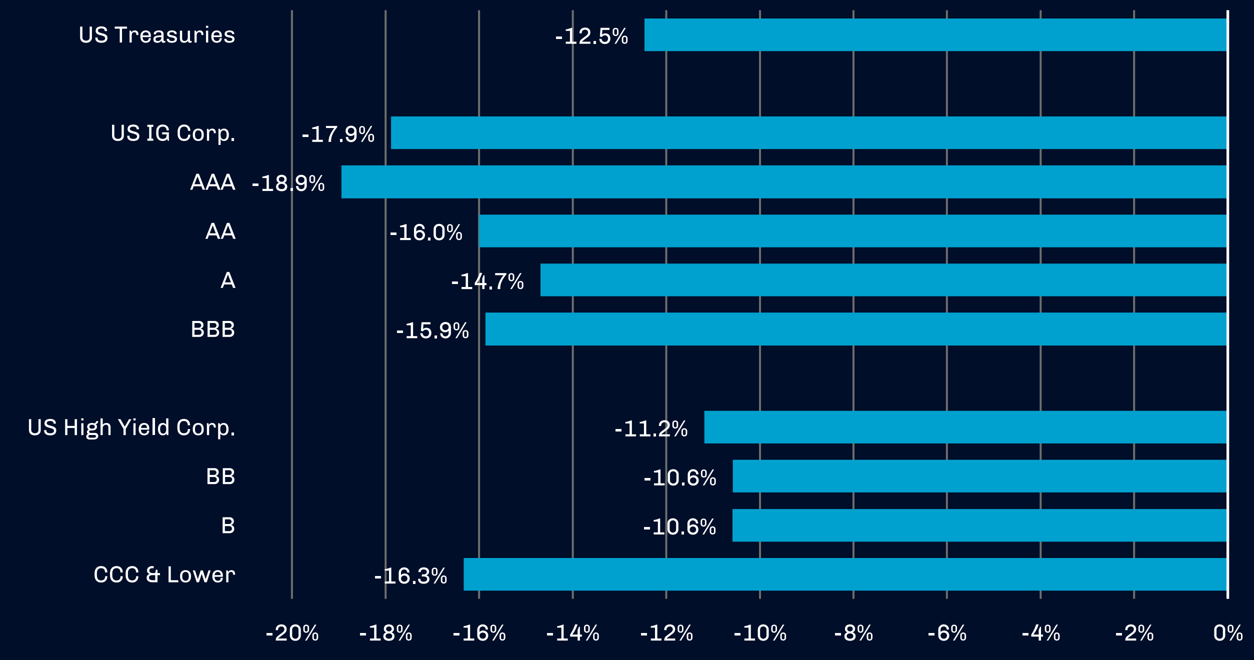
Full-Year 2022



Source: FactSet, Bloomberg; data as of December 31, 2022.

Returns by Rating: US

Full-Year 2022



Source: FactSet, Bloomberg; data as of December 31, 2022.

Leveraged Loans: Morningstar LSTA US Leveraged Loan Index. **US Agency MBS:** Bloomberg US Mortgage Backed Securities Index. **US High Yield Corp.:** Bloomberg US Corporate High Yield Index. **US Treasuries:** Bloomberg US Treasury Index. **Global Agg ex-US :** Bloomberg Global Aggregate Credit ex-USD Bond Index. **US Aggregate:** Bloomberg US Aggregate Bond Index. **EMD (Hard Currency):** Credit Suisse Emerging Market Corporate Bond Index. **US IG Corp.:** Bloomberg US Corporate Bond Index. Returns by rating are based on the respective ICE BofA Corporate indexes.

Index definitions can be found in the back of the book.

Everything Old Is New Again

Matt McLennan and **Kimball Brooker**
Co-Heads of the Global Value Team

We find it hard not to have mixed feelings about the titular trope when reflecting on 2022.

The year represented a giant step toward normalcy for many of us after a long period of routine lost to the pandemic; going to the office, a restaurant or a sporting event without restrictions still has a whiff of novelty to it. At the same time, there were a number of recurrences we could have done without: double-digit inflation rates; stagflation; potential energy shortages; Russia as the chief antagonist of the West; loose talk of nuclear engagement.

Noting the similarities between the current environment and times past, we recently reviewed the Global Value team's published materials from the past couple of decades. For us, this look back in history served not only as a reminder of the circular rhythm of the markets but also of the consistency of the investment approach introduced by the now-retired Jean-Marie Eveillard. As the current stewards of his philosophy, we carry on his tradition of constancy in the face of shifting dynamics and of focus on avoiding the permanent impairment of capital independent of the markets' whims.[1]

Doing the Math

We believe the market and macroeconomic dynamics we witnessed in 2022—while painful—reflected a relatively orderly transition from an environment characterized by a generational-low cost of capital to one in which money again has a price. For many years, repressed interest rates helped support valuations for securities with expected cash flows far into the future and contributed to a prolonged period of outperformance of growth stocks. This came at the expense of value stocks, which tend to focus on free cash flow in the here and now. The rise in interest rates during the course of 2022 as central banks worldwide sought to tame inflation—yield on the 10-year US Treasury, for example, increased by more than 200 basis points through November[2]—explains much of the drop in securities dependent on future cash flows. The math of higher discount rates exerted itself.

> We believe 2022's challenging market dynamics reflected a relatively orderly transition to an environment in which money again has a price.

While equities were weak across the board in 2022, lower-valuation stocks turned the tables on growth names; the MSCI World Value Index outperformed its growth analog by more than 2,000 basis points year to date through November.[3] Geographically, the price ratio of non-US stocks to US names narrowed somewhat last year, though it remains at lows not seen in many decades. We think one ought to be open minded in such an environment, especially given the number of quality businesses that exist outside the US.

Non-US Stocks Continue to Trade at Multi-Decade Lows Relative to US Stocks

Price Ratio of MSCI EAFE Index to S&P 500 Index, January 1970 through November 2022

Source: Bloomberg; data as of November 30, 2022.

1. Please see our July 2022 paper, "Then as Now."
2. Source: Federal Reserve; data as of November 30, 2022.
3. Source: FactSet; data as of November 30, 2022.

Unfortunately, the long period of low—and sometimes negative—nominal rates served as fuel for a range of more speculative investments, many of which suffered profoundly during 2022 as rates reversed course. For example, the ARK Innovation exchange-traded fund—a multi-cap vehicle whose theme is "disruptive innovation" and that could be considered a proxy for the tech high-flyers that bloomed in the aftermath of Covid-19—was down about 60% year-to-date 2022 and around 75% since its peak in early 2021.[4] The value of special purpose acquisition company (SPAC) initial public offerings in the US fell 90% year-over-year in the first three quarters of 2022, and the value of "de-SPAC" transactions (in which the previously IPOed SPAC merges with its targeted private business) declined 89%.[5] Cryptocurrencies lost about $1.6 trillion in market capitalization,[6] and a number of headline-grabbing missteps—including the high-profile bankruptcy of crypto exchange FTX and the de-pegging of stablecoin TerraUSD—inspired calls across jurisdictions for greater regulation of the industry.[7]

> Meaningfully positive real interest rates fueled a selloff across the fixed income complex, with duration-sensitive issues particularly challenged.

Meaningfully positive real interest rates also fueled a selloff across the fixed income complex, with duration-sensitive issues particularly challenged. The Bloomberg US Long Treasury Index was down about 28% year to date through November, while the index of long global sovereign debt posted a similar loss. Corporate bonds fared better, but investment grade and high yield debt still delivered double-digit losses.[8] With borrowers given pause by higher rates and investors seeking to preserve liquidity in a volatile environment, new corporate issuance has fallen sharply in 2022 after establishing fresh annual records in 2020 and 2021.[9] A very active primary market has been a key support of performance in recent years, particularly for high yield bonds; continued weakness here could become a more systemic concern should issuers find their access to the capital markets limited when it comes time to refinance maturing paper. That said, borrowers were aggressive in issuing low-rate debt in the preceding years, and the manageable near-term maturity wall suggests a decent amount of breathing room for most.

On the flip side of this bond rout is that many fixed income securities now offer investors reasonable yields, freeing them from the idea that there is no alternative to equities. However, credit spreads on both investment grade and high yield corporate bonds in the US counterintuitively rebounded to levels above their long-term averages on a yield-to-worst basis, before pulling back somewhat in October and November.[10] We see the potential for additional downside in credit from here, especially if the Fed's inflation-fighting fervor tips the economy into recession. Inflation alone weighs on margins and pressure credit metrics; inflation plus slow or no economic growth would amplify these effects. Conditions could get truly messy if markets were to lose faith in the Fed's ability to control inflation and the "bond vigilantes" stepped in to drive up rates. We saw a preview of this in the UK during the fall; the Truss administration issued a highly stimulative—and since-scuttled—budget proposal at odds with the Bank of England's inflation-fighting efforts, quickly sending the pound to a record low against the dollar and 10-year gilt yields to levels not seen since 2010.[11]

We view gold as a potential hedge against adverse market outcomes. The price of gold behaved pretty much as we would expect in 2022. It rallied early in the year in anticipation of and the weeks after Russia's invasion of Ukraine as investors sought traditional "safe havens." With markets digesting tighter monetary policy, however, gold moved lower as real interest rates—the key determinant of movements in the price of gold—moved higher. A rebound ensued toward year-end on signs the Federal Reserve was prepared to slow its pace of rate hikes, and ultimately gold was down only 2.3% through November despite significant intra-period swings.[12]

4. Source: Bloomberg; data as of November 30, 2022.
5. Source: White & Case LLP; data as of November 30, 2022.
6. Source: CoinMarketCap; data as of November 30, 2022.
7. Source: CoinDesk; data as of December 8, 2022.
8. Source: FactSet; data as of November 30, 2022.
9. Source: SIFMA; data as of October 31, 2022.
10. Source: FactSet; data as of November 30, 2022.
11. Source: *Barron's*; data as of September 26, 2022.
12. Source: Bloomberg; data as of November 30, 2022.

Wages May Be Key to Solving Inflation Riddle

While risk assets may have become more compelling from a mathematical perspective, we'd caution against expecting a quick renewal of the bullish euphoria that captivated markets after the initial pandemic selloff. That episode was extraordinary in nature from start to finish: a once-in-a-century public-health crisis whose macro and market impacts were countered by highly experimental monetary and fiscal policies. To us, it feels as if we're still a few years away from what could be characterized as a normal macroeconomic environment; getting there likely will entail absorbing some unpleasant headwinds.

In seeking to prepare for different states of the world, both supportive and destructive, we need to be realistic about the obstacles to the return of normal macroeconomic and market conditions. Among these today is the potential that elevated inflation and the policy actions designed to combat it may be threatening financial stability.

> We need to be realistic about the obstacles to the return of normal macroeconomic and market conditions.

As Covid-19 evolved into a pandemic that would soon bring global economic activity close to a standstill, the Fed and US fiscal authorities in early 2020 introduced an extraordinary set of policy measures. While the Fed slashed the federal funds rate to zero and installed numerous backstops to enable continued smooth functioning of markets, Congress over the next year or so unleashed $5 trillion of fiscal support—equal to 24.3% of GDP[13]—primarily in the form of two key pieces of legislation. In March 2020 came the $2.1 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act, which for the most part served its intended purpose.[14] By the end of 2020, conditions had begun to improve—the pandemic recession was the shortest on record[15]—and the slow rollout of vaccines worldwide promised to kickstart the global economic engine. Despite the evident success of the first bill, Congress went back to the well about a year later, passing the $1.9 trillion American Rescue Plan (ARP).[16]

Notably, between the passage of these two bills the Fed announced a shift to a new policy framework. Rather than a static 2% inflation target, the Fed would now pursue inflation that averages 2% over time, a flexibility that implies the central bank would seek to generate inflation somewhat above 2% to offset sub-2% periods. This represented a significant change to Fed orthodoxy; to maintain the credibility of its expectations anchor, the Fed since the 1980s has rarely tolerated inflation above its 2% target and has acted to cool the economy if rates even neared that level. The Fed's new approach introduced a novel element of uncertainty to forecasting, an uncertainty that seemed to extend to the Fed itself; for example, today's inflation pressures were referred to by the central bank as "transitory" for the better part of 2021.[17]

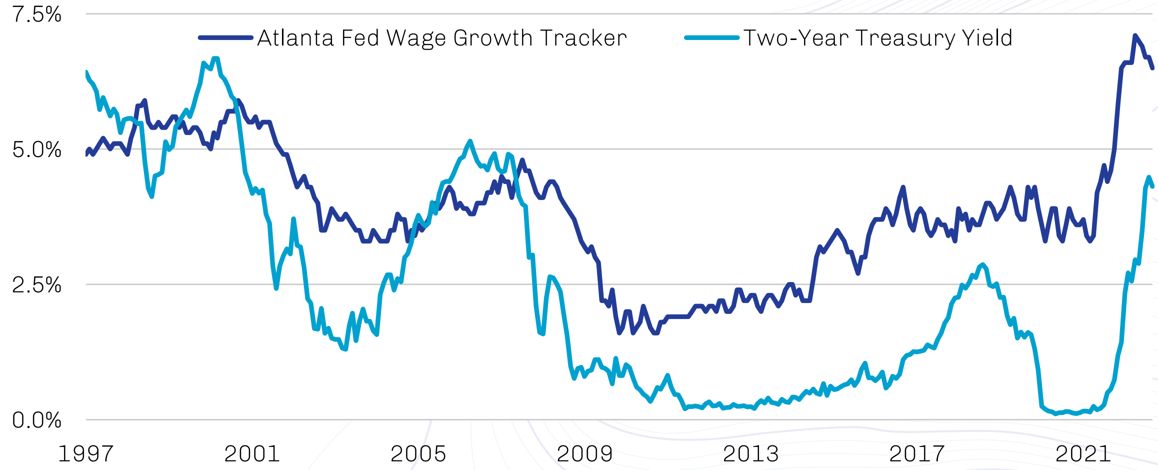
13. Source: Federal Reserve Bank of St. Louis; data as of July 13, 2021.
14, Source: Pandemic Response Accountability Committee; data as of November 30, 2022.
15. Source: National Bureau of Economic Research; data as of November 30, 2022.
16. Source: Pandemic Response Accountability Committee; data as of November 30, 2022.
17. Source: Bloomberg; data as of November 30, 2021.

Highly stimulative fiscal and monetary polices and a flexible Fed were met by the unprecedented demand for goods and the crippled supply chains that stemmed from the pandemic, which—supercharged by the commodity-price impact of Russia's invasion of Ukraine in February—gives us the inflation dynamic we are embroiled in today. While inflation seemingly has peaked—durable and nondurable goods prices have rolled over in recent months, and housing costs also have begun to ease—persistent wage pressures are likely to complicate the journey back to 2%.[18] As shown below, post-Covid labor-availability issues have pushed wage inflation to the mid-6% level from its mid-3% average over the past few decades. Higher wages—which are difficult to undo absent job losses and/or recession—have driven nominal income growth and aggregate demand higher at a time when there is not a lot of spare supply in the economy, presenting broad inflationary pressures. Two-year Treasury rates at or above the level of wage inflation historically have been needed to pull it lower; there remains a gap of about 200 basis points between the two today.

> While inflation seemingly has peaked, persistent wage pressures are likely to complicate the journey back to the 2% target rate.

Still-Higher Interest Rates May Be Needed to Contain Wage Inflation

January 1997 through November 2022



Note: The Atlanta Fed's Wage Growth Tracker is a three-month moving average of median wage growth based on hourly data. It is a weighted series structured to be representative of each month's population of wage and salary earners in terms of sex, broad age range, education, industry and occupation groups.
Source: Bloomberg, Haver/Federal Reserve Bank of Atlanta, First Eagle Investments; data as of November 30, 2022.

18. Source: FactSet; data as of November 30, 2022.

Did the Fed Miss Its Chance?

