High Yield Municipal Fund*

Market Overview

Massive new-issue supply amid tariff-spooked demand weighed on municipal bond performance during the second quarter.

While the resumption of mutual fund and exchange-traded fund (ETF) inflows after April's dislocation helped municipal bonds recover, the asset class generally underperformed Treasuries and most other fixed income sectors for the quarter; longer-duration and lower-quality issues were particularly challenged. Both the S&P Municipal Bond High Yield Index and the S&P Municipal Yield Index, which includes bonds across the quality spectrum, declined 1.0% during the period, while the S&P Short Duration Municipal Yield Index moved 1.0% higher. For context, the Bloomberg US Aggregate Bond Index gained 1.2%.[1]

Tariff Uncertainty Meets Fiscal Certainty

The wide-ranging "Liberation Day" tariffs—including a baseline 10% charge on all imports globally and steeper rates (referred to as, but not actually, "reciprocal") on countries deemed to be bad actors—was more extreme than markets seemed to anticipate, unleashing a rout across risk assets worldwide and a significant spike in volatility. Reputed "safe haven" assets like US Treasuries caught a bid in the initial flight to quality after the tariff announcement but sold off just as quickly.[2]

Surveying the market fallout of his April 2 unveiling, Trump one week later offered trading partners a 90-day reprieve on the reciprocal portion of the tariffs to allow time for bilateral trade negotiations, to the great relief of financial markets. Global equities rallied sharply, while the yield on 10-year Treasuries settled into a jagged pattern to finish the quarter pretty much where it began. The Treasury curve steepened, however, as short bills and notes moved lower while long bonds broke out to the upside.

With little to show in the way of dealmaking progress, Trump post-quarter extended his July 9 deadline to August 1 while also announcing a steady flow of ad hoc sector and country tariffs—most recently copper, Brazil and Canada. In other words, trade policy is no clearer today than it was at the end of the first quarter.

The conclusion-less tariffs drama is complicating the Federal Reserve's job. At its June meeting, the central bank held its key policy rate at 4.25–4.50%, where it has been locked for the past six months, despite Trump's incessant hectoring. The Fed's outlook for the economy has continued to moderate, as the latest Summary of Economic Projections once again reported lowered expectations for 2025 GDP growth and raised expectations for 2025 inflation.[3] The federal funds forecast remained unchanged at two rate cuts before year-end, but the tide may be turning. Meeting minutes released in July suggested a not-insignificant minority of officials believed there was still work to be done on inflation: the core personal consumption expenditures price (PCE) index was at 2.7% in its May reading and the most significant price impacts of tariffs are likely still to come.[4]

Over on Capitol Hill, Republican lawmakers successfully pushed their budget reconciliation bill through Congress and delivered it to the president before the self-imposed July 4 deadline. The new law is expected to add $3.0 trillion to the US debt over the next 10 years and widen the deficit to 6.9% of GDP, from 6.4% in 2024. If the temporary provisions in the bill are extended or made permanent, as they often are, the cost increases to $3.7 trillion and the deficit to 7.3%.[5] Long interest rates have broken out to the upside on the deteriorating fiscal picture, with the 30-year Treasury around 5%—a level it hasn't seen consistently since before the financial crisis.[6]

Despite some chatter that policymakers were considering adjustments to the tax-exempt status of municipal bond interest income, the budget reconciliation bill maintained the status quo. This outcome was not unexpected, but the certainty was welcomed. While the idea of changes to or restrictions on the muni bond tax exemption has been raised in the past, it has always been a nonstarter given the exemption's broad popularity among voters of all geographies, political orientations and income brackets.

Technicals Were a Headwind, but Fundamentals Remain Robust

As noted earlier, the underperformance of municipal bonds during the second quarter was, in our view, primarily a technical phenomenon.

Municipal new issuance established a record high in 2024, and the $282 billion of new issuance in this year's first half—13% higher than the previous first-half record in 2007 and 16% higher than last year's

1. Source: FactSet; data as of June 30, 2025.
2. Source: Bloomberg; data as of June 30, 2025.
3. Source: Federal Reserve; data as of June 18, 2025.
4. Source: The Wall Street Journal; data as of July 9, 2025.
5. Source: Yale Budget Lab; data as of July 1, 2025.
6. Source: Federal Reserve Bank of St. Louis; data as of June 30, 2025.

* The First Eagle High Yield Municipal Fund was known as the First Eagle High Income Fund prior to December 27, 2023.

first half—has 2025 on track for another new record.[7] Notably, high yield muni issuance tends to be particularly long dated, which provides an additional steepening impulse to the curve.

