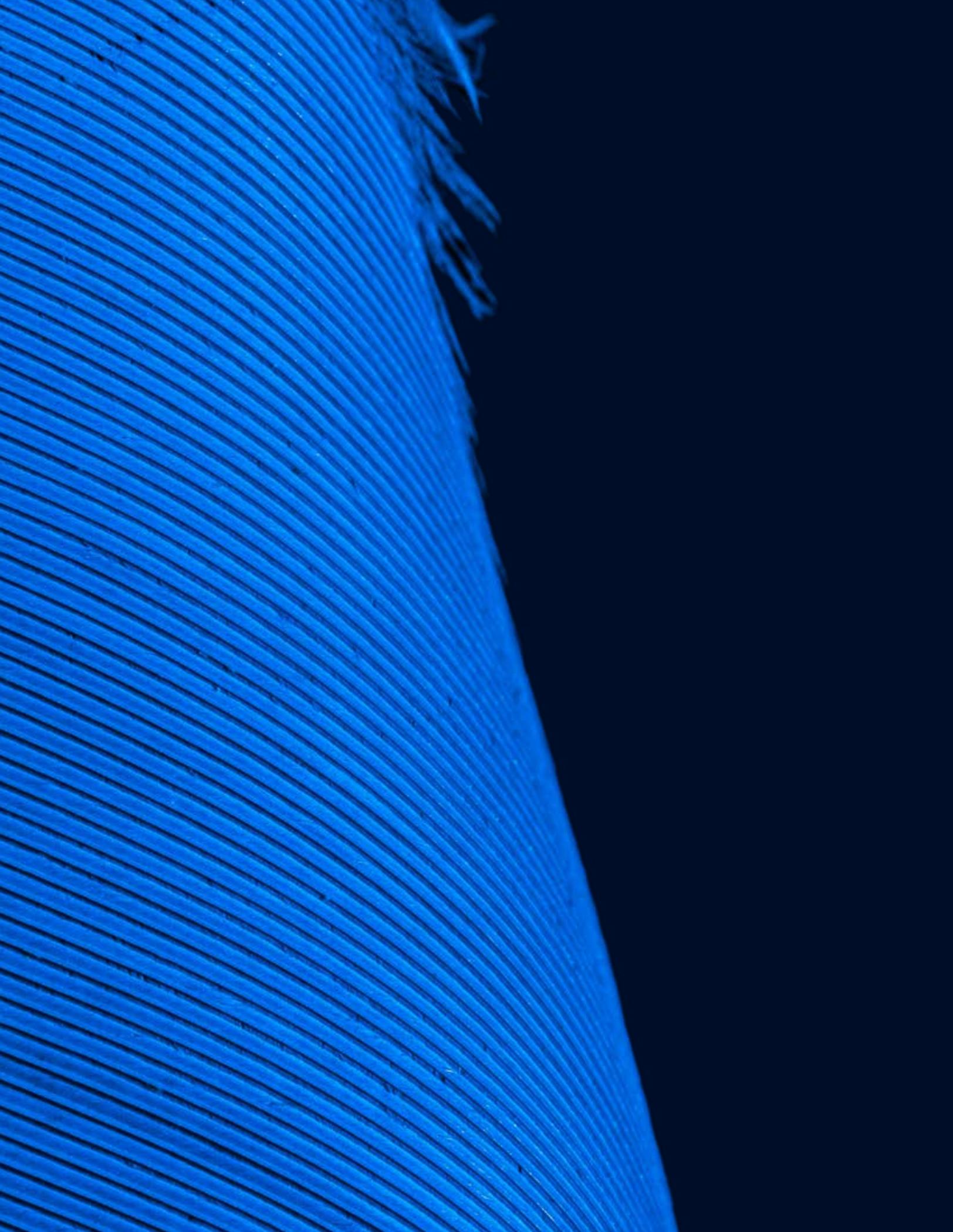

First Eagle Reflections

2023–2024 Edition



Inside

Welcome to First Eagle Reflections	3
Harness Your Hopes Global Value Team	5
Separating the Wheat from the Chaff Small Cap Team	17
Eyes on Private Debt First Eagle Alternative Credit	23
There's No Place Like Home Napier Park Global Capital	29
From Top to Bottom Global Value Team, First Eagle Alternative Credit and Napier Park Global Capital	35
About Us	41

Welcome to First Eagle Reflections

Market sentiment oscillated across 2023 as participants struggled to get a read on the trajectory and duration of the current rate-hike cycle. For every risk rally fueled by hopes that the terminal rate was near, there was a hawkish string of data or central bank rhetoric to recalibrate expectations and bring markets back down to earth.



The acceleration of risk assets into year-end, however, suggests markets have grown increasingly confident in the Federal Reserve's ability to achieve its much-desired soft landing of target-level inflation and uninterrupted economic expansion. But we're not overlooking the fact that, statistically, landing is the most precarious stage of any flight. As such, it's worth considering the pronounced bouts of turbulence that emerged throughout 2023 and the implications they may have going forward.

The first of these was the failure of several mid-sized US regional banks in March, idiosyncratic in nature but sourced from a common root: the massive fiscal stimulus rolled out in response to the disruptions from Covid-19. The increase in money supply not only contributed to the spike in inflation, it also produced a commensurate expansion of bank deposits. With short rates near zero, many banks sought to scratch out additional yield through increased exposure to long-dated Treasuries, risk-free from a credit perspective but subject to the same duration risk as any other fixed-rate asset. Facing tens of billions of dollars in depositor withdrawals, a number of banks were forced to liquidate these Treasury holdings at massive losses following the sharp rise in interest rates.

While government intervention soothed jittery markets, the bank failures underscored the pronounced vulnerabilities inherent in today's financial system. Nowhere is this perhaps more evident than in sovereign debt. High and rising debt levels aren't unique to the US, but the country deserves special mention as the issuer of the global reserve currency. We have for some time voiced concerns about both the level of the country's debt and its likely trajectory; by August, Fitch Ratings appeared to come around to our way of thinking, cutting its long-term credit rating on US sovereign issuance by one notch. Though markets initially shrugged off the downgrade, 10-year Treasuries sold off sharply in late summer and early fall, with yields testing levels around 5% that hadn't been seen since before the global financial crisis.¹

Though this rate spike eventually eased, we're keeping a close eye on the country's fiscal condition and its impact on both Treasury market supply/demand dynamics and the term premia demanded by buyers for what appears to be an increasingly risky proposition. The Congressional Budget Office forecasts persistent federal deficits and mounting debt over the next several decades, suggesting Treasury issuance is likely to expand. And since the Fed is no longer a buyer of new issuance and is letting a large portion of maturing bonds roll off its balance sheet, public markets are responsible for both absorbing new deficit spending and refinancing maturing paper. Despite the risks presented by rising interest expenses and an expanding pile of debt, continued dysfunction in the US political system—as ably demonstrated by the midyear debt-ceiling standoff—suggests repeated party-line stalemates may be far more prevalent than concrete progress toward fiscal consolidation.

1. Source: Bloomberg; data as of December 31, 2023.

As an organization, we've long understood the benefits of focusing only on those things we can control.

Ultimately, the market's ups and downs in 2023 seemed to mirror the shifting global mood. But while financial assets generally finished the year upbeat, strife and uncertainty remain constants. The war between Ukraine and Russia shows no signs of abating, and the horrific attack by Hamas on Israel in early October has sparked a new front of death and destruction in the Middle East. More than half the world's population will have the opportunity to vote in national elections during the coming year, but true enfranchisement

remains rare; a dismaying number of these contests range from authoritarian shams to cynical exhibitions of polarization.² Even the upcoming Summer Olympics, with its potential to unite disparate nations in appreciation of the physical mastery and mental fortitude on display, carry the undercurrent of foreboding that seems omnipresent in today's world.

Though we generally expect conditions in 2024 to be less sanguine than current market valuations seem to imply, we've long understood the benefits of focusing only on those things we can control. By striving for excellence in the execution of our individual responsibilities, no matter the size or scope, we believe we can position First Eagle to deliver on our goal of delivering long-term shareholder value while avoiding the permanent impairment of capital.

Sincerely,



Mehdi Mahmud
President and Chief Executive Officer,
First Eagle Investments
December 2023

2. Source: *The Economist*; data as of December 14, 2023.

Harness Your Hopes

Though the broad success of risk assets in 2023 was a welcomed respite from a dismal 2022, buoyant market conditions entering the new year make us wonder if hope has gotten the better of substance. **Matt McLennan** and **Kimball Brooker**, co-heads of the Global Value team, think current dynamics may imply unwarranted optimism about the potential for benign outcomes to the key risks facing investors.



For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Global equity markets ultimately delivered strong returns in what was a seesaw 2023—the MSCI World Index returned 23.8%, while the S&P 500 Index was a touch stronger at 26.3%—but headline numbers belie what was a nuanced investment environment. The bulk of the year was dominated by the direction of growth stocks, particularly a small cohort of very large US companies exposed to secular trends in technologies like artificial intelligence; the so-called “Magnificent Seven” of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla returned anywhere from 50% to 235% in 2023 and comprised about 19% of the MSCI World Index as of year-end.^{1,2}

Market performance broadened in the final months of the year, however, as the conventional wisdom appeared to coalesce around the perceived inevitability of not only a soft landing by the Federal Reserve but also a series of rate cuts in the year ahead. Government bond yields, biased higher through most of 2023, fell sharply in November and December, while measures of market volatility eased across asset classes.³

Though robust gains across many risk assets in 2023 came as a relief following a bleak 2022, we can't help but wonder if markets are failing to see the forest for the trees. Employing a wider lens, we believe the investment environment is rife with challenges, the escalation of which could shake markets from their apparent complacency and inspire a newfound sense of risk aversion, to the detriment of many financial assets. To this end, we offer a series of reality checks.