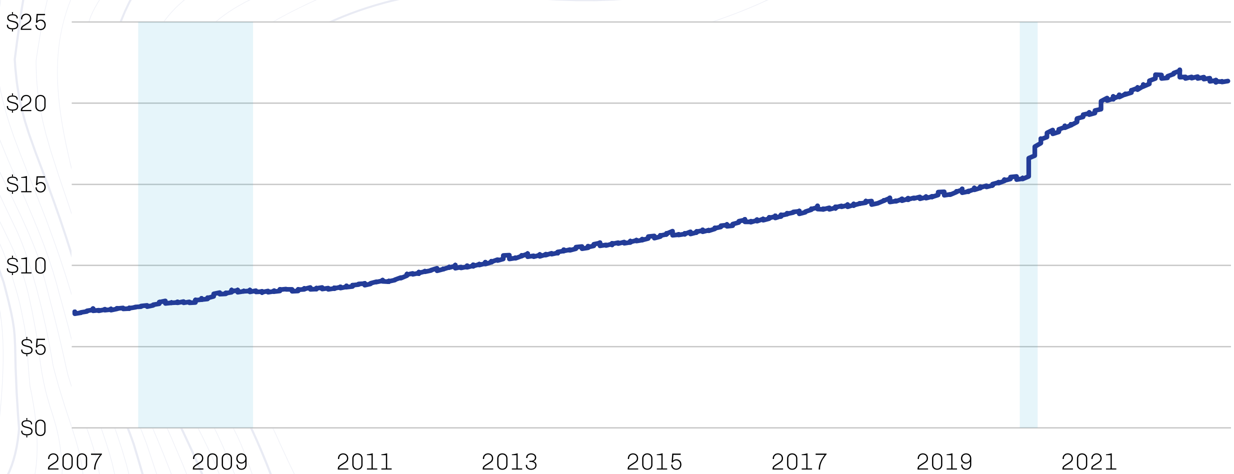
The soft landing/hard landing debate really boils down to wage inflation versus unemployment. Can the Fed bring down the former without causing a spike in the latter? History suggests this is unlikely. At the same time, precedent may not be a reliable guide considering the highly unusual circumstances that led us down this path.

Hindsight is 20/20, but we think the Fed may have missed its best opportunity to engineer a soft landing for the economy in early 2021. Had it tapped the brakes on monetary support back then—either through higher rates or quantitative tightening—it likely could have curbed payroll growth and capped wage inflation around 4%. By missing that window, however, the Fed instead has been forced to pull the handbrake. This is perhaps most evident in the money supply, as shown below; after expanding by more than one-third after the Covid-19 outbreak, M2 money supply has been in decline since March. The Fed's balance sheet also has been contracting, and quantitative tightening means that the market will need to absorb a greater share of bond issuance going forward.

The soft landing/hard landing debate really boils down to wage inflation versus unemployment.

US Money Supply, Unusually, Is in Decline

M2 in Trillions of Dollars, January 2007 through November 2022



Source: Federal Reserve Board of St. Louis; data as of November 30, 2022.

Too Big to Fail?

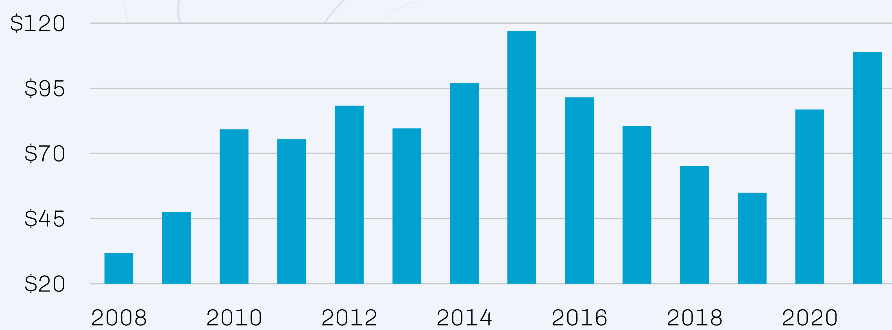
The Fed's balance sheet is no longer turning a profit for the Treasury. Idanna Appio, portfolio manager and senior sovereign analyst on the Global Value team, discusses the potential implications this may have for monetary policy moving forward.

The Federal Reserve is an independent entity structured specifically to promote the country's macroeconomic stability over time through maximum employment, stable prices and moderate long-term interest rates. Unlike government agencies, the Fed does not rely on appropriations from Congress. Instead, it self-funds primarily through interest from the securities acquired via open-market operations, which are held in the Federal Reserve System Open Market Account (SOMA).

The income generated from SOMA typically far exceeds the Fed's expenses, which include both operating expenses and the interest paid on the reserve deposits of banks and on reverse repo agreements. The resulting "earnings" are by law remitted to the Treasury, which uses it as revenue to offset the federal deficit and debt. While historically modest in size, these remittances ballooned with the adoption of quantitative easing and bigger central bank balance sheets, as shown below. The Fed sent the Treasury an average of $87 billion annually from 2012 to 2021 as a result of the interest earned off its expanding securities portfolio, and this figure topped $100 billion in 2021. But with the Fed raising the federal funds rate and paying more on its liabilities through interest on reserves than it is earning on its securities holdings, the funding party may be over. As shown on the following page, the Fed's remittances due to the Treasury turned negative earlier in 2022. Central banks worldwide are facing similar concerns.

Fed Remittances to the Treasury Have Been Significant...

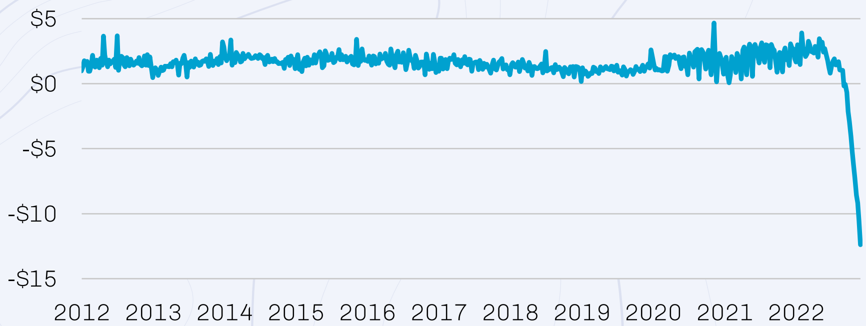
Federal Reserve Remittances Paid to US Treasury Annually in Billions of Dollars, January 2008 through December 2021



Source: Haver/Federal Reserve Board, First Eagle Investments; data as of November 30, 2022.

...But May Be Coming to an End

Federal Reserve Remittances Due to US Treasury Weekly in Billions of Dollars, January 2012 through November 2022



Source: Haver/Federal Reserve Board, First Eagle Investments; data as of November 30, 2022.

Given its ability to print money to cover its expenses, the Fed cannot default. While its overhang of interest-bearing liabilities theoretically may become so great as to interfere with its ability to conduct monetary policy effectively, that would be an extreme circumstance. Less extreme, however, is the possibility that outside influences may shape policy.

Though independent from the other branches of government, the Fed remains accountable to Congress—and, by extension, to the representatives and senators that comprise it and the American public that elected them. The tension between long-term prudence (the Fed) and near-term desires (elected officials and the populace) has been an ongoing complication in the central bank's history. Paul Volcker's hard stance against inflation during his time as Fed chair paid obvious dividends for the country over the long run, for example, but this achievement likely was small consolation to the citizens who bore the near-term economic costs of these policies and to the elected officials who lost their jobs as a result.

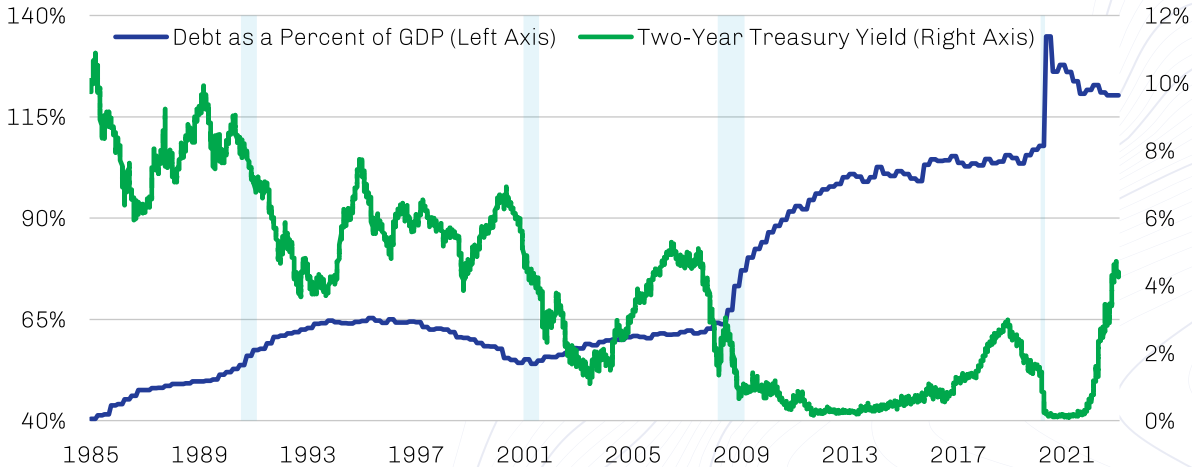
In addition to promoting higher income streams to the Treasury, very low interest rates have kept net interest outlays of the federal government manageable even as the federal debt ballooned. Though the federal debt held by the public has tripled as a share of GDP since 2000, historically low rates have kept interest expenses relatively constant over this period (2.2% of GDP in 2000 versus 1.9% of GDP in 2022).[1] With interest rates rising and economic growth slowing, we believe this figure is very likely to rise, presenting a conundrum for policy makers who must choose among accepting even higher debt levels, reducing spending or generating more revenue through taxes. With little political appetite for spending cuts or tax hikes, it's not hard to see how the Fed's independence may come under fire due to the Treasury's ongoing need for low interest rates.

1. Source: FactSet; data as of November 30, 2022.

Meanwhile, the seemingly unnecessary ARP package authorized by Congress served primarily to add another nearly $2 trillion to the nation's already bloated debt load, further complicating the current battle against inflation. The yield on two-year Treasuries tends to reflect the bond market's expectations for Fed policy. As can be seen below, each peak in rates since the mid-1980s was lower than the one that preceded it, suggesting the policy rate necessary to slow the economy has declined over time. Coincident with this have been climbing debt-to-GDP levels, which typically lead to higher borrowing and debt-servicing costs across an economy, weighing on productivity and output and potentially undermining sovereign creditworthiness. The two-year rate broke through its trend line in 2022, which combined with higher debt levels points to a significantly greater financial burden.

Growing Debt Load Has Weighed on Financial Conditions

January 1985 through November 2022



Source: Federal Reserve Board of St. Louis; data as of November 30, 2022.

One potential downside scenario is that after underestimating the risk of inflation coming out of the Covid-19 dislocations, the Fed is now underestimating the risk of a financial accident emerging somewhere in the system that could trigger a deep recession and broad selloff in risk assets. We saw a number of burgeoning threats materialize last year, though all ultimately failed to inflict widespread damage. One example is the aforementioned botched budget plan in the UK, which presented a particular challenge to the many pension funds in the country that employ liability-driven investment (LDI) strategies to lever their portfolios. With gilt prices plummeting, a number of funds were forced to sell these assets to meet margin calls on their LDI-related hedges, putting further downward pressure on gilts until the Bank of England was forced to intervene.[19] All-time highs in the cost of credit-default swaps on Swiss banking giant Credit Suisse and the collapse of crypto exchange FTX also come to mind as potential sparks for a global conflagration. While the impact of these events was contained, their emergence may be suggestive of a broader set of troubling tectonics shifting underneath the surface.

> There is a risk the Fed is underestimating the potential for a financial accident that triggers a deep recession and broad selloff in risk assets.

19. Source: *Financial Times*; data as of October 24, 2022.

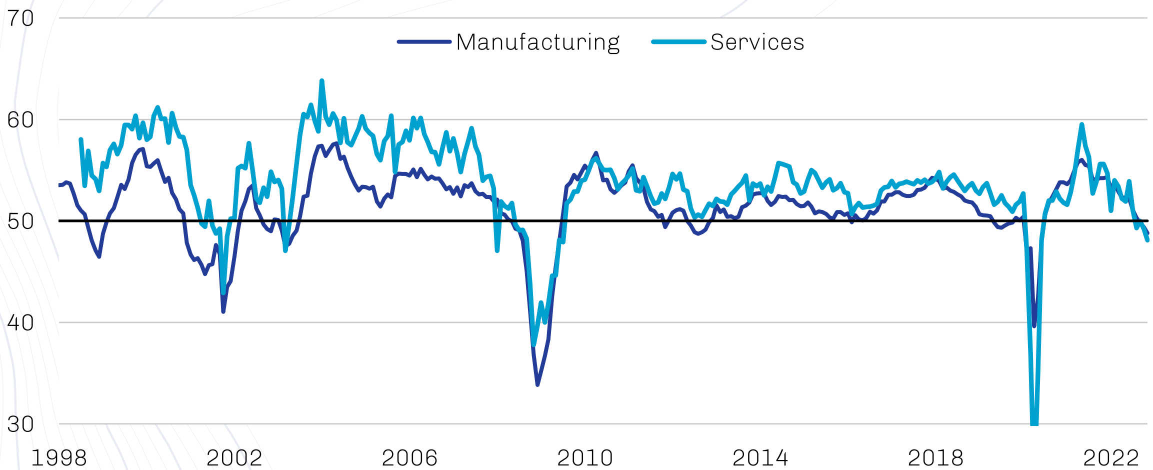
Synchronized Tightening Contributing to Synchronized Slowdown

The Fed isn't the only central bank squeezing out liquidity, of course, and the US isn't the only country facing slowing growth and potential recession (as shown below). Emerging market central banks were leaders in this hiking cycle; a number of them, especially in Latin America, began hiking in mid-2021 and are likely closer to the end of their tightening efforts than the beginning.[20]

Developed markets in general were later to the party. Headline inflation in the euro zone fell to 10.1% year-over-year in November, down from October's record high of 10.6%, as mild weather took some of the sting out of energy prices.[21] Inflation remains punishingly high, however, and the European Central Bank is contending with both the appropriate pace of rate hikes and the need to begin quantitative tightening at some point soon. Economists forecast full-year 2022 growth of 3.2% for the region, though the consensus expects a small contraction in output during 2023.[22] The UK appears to be in far worse shape. Inflation stood at 11.1% year-over-year in its most recent reading, and the Bank of England recently enacted its largest rate hike in 33 years.[23] With productivity in decline and business investment persistently weak, the BOE believes the country in the third quarter entered into a recession that will last until mid-2024 and result in 2.9% of cumulative economic contraction.[24] As shown below, slowing growth is endemic globally.

Global Growth Appears to Be Stalling

Global Manufacturing and Services PMIs, January 1998 through November 2022



Note: Above 50 = expansion; below 50 = contraction.
Source: Morgan Markets, Bloomberg, First Eagle Investments; data as of November 30, 2022.

In contrast with most of its developed market brethren, the Bank of Japan has maintained its ultralow policy rates. While the country's 3.8% inflation seems relatively minor in the grand scheme of things, it still comes as a bit of a shock to consumers and businesses accustomed to decades of limited price pressures. The yen perhaps has been the biggest casualty of easy BOJ policy, falling to 1990 levels relative to the dollar. Sharply higher import prices and weak consumption are among the reasons Japan's GDP unexpectedly contracted at an 0.8% annualized rate in the third quarter after a 4.5% expansion in the second.[25]

> The Fed isn't the only central bank squeezing out liquidity, of course, and the US isn't the only country facing slowing growth and potential recession.

20. Source: Bloomberg; data as of October 9, 2022.
21. Source: FactSet; data as of November 30, 2022.
22. Source: *Financial Times*; data as of November 20, 2022.
23. Source: FactSet; data as of November 30, 2022.
24. Source: Reuters; data as of December 5, 2022.
25. Source: *The New York Times*; data as of November 14, 2022.

Like Japan, China also has managed to sidestep significant inflation pressures, though its economy remains on shaky ground. The country's growth has been challenged by its zero-Covid policy, drought conditions, soft global demand and, most of all, an imploding property market. Beijing recently eliminated some of its more stringent pandemic-related restrictions, seemingly in response to the sluggish economy and mounting public discontent; with vaccination rates low among the elderly and little natural immunity among the populace in general, however, there is concern that public-health conditions in China could get worse before they get better.

Seeking Resilience Through Balance and Diversification

We're pleased with the relatively orderly demeanor of markets in 2022, as the resumption of more rational behaviors appears to support our style of value investing. That said, we are somewhat unsettled by the markets' apparent disconnect with the abovementioned risks, especially as the Fed's tightening efforts continue to transmit to all nodes of the economy with a lag.

Market-based indicators such as the five-year forward inflation expectation rate suggest inflation expectations remain well-anchored, and bond yields eased later in the year on signs the Fed was prepared to scale back its pace of rate hikes. At the corporate level, earnings growth expectations for 2022 and 2023 have pulled back somewhat for both the MSCI World and S&P 500 indexes but remain solidly positive despite all the operating headwinds.[26]

> The Global Value team's solution to top-down questions is to seek resilience from the bottom up.

