Small Cap Opportunity Fund

Market Overview

Despite the persistence of headline-grabbing causes for concern—still-sticky inflation, recession fears, worsening earnings outlooks and a blink-and-you-missed it coup attempt in Russia—equity markets continued to defy gravity in the second quarter.

The last three months saw the persistence of market dynamics established in the first three, with a small cohort of very large, growth-oriented stocks continuing to account for the lion's share of gains. The S&P 500 Index outpaced the Russell 2000 Index handily during the period, 8.7% to 5.2%, to further widen the already-significant gap in relative valuations between the two.

Goodbye FAANG; Hello "Magnificent Seven"

A rebound in beleaguered technology stocks—which were among the hardest hit during last year's selloff—was the story in equity markets during the first half of 2023, as investors grew enamored with the potential opportunities presented by generative artificial intelligence (AI). In fact, the recovery in certain mega-cap names has been so impressive that a new sobriquet has emerged to replace the now-passé FAANG label. The "Magnificent Seven" comprises several FAANG alums (Alphabet, Amazon, Apple and Meta) as well as some other recent beneficiaries of the AI boom (Microsoft, Nvidia, Tesla), and currently accounts for nearly 30% of the S&P 500's total market cap.[1]

Beyond the shock of the new, it's hard to pinpoint a specific driver for positive sentiment in the quarter, as many of the same sources of investor consternation persisted. While early 2023 gains appeared to be driven at least in part by hopes that the Federal Reserve was nearing the end of its hiking cycle and perhaps on the brink of cuts, markets in the second quarter were forced to contend with policy rates that seem likely to peak higher and later than previously expected.

Though the central bank left the federal funds rate untouched at 5–5.25% following its June 13–14 meeting, citing a desire for more time to assess the impacts of its previous hikes as well as potential spillover effects from March's bank failures, messaging strongly suggested the cycle was not over. Minutes released a few weeks later pointed toward a divided committee, though a "strong majority...expect that it will be appropriate to raise interest rates two or more times by the end of the year," per Chair Powell.[2] Indeed, the Fed's new dot plot shows rates peaking at 5.6% this year. Additional hikes would not come as a surprise; while headline inflation has improved markedly on the back of falling energy and food costs, core inflation remains sticky, reflecting resilient economic activity and a still-strong labor market.[3]

Distended Relative Valuations Appear to Favor Small Caps

While the recovery of large cap growth stocks this year after a challenging 2023 has been impressive, longer-term trends tell a different story about relative performance. Small cap stocks represent a particularly volatile and inefficient segment of the equity market, and investors historically have been compensated for these elevated risks with higher returns. Small cap value stocks in particular have delivered impressive performance over the long term, outpacing large cap value and growth stocks as well as small cap growth names by a significant degree.[4]

Mean reversion historically has had a powerful influence over financial markets, and current valuations suggest that this statistical phenomenon perhaps may soon serve as a tailwind for small caps in general. At 11.8x earnings, the Russell 2000 Index is trading well below its long-term average of around 16.4x.[5] A low multiple has been a springboard for small cap returns in the past; the last time the index traded this cheaply was during the global financial crisis, and it delivered annual average returns of 30% for the three years that followed.[6]

There's nothing magical about this tendency or our efforts to take advantage of it. Given their historical volatility, smaller stocks in general have tended to overreact to shifts in market sentiment. We diligently scour this investment universe to identify individual names whose prices have become particularly unmoored from their attractive fundamentals. Sometimes performance on the smaller

1. Source: Barron's; data as of July 7, 2023.
2. Source: Bloomberg; data as of July 5, 20023.
3. Source: Bureau of Economic Analysis; data as of June 30, 2023.
4. Source: FactSet; data as of June 30, 2023.
5. Source: FactSet; data as of June 30, 2023.
6. Source: FactSet; data as of June 30, 2023.

end of the capitalization spectrum, particularly among value stocks, is more about an abatement of selling pressure than any newfound buying enthusiasm; this may be part of the dynamic we witnessed in the second quarter, where small stocks moved higher but significantly lagged the mega-cap market darlings. But as things improve at the individual stock level—a manufacturer gets new funding, for example, or a restaurant chain improves the quality of its offering—some separation in performance within indexes typically begins to emerge, especially if the broader macro environment is supportive.

With last year's market rout in the rearview, we feel good about our holdings. The portfolio overall is quite cheap, in our view, and we're excited about the progress many of the businesses have made in addressing the concerns that had been holding back their stock prices. While they may not be as exciting as the Magnificent Seven, the businesses we own play vital roles in the US economy—including, in several cases, supporting AI—and a simple reversion toward long-term mean valuations may result in significant repricing.