Though robust gains across many risk assets in 2023 came as a relief following a bleak 2022, we can't help but wonder if markets are failing to see the forest for the trees.

Reality Check #1: Market Complacency Despite Uncertain Economic Landing

Financial market participants have spent the better part of two years considering a binary set of outcomes to the Fed's tightening cycle and its potential impact on investment assets. The thought was we'd either have a “hard landing” in which the central bank's efforts to tame inflation push the economy into recession, or a “soft landing” in which the pace of economic growth slows enough to bring inflation down to target levels but remains positive. Conditions entering 2024 suggest markets are complacent about the inevitability of the latter even as any sort of landing at all has remained elusive.

The longer the Fed circles the runway without touching down, in our view, the greater the risk of an adverse outcome. Maintaining current policy while waiting for inflation to shed those last few percentage points increases the possibility that the accumulated impact of higher interest rates will bring about a hard landing—likely solving the inflation problem but at the expense of recession and unemployment. If the Fed pivots to rate cuts before inflation fully recedes to its target level, on the other hand, pricing pressures could quickly reignite and require even higher policy rates to extinguish.

We have long been skeptical of the central bank's ability to achieve a soft landing and remain so today. Beyond the scarcity of previous successful attempts, the continued strength of the domestic labor market makes it hard for us to envision a scenario in which wage growth spontaneously returns to a level consistent with target-level inflation—thought to be around 3.5%—absent a meaningful increase in unemployment.

Broadly speaking, wage growth reflects two variables: the rate of change in nonfarm payrolls and their overall level. While the rate of payroll additions has moderated, the economy has continued to add jobs at a steady clip since bottoming in April 2020, and the level of payrolls as a percentage of the total population stands near a

1. Source: FactSet; data as of December 31, 2023.

2. The term “Magnificent Seven” is widely used in the financial media and elsewhere to refer to these seven US technology-related stocks that drove an outsized share of equity market gains in 2023.

3. Source: FactSet; data as of December 31, 2023.

post-financial crisis high.⁴ Not surprisingly, wage growth has been less responsive to Fed tightening than the inflation rate; while core personal consumption expenditures (PCE) declined from 5.6% in March 2022 to 3.2% in its latest reading, wage growth (on a three-month rolling basis) fell from 6.0% to 5.2%.⁵ As shown in Exhibit 1, previous episodes of wage growth at or near current levels were reined in only when exceeded by two-year Treasury yields for a period of time. “Higher for longer”—and the economic slowing and job losses likely to accompany it—may be a necessity if the labor markets don’t soon begin to demonstrate some slack.

Exhibit 1. Interest Rates May Need to Remain Elevated to Pull Down Wage Growth

January 1997 through November 2023



Note: The Atlanta Fed’s Wage Growth Tracker is a three-month moving average of median wage growth based on hourly data.

Source: Bloomberg, Haver Analytics, Federal Reserve Bank of Atlanta; data as of November 30, 2023.

Reality Check #2: Political Risk in an Era of Fiscal Profligacy

Of greater long-term concern than economic cycles is the unsustainable fiscal course the US and many other economies have been on since the global financial crisis. To us, the swell of public debt outstanding in advanced economies combined with a general lack of fiscal discipline have made sovereign paper an increasingly risky proposition, one exacerbated by the regime change in interest rates and shrinking global liquidity.

Unconventional monetary policies through much of this century kept interest rates artificially low and tempered interest expenses even as debt balances continued to rise.

High and rising debt levels are less than ideal for an economy. In theory, high debt drives borrowing and debt-servicing costs higher, weighing on productivity and economic output, crowding out private-sector investment, undermining sovereign creditworthiness and credibility, and potentially limiting policy optionality in the event of future crises. In practice, however, financial repression via unconventional monetary policies through much of this century kept interest rates artificially low and tempered interest expenses even as debt balances continued to rise, blunting any motivation for lawmakers to make the unpopular choices necessary to clean up their fiscal houses. As shown in Exhibit 2, while the debt of the US, UK, euro zone and Japan in aggregate

4. Source: Bureau of Labor Statistics; data as of December 8, 2023.

5. Source: Current Population Survey, Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of Atlanta; data as of December 22, 2023.

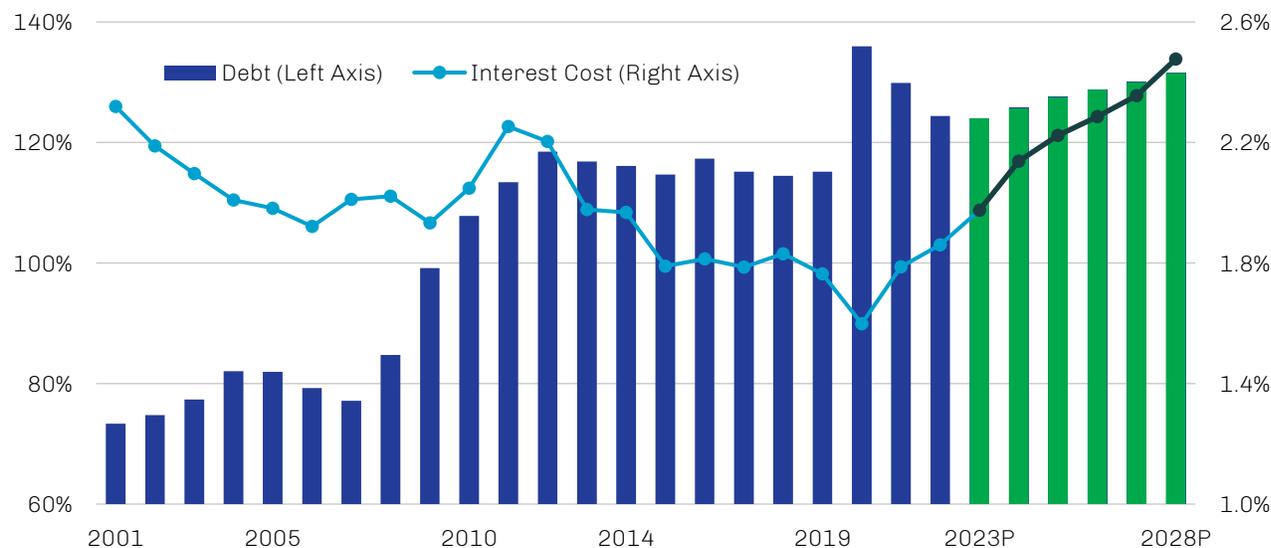
For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

rose from less than 80% of GDP in 2007 to peak above 135% in 2020, the cost of servicing this debt declined steadily from 2011 until 2020. This trend in interest expense has since reversed direction and is forecast to continue rising.

Exhibit 2. Low Rates Kept Interest Costs in Check Even as Debt Levels Rose Sharply

As a Percentage of GDP for the US, UK, Euro Zone and Japan in Aggregate, 2001 through 2028



Note: Data for 2023–28 are projections.

Source: Haver Analytics, International Monetary Fund, First Eagle Investments; data as of July 31, 2023.

While the ongoing rollback of crisis-era monetary accommodations continues to alter the calculus of government borrowing, there are few indications that fiscal policy will be adjusted to reflect the new math anytime soon.

Throughout the world, the “big state” continues to make evident its willingness to spend, from Bidenomics in the US and the state-sponsored energy transition in Europe to Saudi Arabia’s attempts at “sportswashing” and Russia’s imperialistic ambitions in Ukraine. We’d also include in this category military spending, which increased globally by 3.7% in real terms in 2022 to establish a new record high of \$2.24 trillion, due in no small part to the elevated geopolitical tensions we discuss in reality check #3.⁶

Throughout the world, the “big state” continues to make evident its willingness to spend.

Loose government spending and aging demographics are a poor recipe for sustainable fiscal policy, and the US is a particularly acute example of the perils involved. From the end of World War II through the late 1990s, the country maintained a more or less balanced primary budget (i.e., the fiscal balance excluding interest payments), but the trend has been structurally negative since. The deficit’s current magnitude is particularly troubling given the health of the labor market; the last time unemployment was this low, in the late 1990s, the US ran a budget surplus. And it’s expected to get worse from here, as expenditures—driven by growth in mandatory spending on entitlement programs like Social Security and Medicare, as well as higher net interest outlays—are forecast to outpace revenues, resulting in persistent annual deficits and deepening federal debt.

Despite widespread concerns about debt levels and few indications that meaningful fiscal consolidation is on the horizon, the term premium⁷ on US Treasuries trended lower following the global financial crisis and spent much of the past five-plus years in negative territory, as shown in Exhibit 3. The lack of a persistently positive

6. Source: Stockholm International Peace Research Institute; data as of April 24, 2023.

7. “Term premium” is the additional return that investors require to hold a longer-dated bond as opposed to rolling over a series of short-term issues over the same time frame.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

term premium suggests markets may not agree with our assessment of the risks—or, at the very least, they have grown complacent amid the many potential triggers for a re-rating of US Treasuries.

