Short Duration High Yield Municipal Fund

Market Overview

Municipal bonds continued to demonstrate resilience in the second quarter amid ongoing interest rate volatility and record-setting new issuance.

After a challenging March, muni indexes quickly got back on track in April to kick off a productive quarter. The S&P Municipal Bond High Yield Index gained 3.3% in the second quarter, outpacing the 2.3% gain of the S&P Municipal Yield Index, which includes bonds across the quality spectrum, as well as the 1.9% gain of the S&P Short Duration Municipal Yield Index. For context, the Bloomberg US Aggregate Bond Index advanced 0.7% during the period.[1]

Muni Technicals Remain Supportive

Despite consecutive years of record new-issue volume in 2024 and 2025, investor appetite for municipal bonds has remained unsated in 2026. While first-half issuance of $299 billion—including a record-setting $163 billion in the second quarter—has the market on track to set another annual high-water mark, this paper continues to be met by strong demand across vehicle types, including municipal bond ETFs, tax-exempt mutual funds and separately managed accounts, as well as direct holdings by individuals.[2]

One notable aspect of first half issuance has been the prevalence of prepaid gas bonds issued to finance the upfront purchase of energy supplies by municipal utilities, which are up more than 130% year over year. While these bonds typically have a 30-year maturity, most newer issues are structured with mandatory tender dates at five to seven years.

The quarter saw a pronounced shift higher in short-term US interest rate expectations even as those for other major economies generally moderated. One reason for this has been the appointment of Kevin Warsh as chair of the Federal Open Market Committee, replacing Jerome Powell. While Warsh's nomination for the role in March initially had some observers questioning his ability to lead the central bank independent of President Trump's rate-cutting influence, sentiment regarding his credibility has since shifted markedly. While it remains to be seen if Warsh's credibility is merely enjoying a honeymoon period to begin his term, his consistently hawkish tone has helped push two-year yields higher. Yields on two-year Treasuries broke above 4%, a level not seen consistently since early 2025. Longer maturities, in contrast, were less responsive; 30-year Treasury yields were largely unchanged during the second quarter, while 10-year yields advanced 14 basis points.[3]

Year-to-date, tax-exempt benchmark yields have declined on the short and long ends of the curve while increasing in the belly. The resulting substantial outperformance caused muni/Treasury ratios to decline across the yield curve.[4] Despite the recent pullback, tax-equivalent yields for munis are near the top quartile of their 10-year range; high yield municipals offer an even more compelling yield.[5]

While we view rate hikes as possible based on Warsh's rhetoric, the deliberate lack of formal Fed guidance under the new regime makes policy trajectory difficult to assess. Further, as credible as Warsh may be, he doesn't have the same degree of policy flexibility that many of his predecessors had given today's fiscal situation. The ability to increase interest rates meaningfully in the face of inflationary pressures is likely constrained by the government's need to continually roll over its very large primary deficit at prevailing higher interest rates.

Strong Fundamentals Persist

Issuer fundamentals continue to be supportive, even as they normalize from the stimulus-fueled conditions of the pandemic years. Though state general fund revenue has fallen off the record pace of fiscal 2021 and 2022, it has continued to grow. Fiscal 2026 collections are anticipated to be on track to exceed original estimates, driven by better-than-expected personal income tax receipts; and modest revenue gains are expected in fiscal 2027, which would reflect the fifth consecutive year of expansion. Recommended budgets for fiscal 2027 suggest flat general fund spending next year, and most states plan to continue bolstering their rainy-day funds—many of which are already at nominal highs—in anticipation of future needs.[6]

Another sign of fiscal strength can be found in improved pension funding. The funded ratio of the country's 100 largest public plans, for example, climbed to 89.1% in its latest reading compared to 81.1% a year prior. While this can be attributed in part to market performance, local governments have increased contributions and tweaked their benefit structures, demonstrating improved funding discipline and better long-term sustainability.[7]

These dynamics generally have been supportive of muni bond ratings; 96% of S&P Global's municipal rating universe has carried a stable or positive outlook.[8]

1. Source: FactSet; data as of June 30, 2026.
2. Source: MSRB; data as of June 30, 2026.
3. Source: Federal Reserve; data as of June 30, 2026.
4. Source: MSRB; data as of June 30, 2026.
5. Source: Bloomberg; data as of June 30, 2026.
6. Source: National Association of State Budget Officers; data as of June 4, 2026.
7. Source: Milliman; data as of July 6, 2026.
8. Source: S&P Global; data as of June 30, 2026.

Portfolio Review

Short Duration High Yield Municipal Fund A Shares (without sales charge*) posted a return of 2.48% in second quarter 2026. The Fund outperformed the S&P Short Duration Municipal Index in the period.