There are a few factors we believe have contributed to the surge in issuance. After sitting on the sidelines during the 2022–23 rate-hike period, municipalities have a pent-up need to issue paper as the benefits of Covid-19–era federal funding and post-pandemic tax receipts wane. Thanks to several years of very high inflation, every project funded through the capital markets costs more now than it would have a few years ago. Finally, uncertainty around pending tax legislation may have pulled forward some issuance into the first half that would have happened later.

Nearly $300 billion is a lot for the new-issue market to absorb even under the best of circumstances, and the second quarter was not the best of circumstances for muni demand. Rattled by the broad-based selloff in assets following Trump's tariff announcement, tax-exempt mutual funds saw outflows of more than $8 billion in April, with $3.7 billion leaving during the week of April 7 alone. With tariff-driven volatility easing somewhat in May, net inflows returned and persisted through the balance of the quarter, though not enough to make up for April's losses. The much smaller market for muni ETFs snapped back more quickly, however, posting $8 billion of inflows for the second quarter.[8] We expect demand normalization is likely to continue.

Municipalities entered 2025 in generally strong fiscal condition, with strong reserves and rainy-day funds. Defaults remain very low, even by the standards of an asset class accustomed to very low default activity.[9] We are keeping our eye on the potential for tariff-related inflation and economic malaise, as well as the impact on state balance sheets of certain tax and spending provisions within the recently passed budget bill.

Going Beyond Face Value

While the barrage of policy changes early in the second Trump administration has weighed on business and consumer sentiment and injected volatility into markets, at this point we don't see it adding a lot of incremental risk to tax-exempt municipal bond investment. If anything, the technical challenges that faced the muni bond market in the second quarter have made municipal bonds yields more attractive, especially at the longer end of the curve, which is where much of the high yield issuance resides. At 5.8%, the yield on the Bloomberg Municipal High Yield Index is nearly 100 basis points above its five-year average,[10] while the 30-year muni-to-Treasury ratio is at a 12-month peak.[11]

For active fundamental investors, the shifting political winds may create interesting opportunities to go against the grain. Take higher education, which has come under attack from the Trump administration. With the White House's ire focused on some of the highest-profile universities in the country, nearly 6,000 other postsecondary institutions are going about their business free from that sort of elevated political risk; strong operators with compelling yields may make for attractive investment opportunities.[12] Hospitals are in a similar boat. The cuts to Medicaid will certainly have an impact, but $1 trillion isn't leaving the system today; many of the reconciliation bill's provisions phase in over several years, giving hospital operators time to adjust their business models to maintain stability and negotiate with commercial payors for higher reimbursement rates. As others tar the entire hospital sector with the same brush, opportunities may emerge in select issuers.

7. Source: Bloomberg, JPMorgan; data as of June 30, 2025.
8. Source: Municipal Securities Rulemaking Board; data as of June 30, 2025.
9. Source: Moody's Investors Service; data as of December 31, 2024.
10. Source: Bloomberg; data as of June 30, 2025.
11. Source: Refinitiv, US Treasury; data as of June 27, 2025.
12. Source: National Center for Education Statistics; data as of November 15, 2022.

Portfolio Review

High Yield Municipal Fund A Shares (without sales charge*) posted a return of -2.23% in second quarter 2025. The Fund underperformed the S&P Municipal Yield Index in the period.

The leading contributors to performance during the quarter were bonds linked to the Brightline passenger rail project in Florida, the Centennial Yards development in downtown Atlanta, the construction of a new terminal at New York's JFK Airport, affordable housing in Michigan and senior-living communities in the Great Lakes region.

Brightline, which is backed by private equity firm Fortress Investment Group, is the only privately owned and operated intercity railroad in the US. It began service in Florida in 2018 and has steadily increased its footprint along the east coast of the state from Miami to Orlando and has plans to expand its network from Orlando to Tampa. It also recently broke ground on Brightline West, which is expected to connect the 200-plus miles between Southern California and Las Vegas with all-electric, high-speed service beginning in 2028.

Certain Brightline East and Brightline Trains Florida bonds were downgraded to junk in May by Fitch Ratings and S&P Global Ratings, citing lower-than-expected ridership and higher costs at its Florida operations as well as dwindling cash reserves. The company is examining options to boost its reserves and liquidity, and we are seeing positive trends in operations, particularly in its coach class of service. While its first-class service has continued to struggle, we expect this segment to improve noticeably as 10 new premium coaches are put into service by the end of this year. These bonds pay attractive coupons, and the backing of Fortress gives us additional confidence in Brightline's ability to meet its obligations as it optimizes its mix of short- and long-distance service and builds out capacity.

Centennial Yards is a 50-acre mixed-use development in downtown Atlanta that will include apartments, hotels, retail, a data center and an entertainment district. The first phase of the project is slated to be completed ahead of kickoff of the 2026 FIFA World Cup, with nearby Mercedes-Benz Stadium hosting eight matches in the tournament.