Exhibit 3. Treasury Term Premium Has Been Negative for Most of the Past Five-Plus Years

10-Year US Treasury Term Premium, August 1971 through December 2023



Source: Federal Reserve Bank of New York, Federal Reserve Board; data as of December 31, 2023.

Given the apparent lack of political will to enact the spectrum of measures necessary to improve the fiscal dynamics—including tax hikes, entitlement reform and cuts to discretionary spending, as well as supply-side reforms to promote productivity growth—it's hard to see a roadmap to lasting improvement. Keeping the fiscal settings wide open, on the other hand, increases the near-term risk of re-emerging inflation or stagflation. And while we can't speculate about what may finally cause investors to demand meaningful premia for the uncertain fiscal trajectory of sovereign issuers, we note that changes in sentiment can happen quickly and reverberate broadly across markets.

Reality Check #3: Geopolitical Risk as Globalization Wanes

Macroeconomic risks have been further complicated by the emergence of new geopolitical theaters of uncertainty. Globalization trends of the late twentieth/early twenty-first centuries were expected to advance the widespread adoption of capitalistic liberal democracy models that promoted economic, political and personal liberties, but recent years have been marked by a hardening of governing philosophies often inconsistent with these ideals.

New alliances have set the stage for greater friction in economic relations, and there are many ways in which current localized armed conflicts could escalate into something more far-reaching.

This has included a loose coalition of autocratic countries like China, Russia, North Korea and Iran that, not inconsequentially, control a vast, near-contiguous swath of land rich with natural resources across Eurasia and into the Middle East and northern Africa. In recent years, this group has increased the volume and scope of its military adventurism, both directly and via proxies, and appears to have forged tighter relations as a result of a shared distaste for the liberal democracies scattered across the globe's periphery (North and South America, Western Europe, Oceania and parts of East Asia).

At a minimum, these new alliances set the stage for greater friction in economic relations, and there are many ways in which current localized armed conflicts such as Ukraine/Russia and Israel/Hamas could escalate into something more far-reaching. As we

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

noted at the time of Russia’s invasion of Ukraine, war is among the conditions that moves us out of the comfort zone of quantifiable risk and into the domain of uncertainty. In his fifth century BC book *The History of the Peloponnesian War*, Thucydides noted that “For war of all things proceeds least upon definite rules.”

Meanwhile, China’s reputed intentions in Taiwan remain vexing to diplomats and investors alike, and deteriorating relations with the West have combined with sluggish domestic economic growth, regulatory hurdles and other concerns to drive significant outflows from China’s capital markets.⁸ The MSCI China Index fell more than 9% in 2023 and has delivered an annualized decline in excess of 16% over the past three years.⁹ There is a case to be made for measured participation in select Chinese stocks given current depressed valuations, however, and some sort of geopolitical thaw or macro policy change could help drive a re-rating of the market.

Adding to the general uncertainty, federal elections loom in 2024 for more than 70 countries accounting for more than half the world’s population.¹⁰ If recent history is any guide, volatility is the likely winner here.

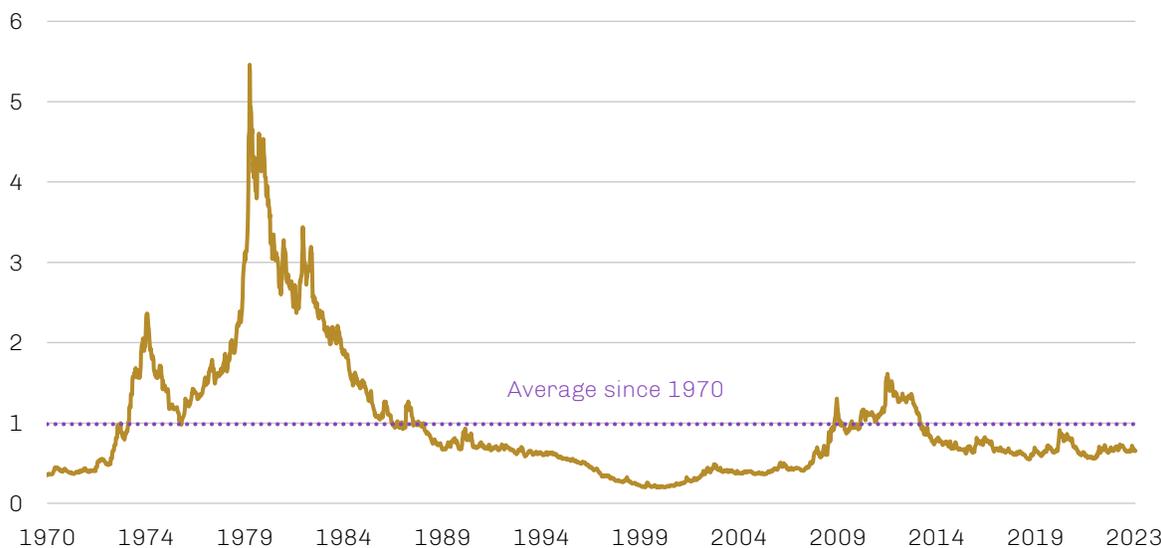
Ballast Amid an Agglomeration of Risks

It’s possible the risks laid out above were among the factors that provided support for the price of gold amid sharply rising real interest rates. Gold’s inverse relationship with real interest rates—i.e., the difference between the nominal interest rate and the expected rate of inflation—historically has been the most important driver of its price movements. Though it sold off considerably at the onset of Fed rate hikes in March 2022, the gold price rallied to a new nominal record high by year-end 2023 even as the real interest rate (based on the yield of 10-year Treasury inflation-protected securities) spiked more than 250 basis points over this period.¹¹ As shown in Exhibit 4, however, gold continues to trade at a historical discount relative to equities.

The price of gold rallied to a new nominal high by late 2023 despite the spike in real interest rates.

Exhibit 4. Despite Rally, Gold Remains Undervalued Relative to Equities

Ratio of Gold Spot Price to MSCI World Index, January 1970 through December 2023



Source: Bloomberg, First Eagle Investments; data as of December 31, 2023.

8. Source: *The Economist*; data as of December 14, 2023.
 9. Source: MSCI; data as of December 31, 2023.
 10. Source: *The Economist*; data as of November 13, 2023.
 11. Source: Federal Reserve Bank of St. Louis, World Gold Council; data as of December 31, 2023.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Oil, despite its cyclical nature, may also serve as a potential hedge against geopolitical strife.

To us, gold's resilience in the face of such a large move in real rates suggests the presence of other influences. The sovereign debt issues we cited earlier, for example, may have prompted increased interest in an asset like gold with a track record as a potential hedge against currency debasement. Increasing geopolitical tensions appear to have bolstered gold demand from central banks; central bank gold purchases in 2022 were the highest on record, and year-to-date 2023 trends imply another robust year.¹²

And the most visible manifestations of these geopolitical tensions—like the protracted war between Ukraine and Russia and the October outbreak of violence between Israel and Hamas—support the appeal of gold for investors seeking perceived “safe havens” in uncertain times.

To this last point, we would note that oil, despite its cyclical nature, may also serve as a potential hedge against geopolitical strife. As we've seen over the past two years, this is especially true when important sources of supply like Russia and the Middle East are involved, and energy security becomes a critical issue for governments worldwide.

Turning to the Classics

For those of you familiar with the Global Value team, it probably comes as little surprise that we looked to our library for inspiration in this challenging landscape. As we often do, we landed upon Ben Graham's *The Intelligent Investor*, first published in 1949. (Interestingly, but hopefully not prophetically, a revised edition of *The Intelligent*

Charlie Munger | 1924–2023

On the subject of Ben Graham, we'd like to take this opportunity to note the recent passing of one of his most successful acolytes: Charlie Munger, vice chairman of investment conglomerate Berkshire Hathaway.

Though Munger freely dispensed his wisdom throughout his many decades as an investor, it was less than a year ago that he shared the piece of advice that perhaps resonates most with us, especially in an environment of seemingly stretched valuations in many growth stocks: “You have got to somehow recognize a good business before it's recognizable as a good business.”¹

Trees don't grow to the sky; a growth company, if successful, inevitably will mature and experience the valuation de-rating and margin compression that are the natural result. Demanding an asymmetry between the price paid for a stock and the estimated value of its future prospects—that is, recognizing a business's potential before it is priced into the market—helps mitigate the impact of business maturation on long-term returns while also serving as a buffer against the possibility expectations may go unmet. Identifying opportunities to buy quality companies at such a “margin of safety” is what the Global Value team tries to do each day.²

1. Source: Daily Journal Corporation Annual Shareholders Meeting (February 15, 2023).

2. First Eagle defines “margin of safety” as the difference between a company's market price and our estimate of its intrinsic value.

12. Source: World Gold Council; data as of January 5, 2024.

Investor was published in 1973, the dawn of a period of high capital costs, economic stagflation and military unrest in the Middle East.)