Bonds related to Brightline West—a high-speed rail system connecting Southern California with Las Vegas—were among the biggest contributors to performance in the second quarter after a challenging first quarter. These bonds saw increased trading activity during the quarter, which helped support prices as investors continue to evaluate the company's financing options and strategic developments. There have been positive signs on both fronts of late. In a late-April public appearance, the head of the Federal Railroad Administration said the government was "interested" in Brightline's application for a $6 billion loan through the Railroad Rehabilitation and Improvement Financing program, the proceeds of which it intends to use to retire outstanding debt.[1] Meanwhile, management has announced additional signed construction and infrastructure contracts for the project, signaling continued progress.

Our investments in healthcare bonds have been a consistent source of return in the portfolio. For example, hospital systems in general have reported improved operational metrics as the sector continues to rebound from the dislocations of Covid-19, including moderating labor costs. Meanwhile, renegotiated reimbursement rates from federal and state governments and private insurers now better reflect years of rising costs in the healthcare industry. We are seeing similar positive trends in other healthcare subsectors like nursing homes and lifecare, which have the additional tailwind of the "silver tsunami" of aging Baby Boomers.

Higher education is a space we like despite the negative sentiment broadly associated with it in recent years. Demographic trends have weighed on enrollment while operating costs climb steadily; 89 nonprofit colleges have closed or merged since 2020, and this trend is not likely to reverse itself anytime soon. While on the surface this would seem to represent a challenging investment environment, we believe it creates opportunities for careful underwriters to identify bonds backed by solid collateral at attractive prices. For schools with solid enrollment numbers, we're also seeing opportunities in student housing bonds that fund the construction of dorms.

Detractors to performance during the quarter were largely concentrated in bonds linked to Brightline Florida. The bonds came under pressure during the quarter as the company continued to search for an equity infusion that would enable it to strengthen its capital structure by paying down higher-coupon debt and deferred interest. In the meantime, operational improvements that began in 2025—including the addition of 30 new train cars and a complete schedule revamp to improve network optimization—continued to bear fruit in the first half of 2026, and the company continues to report strong momentum in ridership and revenue.

1. Source: Bloomberg; data as of June 8, 2026.

* 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-2026

	Calendar YTD	1 Year	Since Inception	Gross Expense Ratio[1]	Adjusted Expense Ratio[2]	Fund Inception Date
Class A (FDUAX) w/o load	2.69%	2.65%	4.41%	0.86%	0.79%	Jan 2, 2024
Class A (FDUAX) w/ load	0.16%	0.09%	3.34%	0.86%	0.79%	Jan 2, 2024
Class C (FDYCX)	1.31%	-	1.37%	1.59%	1.52%	Jul 11, 2025
Class I (FDUIX)	2.80%	2.89%	4.68%	0.64%	0.57%	Jan 2, 2024
Class R6 (FDURX)	2.93%	3.04%	4.74%	0.63%	0.56%	Jan 2, 2024
S&P Short Duration Municipal Yield Index	1.68%	4.16%	4.08%	-	-	-

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%. 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. Gross expense ratio is the total annual fund operating expenses before fee waivers.

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-2027 and may not be terminated during its term without the consent of the Board of Trustees. The Short Duration High Yield Municipal 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. 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.

Disclosures

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.

Fee waivers were in effect for some of the periods shown. Had fees not been waived and/or expenses reimbursed, returns would have been lower.

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

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. **A yield curve** is a graphical representation of interest rates on debt of equal credit quality across a range of maturities.

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** (Gross/Total) measures the performance of high yield and investment grade municipal bonds with maturities of one to 12 years. A total-return index tracks price changes and reinvestment of distribution income. **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.

These holdings represent the top five contributors and detractors to performance for the First Eagle Short Duration High Yield Municipal Fund as of 06/30/2026: Director of the St of Nevada Dept of Business & Industry Var-AMT-Sustainable-Brightline (25457VBV7) DesertXpress Enterprises LLC 1.07%; California Infrastructure & Economic Dev Bk Rev Var-AMT-Ref-Sustainable Bond-B (13034A7E4) DesertXpress Enterprises LLC 0.68%; Silicon Vly CA Tobacco Securitization Auth Tobacco Settlement Cap Apprec-Turb0-Santa Clara-a (82706TAA9) 0.06%; Pennsylvania St Econ Dev Fing Auth Solid Waste Disposal Rev AMT-Var-Noble Environmental IN (708692CE6) 1.15%; Oregon St Facs Auth Revenue Ref-Integrated Senior Foundati (68608JB42) 0.40%; Brightline East Llc (093536AA8) Brightline East LLC 0.12%; Florida St Dev Fin Corp Var-AMT-Brightline Passenger R (340618EB9) Brightline Florida Holdings, LLC 1.96%; Florida St Dev Fin Corp AMT-Var-Ref-Brightline Florida (340618DK0) 0.51%; Florida St Dev Fin Corp Var-AMT-Brightline FL Passenge (340618DY0) 0.28%; Tulsa OK Muni Arpt Trust Trustees AMT-Ref-American Airlines, Inc (899661EM0) 0.03%.

Additional Disclosures

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