In response to top-down questions, the Global Value team seeks to build resilience from the bottom up. This has meant focusing on companies with track records of stability in the face of market volatility and macroeconomic weakness, with pricing power that can be exploited in inflationary environments, with scarce assets and strong capital structures that may serve as a buffer against rising interest rates, and with management teams whose prudence and predictability stands in contrast with the uncertain path of federal policy makers. This also has meant investing in such companies only when we can do so at what we believe to be "margin of safety" to our estimate of intrinsic value.[27] We say "no" to investment opportunities far more often than we say "yes."

We are also mindful of the importance of diversification as a guiding investment principle, and we seek to create carefully curated collections of businesses drawn from a wide range of industries, sectors and geographies.[28] Our benchmark-agnostic perspective supports our disciplined approach to asset allocation—which in some cases employs gold and gold-related securities as a potential hedge against adverse market developments—and enables thoughtful diversification rather than index-tracking, helping ensure true differentiation.

26. Source: FactSet; data as of November 30, 2022.
27. First Eagle defines "margin of safety" as the difference between a company's market price and our estimate of its intrinsic value. "Intrinsic value" is based on our judgment of what a prudent and rational business buyer would pay in cash for all of a company in normal markets.
28. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Controlling What We Can Through Temperament

We often find ourselves returning to *The History of the Peloponnesian War* by Greek author Thucydides from the late fifth century BC. Thuycdides's insights about the Athenians and the Spartans have proved prescient throughout history, today illustrating the rivalry between the US and China just as they did the rivalry between Germany and the UK a century ago. Beyond its historical context, the book is full of valuable insights into the human condition; among the most resonant to us as investors is his analysis of the mistakes people make when confronted with uncertainty. They act with haste. They act with hubris. They act with dogma. And the outcome of these actions typically is suboptimal.

At First Eagle, we try to embody the philosophical inverse of these behaviors. Instead of haste, we exercise patience, maintaining low turnover rates and allowing time for our investment theses to play out. Instead of hubris, we embrace humility, promoting diversification and investing capital only when we can do so with a "margin of safety." Instead of dogma, we encourage flexibility, letting the character of a business dictate its potential appeal as an investment and making the value opportunity set larger in the process.

> We remain resolute in our commitment to cultivating a high-performance culture that attracts, develops and retains talented individuals.

The distinct temperament of our investment professionals is key to our success in this endeavor, and we remain resolute in our commitment to cultivating a high-performance culture that attracts, develops and retains talented individuals and inspires them to do their life's best work on behalf of our clients.

Value as a Philosophy

Drawing on a large body of groundbreaking work—including that of such luminaries as Graham, Buffett and Eveillard, as well as thinkers further afield—the Global Value team's value-oriented investment philosophy is rooted in the belief that the greatest risk investors face is not day-to-day market volatility but rather the permanent impairment of capital, the primary cause of which is overpaying for assets.

As discussed below, the **Global Value** team takes an atypical approach in its efforts to avoid this hazard when selecting stocks—one that promotes the idea of "value" as a big tent rather than an artificial constraint and in doing so captures the ongoing structural shift toward a knowledge-based economy heavily reliant on intangible assets.

The Importance of Character

Rather than dogmatically limiting our universe to only the cheapest group of stocks by some statistical measure, the Global Value team lets the character of a business dictate its potential appeal as an investment. By avoiding the assumption of business homogeneity that is inherent in index-based approaches to value, either passive or benchmarked, the quantification of price becomes conditional to a comprehensive appraisal of a business's specific tangible and intangible attributes—and the value opportunity set becomes much broader in the process.

Specifically, we look for companies we believe have the potential for persistent earnings power by virtue of possessing a scarce, durable asset—a tangible or intangible factor that in our view provides it with a long-term operational advantage and is highly difficult to replicate. Companies with scarce assets are not immune from the impact of business cycles, but their persistent free cash flow generation may provide a cushion against economic downturns while also creating opportunities to potentially enhance their competitive position against less-resilient businesses.

> We look for companies we believe have the potential for persistent earnings power by virtue of possessing a scarce, durable asset—either tangible or intangible.

Long the basis for fundamental security analysis, tangible assets are fairly straightforward. We seek companies with physical resources that are well located relative to their competition—as manifest in the ability either to have consistently generated strong revenues or kept costs low—and that have a long natural duration; that is to say, assets we expect to earn a spread relative to the average asset in the same industry. Take real estate, for example. Office space in a prime business district is likely to command higher rent than comparable space in other locations while also appreciating at a higher rate. Natural resources like oil fields are an example of scarce assets at the other end of the tangible spectrum. Typically removed from population centers, oil fields' benefits are derived from their production and cost characteristics. Properties with high levels of proved and provable reserves, low operating and capital costs, and long forecasted lives will most likely be more profitable over time and generate cash flows less sensitive to fluctuations in the price of the underlying commodity.

While tangible assets are fairly intuitive, intangible assets—which have been growing steadily in prominence—require a more nuanced evaluation approach. The Global Value team has devoted significant time and resources refining our understanding of these assets and their impact on a business's intrinsic value.[1] We believe the analysis of a company's intangible assets can be oriented around two broad, interrelated concepts: the incumbency of its market position and the quality of its management.

An incumbent market position may be the most valuable intangible asset, as it has the potential to be self-reinforcing.[2] A dominant player in its space—whether it's kitchen equipment or computer software—can be difficult to unseat. These companies are entrenched in their industries and possess unique expertise, and their size enables them to scale fixed costs across a larger production volume and potentially generate attractive free cash flows as a result. This cash can then be used to augment their already advantaged position in a concentric manner—or to put it in Buffetian terms, to expand the moat around their business. Investments in research and development can drive better product-quality mix and improved average pricing, for example, while advertising spending can enhance a company's brand and attract a broader customer base.

1. "Intrinsic value" is based on the Global Value team's judgement of what a prudent and rational business buyer would pay in cash for all of a company in normal markets.
2. On the subject of incumbency, we're indebted to Bruce Greenwald—well-known authority on value investing, recently retired academic director of the Heilbrunn Center for Graham & Dodd Investing at Columbia Business School, and a senior advisor to the Global Value team since 2011 after serving as our director of research—whose work has illuminated our thinking.

As it does with tangible assets, the duration of intangible assets matters greatly to us. Just as we'd prefer a gold mine with 20 years of proved high-grade reserves over a mine with three, companies whose intangible assets have the potential to endure—evident in strong customer retention and renewal rates, stable market shares and consistent cash flows, as well as high barriers to entry that deter new competitors—are more valuable than those that may be fleeting.

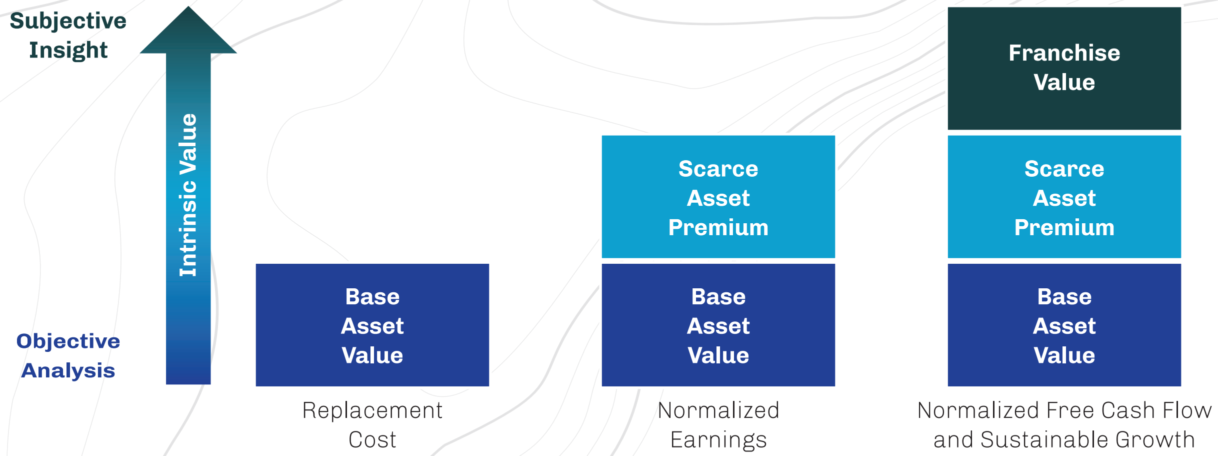
While the consistency of cash flow generation over time provides a sightline into the strength and duration of a company's advantaged assets, its use of this cash can serve as a yardstick for management acumen. In our view, quality management teams act like owners, conducting the balance sheet in ways that are likely to help the business incrementally expand over time without risking its scarcity advantages. These teams maintain prudent levels of leverage, focus organic investment on areas of competitive advantage, generate favorable returns on capital deployed inorganically through mergers and acquisitions, and regularly return capital to shareholders in the form of dividends and/or share buybacks. Such a management style—which we find to be prevalent in companies whose senior management team holds significant equity or that are run by founders or families—tends to be focused less on quarter-to-quarter metrics and more on the creation of long-term shareholder value, an approach well aligned with our investment horizon.

Distinguishing Value from Valuation

Once we've identified what we believe to be a well-positioned, well-capitalized, well-managed company, we invest in it only when we can do so at a meaningful "margin of safety," which we define as the difference between a company's market price and our estimate of its intrinsic value. The "margin of safety" we demand is idiosyncratic to each company, a function of the scarcity and duration we see in it considering both its tangible and intangible assets.

The exhibit below is a stylized representation of how we view the relationship between a company's persistence and its intrinsic value. On the right side of the chart are found the most rare and potentially most profitable investments—those with the advantage of scarce assets currently generating strong earnings and the ability to preserve or expand that advantage by leveraging the value of their franchise. Though equity market valuations of such companies will fluctuate over time, their intrinsic value tends to drift higher in conjunction with the expansion of the global economy as the company maintains or grows its share of what has become a larger whole.

Intangible Assets Contribute to Intrinsic Value



Source: First Eagle Investments; as of November 30, 2022.

Within this category we often find stocks rich in intangible assets. Unlike our typical benchmarked peers, First Eagle's value-oriented investment philosophy welcomes growth—but only growth that creates, in our view, intrinsic value. This is an important distinction in our minds, and one that is far too often overlooked in markets that appear to prize a company's potential above all else. To create intrinsic value, the return on capital invested in a growth initiative must exceed the cost of that capital. A company can generate growth in a broad sense—in revenue, assets or operating income, for example—while at the same time destroying value due to the cost of that growth. While this idea may sound fairly basic on the surface, history demonstrates that value-creating growth opportunities are difficult for companies to identify and to execute successfully. History also demonstrates that investors at times have been willing to support outsized valuation multiples for companies deemed to have great promise, only to be disappointed when it was never fully realized.

We have found that companies are more likely to deliver value-creating growth by investing in areas where they have an existing competitive advantage or there exist barriers to entry; while the former produce high current returns on capital, the latter help insulate these returns from the deleterious impact of competition in the future.[3] These criteria are no silver bullet, however, and even a small overestimation of a growth initiative's potential contribution can have a large impact on the intrinsic value ultimately created—and thus on the attractiveness of the investment opportunity.

Consistent Temperament in an Uncertain World

Accepting that our crystal ball is foggy at best, a healthy respect for risk has been integral to the evolution of the Global Value team's investment process over the years. The periodic emergence of unforeseen events—such as the Covid-19 outbreak in 2020 and the Russian invasion of Ukraine in 2022—has served as a reminder that most professional investors tend to view risk through the lens of backward-looking quantifiable models that have normal outcome distributions, with less consideration of the freeform ambiguity that represents the true "risk" of investing.

> A healthy respect for risk has been integral to the evolution of the Global Value team's investment process over the years.

This uncertainty drives our efforts to understand the worst-case scenario for every stock we consider for investment. The end result is not an assortment of "best ideas" but, rather, a curated collection of businesses that in our view not only appear well positioned to generate persistent cash flows over the long term but also have the capacity to suffer through short-term challenges, acquired at a price we believe offers a sufficient "margin of safety." Further, our process is biased toward broad diversification and incremental conservatism in the size of our holdings.

The distinct temperament of our investment professionals is key to the success of our process. The team must have the patience to wait for opportunities that meet our criteria to emerge and be willing to accept that they may never do so. Humility, too, is essential; accepting that we cannot see the future drives our insistence on having a "margin of safety" in our purchase prices. Finally, flexibility allows us to execute our investment process free from the limitations of benchmarks and ensures that capital allocation decisions are driven only by the conviction of our beliefs.

3. Bruce Greenwald, Judd Kahn, Erin Bellissimo, Mark A. Cooper and Tano Santos, *Value Investing: From Graham to Buffett and Beyond*, John Wiley & Sons (2021).

A (Small) Break in the Clouds

While 2022 was a volatile and ultimately negative period across asset classes as markets digested persistently high inflation levels and rising interest rates, such conditions historically have not been a deathblow for stocks. **Bill Hench**, head of the Small Cap team, notes that small cap value stocks in particular have a track record of success amid such dynamics. Bill also explains how he and his team welcome volatile markets, as they provide ample opportunities to acquire small and microcap stocks that have become unmoored from their fundamentals.

Smaller, Value-Oriented Companies Historically Have Thrived During Periods of Rising Prices and Rates

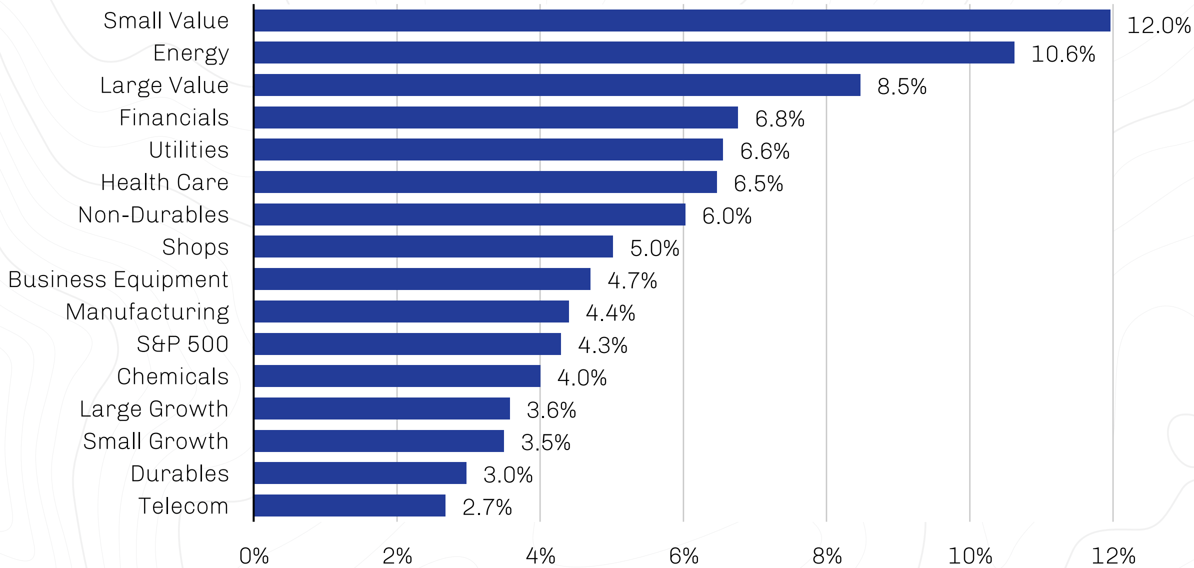
The challenge of engineering a "soft landing" for the economy has always seemed extraordinary, and the Federal Reserve's job is clearly far from over even after 375 basis points of rate hikes year to date through the end of November.[1] While headline inflation has eased somewhat, many of the components of core CPI—such as healthcare, education, entertainment and rent—are quite sticky and may not be as quick to soften as commodity-driven inputs. And while economic growth has cooled, low unemployment levels and ongoing wage growth are bolstering overall demand.

While these macroeconomic forces have weighed on investor sentiment in 2022, such conditions haven't always snuffed out stocks in the past. As shown in the following two charts, a wide variety of equity sectors and markets have averaged positive annual returns when inflation was running above its long-term median and when interest rates have been heading higher. Notably, small cap value stocks delivered outsized gains in both instances.

> While headline inflation has eased somewhat, many of the components of core CPI are quite sticky and may not be as quick to soften.

Small Cap Value Stocks Historically Have Been Strong When Inflation Ran Hot...