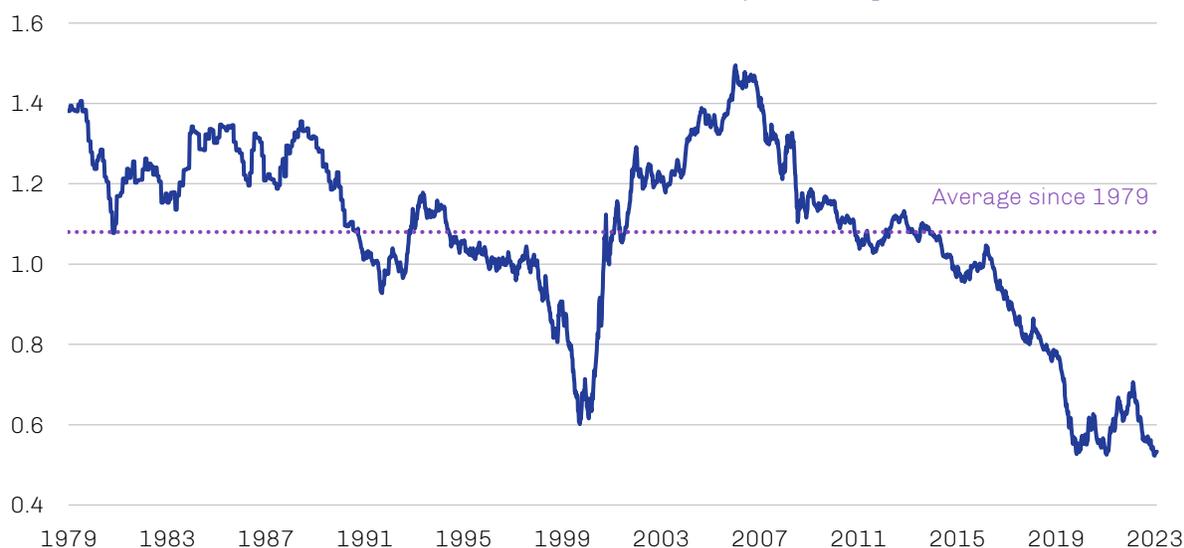
In his book, Graham—upon whose research the entire concept of value investing is rooted—seeks to decouple stock investing from price forecasting, positing that there are two possible ways by which an investor may seek to profit from the wide price fluctuations typical of common stocks: “...the way of timing and the way of pricing. By timing, we mean the endeavor to anticipate the action of the stock market to buy or hold when the future course is deemed to be upwards. By pricing, we mean the endeavor to buy stocks when they’re quoted below their fair value and to sell them when they rise above such value.” While he characterizes efforts at the former to be “absurd,” the “margin of safety” offered by the latter relieves the investor from the burden of providing an accurate estimate of the future.

Both value stocks and non-US stocks are trading at historically cheap valuations.

We agree. We spend the majority of our time trying to identify quality, durable businesses trading at Graham’s “margin of safety,” seeking situations that appear to offer the prospect of both security of principal and adequate returns. While we look for these opportunities from the bottom up, a top-down view can provide useful context. From this perspective, both value stocks and non-US stocks are trading at historically cheap valuations. As shown in Exhibit 5, the Russell 1000 Value Index is about as cheap relative to its growth counterpart as it has been in many decades. Most of the difference in relative valuation is attributable to multiple expansion, as the Russell 1000 Growth Index has outgrown the Value Index by only about 2% per annum on a revenue basis. Similarly, the MSCI EAFE Index is trading at a 50-year-plus low relative to the S&P 500 Index, as depicted in Exhibit 6. While conclusions drawn from index-level metrics can sometimes be misleading, these images highlight the opportunities that may be available in value and non-US stocks, and the potential to benefit from any sort of mean reversion.

Exhibit 5. Growth Stocks Appear Stretched Relative to Value...

Price Ratio of Russell 1000 Value Index to Russell 1000 Growth Index, January 1979 through December 2023



Source: Bloomberg; data as of December 31, 2023.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Exhibit 6. ...As Do US Stocks Relative to Non-US Stocks

Price Ratio of MSCI EAFE Index to S&P 500 Index, January 1979 through December 2023



Source: Bloomberg; data as of December 31, 2023.

The spread between current and historical valuations also may suggest that the old-economy businesses commonly associated with value indexes are pricing in a more sluggish economic reality than what is implied by valuations in the new-economy-biased growth universe. Ironically, it's possible this old-economy discount could serve as a potential shield against adverse developments while also promoting valuation elasticity to more positive economic outcomes.

Prepared for Less Than Perfect

Though financial markets generally appear unconcerned with the challenges we see heading into the new year, we believe it's quite possible that risk aversion will at some point be higher than it is today. Though we wouldn't hazard a guess as to when that may be, owning quality businesses with track records of consistent cash flow generation and wise capital allocation may be the least-bad option in a less-than-perfect world. Note that while we maintain our valuation sensitivity, our big-tent approach to value investing does not automatically preclude us from owning assets in growing segments of the market; indeed, we own a range of companies in areas like tech and healthcare that are exposed to secular tailwinds, but only those trading at what we believe are reasonable multiples of cash flow rather than conceptual multiples of revenues.

While even high-quality companies are unlikely to avoid losses in the event of worst-case scenarios—if the Fed's landing proves far rougher than currently implied by equity markets, or if the fiscal challenges facing developed nations metastasize into a crisis, or if geopolitical tensions conflagrate beyond regional conflicts—they should prove resilient and potentially be well-positioned to outperform once crisis recedes. Meanwhile, durable companies should also comport themselves well through less-extreme outcomes like sluggish growth or stagflation.

Global Value Team Update

First Eagle believes that providing growth opportunities for talented individuals and continually reinforcing the strength of our leadership framework best positions our investment teams to deliver prudent stewardship of client assets over the long term. As such, we are pleased to note that **Max Belmont** was promoted to portfolio manager of First Eagle's Gold strategies, effective October 1, 2023, to provide additional senior-level depth to the team alongside long-time portfolio manager Thomas Kertsos. Max has been closely associated with our Gold strategies for nearly a decade and has been associate portfolio manager on the strategies since 2021.

Seeking Alignment

Because the Global Value team invests with a decade-long investment horizon, our focus is not on the performance of a business over the next few quarters but rather on how it will evolve over the next few years. As **Julien Albertini**, portfolio manager on multiple Global Value team strategies, discusses, we seek companies whose leadership teams have a similar mindset.

The Global Value team believes that well-positioned, well-capitalized, well-managed companies with good governance practices are likely to persist in the face of existing and evolving risks and opportunities.

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 generally 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 opportunistically 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.

While most company attributes can be gleaned from financial reports, personal access to management is an important element to assessing a company's corporate governance practices, though it can be complicated by such factors as size or domicile. Japan is a good example. Embracing a form of capitalism that seeks to serve a broad range of stakeholders beyond equity investors—including Japanese society as a whole—most Japanese companies historically had made little effort to cultivate outside investors. First Eagle has been active in Japan for decades, however, and while it hasn't always been easy, our longstanding determination to build collaborative relationships and seek alignment in Japan and other countries often has provided us access to and an understanding of local companies that other managers may lack.

Separating the Wheat from the Chaff

After a productive start to the year, US small cap stocks withered amid the turmoil that struck the country's regional banks in the spring. A very strong rally by small names in November and December more than offset what had been year-to-date losses, however, and highlighted the volatility present throughout 2023. **Bill Hench**, head of the Small Cap team, is enthused about the opportunities he saw to buy solid businesses at attractive prices and the potentially bountiful harvest that may result down the road.

For professional clients only.

Opinions, views and statements are as of December 31, 2023; constitute our judgment and are subject to change without prior notice.

Tight Money Weighed on Small Caps in 2023 as a Subset of Large Companies Thrived

Following a dismal 2022, US equities staged a strong rebound in 2023 as markets began to anticipate the end of the Federal Reserve's rate-hike cycle and a potential policy pivot. Headline returns belie what proved to be a more nuanced period, however. Though the S&P 500 Index climbed 26.3% in 2023, a large portion of this gain was driven by a small group of very large stocks whose exposures to alternative intelligence technologies captured investor attention; by year-end, the "Magnificent Seven" of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla comprised 28% of the index.^{1,2} In contrast, the S&P 500 Equal Weight Index, which allocates identical weightings to each company in the S&P 500, returned a relatively meager 13.8% in 2023, lagging the 16.9% gain posted by the Russell 2000 Index.³

Small caps historically have done well in rising-rate environments, but their early-2023 performance—after a very strong start—was derailed by the turmoil that struck regional banks in March. Not only did the collapse of Silicon Valley Bank, First Republic Bank and Signature Bank send shares of small cap banks broadly lower in fear of systemwide contagion, it reinforced the already tighter lending standards of the banks many small companies depend on for financing. Meanwhile, the tight-money environment also dampened mergers and acquisition (M&A) activity by private equity sponsors, historically a source of support for small cap valuations. Despite these headwinds, the Russell 2000 ultimately delivered robust gains for the year, staging a spirited rebound in November and December as market sentiment appeared to coalesce around a "soft landing" scenario for the economy.⁴

Despite a number of headwinds, small cap stocks ultimately delivered a strong return in 2023.

Stabilizing Interest Rates May Finally Refocus Investor Attention on Fundamentals

Last year's volatility provided opportunities to acquire fundamentally solid companies at valuations we believe were distorted by cyclical forces. There are reasons to think that these actions may be rewarded in 2024, especially if slowing economic activity and cooling inflation prompt the Fed to cut its policy rate, as bond futures markets expect.⁵ Easier monetary conditions may bolster investor risk appetites, provide small companies with greater operational and financial flexibility, and jumpstart M&A activity among private equity sponsors eager to deploy their massive stores of dry powder.