Portfolio Review

Small Cap Opportunity Fund A Shares (without sales charge*) posted a return of 6.55% in second quarter 2023. Industrials, information technology and consumer discretionary were the leading contributors among equity sectors; energy, communications services and consumer staples were the largest detractors. The Fund outperformed the Russell 2000 Value Index in the period.

Leading contributors in the First Eagle Small Cap Opportunity Fund this quarter included Beazer Homes USA, Inc., CIRCOR International, Inc., SMART Global Holdings, Inc., Coherent Corp. and Louisiana-Pacific Corporation.

Beazer Homes is one of the nation's largest home builders, serving entry-level buyers primarily in the western and southeastern US. Order volume has remained strong as purchasers adjusted to higher home prices and interest rates either by opting for smaller homes or for fewer design options. Company-provided incentives and discounts have stabilized, and buyer cancellation rates are returning to historical norms. At the same time, construction and cycle times have declined, further supporting profitability.

CIRCOR provides hydraulic pumps and valves for industrial and aerospace applications. The new management team introduced in 2022 has made significant progress executing turnaround plans while simultaneously exploring strategic alternatives for the business. In late June, a bidding war for the company developed between two private equity firms, and CIRCOR agreed to be purchased for $56 per share in cash, a premium of more than 75% to the company's stock price a month earlier.

SMART Global Holdings designs and manufactures specialty solutions for the computing, memory and light-emitting diode markets. The company's computing division has benefited from increased industrywide investments in artificial intelligence. In an effort to sharpen its focus on this part of its business, SMART during the quarter agreed to sell an 81% stake in its Brazilian memory operations, which will have the simultaneous benefit of strengthening its balance sheet.

Coherent develops, manufactures and markets engineered materials and optoelectronic components and devices for a range of applications. The company's shares rallied during the quarter on the introduction of a new precision welding laser for the electric vehicle (EV) market; it also announced that it would review strategic alternatives for its high-growth silicon carbide business, which also supports EV. Coherent was acquired by II-VI Incorporated in July 2022, and the combined business took the name of the acquiree; integration of the businesses has gone well, meeting synergy targets while reducing overall leverage.

Louisiana-Pacific manufactures siding and other engineered wood products for home builders and remodelers. The company has benefited from the rebound in housing starts over the last decade as well as rising "repair and remodel" demand for existing homes. In addition to these macro tailwinds, Louisiana-Pacific continued to advance the buildout of its higher-margin siding business, with the introduction of a new product and the conversion of manufacturing capacity.

The leading detractors in the quarter were Enviva Inc, EverQuote, Inc. Class A, ADTRAN Holdings, Inc., Ducommun Incorporated and QuinStreet, Inc.

Enviva is considered the world's largest producer of industrial wood pellets. Its shares were down sharply, as lower-than-expected financial results reported for its most recent quarter forced the company to lower its full-year outlook and eliminate its quarterly dividend. The company cited unfavorable sales mix, higher labor costs and unexpected maintenance and repair expenses as the drivers for the shortfall.

EverQuote operates online platforms to connect customers with auto insurance carriers and agents. The company's top line has been negatively impacted by a downturn in the auto insurance industry. In response to rising loss ratios, carriers reduced marketing budgets. Though insurers have been able to push through higher premiums, regulatory differences among states has contributed to an uneven recovery among geographies and providers and ad spending remains pressured. Despite near-term challenges, we believe that EverQuote is well-positioned to benefit from a longer-term migration to online auto insurance shopping.

Adtran provides networking and communications equipment for voice, data, video and internet communications across network infrastructures. The company lowered its full-year earnings outlook on softer demand, as end users reduced inventory of Adtran's customer premises equipment and supply constraints prevented it from fulfilling

* Performance for Class A shares without the effect of sales charges and assumes all distributions have been reinvested, and if a sales charge was included values would be lower.

orders in other areas of the business. We believe this inventory rationalization is temporary and does not impact the longer-term need for carriers to upgrade their network infrastructure.

Ducommun manufactures and assemblies electronic and structural systems for the commercial aerospace and defense markets. During the quarter, Ducommun closed on the acquisition of BLR Aerospace, which provides aerodynamic systems for commercial and military aircraft. The transaction was funded by the company's revolving credit facility, which it subsequently paid down with the proceeds of a secondary offering. Despite the recent underperformance, we believe that the company's long-term profit improvement and growth plans remain intact.