Average Real Return in Years When US Consumer Price Index Was Greater than the Long-Term Median, 1927 through 2021

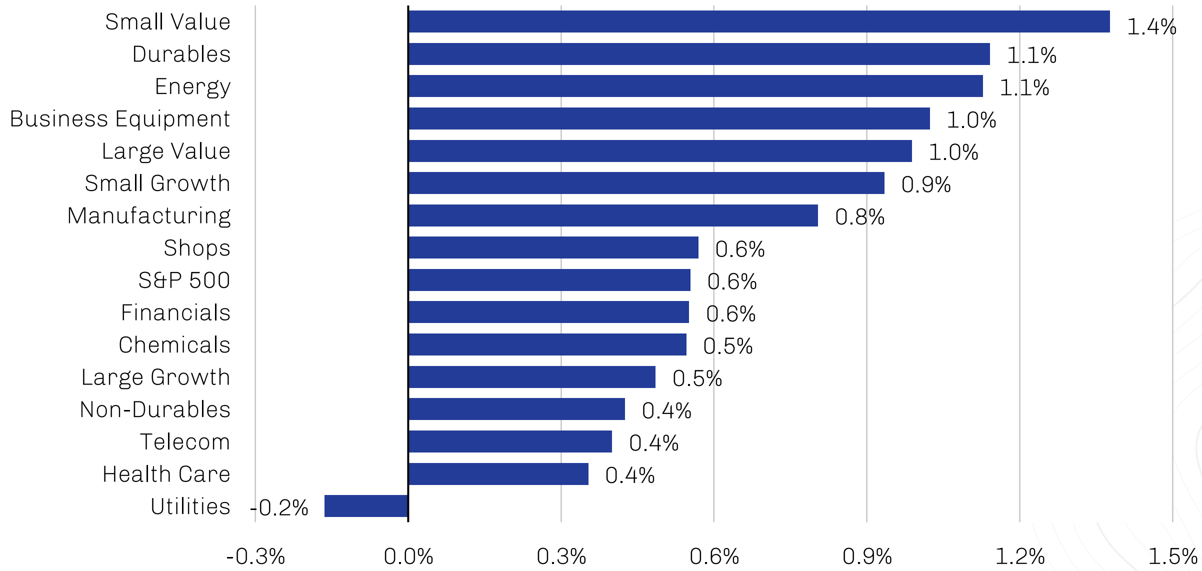


Note: Market sectors, capitalizations and styles depicted above are based on the Fama/French classification system.
Source: Bloomberg, Kenneth R. French data library; data as of October 31, 2022.

1. Note that publication deadlines preceded the Fed's mid-December meeting, at which it announced a 50 basis point hike.

...and When Interest Rates Were Rising

Average Return in Months When US 10-Year Treasury Yield Rose, January 1962 through November 2022



Note: Market sectors, capitalizations and styles depicted above are based on the Fama/French classification system.
Source: Bloomberg, Kenneth R. French data library; data as of November 30, 2022.

We've heard a number of explanations for the historical outperformance of small cap value stocks during these periods. Indeed, there are a few attributes common among smaller businesses that may represent potential advantages to larger ones in an environment of rising prices and rates. A smaller product line and workforce, for example, may translate into greater agility when responding to changing macro conditions, whether that means adjusting supply chains, raising prices or rationalizing headcount. In a strong-dollar environment— year-to-date 2022 through the end of November, the US dollar was up more than 10% against a trade-weighted basket of major currencies—companies whose revenues are primarily domestic may avoid the currency-translation headwinds that face many US-based multinationals.[2]

> We believe the main driver of small cap value's relative outperformance has been these stocks' limited sensitivity to changes in interest rates.

That said, we believe the main driver of small cap value's relative outperformance has been these stocks' limited sensitivity to changes in interest rates. Very low Treasury rates in the years following the global financial crisis translated into very low discount rates and promoted multiple expansion for businesses promising high levels of future growth. This fueled a massive bifurcation of returns between growth and value stocks across capitalizations. For the 10-year-period ended December 2021, the Russell 1000 Growth Index outperformed the Russell 1000 Value by 680 basis points; the magnitude was smaller within the small cap universe, but growth still outperformed value by more than 200 basis points.[3]

Higher interest rates weigh on the market's valuation of the longer-duration cash flow streams typical of growth stocks. In contrast, small cap value stocks have historically been less impacted by changes in interest rates, as the valuation of these companies is predicated more on near-term cash flows. Performance year-to-date reflects this tendency; as the 10-year US Treasury climbed nearly 225 basis points in the first 11 months of 2022, the Russell 2000 Value Index outperformed its growth analog by nearly 1,300 basis points.[4]

2,3,4. Source: Bloomberg; data as of November 30, 2022.

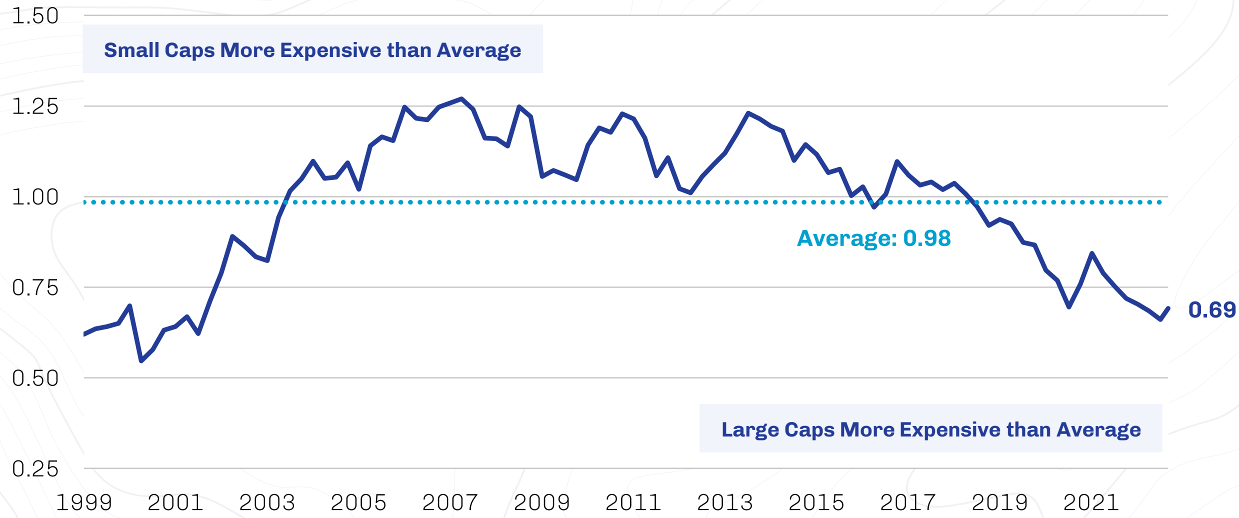
And while higher interest rates and generally tighter debt capital markets can present challenges to smaller companies with less financing optionality, we believe low levels of bond maturities in the near term should help mitigate this threat for businesses with well-managed capital structures.

Seeking Differentiation Amid Uncertainty

As bottom-up stock pickers, the Small Cap team is not strongly influenced by market-level metrics. However, it may be worth noting that on a forward price-to-earnings basis, small cap stocks are trading at a discount to large caps not seen since the early-2000s dotcom bust, as shown below.

Relative Valuations Favor the Small Cap Universe

Relative Forward 12-Month Price/Earnings Ratio, Russell 2000 Index versus Russell 1000 Index; March 1999 through November 2022



Source: FactSet; data as of November 30, 2022.

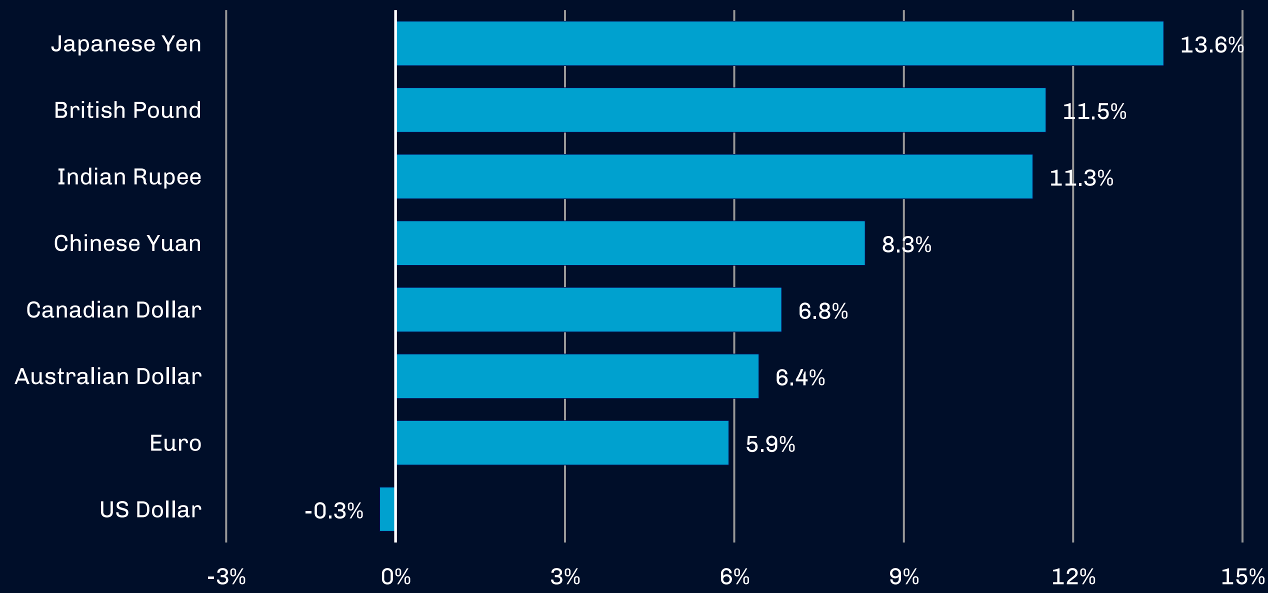
While this valuation data may suggest the small cap universe is inexpensive compared to large caps, our Small Cap team focuses on a diversified set of small and microcap stocks that in our view are not only attractively valued but that also have the potential to benefit from catalysts for future earnings recovery, both structural and idiosyncratic. The volatility that has accompanied the year-to-date downdraft in stocks has presented ample opportunities to acquire small and microcap stocks at prices that we believe are unmoored from their fundamentals. This includes a number of companies whose ongoing operational improvements and positive momentum signals have been obscured by the risk-off sentiment prevalent across markets.

> The year-to-date downdraft in stocks has presented ample opportunities to acquire stocks at prices we believe are unmoored from their fundamentals.

The investment environment could get worse from here, but we believe it's likely that at some point the headwinds weighing on stocks should moderate. The interest rate cycle will mature, inflation will abate, investor interest will re-awaken, and geopolitical tensions will ease, to the potential benefit of a range of currently under-valued small companies.

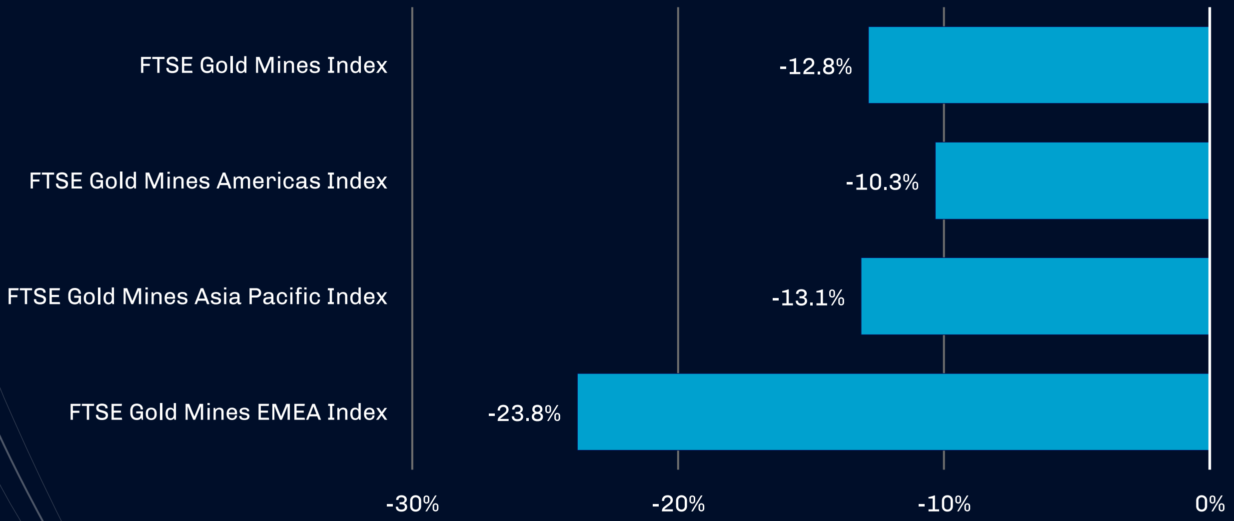
Real Assets

Returns by Currency: Gold
Full-Year 2022



Source: FactSet, Bloomberg; data as of December 31, 2022.

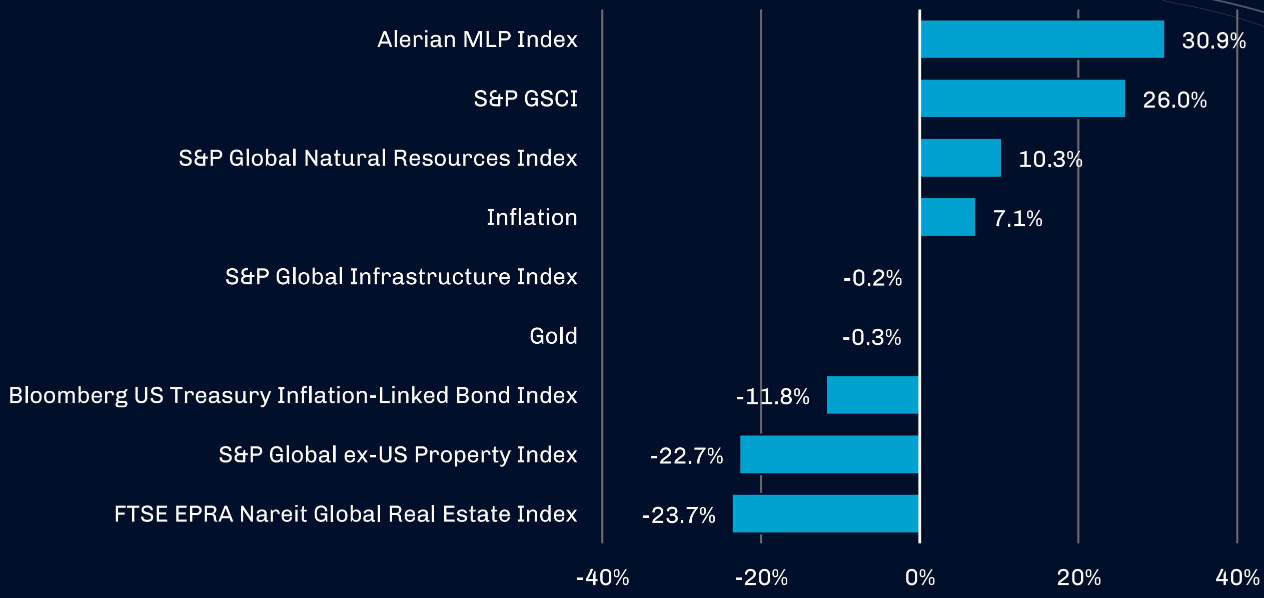
Returns by Region: Gold Miners
Full-Year 2022



Source: FactSet, Bloomberg; data as of December 31, 2022.

Index definitions can be found in the back of the book.