Though by no means foolproof, troughs in the Conference Board's Leading Economic Index (LEI)—a composite index of economic and market variables that in aggregate purports to anticipate potential turning points in the business cycle—historically have augured well for the performance of small cap stocks relative to large caps, as illustrated in Exhibit 1. Recent LEI data suggest the metric may be bottoming after 19 months of decline, at least partly due to the variety of inflation-friendly data that has emerged of late.⁶ The latest Job Openings and Labor Turnover Survey reported that job openings contracted to the lowest level since early 2021 and that resignations also are trending lower, which combined with higher continuing claims for unemployment benefits support our own anecdotal observations that labor markets finally may be cooling.⁷ At 2.6% and 3.2%, respectively, year-over-year increases in the headline and core personal consumption expenditures (PCE) price indexes eased to early-2011 levels in November.⁸

1. Source: FactSet; data as of December 31, 2023.

2. The term "Magnificent Seven" is widely used in the financial media and elsewhere to refer to these seven US technology-related stocks that drove an outsized share of equity market gains in 2023.

3. Source: FactSet; data as of December 31, 2023.

4. Source: FactSet; data as of December 31, 2023.

5. Source: Bloomberg; data as of December 12, 2023.

6. Source: The Conference Board; data as of November 20, 2023.

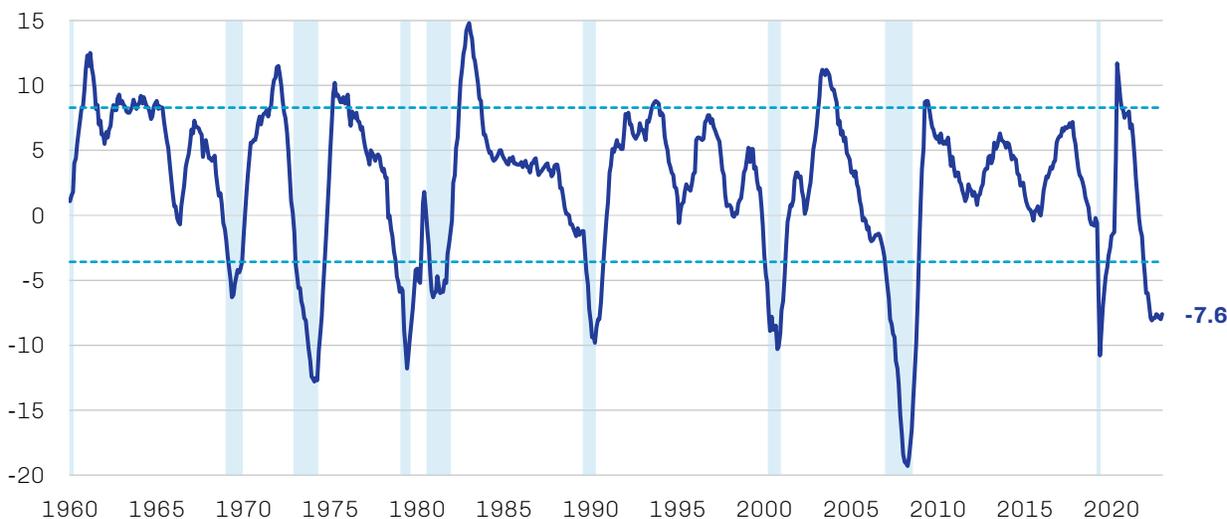
7. Source: Bloomberg; data as of December 5, 2023.

8. Source: Reuters, Bureau of Economic Analysis; data as of December 22, 2023.

On the other hand, the November consumer price index (CPI) readings were less impressive,⁹ while nonfarm payrolls grew and the unemployment rate declined during the same month.¹⁰ These disparate data points kept “higher for longer” rates firmly in play—and served as a good reminder of why we focus on the factors we can control rather than trying to make timing calls.

Exhibit 1. Troughs in the Leading Economic Index Historically Have Presaged Small Cap Outperformance

US Leading Economic Index, January 1960 through November 2023



Excess Total Return of Russell 2000 vs. S&P 500, Next 12 Months after Trough Beginning:

May 31, 1980	November 30, 1981	March 31, 1991	September 30, 2001	March 31, 2009	April 30, 2020
33.4%	5.1%	10.0%	11.2%	13.0%	29.0%

Source: The Conference Board, FactSet, Bloomberg; data as of November 30, 2023.

Past performance does not guarantee future results.

Seeking Prospects for Revaluation

In the final analysis, investors can control only which stocks they buy and how much they pay for them. We believe those who devote their efforts to identifying and investing in good businesses at attractive valuations may see the most success over the long run, and current small cap valuations continue to suggest an environment ripe for finding such companies despite strong gains in 2023.

Current small cap valuations continue to suggest an environment ripe for finding good businesses trading at attractive prices.

As illustrated in Exhibit 2, the Russell 2000 appears very cheap on a trailing price-to-earnings basis, relative both to its historical average (a 17% discount) and to the S&P 500 (a 39% discount).¹¹ Notably, the last time small cap valuations hit similar lows was in March 2009 amid the global financial crisis; the Russell 2000 nearly doubled in the 12 months that followed.¹² Further, it’s worth remembering that a discount for small cap stocks is a relatively recent phenomenon. For most of the period between 2003 and 2017, small caps traded at a premium to large caps, and small cap stocks—small cap value stocks, in particular—have outperformed

9. Source: US Bureau of Labor Statistics; data as of December 12, 2023.

10. Source: US Bureau of Labor Statistics; data as of December 8, 2023.

11. Source: FactSet; data as of December 31, 2023.

12. Source: FactSet; data as of December 31, 2023.

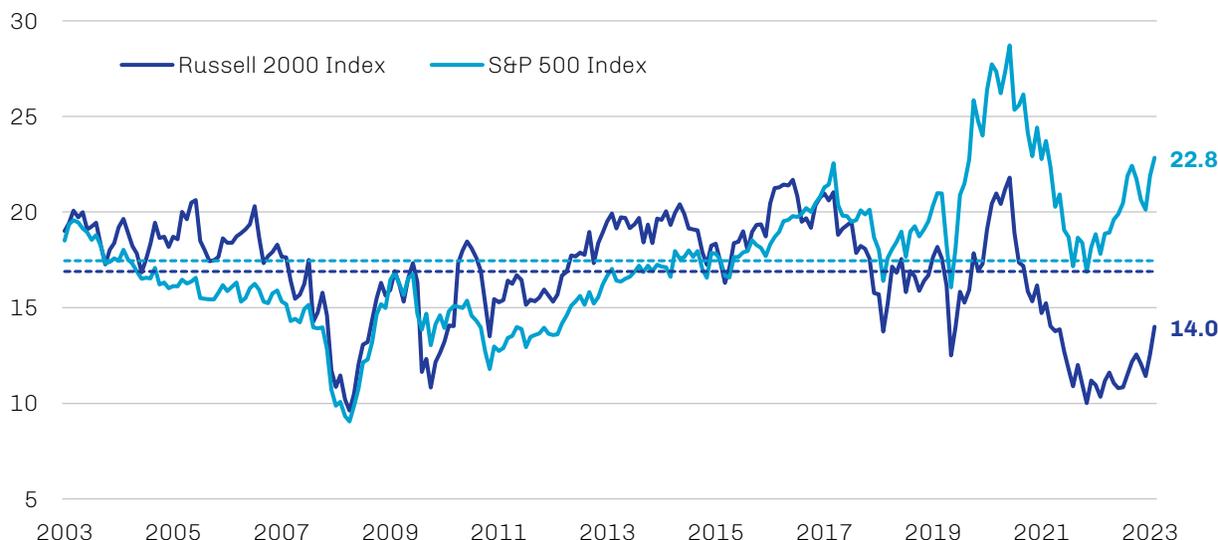
For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

their large cap value and growth counterparts over full investment cycles.¹³ Mean reversion historically has had a powerful influence over financial markets and may serve as an additional tailwind for small stocks.

Exhibit 2. Small Caps Appear Cheap Compared to Large Caps and to Their Own History

Trailing Price-to-Earnings Multiples, January 2003 through December 2023



Source: FactSet; data as of December 31, 2023.

As compelling as small cap valuations may be at the index level, buying the index is not likely a path to optimal returns, in our view. As Warren Buffet, quoting Benjamin Graham, observed, a “wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses.”¹⁴ Small caps represent one such wildly fluctuating market, and its pronounced volatility and inefficiency historically have created opportunities for skilled active managers to generate alpha—more so than any other equity asset class, as shown in Exhibit 3.

Exhibit 3. Small Cap Markets Have Historically Offered Alpha-Generating Opportunities

Active Manager Success Rate versus Index, periods ended December 31, 2023

	One Year	Three Year	Five Year	Ten Year	
US Large Blend	23	27	19	7	Managers That Beat the Index
US Large Value	50	66	58	46	
US Large Growth	30	12	7	5	
US Small Blend	46	90	73	58	
US Small Value	61	86	77	53	
US Small Growth	37	62	75	71	

Source: Morningstar; data as of December 31, 2023.

13. Source: FactSet and Kenneth R. French data library; data as of August 31, 2023.

14. Warren Buffet, *Chairman’s Letter to the Shareholders of Berkshire Hathaway Inc.* (March 4, 1994).

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Given the percentage of companies in the Russell 2000 that are unprofitable, we think sorting the wheat from the chaff is a worthwhile endeavor.

Amid what we believed to be an abundance of attractive investment opportunities in 2023, we remained focused on targeting really good companies while controlling the one variable that we can—the price we pay. Given that 42% of the companies in the Russell 2000 were unprofitable as of September 30, 2023—versus only 7% of the S&P 500—we think sorting the wheat from the chaff is a worthwhile endeavor in the broad and diverse small cap universe.¹⁵ Regardless of the central bank's actions in 2024, it seems likely companies that are cheap for a reason will continue to face a challenging operating environment, while many of those with solid businesses and catalysts for improvement may progress toward valuations more consistent with historical levels.