The New York Transportation Development Corporation issued a series of special facilities revenue bonds to fund the construction of a new Terminal 6 at JFK Airport, as well as the decommissioning and demolishing of the existing Terminal 7. The new 10-gate terminal is expected to be operational in first quarter 2026.

The Michigan State Housing Development Authority provides affordable housing alternatives for Michigan residents by offering mortgages at lower rates and providing down-payment assistance.

Senior-living revenue bonds were issued on behalf of Great Lakes Senior Living Communities LLC, as part of a capital restructuring. The original bonds were issued in 2018 for the borrower to acquire independent living, enhanced living, assisted living, memory care and multifamily facilities in Michigan and Ohio. The company and its affiliated subsidiaries have a strong track record of operating senior-living and other rental communities across the US. While we did not own the bonds prior to the exchange, we believe the post-exchange first-tier bonds we own are well covered and supported by current operations.

The leading detractors in the quarter were all linked to the Brightline passenger rail projects in Florida and Nevada. Details regarding the Brightline rail project and the downgrades of Brightline East and Brightline Trains Florida were mentioned above. Though not downgraded, the Brightline West bonds traded in sympathy.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investments

* 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.

Average Annual Returns

Data as of 30-Jun-2025

	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Since PM Inception[1]	Gross Expense Ratio[2]	Adjusted Expense Ratio[3]	Fund Inception Date
Class A (FEHAX) w/o load	-1.59%	1.43%	7.60%	4.64%	3.61%	6.50%	1.13%	0.76%	Jan 3, 2012
Class A (FEHAX) w/ load	-4.04%	-1.11%	5.98%	3.69%	3.14%	4.72%	1.13%	0.76%	Jan 3, 2012
Class C (FEHCX)	-2.93%	-0.32%	6.80%	3.86%	2.84%	5.70%	1.88%	1.51%	Jan 3, 2012
Class I (FEHIX)	-1.47%	1.68%	7.86%	4.91%	3.89%	6.77%	0.91%	0.54%	Nov 19, 2007
Class R6 (FEHRX)	-1.40%	1.73%	7.99%	4.99%	-	7.02%	0.86%	0.49%	Mar 1, 2017
S&P Municipal Yield Index	-0.84%	1.35%	4.11%	2.45%	4.03%	3.13%	-	-	-

The performance data quoted herein represents past performance and does 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 is available at www.firsteagle.com or by calling 800-334-2143. The average annual returns are historical and reflect changes in share price, reinvested dividends and are net of expenses. "With sales charge" performance for class A shares gives effect to the deduction of the maximum sales charge of 2.50%. The average annual returns for Class C shares reflect a CDSC (contingent deferred sales charge) of 1.00% in the year-to-date and first year only. Class I shares require $1MM minimum investment and are offered without sales charge. Class R6 shares are offered without sales charge. Operating expenses reflect the Fund's total annual operating expenses for the share class of the Fund's most current prospectus, including management fees and other expenses.

1. John Miller started as lead portfolio manager of the Fund beginning 2-Jan-2024.

2. First Eagle Investment Management, LLC (the "Adviser") has contractually agreed to waive and/ or reimburse certain fees and expenses of Classes A, C, I, and R6 so that the total annual operating expenses (excluding interest charges on any borrowings, taxes, brokerage commissions and other expenses incurred in placing orders for the purchase and sale of securities and other investment instruments, acquired fund fees and expenses, dividend and other expenses relating to short sales, and extraordinary expenses, if any) ("annual operating expenses") of each class are limited to 0.85%, 1.60%, 0.60% and 0.60% of average net assets, respectively. Each of these undertakings lasts until 28-Feb-2026 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, C, I, and R6 will repay the Adviser for fees and expenses waived or reimbursed for the class provided that repayment does not cause annual operating expenses (after the repayment is taken into account) to exceed the lesser of: (1)0.85%, 1.60%, 0.60% and 0.60% of the class' 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 the Adviser incurred the expense.

3. The Adjusted Expense Ratio excludes certain fees and expenses, such as interest expense and fees paid on Fund borrowings and/or interest and related expenses from inverse floaters.

Investments are not FDIC insured or bank guaranteed and may lose value.

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

Inception date shown for the S&P Municipal Yield Index matches the High Yield Municipal Fund Class I shares, which have the oldest since inception date for the High Yield Municipal Fund.

The First Eagle High Yield Municipal Fund was known as the First Eagle High Income Fund prior to 27-Dec-2023. First Eagle High Income Fund commenced operations in its present form on 30-Dec-2011, and is successor to another mutual fund pursuant to a reorganization on 30-Dec-2011. Information prior to 30-Dec-2011 is for this predecessor fund. Immediately after the reorganization, changes in net asset value of the Class I shares were partially impacted by differences in how the Fund and the predecessor fund price portfolio securities.