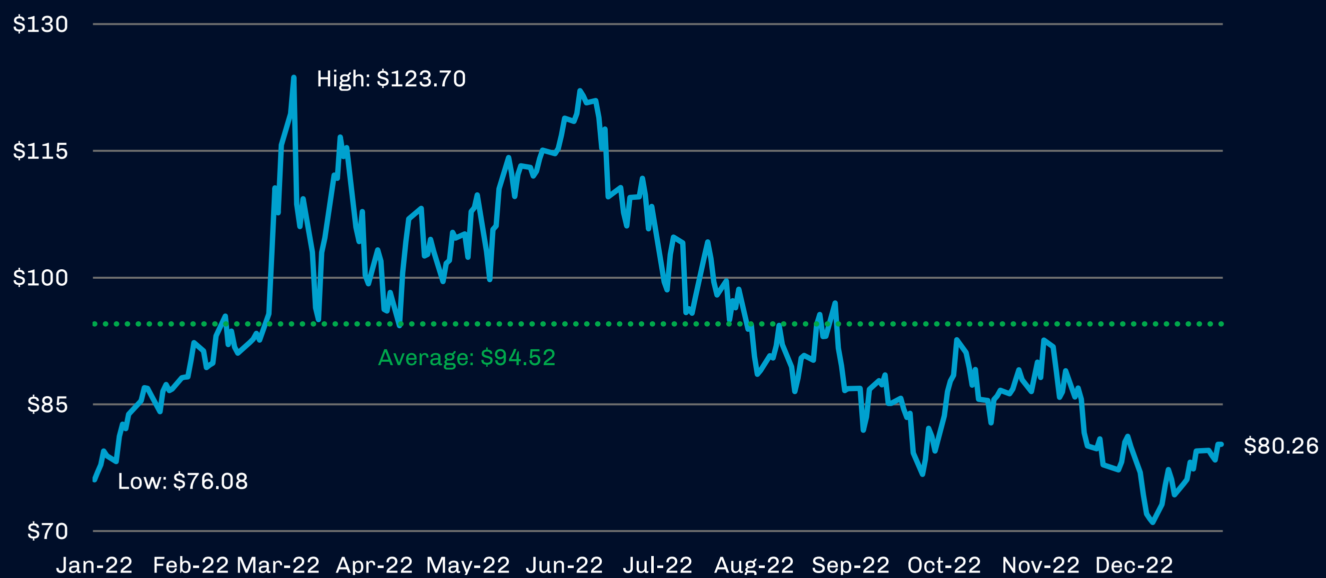
Returns: Commodities and Real Assets
Full-Year 2022



Note: Inflation is reflected by the change in the US Consumer Price Index for All Urban Consumers—All Items for the 12 months ended December 2022.

Source: FactSet, Bloomberg; data as of December 31, 2022.

West Texas Intermediate Crude Oil Spot Price
USD/bbl, January 1, 2022, through December 31, 2022



Source: FactSet, Bloomberg; data as of December 31, 2022

Index definitions can be found in the back of the book.

Stay Gold

Financial markets were rattled by a litany of interlocked challenges during 2022, including war, high inflation, rising interest rates and fears of recession. Gold's decline in the face of these uncertain conditions—when many likely expected the metal to live up to its reputation as a safe haven—had some commentators asking, "Why bother?"

As **Thomas Kertsos**, co-portfolio manager of the Gold strategy, and **Max Belmont**, associate portfolio manager of the strategy, discuss below, gold behaved as we expected it would—if not better—in 2022 given the year's conflicting dynamics. Ultimately, Thomas and Max believe the year underscored why a number of First Eagle's portfolios "bother" with a strategic allocation to gold; namely, because its reputation as a potential hedging tool for capital preservation is unparalleled, if perhaps misunderstood.

Living in the Real World

In 2022, no-longer-transitory inflation become a meaningful concern in developed market economies for the first time in many decades. Since gold is widely viewed as a potential hedge against inflation, its price should benefit from multi-decade-high inflation levels, right? Well, it's not quite as simple as that. While inflation can help influence movements in the price of gold, it's not the primary catalyst.

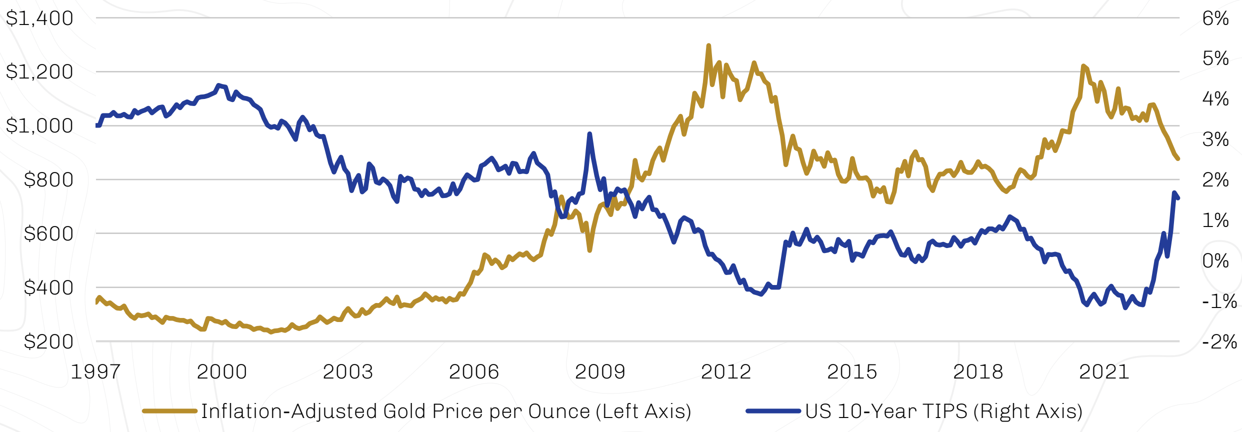
Consider gold in 2022. Gold rallied early in the year as investors flocked to perceived safe havens in the weeks leading up to and immediately following Russia's invasion of Ukraine. However, it wasn't long before markets turned their attention to the likelihood that the Fed would soon act to combat unflagging inflation, and gold's 2022 peak was established only days before the central bank launched one of its most aggressive rate-hike cycles in decades. Signs that the Fed may be prepared to slow its pace of tightening prompted a November rebound in gold, and the metal finished the year-to-date through November down only 2.3% despite significant intra-period swings in both directions.[1]

While multiple factors can affect the price of gold, we believe changes in real interest rates are the most important driver over the medium and long terms.

While multiple factors can affect the price of gold, we believe changes in real interest rates—i.e., the difference between nominal interest rates and inflation—are the most important driver over the medium and long terms. Real interest rates represent the opportunity cost of owning gold; since it pays neither dividends nor interest, gold is relatively expensive to hold when real interest rates are high and relatively inexpensive to hold when they are low. Thus, real interest rates and the price of gold historically have been negatively correlated; as shown below, when real interest rates have moved lower, the gold price, despite some lead/lag effects, has generally moved higher and vice versa.

Real Interest Rates Historically Have Been the Key Driver of the Gold Price

January 1997 through November 2022; Consumer Price Index, 1982–84 = 100



Source: Bloomberg; data as of November 30, 2022.

Looking specifically at 2022, stubbornly high inflation prints prompted the Fed to raise its federal funds target rate by 375 basis points between March and November while maintaining steadily hawkish rhetoric.[2] The real interest rate—as represented by the yield on 10-year Treasury inflation-protected securities (TIPS)—trended decidedly upward in response, climbing from around -1% in March to an early-November peak above 1.7%,

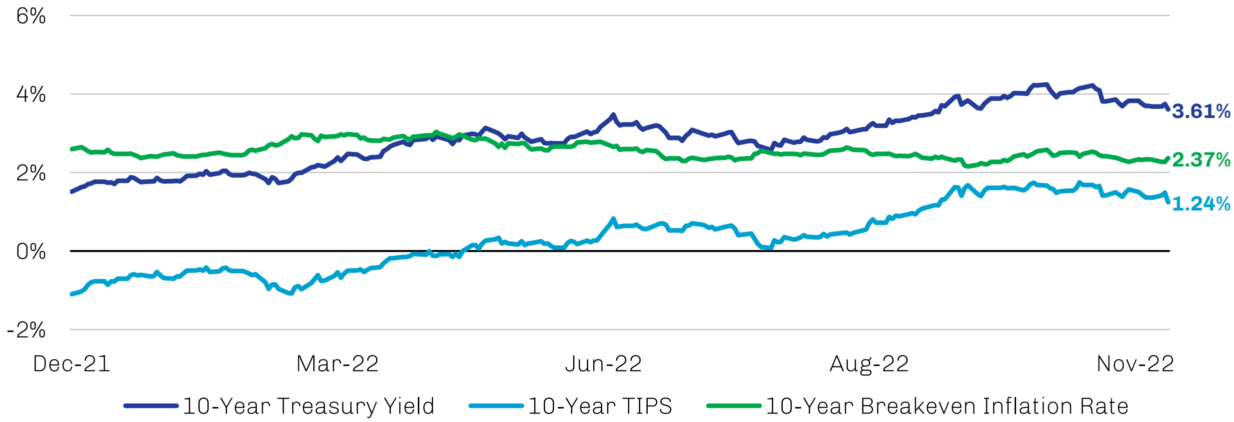
1. Source: Bloomberg; data as of November 30, 2022.
2. Note that publication deadlines preceded the Fed's mid-December meeting, at which it announced a 50 basis point hike.

the largest spike in real rates since the global financial crisis.[3] That the price of gold fell about 18% during the trough-to-peak period in real rates during 2022 doesn't come as a surprise. It's worth noting, however, that the gold price's year-to-date decline of 2.3% handily outpaced most risk assets—including equities (S&P 500 Index: -13.1%) and long-term bonds (Bloomberg US Long Treasury Index: -28.0%)—and provided the ballast we seek.[4]

Despite the market, macro and geopolitical trends pointing to the contrary, the behavior of real and nominal interest rates thus far in 2022 suggests the Fed has convinced the market that it will be successful in its efforts to get prices under control without tipping the economy into a protracted decline. The yield on 10-year TIPS, our proxy for real interest rates, is composed of the current nominal 10-year Treasury rate plus market expectations for average inflation over the security's tenor (termed the "breakeven inflation rate"). As shown below, the breakeven inflation rate peaked in March and has been biased lower since, implying that inflation expectations remain anchored. It also implies that the increase in real interest rates during 2022 has been fueled primarily by higher nominal rates, whose path to levels not seen since 2008 indicates confidence that significant rate cuts will not be needed to stimulate a flagging economy.

Fed Tightening in 2022 Appeared to Cool Inflation Expectations

January 1, 2022, through November 30, 2022



Source: FactSet; data as of November 30, 2022.

A Potential Hedge for All Seasons

The market appears optimistic about the Fed's ability to tame inflation. But what if the Fed fails? What if its aggressive intervention amid a backdrop of massive federal debt prompts the kind of deflationary shock we saw in 2008? Or what if any number of potential black swan events emerge to waylay the journey back toward normalization and force the Fed to intervene? As students of history, we are inclined to prepare for a range of potential outcomes; we believe doing so includes a strategic allocation to gold—an allocation that has been beneficial during such recent challenges as Russia's invasion of Ukraine (2022), the outbreak of Covid-19 (2020) and the global financial crisis (2008).

Our view is that of all the available potential hedging options, both real and financial, gold's differentiated risk-return characteristics could promote long-duration resilience across the widest variety of adverse circumstances. Over the past two centuries alone,

> A strategic allocation to gold has been beneficial during a number of recent challenges.

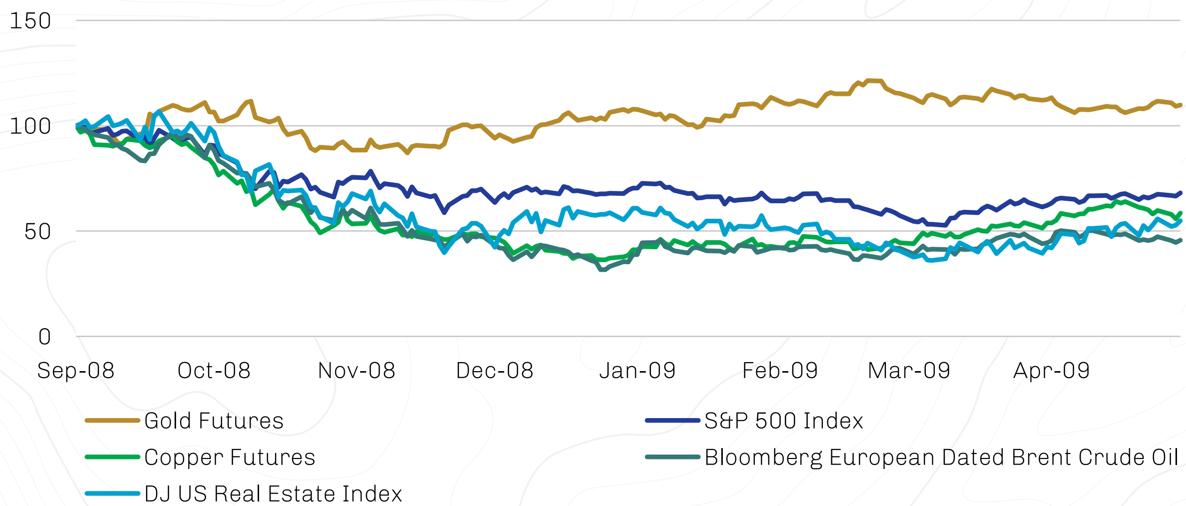
3. Source: Bloomberg; data as of November 30, 2022.
4. Source: FactSet; data as of November 30, 2022.

gold has withstood inflationary episodes and deflationary spirals, political revolutions and rapid technological evolution, localized conflicts and world wars, pandemics and treatments for them.[5]

Take the disinflationary impulse of the global financial crisis, for example. As depicted below, gold initially spiked higher when Lehman Brothers declared bankruptcy in September 2008, only to collapse alongside equities, oil, real estate, copper and most other risk assets as liquidity breakdowns across markets paradoxically pushed real yields higher.[6] While gold ultimately shed more than 20% to reach its mid-November trough, the potential hedge value of gold reasserted itself as other risk assets continued to founder. By the end of 2008, gold's 5.8% gain historically made it one of the very few assets to deliver a meaningful return in 2008. By the time equity markets reached their cyclical nadir in March 2009, gold was more than 20% higher than its pre-Lehman price.[7]

Gold Has Weathered a Range of Historical Challenges, Including the Global Financial Crisis

September 15, 2008, through April 30, 2009; September 15, 2008 = 100



Source: Bloomberg; as of November 30, 2022.

The 1970s—a decade that offered not only high inflation but also high unemployment, sluggish economic growth and freeform turmoil—provide a contrasting example. Throughout history, gold prices have tended to be at their highest—and real interest rates at their lowest—when the economy was weak and/or experiencing inflation, periods that have tended to coincide with low levels of confidence in the economy and government, and thus a greater inclination among investors to hold a universal currency like gold rather than its manmade substitute. Trading freely following the collapse of the Breton Woods system in 1971, gold's price grew 25-fold by 1980, bolstered in part by its lack of industrial utility, a trait that can make the prices of other real assets like base metals sensitive to economic activity and serve as a headwind during periods of stagflation, such as we saw in the late 1970s.[8]

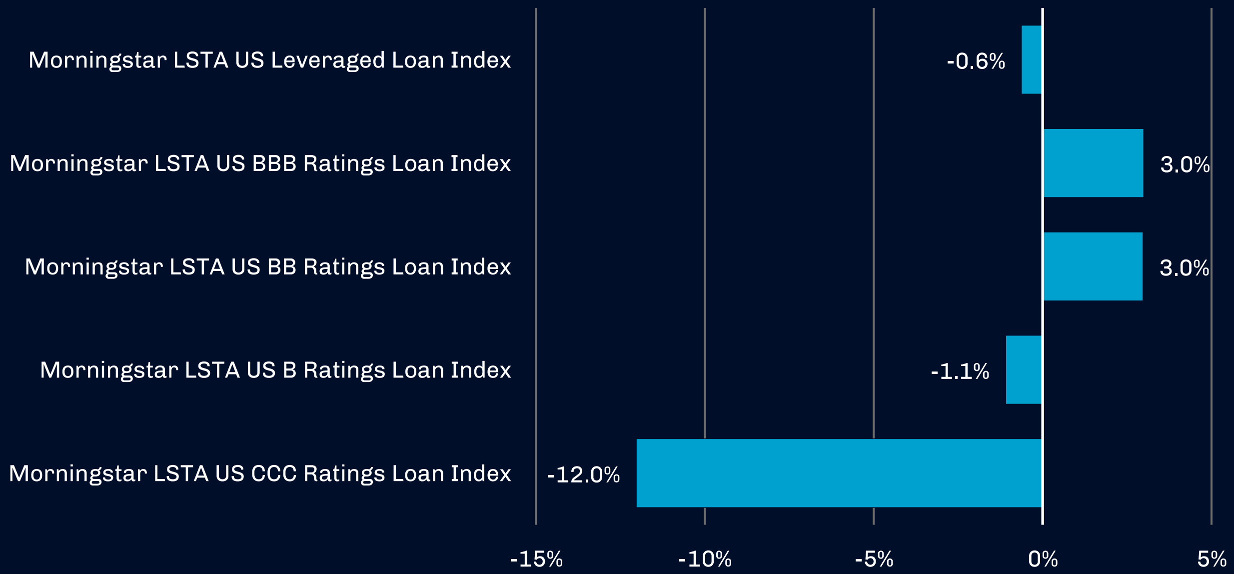
While the Fed's gravitational pull on the gold price during 2022 was unusual given the combination of war in Europe and high inflation, it served as a good reminder of why we don't maintain a directional view on price. Instead, we value gold for its attributes as a potential hedge that may help mitigate the risk of permanent impairment of capital.