15. Source: FactSet, data as of September 30, 2023.

Eyes on Private Debt

Conditions in the private credit market for much of 2023 were similar to 2022, with broad macroeconomic uncertainty and interest rate volatility weighing on the mergers and acquisition (M&A) activity that fuels direct lending volumes. As First Eagle Alternative Credit's **Michelle Handy** and **Garrett Stephen**—deputy chief investment officer of direct lending and co-head of origination and structuring, respectively—discuss, however, green shoots may be emerging for middle market direct lending as private equity firms look to put their massive stores of dry powder to work.

For professional clients only.

Opinions, views and statements are as of November 30, 2023, constitute our judgment and are subject to change without prior notice.

Uncertainty Weighed on M&A Activity and Direct Lending Pipeline

After a challenging 2022, uncertainty was among the primary concerns facing the US private credit ecosystem—including nonbank lenders like First Eagle Alternative Credit as well as corporate borrowers and the private equity funds that sponsor them—heading into 2023. With inflation at a multidecade high and showing no indications of easing on its own, the Federal Reserve in March 2022 embarked on an interest rate-hike campaign that to date has increased the policy rate by 525 basis points and has done so at the most rapid pace ever. Significant rate volatility ensued as markets sought to divine the duration and trajectory of Fed tightening and the odds that the central bank would be able to tame inflation without tipping the economy into recession (the much-desired “soft landing”). Biased higher even before the Fed’s policy pivot, the ICE BofAML MOVE Index—which measures US interest rate volatility—accelerated its climb in 2022 and ultimately peaked in March 2023 with the bankruptcies of several US regional banks. Though it has subsequently eased, rate volatility remains elevated relative to historical levels.

Not surprisingly, these conditions have not been very supportive of the M&A activity that serves as a major feeder to the direct lending pipeline. Private equity dealmaking, by both count and value, has declined in six of the past seven quarters and is down sharply from its 2021 peak, as shown in Exhibit 1. “Platform” buyouts—in which a private equity firm acquires a business that it intends to expand over time through the purchase of multiple smaller businesses (a.k.a. a “buy and build” strategy)—were particularly weak in the more conservative dealmaking environment, as they are typically relatively large in size and entail a fair amount of leverage. With interest rates discouraging prospective buyers from offering the type of price multiples that were common on these deals a few years ago, many private equity firms instead have opted to hold their portfolio names in hopes that conditions become more hospitable rather than exit at valuations they consider subpar.

Exhibit 1. Weak Private Equity Dealmaking Continued to Weigh on Direct Lending Volumes

US Private Equity Middle-Market Deal Activity, 2014 through September 2023



* Year-to-date through September 30, 2023; deal count is PitchBook estimate.

Source: PitchBook; data as of September 30, 2023.

In contrast, “add-ons”—the smaller acquisitions that are assimilated into a sponsor’s platform company—continued to provide private equity sponsors a way to deploy capital, albeit in smaller chunks, as they wait for markets to be more amenable to larger deals. Sponsors have continued to demonstrate a willingness to invest in their platform businesses, especially those platforms with decent capital structures and credit lines locked in at more attractive pre-2022 terms. While there are some incremental costs to the platform borrower as lenders extract small concessions, add-ons typically are a far more efficient financing mechanism than a recapitalization. Industrywide, add-ons accounted for about 76% of all private equity-sponsored buyouts in both 2022 and through the first three quarters of 2023.¹

“Add-ons” continued to provide private equity sponsors a way to deploy capital as they wait for markets to be more amenable to larger deals.

Though Other Forms of Financing Slowed, Asset-Based Lending Was Strong

First Eagle Alternative Credit focuses its direct lending activities on the US sponsored core middle market, which we define as companies with annual EBITDA of around \$10–75 million. Despite the headwinds described earlier, the core middle market has been resilient even amid challenging conditions for issuance, and the past decade has seen remarkable growth in the space. Rising private company valuations have prompted private equity sponsors to look toward the smaller end of the middle market for more cost-effective platform opportunities; in our view, the lower middle market currently has a more balanced supply/demand dynamic, which has provided managers greater opportunities for diversification on behalf of clients.

While there were fewer opportunities overall to underwrite new loans in 2023, we expect our volume ultimately to outpace that of the broader market during the year based on deals booked and committed through year-end. Meanwhile, the limited new issuance allowed us to focus our attention on our existing borrowers, and add-ons—as they did for the market as a whole—represented the majority of our capital deployment during the year. We don’t view this as a negative. A well-underwritten portfolio can still generate strong returns for investors even if volume is down, as we saw in the years immediately after the global financial crisis, for example. Moreover, private lending is a relationship-driven business at the end of the day, and the ability to provide flexible financing solutions for our sponsors without compromising our stringent underwriting standards is among the ways we add value to these relationships. It’s been our experience that strong relationships with sponsors can help support consistent deal flow over time, even when markets in general appear unstable.

As a complement to cash flow-based loan underwriting, our robust asset-based lending (ABL) capability provides diversification to our platform and to our investors. Secured by specific assets of the borrower—such as inventory, accounts receivable, real estate, machinery and equipment, and intellectual property—ABL facilities generally appeal to companies with high working-capital needs and substantial assets but also inconsistent cash flows that limit access to other types of financing; examples include retailers that maintain large inventories or industrials renting high-capex equipment.

Demand for ABL historically has been countercyclical. Though the need for these facilities is always present to some extent, borrower interest tends to increase when other financing options grow scarce—a dynamic that was evident during the year, particularly in the aftermath of the regional bank challenges.

1. Source: PitchBook; data as of September 30, 2023.

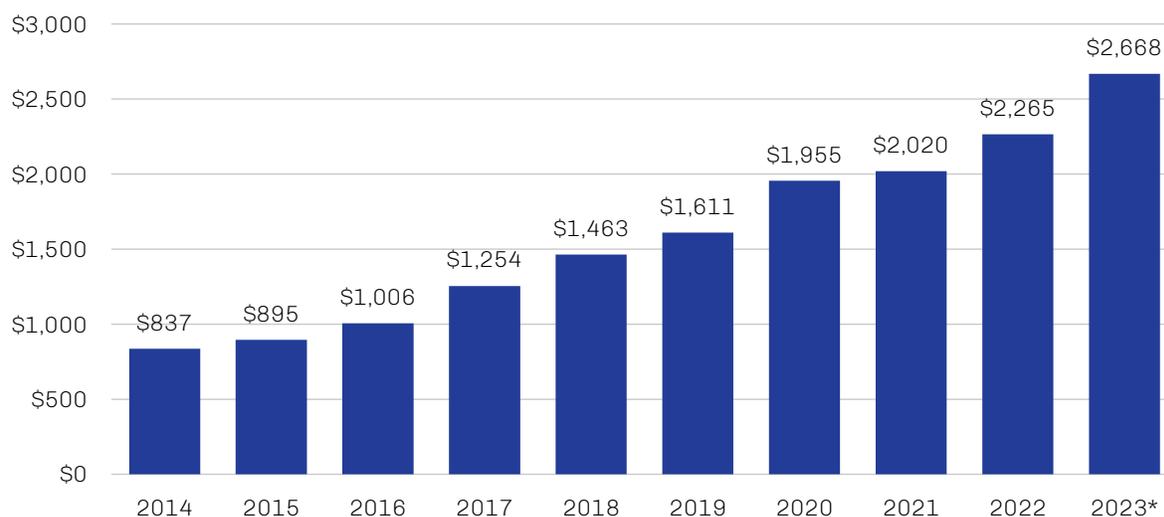
We Believe Ample Capital Remains to be Deployed

Though dealmaking has been challenged for much of the past 18 months, there are signs the leveraged-buyout space may be thawing. We wouldn't necessarily describe the mood of private equity sponsors as upbeat, but we've seen new-issue activity pick up as sponsors appear less anxious about worst-case outcomes for the economy and more confident that policy rates have stabilized. The potential release of pent-up M&A energy bodes well for new-loan volumes ahead, especially given the amount of private equity dry powder waiting for a target, as shown in Exhibit 2 below; putting more than \$2.5 trillion of dry powder to work on acquisitions at a conservative loan-to-value ratio of 50% would require \$1.25 trillion of private credit capital. Meanwhile, add-on volume seems likely to persist as lenders and sponsors continue to manage their existing portfolios, and refinancings may even come back into play if rates ease, as futures markets currently forecast.

The potential release of pent-up M&A energy bodes well for new-loan volumes, especially given the amount of private equity dry powder waiting for a target.

Exhibit 2. Massive Amount of Private Equity Dry Powder May Support Direct Lending Pipeline

US Dollars in Billions, 2014 through October 2023



* Year-to-date through October 30, 2023

Source: Preqin; data as of December 11, 2023.

In certain verticals, we have already seen sponsors begin to lay the groundwork for deals they hope to close in early 2024. This includes segments within healthcare, where sponsors have been waiting for portfolio company operations to normalize from Covid-19; the pandemic disrupted many high-margin activities within healthcare and unleashed significant wage-cost pressures on what is a very labor-intensive industry, weighing on margins. A stabilization in debt markets and easing labor costs may provide attractive exit opportunities for sponsors of certain healthcare companies. Technology is another people-heavy sector in which sponsors may be eager to strike a deal and return some capital to their limited partners.