Risks

All investments involve the risk of loss of principal.

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

The transition of the First Eagle High Yield Municipal Fund (the "Fund") from the First Eagle High Income Fund was effected on or about December 27, 2023. There continues to be increased operational risks associated with the transition, during which the Fund has acquired new and additional trading and counterparty relationships, new and additional borrowing and leverage arrangements, and new and additional capabilities for the management of derivatives, and may require more. Beyond the inherent risks of transition and associated complexity, because some, but not all of the required or desirable operational capabilities and investment and counterparty arrangements were fully implemented prior to the effective date of the transition, until such time as that occurs, the Fund's flexibility to fully implement its new objective and strategies may continue to be limited during the transition period.

During the transition period, it is expected that the Fund will not be as invested in income-producing securities that are exempt from regular federal income taxes as will be the case once the transition is complete. As a result, a higher percentage of the Fund's dividends are expected to be ordinary dividends rather than "exempt-interest dividends" during the transitional phase.

The Fund may invest in **high yield, fixed income securities** that, at the time of purchase, are non-investment grade. High yield, lower rated securities involve greater price volatility and present greater risks than high rated fixed income securities. High yield securities are rated lower than investment-grade securities because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. High yield securities involve greater risk than higher rated securities and portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. Municipal bonds are subject to **credit risk, interest rate risk, liquidity risk, and call risk**. However, the obligations of some municipal issuers may not be enforceable through the exercise of traditional creditors' rights. The reorganization under federal bankruptcy laws of a municipal bond issuer may result in the bonds being cancelled without payment or repaid only in part, or in delays in collecting principal and interest. 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. Funds that invest in **bonds are subject to interest-rate risk** and can lose principal value when interest rates rise, while they typically increase their principal values when interest rates decline. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner, or that negative perception of the issuer's ability to make such payments may cause the price of that bond to decline.

Definitions

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. **Exchange-traded funds (ETFs)** are listed investment vehicles that seek to provide exposure to a benchmark, index or actively managed strategy. **Gross domestic product (GDP)** measures the total value of all economic output in goods and services for an economy. **Personal consumption expenditures (PCE)** price index measures changes in the prices of goods and services purchased by consumers in the US. Core PCE excludes food and energ prices.

S&P Municipal Yield Index (Gross/Total) measures the performance of high yield and investment grade municipal bonds. A total-return index tracks price changes and reinvestment of distribution income. **S&P Short Duration Municipal Yield Index** measures the performance of high yield and investment grade municipal bonds with maturities of one to 12 years. **S&P Municipal Bond High Yield Index** (Gross/Total) measures the performance of bonds in the S&P Municipal Bond Index that are not rated or whose ratings are below investment grade. A total-return index tracks price changes and reinvestment of distribution income. **Bloomberg US Aggregate Bond Index** (Gross/Total) measures the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market in the US, including Treasuries, government-related and corporate securities, fixed-rate agency MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. A total-return index tracks price changes and reinvestment of distribution income.

Indexes are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

The holdings mentioned herein represent the following total assets of the First Eagle High Yield Municipal Fund as of 30-Jun-2025: Florida Dev Fin Corp Rev Var 01-jul-2057 (340618DZ) Brightline FLA Hldgs LLC) 4.18%; Atlanta Ga Dev Auth Rev 0.0% 15-dec-2048 (04780NMY) Atlanta GA Enterprise Zone Fee Rev 1.67%; New York Transn Dev Corp Spl Fac Rev 5.5% 30-Jun-2054 (650116HM1) JFK NTO LLC 0.81%; Michigan St Hsg Dev Auth Single Family Mtg Rev 5.0% 01-dec-2055 (594654C86) Michigan State Housing Development Authority 0.00%; Arizona Indl Dev Auth Sr Living Rev 5.125% 01-jan-2059 (04052TDC6) Great Lakes Sr Living Cmntys LLC 0.40%; Nevada Dt Dept Business & Ind Rev Var 01-Jan-2065 (641455AB6) Brightline West 2.49%; Florida Dev Fin Corp Rev Var 15-jul-2059 (340618DY0) Brightline Trains FLA LLC 2.73%; California Infrastructure & Economic Dev Bk Rev Var 01-jan-2065 (13034A6B1) Brightline West 1.58%; Florida Dev Fin Corp Rev Var 01-jul-2032 (340618DK0) Brightline Trains FLA LLC 1.25%; Florida Dev Fin Corp Rev 5.5% 01-jul-2053 (340618DT1) Brightline Trains FLA LLC 2.67%.

Additional Disclosures

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