5. Source: World Gold Council; data as of November 30, 2022.
6. Source: FactSet; data as of November 30, 2022.
7. Source: Bloomberg; data as of November 30, 2022.
8. Source: Bloomberg; data as of November 30, 2022.

Alternative Credit

Returns by Rating: Leveraged Loans

Full-Year 2022



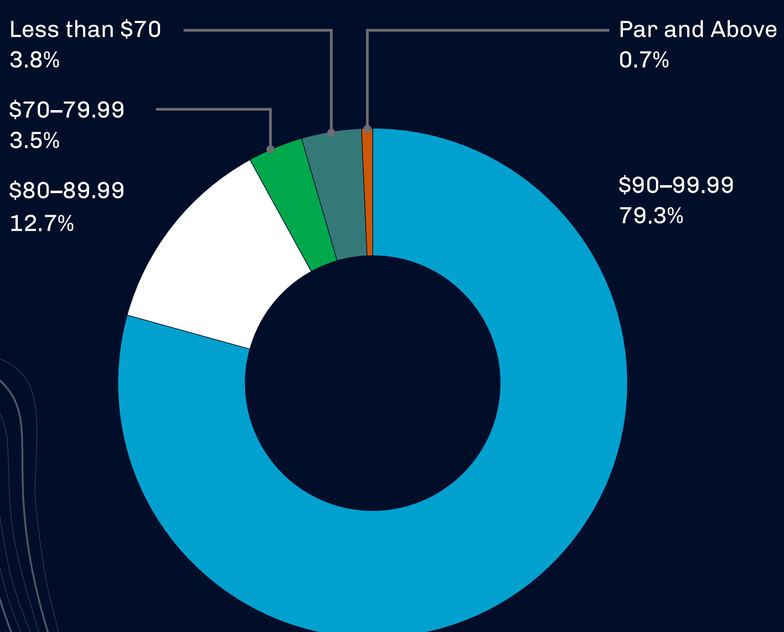
Source: FactSet, Bloomberg, Leveraged Commentary & Data (LCD); data as of December 31, 2022.

Composition of Leveraged Loan Index by Bid Price

As of December 31, 2022

$92.44

Average Price

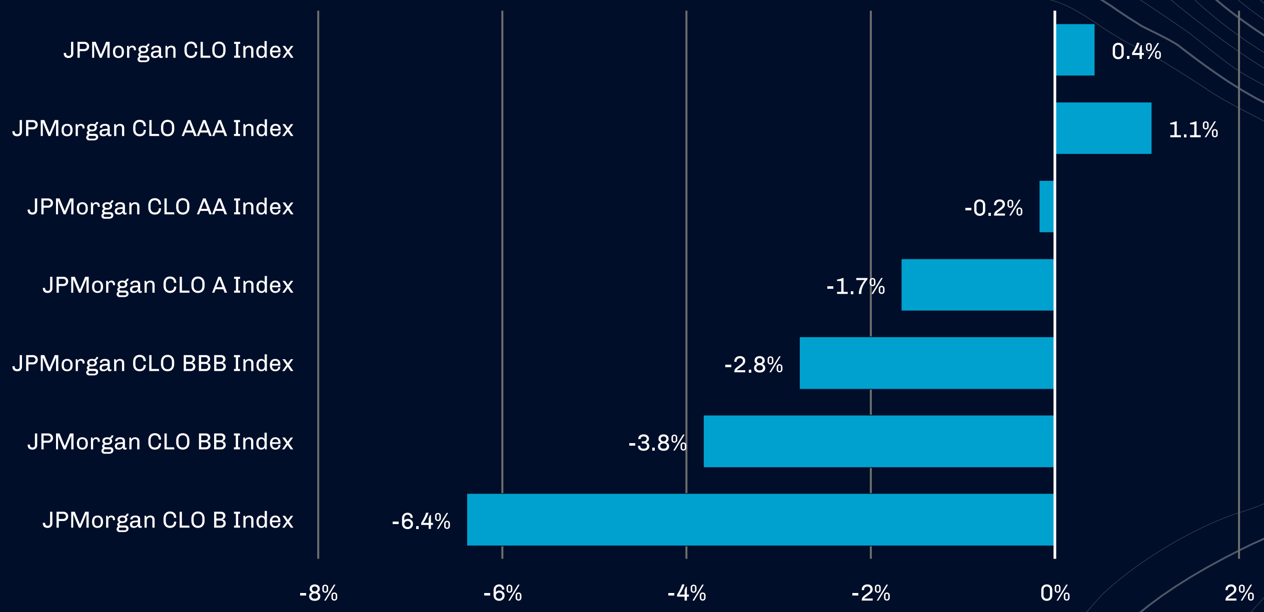


Source: FactSet, Bloomberg, Leveraged Commentary & Data (LCD); data as of December 31, 2022.

Index definitions can be found in the back of the book.

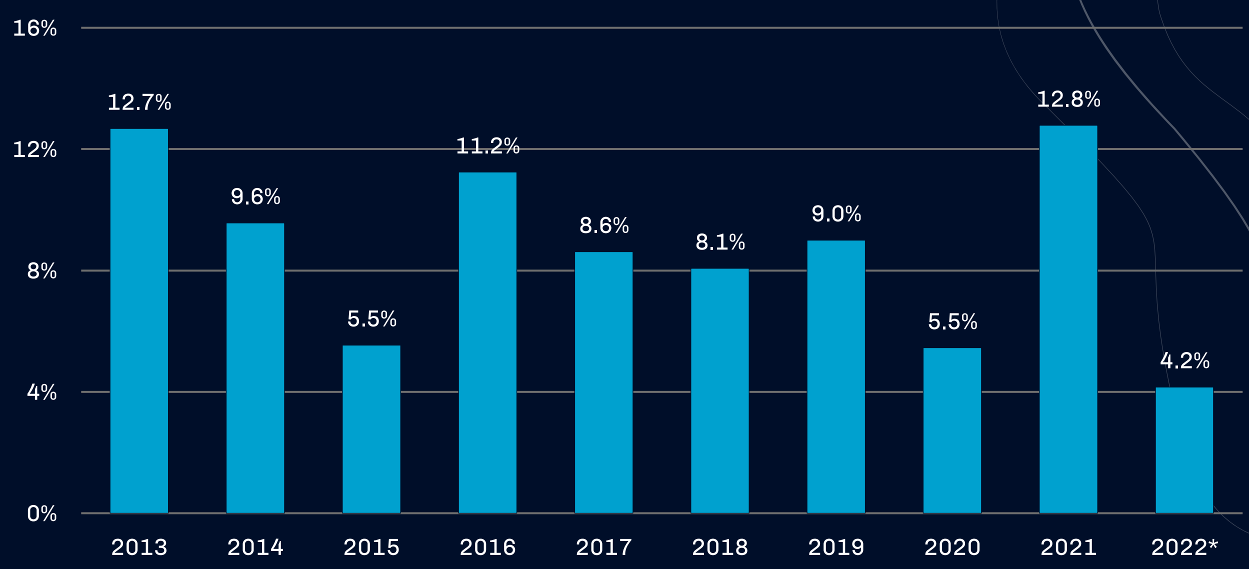
Returns by Rating: Collateralized Loan Obligations (CLOs)

Full-Year 2022



Source: Bloomberg; data as of December 31, 2022.

Annual Returns: Cliffwater Direct Lending Index



* Through September 30, 2022.

Source: Cliffwater; data of as December 31, 2022.

Index definitions can be found in the back of the book.

The Direct Route

Fueled by ultra-low rates and an economy reopening from the dislocations of Covid-19, a variety of leveraged finance categories—including middle market direct lending—set new issuance records in 2021. However, 2022 seemed to be a far more nuanced environment. In the Q&A below, First Eagle Alternative Credit's **Chris Flynn**, president, and **Michelle Handy**, head of portfolio and underwriting, discuss their perspectives on the middle market direct lending space and how the team is positioned heading into 2023.

Q:

What drove middle market direct lending during 2022?

Chris:

Merger and acquisition (M&A) activity—which in the middle market is typically sponsored by a private equity firm—is a key source of demand for direct lenders' capital. The very high inflation, rising interest rates and slowing economic growth we saw during 2022 introduced significant volatility to the public financial markets and also weighed on M&A deal flow. M&A volume in the US has declined for five consecutive quarters after peaking in second quarter 2021, and the pace of deals through the first three quarters of 2022 was down by nearly one-third compared with 2021.[1] While this has meant fewer underwriting opportunities, an uncertain environment tends to favor direct lenders over other forms of leveraged finance given their ability to close deals more quickly and with greater certainty of terms than is possible with high yield bonds or syndicated loans.

Looking at First Eagle Alternative Credit's direct lending book, we are on track to extend over $1 billion of loans to US middle market companies in 2022—significantly lower than our deployment in 2021 but on par with 2020. A decent year, in my view, even as the nature of our deals shifted somewhat. While volumes in 2021 were dominated by private equity sponsors financing new transactions, 2022 has been more about sponsors building on previous platform investments through targeted acquisitions and supporting existing portfolio companies.

Q:

How did volatility in the public credit markets during 2022 affect the pricing of middle market loans?

Michelle:

The challenges facing public fixed income markets took time to trickle into the middle market. This lag is not unusual, in our experience, as a largely nonexistent secondary market for these facilities and their directly originated nature has tended to somewhat insulate them from fluctuations in the public space.

> Deals are still getting done, but risk-sensitive lenders are focused on the most pristine opportunities.

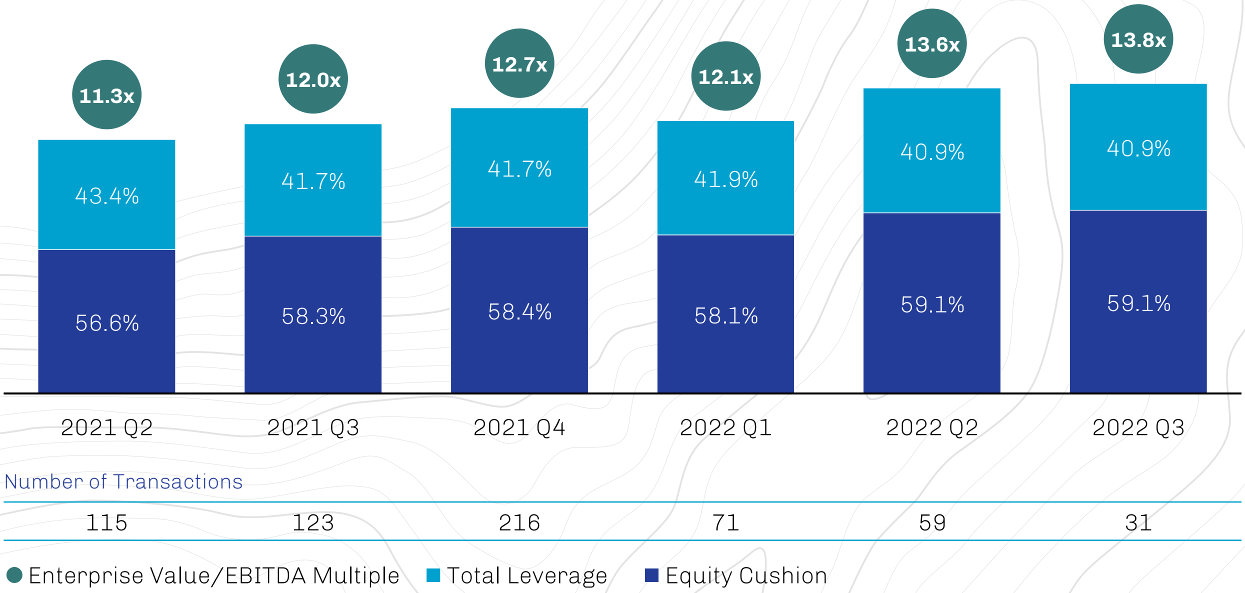
Yields and spreads on high yield bonds and leveraged loans bottomed in January and broke durably higher in April, but we didn't really see much in the way of widening in directly originated middle market loans until June or so. Even then, I'd estimate prices widened only about 70–100 basis points through the end of November. All-in yields saw a more meaningful increase, however, driven by higher reference rates and larger original issue discounts (OIDs)—i.e., the difference between a loan's par value and the price at which it is issued. OIDs offered on new loans widened to about 2.5% from the 2.0% that had been more typical.[2]

Upfront concessions like OIDs improve the economics of the deal from a lender's perspective, and the rising OIDs we have seen of late suggest a rationing of credit may be underway. Deals are still getting done, but the fairway is narrow. Risk-sensitive lenders are focused on the most pristine opportunities—facilities with lower loan-to-value ratios extended to noncyclical businesses—and generally are wary of businesses dependent on healthy consumer-demand dynamics and discretionary-spending trends.

1. Source: Lincoln International; data as of November 1, 2022.
2. Source: Leveraged Commentary & Data (LCD); data as of November 30, 2022.

Risk-Sensitive Direct Lenders Have Sought Pristine Deals Amid a Volatile Backdrop

Observed New Third-Party M&A Buyouts



Source: Lincoln International; data as of November 1, 2022.

Chris:

We focus our origination efforts on a handful of market verticals—business services, consumer, financial services, healthcare and technology—and further sharpen our attention within those verticals to a subset of industries that tend to be less cyclically exposed. From a go-forward perspective, our approach hasn't changed; within our areas of specialization, we will continue to collaborate with private equity sponsors to provide creative financing solutions rooted in deep due diligence.

While not an industry per se, asset-based lending (ABL) may represent an opportunity to put capital to work for an attractive risk-adjusted return right now, in our view. Traditional middle market financing solutions like direct lending and broadly syndicated loans are underwritten based on an assessment of the borrower's cash flows. ABL facilities, in contrast, are secured by specific assets of the borrower—such as inventory, accounts receivable, real estate, machinery and equipment, and intellectual property—and thus provide a specific source of collateral the lender may tap should the need arise. These loans often appeal to companies that have high working capital needs and substantial assets but also inconsistent cash flows that limit access to other types of financing; think retailers that maintain large inventories or industrials renting high-capex equipment.

In July 2020, we hired Larry Klaff and Lisa Galeota from Gordon Brothers Finance Company to drive our ABL efforts. With more than 45 years combined in the space, Larry and Lisa have significant experience appraising different types of collateral assets and underwriting loans across market cycles. Given the heightened uncertainty in the market, we expect demand for ABL structures to remain robust.

> Given the heightened uncertainty in the market, we expect demand for asset-based lending structures to remain robust.

Q:

What do you expect for 2023?

Michelle:

Current economic trends suggest that the environment for M&A activity—and thus new loans issued to finance these transactions—is likely to remain muted in 2023, with add-on activities by our existing borrowers continuing to dominate volume as it had in 2022. The slowing economy should weigh on the enterprise value of middle market companies while their cost of capital remains elevated, resulting in lower leverage ratios on new deals. As long as the environment remains somewhat unstable, it's difficult to see an impetus for a significant rebound in transaction volume. Lower volumes aren't the end of the world, however; a well-underwritten portfolio in the low-volume years following the global financial crisis still generated strong returns.[3]

In addition, I think the tenor on loans likely will remain extended, as higher rates deter refinancing and subdued valuations serve as a roadblock to the initial public offering market. This isn't necessarily a bad thing; in fact, the extension of these credits, assuming they continue to perform, can be beneficial and help drive a bigger multiple of capital. We can't just go out into the primary market and recreate our current book of loans; we're happy to get paid on existing credits, and their floating interest rates will help keep them competitive with the prevailing market yields.

Moreover, we are thoughtful about how we structure loans. While some direct lenders have followed the BSL industry down the path of "covenant-lite" loans, we strive to incorporate at least one financial covenant and/or liquidity test in all of our directly originated loans, whether cash flow-based or asset-based. For cash flow-based loans, this typically is a leverage covenant, sometimes accompanied by a fixed charge covenant. Over the past several months, we've witnessed the value added by these contractual provisions, as a tripped covenant has allowed us to renegotiate a loan's pricing and structure in a way that improved our economics. Though the coupons on the floating-rate loans we write reset every 30 to 90 days, it's always nice to be able to pick up incremental yield in advance.

Chris:

To me, the environment feels much more uncertain now than it did in the immediate aftermath of the Covid outbreak. Back then, the Federal Reserve's massive intervention gave us time to let nature take its course, even though we couldn't foresee the timing around a return to more-normal economic conditions. Today, it's hard to see a specific catalyst to get us back to "normal." I'm sure that the market at some point will find the level at which the deal economics work for borrowers, lenders and sponsors, and then it will be off to the races again. This might even happen sometime in 2023, but it's hard to offer anything other than gut instinct here.