Be True

Direct lending as an industry has a track record of opportunism. Nonbank lenders emerged in earnest following the global financial crisis because traditional banks were limited in their ability to provide liquidity, and these lenders continue to scour the credit market for capital needs that are not being met by the traditional participants.

Recently, a number of larger private lenders have attempted to put their ample capital stores to work by moving into deal sizes usually associated with broadly syndicated loans, stealing share by offering speed and certainty of funding during periods when more complicated financing structures are bogged down in disruptions, as was the case with the onset of Covid-19 in 2020 or the regional bank crisis earlier this year. In effect, these transactions refinance public debt as private debt, with the attendant decrease in liquidity for investors but little or no change in the credit profile of the borrower. Moreover, the overwhelmingly covenant-lite nature of the leveraged loan market suggests that competing private structures may need to make compromises on contractual provisions to compete for these deals consistently. It will be interesting to see what impact the competition between public and private structures may have on the risk/return profiles of such debt, especially if traditional private credit deal flow remains challenged.

Whether or not deal activity improves in 2024, it's likely there will still be opportunities to potentially generate good risk-adjusted returns in the core middle market when the right borrower, sponsor and lender intersect. While we believe the core middle market offers inherent advantages for nonbank providers of capital, including diversification potential, it ultimately comes down to the quality of underwriting. For us, that has meant targeting borrowers with stable historical earnings, strong cash flows and private equity sponsorship, and mitigating risk through a first-lien position in the borrower's capital structure complemented by at least one financial covenant and/or liquidity test.

It's likely there will be potential opportunities for good risk-adjusted returns in the core middle market when the right borrower, sponsor and lender intersect.

There's No Place Like Home

Residential home prices have proved resilient in the face of rising mortgage rates, a stark contrast to the challenges faced by the commercial real estate segment. Napier Park's Chief Investment Officer **Jon Dorfman** and Head of Real Estate Strategy **Rajesh Agarwal** believe current supply/demand dynamics in the US residential real estate market are likely to remain favorable, supporting durable investment opportunities in real estate specialty lending.



For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

US Housing Market Has Cooled but Remains Significantly Undersupplied...

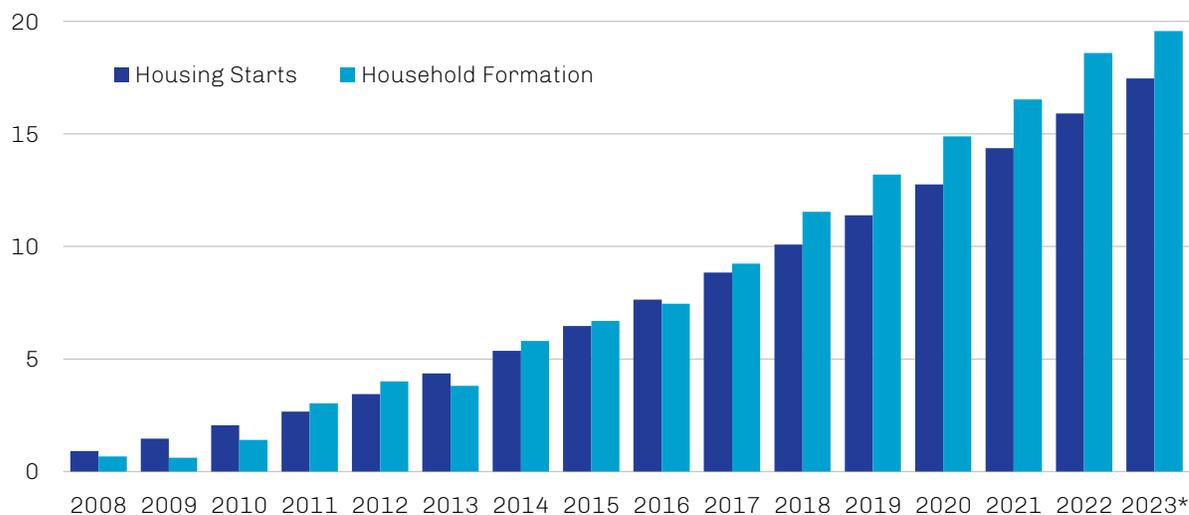
The US hasn't built enough homes in recent decades, leading to a significant gap between housing supply and demand, estimates of which vary from 1.6 million to 5.5 million units.¹ The lack of affordable homes highlights the need for increased supply in both the new- and existing-home markets. We believe the motivation to close the supply/demand gap represents a strong and durable tailwind for residential new construction and the renovation of existing homes as well as demand for the capital needed to fund these projects.

The current housing shortfall can be traced back to the global financial crisis, as the pullback in consumer credit at the time prompted a sharp decline in housing starts from which the industry has yet to recover.² Household formation (that is, growth in the number of families), meanwhile, has continued nearly unabated, and the resulting gap between housing supply and demand has widened further, as shown in Exhibit 1. The impact of new-housing underbuilding has been exacerbated by the limited supply of existing homes for sale, partially due to the "lock-in effect" that serves as a disincentive for homeowners to sell. To illustrate, 81% of outstanding mortgages carry an interest rate below 5%, 61% are below 4%, and 23% are below 3%;³ the 2023 high for the Freddie Mac 30-year fixed was 7.79%.⁴ And with a median age of owner-occupied homes at 40 years, the homes that do come to market likely will need remodeling to maximize their value.⁵

The current housing shortfall can be traced back to the global financial crisis.

Exhibit 1. The US Housing Gap Has Worsened in Recent Years

Cumulative in Millions, 2008 through November 2023



* Year to date through November 30, 2023.

Source: Federal Reserve Bank of St. Louis; data as of November 30, 2023.

While housing supply has grown increasingly strained over the past 15 years, regulatory changes in the wake of the global financial crisis have hampered banks' ability to finance certain types of real estate activities, including acquisition, development and construction lending. As shown in Exhibit 2, for example, construction loans as a percentage of bank total assets today are less than half of what they were in 2007. Effectively, the banks have been replaced by a highly fragmented set of lenders across the country lacking institutional capital, which has presented an opening for asset managers to become liquidity providers in the space at attractive terms.

1. Source: Congressional Research Service; data as of July 10, 2023.

2. Source: US Census Bureau; data as of October 31, 2023.

3. Source: John Burns Research and Consulting; data as of August 2023.

4. Source: Freddie Mac; data as of October 26, 2023.

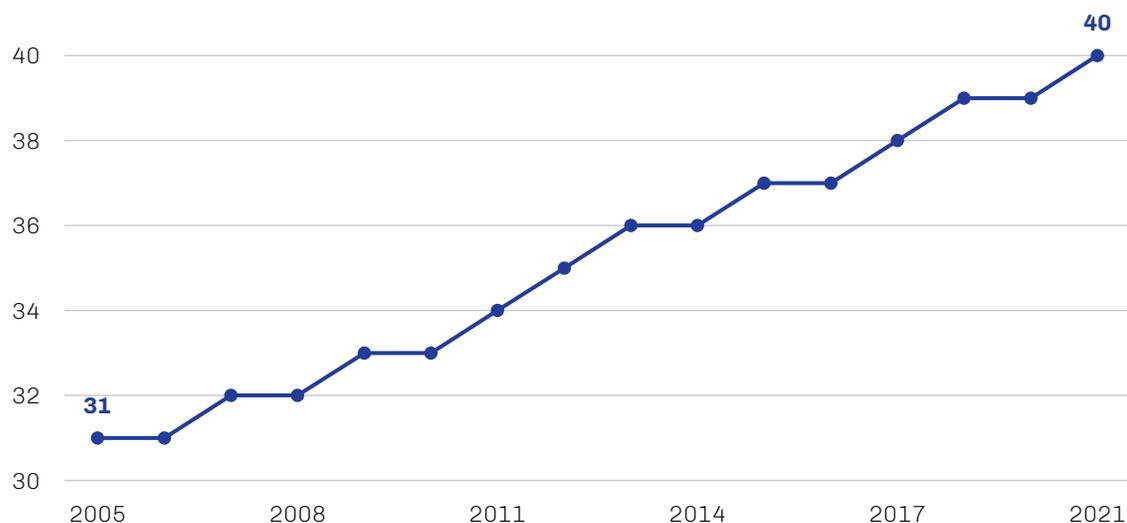
5. Source: US Census Bureau; data as of October 31, 2023.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Exhibit 2. Traditional Banks Have Pulled Back from Certain Types of Real Estate Lending

Construction Loans as a Percentage of Total Bank Assets, 2007 through March 2023



* Year to date through March 31, 2023.

Source: Federal Deposit Insurance Corporation; data as of March 31, 2023.

Despite the adverse impacts of inflation and tighter financial conditions, US consumers remain in good financial shape, suggesting near-term demand for housing should remain strong. At the end of the second quarter of 2023, the total value of the US single family housing market increased to an all-time high of \$44.5 trillion, 84% above the 2006 peak.⁶ A large portion of this growth came from the increase of homeowners' equity, which rose 123% over this period, while outstanding mortgage debt only increased 29% to \$12.9 trillion.⁶ Given the dramatic increase in equity relative to mortgage debt, the rate of aggregate residential mortgage debt to value has declined to 29% today from more than 50% in second quarter 2013.⁶ Households with low-rate mortgages secured before the recent hikes, in particular, have benefitted from this deleveraging and maintain strong debt-service ratios even as other forms of credit have grown more expensive.