QuinStreet operates online platforms that connect financial service and home service providers to customers. The majority of the company's revenue comes from its financial services segment, which depends significantly on auto insurance carriers. Reduced advertising spending by auto insurers has weighed on QuinStreet's largest revenue segment. We note that the company's non-insurance divisions are performing well, and we believe auto insurance revenue will recover as profits improve at auto insurance carriers.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investments

Average Annual Returns as of Jun 30, 2023

	YTD	1 Year	Since Inception	Expense Ratio Gross[2]	Expense Ratio Net*	Inception Date
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/o load	13.21%	19.55%	-2.61%	1.42%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class A (FESAX) w/ load	7.50%	13.61%	-5.06%	1.42%	1.26%	Jul 1, 2021
First Eagle Small Cap Opportunity Fund Class I (FESCX)	13.41%	20.02%	-0.78%	1.18%	1.01%	Apr 27, 2021
First Eagle Small Cap Opportunity Fund Class R6 (FESRX)	13.41%	19.87%	-2.35%	1.29%	1.01%	Jul 1, 2021
Russell 2000® Value Index[1]	2.50%	6.01%	-4.53%			Apr 27, 2021
Russell 2000® Index	8.09%	12.31%	-7.34%			Apr 27, 2021

1. Primary index.
2. The annual expense ratio is based on expenses incurred by the fund, as stated in the most recent prospectus. These are the actual fund operating expenses prior to the application of fee waivers and/or expense reimbursements. First Eagle Investment Management, LLC ("First Eagle") has contractually agreed to waive and/or reimburse certain fees and expenses of Classes A, I and R6 so that the total annual operating expenses (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend and interest expenses relating to short sales, and extraordinary expenses, if any) ("annual operating expenses") of each class are limited to 1.26%, 1.01% and 1.01% of average net assets, respectively. Each of these undertakings lasts until February 29, 2024, and may not be terminated during its term without the consent of the Board of Trustees. The Fund has agreed that each of Classes A, I and R6 will repay First Eagle for fees and expenses waived or reimbursed for the class provided that repayment does not cause annual operating expenses (after the repayment is taken into account) to exceed either: (1) 1.26%, 1.01% and 1.01% of the class's average net assets, respectively; or (2) if applicable, the then-current expense limitations. Any such repayment must be made within three years after the year in which First Eagle incurred the expense.

The performance data quoted herein represent past performance and do not guarantee future results. Market volatility can dramatically impact the Fund's short-term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance data through the most recent month-end are available at www.firsteagle.com or by calling 800-334-2143.

The average annual returns for Class A Shares "with sales charge" of the First Eagle Small Cap Opportunity Fund gives effect to the deduction of the maximum sales charge of 5.00%.

Class I Shares require $1MM minimum investment and are offered without sales charge. There is no minimum subsequent investment amount for Class I Shares.

Class R Shares are offered without sales charge.

Inception date shown for the Russell 2000 Value and Russell 2000 Indices matches the Small Cap Opportunity Class I shares, which have the oldest since inception date for the Small Cap Opportunity Fund.

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

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

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Mean reversion, or revision to the mean, is a theory that asset prices will eventually return to their long-term average levels.

The federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight on an uncollateralized basis. Reserve balances are amounts held at the Federal Reserve to maintain depository institutions' reserve requirements. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances.

Risk Disclosures

All investments involve the risk of loss of principal.

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.

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 and micro-size 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.

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

One cannot invest directly in an index. Indices do not incur management fees or other operating expenses.

Russell 2000® Growth Index measures the performance of the smallcap 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 (2 year) growth and higher sales per share historical growth (5 years). **NYSE FANG+ Index** is designed to represent a segment of technology and consumer discretionary sectors consisting of highly-traded growth stocks of technology and tech-enabled companies such as Facebook, Apple, Amazon, Netflix and Alphabet's Google. **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. **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. The S&P 500 Index includes dividends reinvested.

The holdings mentioned herein represent the following total assets of the First Eagle Small Cap Opportunity Fund as of 30-Jun-2023: Beazer Homes USA, Inc. 0.72%; CIRCOR International, Inc. 0.74%; SMART Global Holdings, Inc. 0.78%; Coherent Corp. 1.04%; Louisiana-Pacific Corporation 0.85%; Enviva Inc 0.00%; EverQuote, Inc. Class A 0.24%; ADTRAN Holdings, Inc. 0.61%; Ducommun Incorporated 0.61%; QuinStreet, Inc. 0.27%.

This commentary represents the opinion of the First Eagle Small Cap Opportunity Fund portfolio managers as of 30-Jun-2023 and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the entire firm. These materials are provided for informational purposes only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed.

The Fund's portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

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Investors should consider investment objectives, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds and may be viewed at www.firsteagle.com or by calling us at 800-747-2008. Please read our prospectus carefully before investing. Investments are not FDIC insured or bank guaranteed and may lose value.

First Eagle Funds are offered by **FEF Distributors, LLC**, a subsidiary of First Eagle Investment Management, LLC, which provides advisory services.

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