> The environment feels more uncertain now than it did in the immediate aftermath of the Covid outbreak.

But this is why we maintain our stringent underwriting standards in good markets and bad. We're not going to lend money just for the sake of it.

3. Cliffwater, Leveraged Commentary & Data (LCD); data as of November 30, 2022.

Michelle:

A weakening macroeconomic backdrop is always unsettling for lenders, but, in our view, those who should be most nervous are 1) lenders that have never experienced difficult market conditions before, and 2) lenders that were positioned too aggressively into the downturn.

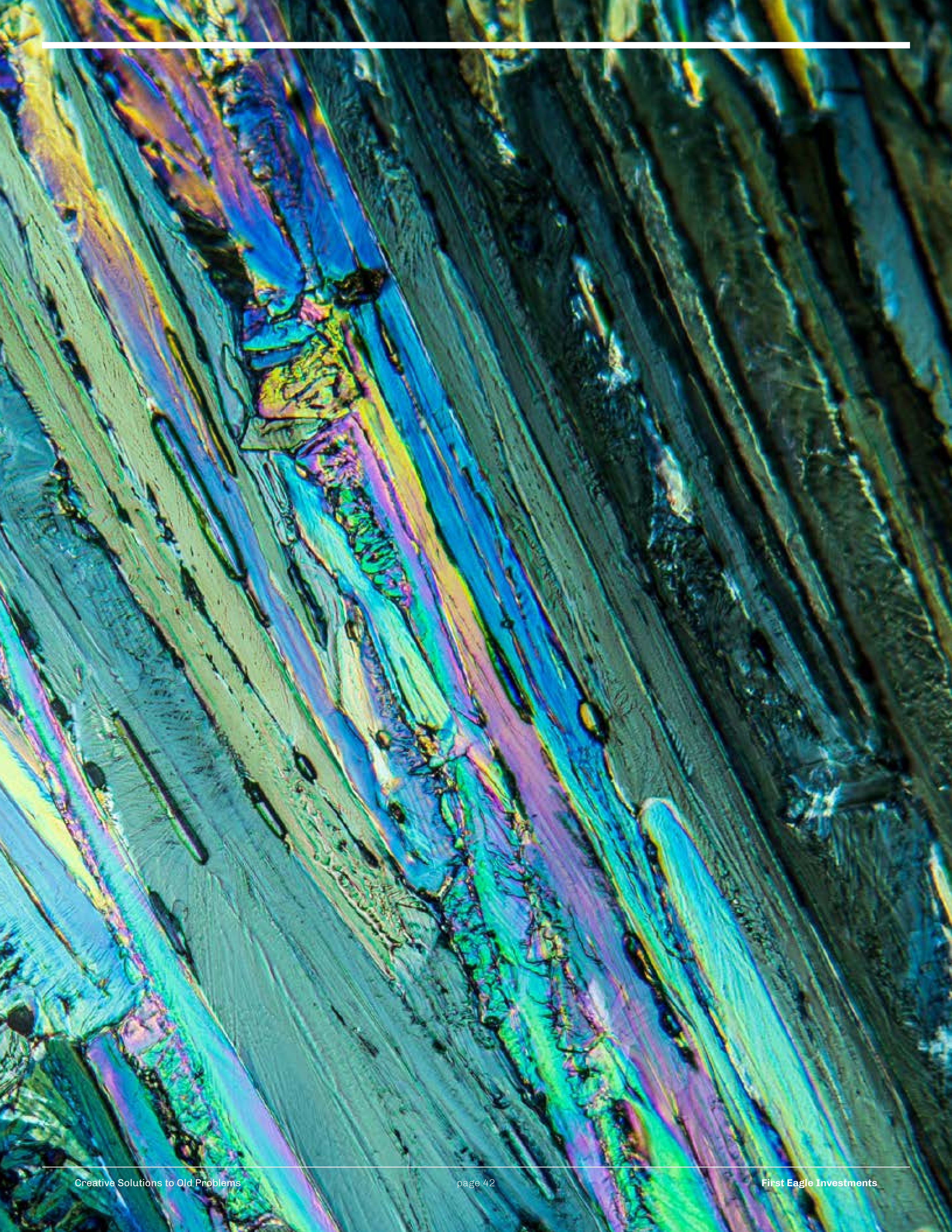
First Eagle Alternative Credit has decades of experience providing capital in the middle market space, and our credit selection and risk management processes have been honed across multiple macroeconomic regimes. It's because of our experience with disparate credit environments that we seek to apply rigorous due diligence and careful structuring in pursuit of strong returns while also attempting to mitigate downside risk.

Chris:

To Michelle's point, you can't be reactive to prevailing conditions in the illiquid direct lending market; once the environment begins to deteriorate, it may be too late to change course. We believe our efforts in recent years to move toward loans higher in the capital stack—and toward first-lien debt, in particular—should mitigate downside risk in the event the macroeconomic backdrop continues to soften and position us to seek out potential opportunities as they emerge.

Creative Solutions to Old Problems

In August, First Eagle completed the acquisition of Napier Park Global Capital, a leading alternative credit manager active in a diverse range of global markets through credit vehicles, US and European collateralized loan obligations, and real assets. **Jim O'Brien**, managing principal, and **Jon Dorfman**, managing principal and chief investment officer, share their initial experiences operating as part of First Eagle and their thoughts on alternative credit markets in 2023.



Q:

How has your brief tenure at First Eagle gone so far?

Jim:

It's been less than six months, but I would say that the experience has been an extraordinarily positive one for me and our colleagues at Napier Park. Admittedly, that was pretty much expected; once we began meeting with the senior team at First Eagle, it became clear that Napier Park and First Eagle have a very similar investment-driven culture, dedication to client outcomes and commitment to nurturing our employees. From a day-to-day perspective, little has changed for the Napier Park team and our clients. Jon and I continue to run the firm, and we operate autonomously under our own brand, maintaining our investment approach, business focus and client service.

Jon:

The reason that we engaged with First Eagle is that we felt Napier Park had gotten to a point in our company lifecycle when we needed to start investing in our client-facing infrastructure—including product development and management, client outreach and investor relations—if we wanted to execute our long-term business strategy. As we continue to move forward and markets become more interesting, we will need to expand from a market perspective as well. The transaction gave us the bandwidth to make investments over the next few years and to concentrate on how to best grow the business in a way that also enhances the solutions First Eagle offers to clients.

> Napier Park and First Eagle have a very similar investment-driven culture, dedication to clients and commitment to employees.

Jim:

The transaction also has been very positively received by our client base. There has been a lot of consolidation in the alternative credit space, and the fact that we participated in that consolidation did not come as a big surprise to most clients—they understood our need to invest in client infrastructure and expand our market breadth. Generally speaking, clients have appreciated our thoughtful approach to unlocking access to resources by partnering with a company like First Eagle. I'm sure that being part of a larger platform, with access to a bigger balance sheet and the stability all of that implies, was a source of comfort to some clients in the challenging environment of 2022.

Q:

Speaking of challenging environments, what was your experience in the credit markets in 2022?

Jim:

We came into 2022 expecting higher volatility and greater dispersion in the credit markets as fundamentals and technicals became more idiosyncratic. While we were right about direction, we underestimated the magnitude of the correction that lay ahead. Though the credit market was broadly lower during the year, higher-quality, shorter-duration assets delivered relative outperformance in the rising-rate environment.[1]

We invest in a broad range of floating-rate assets, which carry less interest rate risk than fixed-rate assets. They do have spread-duration risk, however, and 2022's meaningful rate moves drove much of the repricing across global credit markets. Liquidity has been another challenge, as the violent and quick move in rates during the year has resulted in significant bid/offer widening.

1. Source: FactSet, data as of November 30, 2022.

A bright spot in the shift to higher base rates and wider credit spreads is that it allows managers to construct portfolios with the potential for much higher yields than were available a year ago without taking on additional credit risk. Yield as a meaningful contributor to total return is a benefit we haven't had in a very long time, and it has the potential to initiate an asset allocation cycle across our markets and products.

Q:

Tell us about the Real Assets platform. Are you seeing demand in the current environment?

Jon:

Given inflation pressures and the continued search for sources of uncorrelated yield, the number of conversations we had about the Real Asset platform escalated meaningfully in 2022. These assets tend to be long-lived, income generative, essential-use equipment with a focus on preserving residual value. Our platform provides diversified exposure to hard-to-access operational and developmental assets across three primary areas: railcars, aircraft and renewable energy. Meanwhile, the operators of these assets, who continue to provide the intensive day-to-day servicing, receive long-dated, non-dilutive, partnering capital to support their core businesses.

> Our Real Assets platform provides diversified exposure to hard-to-access assets across three primary areas: railcars, aircraft and renewable energy.

In contrast with many financial assets, hard assets historically have been more resilient during difficult macroeconomic periods, a trend that persisted amid the challenges of 2022. There are numerous reasons real assets continue to appear attractive in today's economic and market environments. Based on equipment value and its potential to generate future income through operational usage, the price of real assets historically has been uncorrelated to financial markets and resilient to short-term volatility while also demonstrating a positive sensitivity to rising interest and inflation rates. Further, the negotiated nature of these investments allows us to structure agreements specifically with capital preservation in mind. Finally, our recent focus on renewable energy assets may help support decarbonization and sustainability efforts.

Q:

You both have a long history of investing in alternative credit. What have previous bouts of market volatility taught you?

Jim:

As we refined our investment process over time, we've learned that periods of market volatility and uncertainty historically have been supportive of active management, and the dispersion among assets that often results allows our highly experienced credit research team to shine.

We've found that in our areas of investment, active management tends to be the exception rather than the rule; most managers tend to focus on upfront portfolio construction, and then it's "set it and forget it" unless credit issues arise or liquidity is needed. At Napier Park, we tend to be very active. We continually look to optimize our exposures, moving risk profiles around in an effort to take advantage of opportunities as they emerge, facilitated by our institutional-grade infrastructure, creativity and decades of specialized expertise among our investment professionals. While Jon and I each have nearly 40 years behind us, you'll find very seasoned professionals across the organization; our senior management team averages 33 years of experience in the industry and 16 years working together.

Jon:

While our flagship Opportunistic Credit platform seeks to pursue a flexible "all-weather" approach across credit cycles, we also maintain a platform that targets opportunities specifically during periods of credit dislocation. Our Credit Dislocation platform operates on a contingent capital basis; that is, committed capital is deployed only when there exist opportunities with the potential to generate attractive returns. When such circumstances emerge, we can act as a liquidity provider to stressed sellers.

> During periods of market strife, our Credit Dislocation platform focuses on credits that have lost value but continue to perform.

For the Credit Dislocation platform, we target non-investment grade performing assets; we're buying mezzanine tranches and equity/first-loss tranches in things like collateralized loan obligations, asset-backed securities, mortgage-backed securities, privately arranged consumer and mortgage loans, commercial receivables and leasing. These tranches typically are the lowest rated within the securitization or are unrated, and offer the highest expected yield.

In our view, a performing asset that has lost value in a challenging market—if of good quality—is well positioned to continue generating positive cash flow for its owner even if its price remains depressed. The eventual return of market liquidity should act as a catalyst for price improvement in such credits while also driving spreads broadly tighter, encouraging new issuance and promoting the resumption of optimal market functionality.

Jim:

The onset of Covid-19 is a good example of such a scenario. Asset prices fell sharply in March 2020 as the pandemic took hold, providing ample opportunities to acquire assets at steep discounts. Once the Fed stepped in, market conditions normalized and the prices of many once-troubled assets began to do the same. In these types of recoveries, it's been our experience that higher-quality, shorter-duration assets often are the first to rebound while others lag; a nimble manager potentially can add value by taking profits from early-to-recover assets and directing the proceeds toward those yet to pick up a bid.

Q:

What are you expecting for alternative credit markets in 2023?

Jim:

We believe we are headed into a weaker corporate earnings environment in 2023, likely to be marked by idiosyncratic risk-related events rather than a broad increase in defaults across companies and markets. Both corporations and consumers alike did an impressive job of managing their balance sheets and terming out liabilities, as evinced by the record-setting levels of refinancing activity in late 2020 and 2021. This should help mitigate the impacts of a slowdown in economic activity. We anticipate the first-order effects of economic slack will be seen in rating downgrades and then eventually through a higher but historically modest level of defaults, centered on corporates with weaker capital structures and operating in more cyclical industries. The continued strength of the US dollar may cause additional stress to corporations that generate meaningful revenue streams outside the US, which is not uncommon among investment grade issuers.

Jon:

The level of uncertainty is somewhat unsettling. There's too much exogenous risk, both geopolitical and economic. We have the war in Ukraine and signs of unrest among the Chinese population. Europe is potentially facing a tough winter that may push them closer to recession as financial conditions tighten, and the UK appears even further along that path. Questions still linger about the stability of global supply chains. The risk of policy error is quite high, in our view, given the extraordinary circumstances in which central bankers and politicians are operating.

All of these factors are causing us to maintain a more reserved investing posture right now. That said, while I have no definitive prediction for our markets over the next six months, I'm comfortable investing with a two-year view in good credits at current price and yield levels. This is not to say the situation won't get worse before it gets better—we may find ourselves investing more capital six or nine months from now, at even cheaper prices. But it all comes down to the quality of our credit work.

About First Eagle Investments

Disciplined, unconventional thinking. Global perspective. Long-term alignment.

First Eagle Investments is an independent, privately owned asset management firm dedicated to serving the investment needs of individuals and institutions worldwide. With a heritage dating back to 1864, First Eagle seeks to help clients avoid the permanent impairment of capital. Our active, absolute return-oriented portfolios are rooted in fundamental research and strive to generate strong real returns over time while attempting to mitigate downside risk. We offer a range of equity and equity-oriented, public and private credit, multi-asset and alternative strategies that are distinguished by disciplined, unconventional thinking, a global perspective and the long-term alignment of interests.

$125B
in assets under management†

Private and independent* asset management firm with a heritage that dates back to
1864

587
employees, including 143 investment professionals

14
offices globally, with headquarters in New York

Seeking to Preserve Wealth since 1864

1864
Gebr. Arnhold (Arnhold Brothers) founded in Dresden
The firm financed a range of local businesses, including brewers.

1931
Arnhold and S. Bleichroeder formed in Berlin
The combination of two storied banks created one of the leading merchant and investment banks in Europe.

1937
All business activities moved to New York City
Faced by the realities of a deteriorating global political and economic environment, the firm relocated to New York.

1995
Firm became an SEC-registered investment adviser

1999
Acquired majority share of Société Générale Asset Management Corp.

2002
Sold investment banking and global securities businesses
The firm now focused exclusively on investment management.

2009
Renamed First Eagle Investment Management

2011
Introduced high yield credit capability
Hiring of team expanded the firm's investment lineup into fixed income.

2015
Private equity funds managed by Blackstone Inc. and Corsair Capital invested in the firm
The long-term investment of these companies ensured a continuation of First Eagle's investment culture and philosophy.

Source: First Eagle Investments; data as of November 30, 2022.
† The total AUM represents the combined AUM of First Eagle Investment Management, LLC and its subsidiary investment advisers as of November 30, 2022. It includes $1.1 billion of committed and other non-fee-paying capital from First Eagle Alternative Credit, LLC and $1.6 billion of committed and other non-fee-paying capital from Napier Park Global Capital, inclusive of assets managed by Regatta Loan Management LLC.
* Private equity funds indirectly controlled by Blackstone Inc. and Corsair Capital LLC, as well as certain co-investors, indirectly own a majority stake in First Eagle Investment Management, LLC.

After two years spent working mostly from home, First Eagle employees began returning to the office in earnest in March 2022—and negotiating the various personal challenges that entailed. Despite a world in which uncertainty seems to be the only constant, we're proud to say that our colleagues' focus on our clients was unwavering throughout, just as it was during the initial disruptions from Covid-19.

Recognizing that productivity occurs both working in the office and working remotely, First Eagle has embraced a hybrid work model that promotes purposeful in-person connectivity while continuing to offer employees the flexibility that has become the norm in the post-Covid world.

Returning to our offices en masse allowed us to reacquaint ourselves with colleagues we hadn't seen in person for some time while welcoming a large number of new faces as well. This latter cohort included the team at Napier Park Global Capital, a leading alternative credit manager of credit vehicles, US and European collateralized loan obligations, and real assets. The acquisition significantly broadened our capabilities in the large and diverse alternative credit market, and we are excited about the opportunities Napier Park's specialized expertise will present to First Eagle's clients as a complement to the offerings of our Global Value, Small Cap and Alternative Credit teams. You can hear from Napier Park's Jim O'Brien, managing principal, and Jon Dorfman, managing principal and CIO, on page 41.

Beyond the acquisition of Napier Park, we were busy throughout the year bolstering our other investment teams and enhancing our ability to execute the prudent stewardship of client assets through our range of differentiated investment solutions—adding new professionals, introducing new capabilities and continuing to augment our infrastructure. With a steadfast commitment to active management, First Eagle has continued to invest in our research platform and remains focused on developing talent and rewarding those who embody our investment-centric culture.

We also continued to amplify our Corporate Social Responsibility efforts during the year. Led by the First Eagle Investments Foundation, we seek to exert a positive influence on the communities in which we live and work, the industry in which we operate and the world at large. In addition to our ongoing nonprofit partnerships, educational grants and matching gifts program, in 2022 we organized some of our key outreach events around a "month of giving." Throughout November, employees across our offices granted holiday wishes to underprivileged children, inspired young entrepreneurs, prepared food packages for the hungry and care packages for the elderly, assisted newly arrived asylum seekers and helped beautify neighborhoods.

Over the past several years, First Eagle has grown into a much larger organization across a variety of measures, not the least of which is number of employees. With this growth has come greater diversity of gender, ethnicity and tenure, a trend very much consistent with our belief that the ability to leverage disparate viewpoints and experiences may position us to potentially deliver better results for our clients.

2020

Acquired alternative credit manager THL Credit, forming Alternative Credit team

Acquisition bolstered First Eagle's position as one of the leading managers of broadly syndicated loan and direct-lending strategies.

2021

Established Small Cap team

Experienced team brought a time-tested, opportunistic approach to active management in a particularly inefficient market.

Rebranded as First Eagle Investments

2022

Acquired Napier Park

Acquisition of $19.5 billion global alternative credit manager significantly broadened our capabilities in the space.

NAPIERPARK
A First Eagle Investments Company

To get a taste for the range of perspectives within **First Eagle**, we asked a number of our colleagues about their early involvement in the workforce, what drives them today and—perhaps most tellingly—the three items they would take to a desert island. Some of their responses appear on the following pages.

What was your first job, and how did it help prepare you for your career?

"I was a welder's assistant when I was 14. The job taught me about accountability, hard work, the value of a paycheck and to not take anything for granted in life."

Daniel Schwarz
First Eagle Alternative Credit

Stephen McCall
Napier Park

"My first job was as a busboy, which prepared me for a world in which I couldn't run to my parents for help."

"Playing professional tennis as a youth taught me the benefit of hard work and problem solving."

Jacqueline Crawford
Napier Park

Brian Keenan
First Eagle Alternative Credit

"I worked as a lifeguard at our local pool. Though I never had to save anyone, I learned to always be prepared."

"As a baseball coach and umpire I learned the value of leadership and the importance of following rules (especially Compliance's)."

Benj Bahr
Global Value

Laura Chier
Napier Park

"I was a volleyball referee, which has helped me handle criticism and manage difficult situations."

"My first job was in retail, which taught me the importance of adaptability and teamwork."

Nieves Payano
Napier Park

Sean Slein
Global Value

"Delivering the *Milwaukee Sentinel* in the 5:30 am cold taught me discipline and responsibility, while customers not paying their bill taught me that credit risk exists even for a paper boy!"

The *Milwaukee Sentinel* is not endorsed by First Eagle Investments. For informational purposes only.

What is the most rewarding aspect of your job?

"Mentoring younger people who clearly had been bitten by the same investment bug I was in my early 20s."

Adrian Jones
Global Value

Fernando Freijedo
Global Value

"I've been lucky to have had smart, thoughtful colleagues and superiors who encouraged intellectual freedom, curiosity and discourse."

"Working with some really intelligent and experienced individuals who not only taught me how to look at companies but also became friends."

Rob Kosowsky
US Small Cap

Melanie Hanlon
Napier Park

"Being able to continually learn new things."

"Pushing the daily noise into the background and simply learning about how the world works."

John Masi
Global Value

Noelle Sisco
Napier Park

"Having a platform to mentor those seeking guidance on a career in asset management, just as I was influenced by my own mentors."

"To see how real estate projects come alive and transform the neighborhoods."

Liuqing (LQ) Wang
Napier Park

Joseph Lane
Napier Park

"When a career spans 44 years, it evolves as much as it expands. Recently, I have enjoyed opportunities to assist in the development of individuals, businesses and charitable organizations."

What three items would you take with you to a desert island?

"A water purifier, knife and vegetable seeds."

Aaron Kirsch
First Eagle Alternative Credit

Matt McLennan
Global Value

"My family, my library and my wine cellar!"

"Fishing gear, sudoku puzzles and a hammock."

Jamie Daul
First Eagle Alternative Credit

Melody Zhang
Global Value

"Bug spray, a satellite phone and *The Lord of the Flies.*"

"A picture of my family, a knife and sunscreen."

Debbie Lusman
Global Value

Garrett Stephen
First Eagle Alternative Credit

"A knife, fishing rod and watch."

"My family, books and iPhone."

Mariam Makhoul
Global Value

Suzanne Franks
US Small Cap

"A lifetime supply of fresh water, a machete and a book about how to live on a desert island and survive to tell the tale."

The *Lord of the Flies* is not endorsed by First Eagle Investments. For informational purposes only.

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Risk Disclosures

All investments involve the risk of loss of principal.

The value and liquidity of portfolio holdings may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the United States or abroad. During periods of market volatility, the value of individual securities and other investments at times may decline significantly and rapidly. The securities of small companies can be more volatile in price than those of larger companies and may be more difficult or expensive to trade.

A 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. "Value" investments, as a category, or entire industries or sectors associated with such investments, may lose favor with investors as compared to those that are more "growth" oriented.

There are risks associated with investing in foreign investments (including depositary receipts). Foreign investments, which can be denominated in foreign currencies, are susceptible to less politically, economically and socially stable environments; fluctuations in the value of foreign currency and exchange rates; and adverse changes to government regulations.

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 US 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. 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 US dollar is strong, inflation is low and general economic conditions are stable. In addition, returns on gold-related investments traditionally have 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.

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

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Portfolio holdings are subject to change and should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk.

Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include:

- Loss of all or a substantial portion of the investment;
- Lack of liquidity in that there may be no secondary market or interest in the strategy and none is expected to develop;
- Volatility of returns;
- Interest rate risk;
- Restrictions on transferring interests in a private investment strategy;
- Potential lack of diversification and resulting higher risk due to concentration within one of more sectors, industries, countries or regions;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Use of leverage, which magnifies the potential for gain or loss on amounts invested and is generally considered a speculative investment technique and increases the risks associated with investing in the strategy;
- Carried interest, which may cause the strategy to make more speculative, higher-risk investments than would be the case in absence of such arrangements; and
- Below-investment grade loans, which may default and adversely affect returns.

Active management is an investment management approach in which an investor, a professional money manager or a team of professionals tracks the performance of an investment portfolio and makes buy, hold and sell decisions about the assets in it.

Asset-backed securities (ABS) are financial instruments collateralized by a pool of assets, such as mortgages, credit-card receivables, auto loans and student loans.

Bear market is generally defined as a period during which a market experiences a prolonged decline in price.

Bottom-up investing primarily considers factors affecting individual companies and secondarily focuses on industries and economic trends.

Bull market is generally defined as a period during which a market experiences a prolonged increase in price.

Collateralized loan obligations (CLOs) are financial instruments collateralized by a pool of corporate loans.

Consumer price index (CPI) is a measure of the average change over time in prices paid by consumers for a specific basket of goods and services. The core version of this index excludes more volatile food and energy prices.

Diversification is a strategy that involves allocating assets to a variety of investments with the intention to help manage risk.

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.

Floating-rate securities are financial instruments whose interest rate is adjusted periodically based on movements in an underlying reference rate.

Intrinsic value is based on a judgment of what a prudent and rational business buyer would pay in cash for all of a company in normal markets.

Margin of safety as defined by First Eagle is the difference between a company's market value and our estimate of its intrinsic value. An investment made with a margin of safety is no guarantee against loss.

Mortgage-backed securities (MBS) are financial instruments collateralized by a pool of mortgages.

Passive management is an investment management approach that seeks to mirror the performance of a designated index.

Special-purpose acquisition companies (SPACs) are publicly listed entities formed solely to acquire one or more privately held companies.

Target-date funds are packaged asset-allocation products whose investment allocation shifts over time as their target date nears.

Treasury inflation-protected securities (TIPS) are a type of US Treasury issuance whose principal value is indexed to the rate of inflation.

Volatility is a statistical measure of the degree to which the return of a portfolio or individual security deviates from its mean over time.

Indexes are unmanaged, and one cannot invest directly in an index.

Equity Indexes

MSCI EAFE Index measures the performance of large and midcap securities across 21 developed markets countries around the world excluding the US and Canada.

MSCI EAFE Growth Index measures the performance of large and midcap securities exhibiting overall growth style characteristics across developed markets countries around the world excluding the US and Canada. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

MSCI EAFE Value Index measures the performance of large and midcap securities exhibiting overall value style characteristics across developed markets countries around the world excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

MSCI EAFE Mid-Cap Index measures the performance of midcap securities across developed markets countries around the world excluding the US and Canada.

MSCI EAFE Mid-Cap Growth Index measures the performance of midcap securities exhibiting overall growth style characteristics across developed markets countries around the world excluding the US and Canada. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

MSCI EAFE Mid-Cap Value Index measures the performance of midcap securities exhibiting overall value style characteristics across developed markets countries around the world excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

MSCI Emerging Markets Index measures the performance of large and midcap representation across 21 emerging markets countries around the world.

MSCI EAFE Small Cap Index measures the performance of small cap representation across developed markets countries around the world excluding the US and Canada.

MSCI EAFE Small Cap Growth Index measures the performance of small cap securities exhibiting overall growth style characteristics across developed markets countries around the world excluding the US and Canada. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

MSCI EAFE Small Cap Value Index measures the performance of small cap securities exhibiting overall value style characteristics across developed markets countries around the world excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

MSCI World Index measures the performance of large and midcap securities across 23 developed markets countries around the world.

MSCI World Growth Index measures the performance of large and midcap securities exhibiting growth style characteristics across 23 developed markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

MSCI World Value Index measures the performance of large and midcap securities exhibiting growth style characteristics across 23 developed markets countries. The growth investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

Russell 1000® Index measures the performance of the large cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

Russell 1000® Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium-term (two-year) growth, and higher sales per share historical growth (five years).

Russell 1000® Value Index measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (two-year) growth, and lower sales per share historical growth (five years).

Russell 2000® Index measures the performance of the small cap segment of the US equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium-term (two-year) growth, and higher sales per share historical growth (five years).

Russell 2000® Value Index measures the performance of the small cap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (two-year) growth, and lower sales per share historical growth (five years).

Russell Midcap® Index measures the performance of the midcap segment of the US equity universe. It is a subset of the Russell 1000® Index and includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

Russell Midcap® Growth Index measures the performance of the midcap growth segment of the US equity universe. It includes those Russell Midcap Index companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium-term (two-year) growth, and higher sales per share historical growth (five years).

Russell Midcap® Value Index measures the performance of the midcap segment of the US equity universe. It includes those Russell Midcap Index companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (two-year) growth, and lower sales per share historical growth (five years).

S&P 500 Index 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.

Fixed Income Indexes

Bloomberg Global Aggregate ex-USD Bond Index measures the performance of investment grade debt from 24 local-currency markets. This multi-currency benchmark includes sovereign, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in US dollars are excluded.

Bloomberg US Aggregate Bond measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS.

Bloomberg US Corporate Bond Index measures the performance of investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg US Corporate High Yield Bond Index measures the performance of the US dollar-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. Bonds from issuers with an emerging markets country of risk are excluded.

Bloomberg US Long Treasury Index measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with a maturity greater than 10 years.

Bloomberg US Mortgage Backed Securities Index measures the performance of fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac.

Bloomberg US Treasury Index measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

Bloomberg US Treasury Inflation-Linked Bond Index measures the performance of the US Treasury inflation-protected securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Credit Suisse Emerging Market Corporate Index measures the performance of emerging market corporate debt that represents the characteristics, pricing and total return performance of different asset classes within the emerging market corporate universe.

ICE BofA AAA US Corporate Index measures the performance of US dollar-denominated investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating AAA.

ICE BofA AA US Corporate Index measures the performance of US dollar-denominated investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating AA.

ICE BofA Single-A US Corporate Index measures the performance of US dollar-denominated investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating A.

ICE BofA BBB US Corporate Index measures the performance of US dollar-denominated investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating BBB.

ICE BofA BB US High Yield Index measures the performance of US dollar-denominated below investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating BB.

ICE BofA Single-B US High Yield Index tracks the performance of US dollar-denominated below investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating B.

ICE BofA CCC & Lower US High Yield Index measures the performance of US-dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market with a given credit rating CCC or below.

Real Asset Indexes

Alerian MLP Index is a capped, float-adjusted, market capitalization-weighted index designed to track the performance of energy infrastructure master limited partnerships (MLPs).

FTSE EPRA Nareit Global Real Estate Index is a float-adjusted, market capitalization-weighted index designed to track the performance of listed real estate companies in both developed and emerging countries worldwide.

FTSE Gold Mines Index measures the performance of the shares of companies whose principal activity is the mining of gold and encompasses all gold mining companies that have a sustainable, attributable gold production of at least 300,000 ounces a year and that derive 51% or more of their revenue from mined gold in the worldwide market.

FTSE Gold Mines EMEA Index is a subindex of the FTSE Gold Mines Index Series. It measures the performance of all gold mining companies that have a sustainable, attributable gold production of at least 300,000 ounces a year and that derive 51% or more of their revenue from mined gold across the Europe/Middle East/Africa (EMEA) region.

FTSE Gold Mines Asia Pacific Index is a subindex of the FTSE Gold Mines Index Series. It measures the performance of all gold mining companies that have a sustainable, attributable gold production of at least 300,000 ounces a year and that derive 51% or more of their revenue from mined gold across the Asia Pacific region.

FTSE Gold Mines Americas Index is a subindex of the FTSE Gold Mines Index Series. It measures the performance of all gold mining companies that have a sustainable, attributable gold production of at least 300,000 ounces a year and that derive 51% or more of their revenue from mined gold across the US, Canada and Latin America.

ICE US Dollar Index is a geometrically averaged calculation of six currencies weighted against the US dollar: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

S&P Global ex-US Property Index defines and measures the investable universe of publicly traded property companies domiciled in developed and emerging markets excluding the US. The companies included are engaged in real estate-related activities such as property ownership, management, development, rental and investment.

S&P Global Infrastructure Index measures the performance of 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation and utilities.

S&P Global Natural Resources Index measures the performance of 90 of the largest publicly traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across three primary commodity-related sectors: agribusiness, energy, and metals and mining.

S&P GSCI® is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

Alternative Credit Indexes

Cliffwater Direct Lending Index is an asset-weighted index of more than 8,000 directly originated middle-market loans.

JPMorgan CLO Index is a total return benchmark for US dollar-denominated broadly syndicated, arbitrage US CLO debt.

JPMorgan CLO AAA Index is a subset of the JPMorgan CLO Index that only tracks the AAA rated CLO debt.

JPMorgan CLO AA Index is a subset of the JPMorgan CLO Index that only tracks the AA rated CLO debt.

JPMorgan CLO A Index is a subset of the JPMorgan CLO Index that only tracks the A rated CLO debt.

JPMorgan CLO BBB Index is a subset of the JPMorgan CLO Index that only tracks the BBB rated CLO debt.

JPMorgan CLO BB Index is a subset of the JPMorgan CLO Index that only tracks the BB rated CLO debt.

JPMorgan CLO B Index is a subset of the JPMorgan CLO Index that only tracks the B rated CLO debt.

Morningstar LSTA US Leveraged Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market.

Morningstar LSTA US BBB Ratings Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market for loans with BBB- to BBB+ ratings as rated by S&P Global Ratings.

Morningstar LSTA US BB Ratings Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market for loans with BB- to BB+ ratings as rated by S&P Global Ratings.

Morningstar LSTA US B Ratings Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market for loans with B- to B+ ratings as rated by S&P Global Ratings.

Morningstar LSTA US CCC Ratings Loan Index is a market value-weighted index designed to measure the performance of the US leveraged loan market for loans with CCC- to CCC+ ratings as rated by S&P Global Ratings.

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Real Assets