The massive increase in homeowners' equity since 2006 has helped support consumer balance sheets in the face of inflation and tighter financial conditions.

...Creating Durable Opportunities for Providers of Capital to the Real Estate Industry

The increase in benchmark rates since the Federal Reserve began its rate-hike cycle in early 2022 has pushed yields across public credit investments in general to levels not seen in decades, while yields on more complex private credit assets also rose, albeit at a slower pace. In light of our constructive view on US residential real estate, the yields available in market segments like residential transitional loans and land banking appear particularly compelling to us. In addition to offering complexity and illiquidity premia of 200–300 basis points over traditional market options like leveraged loans and high yield bonds, the short durations and robust cash flows typical of these assets enable frequent reinvestment of proceeds.⁷

6. Source: Urban Institute; data as of November 30, 2023.

7. Source: Citi Research, Napier Park; data as of December 4, 2023.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

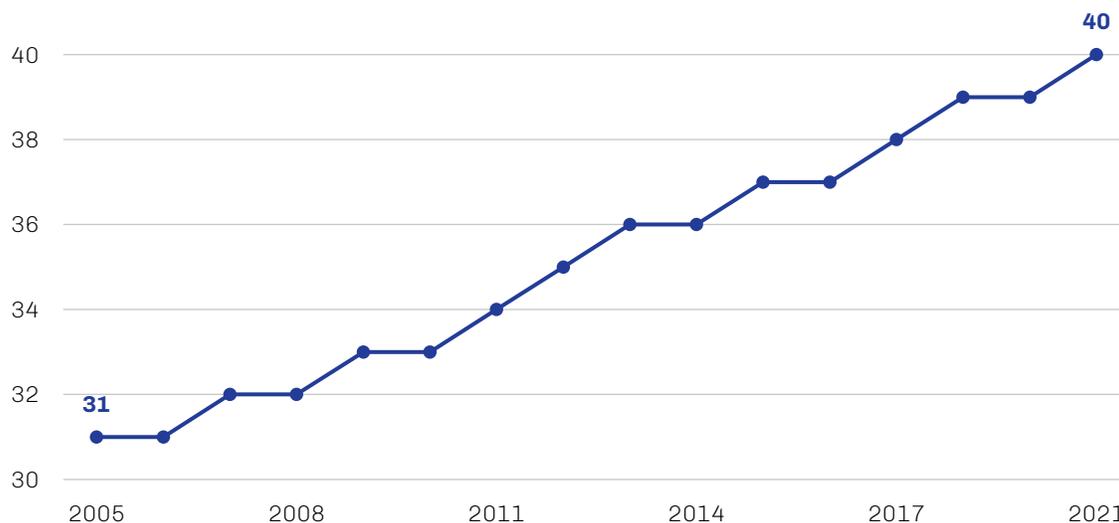
Residential transitional loans. To many buyers, a refurbished home in an established neighborhood can be more desirable than a new home in a new area, as it allows them to tap into proven infrastructure like schools, parks and retail, potentially at a better price. This demand combined with the aged US housing stock shown in Exhibit 3 have fueled a surge in “fix and flip” activity in which real estate developers buy single-family residences with the intent of renovating and reselling at a profit within a short period of time. There is a similar dynamic evident in the multi-family space, as real estate investors seek to upgrade existing rental properties to standards that can command higher rents.

The demand for refurbished homes and the aging US housing stock have fueled a surge in “fix and flip” activity as well as the need for capital to fund it.

Of course, all of this requires capital. As commercial banks have pulled back from providing this type of financing, a fragmented group of specialty lenders has stepped in to fund these short-duration value-add renovation loans. The majority of these lenders lack the capital to underwrite and hold these loans at meaningful scale, however, and asset managers have been able to provide necessary liquidity to the real estate industry by purchasing individual loans to construct diversified portfolios with attractive risk-adjusted return potential.

Exhibit 3. Aging US Housing Supply May Drive Demand for Renovation Capital

Estimates of Median Age in Years of US Owner-Occupied Housing, 2005 through 2021



Source: US Census Bureau, American Housing Survey; data as of December 31, 2021.

Land banking. Another byproduct of post-crisis US housing market dynamics is a shortage of permitted, build-ready lots for single-family construction, as the ownership of such lots can substantially tie up capital on a homebuilder’s balance sheet. The top homebuilders are increasingly moving toward a “land light” business model, and off-balance-sheet financing solutions like land banking have become a staple of their land inventory-management strategies.

In an example land-banking deal, a lender may acquire an entitled, permitted and improved property while simultaneously entering into an agreement with a homebuilder giving it the option to acquire lots over time in exchange for a nonrefundable fee. The two parties commonly enter into a construction agreement whereby the builder is paid by the land banker to develop the land, and a “takedown schedule” governs the pace at which the homebuilder must acquire individual lots on that property. Homebuilders typically are willing to pay a significant spread over benchmark interest rates for the optionality and off-balance-sheet treatment a land-banking arrangement affords. Given their financial strength and long operating histories, large public homebuilders have

the capacity to furnish significant upfront deposits and completion guarantees that smaller private homebuilders are unable to offer.

Public securities. The opportunity we see in US real estate debt is not limited to private deals, however; real-estate-linked publicly traded structured credit, for example, may also provide attractive potential yields and serve as a complement to private deals. In fact, investors able to opportunistically manage their exposures to both public and private real estate debt markets may be well-positioned to capture not only the benefits of each but also the relative-value discrepancies that periodically emerge between them.

Real-estate-linked publicly traded structured credit may also provide attractive potential yields and serve as a complement to private deals.

Agency mortgage-backed securities (MBS)—issued and guaranteed by US government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac—are one of the largest and most active of the structured credit asset classes.⁸ The largest holders of high-quality MBS risk, GSEs have the implicit backing of the US government; as a result, agency MBS present very limited credit risk to investors and pay relatively low yield spreads as compensation for interest rate risk. GSEs mitigate their own credit risk exposure through the issuance of non-guaranteed credit-risk transfer (CRT) securities referencing pools of mortgages they

own; as CRTs bear both credit risk and interest rate risk, they offer wider spreads than agency MBS. CRTs are issued in tranches of different seniorities and risk/return profiles, enabling investors to tailor their exposure across junior, more credit-intensive segments of these securitizations. Similar high-yielding opportunities also can potentially be found outside the agencies, such as through instruments linked to mortgage insurance and non-qualifying mortgages.

Since GSEs issue these securities primarily to mitigate risk, they tend to do so programmatically rather than strategically based on market conditions. This sometimes gives rise to pricing inefficiencies that can be exploited, especially as programmatic buyers like the Fed have pulled back from the market. Moreover, the reduced capital flows that accompany periodic market dislocations—such as the outbreak of Covid-19 in 2020 or the regional bank crisis in early 2023—can drive spreads significantly wider even if the underlying fundamentals of the mortgages backing the securities are little changed.

Getting the House in Order

While the US housing market today presents both challenges and opportunities, we believe its technical and fundamental dynamics reflect a persistent structural trend that will be supportive of mortgage credit in the near term. The fragmented specialty-lending segments discussed above tend to have high barriers to entry, however, highlighting the importance of sourcing, underwriting and structuring experience for those looking to leverage the ample opportunities we believe exist in residential real estate credit.

Experience sourcing, underwriting and structuring is essential for those looking to leverage opportunities in real estate specialty lending.

8. Source: Securities Industry and Financial Markets Association; data as of December 7, 2023.

From Top to Bottom

Undeterred by a range of seemingly unfavorable top-down trends, corporations proved quite resilient in 2023 and many public and private asset classes performed accordingly. **Kimball Brooker**, co-head of the Global Value team; **Jon Dorfman**, chief investment officer of Napier Park Global Capital; and **Jim Fellows**, chief investment officer of First Eagle Alternative Credit, consider this cross-asset conundrum from the bottom up and discuss what current conditions may augur for 2024 and beyond.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

Q:

Despite a range of what would seem to be pretty obvious headwinds—including above-target inflation, high interest rates and geopolitical discord—the performance of public and private financial markets was generally positive during 2023. What do you make of this?

Kimball:

I think some of the support we saw in equity markets during 2023 can be attributed to credit market dynamics in recent years. With interest rates at generational lows during the Covid period, many companies extended their debt maturities to lock in these very attractive financing costs for longer, particularly in the US. When the Federal Reserve began hiking its target rate in 2022, the interest income companies could generate on their cash balances followed suit. The end result was a rather unusual phenomenon in which companies in general saw their net interest expenses decline, sometimes significantly, even as prevailing interest rates spiked.¹

Jon:

Companies went into this rate-hike cycle with unusually high interest coverage and unusually low net leverage, which meant they were sitting on a lot of cash. This condition, evident among both investment grade and non-investment grade issuers, helped keep the default rate in check despite the sharply higher cost of capital.² Of course, at some point companies will need to refinance their debt, and I expect those with weaker credit profiles will have some trouble getting attractive terms. Given accommodative maturity walls, however, this likely will play out over the next few years rather than the next few months.

Jim:

I think the relatively forgiving bond maturity schedule Jon references suggests the true pain of higher rates will be first evident in floating-rate paper. We already have felt some initial tremors in the broadly syndicated loan market, even though the default rate remains well below its long-term trend.³ It's hard to say when the impact of higher rates will reverberate in earnest. Many leveraged-loan borrowers hedge their exposure to interest rate risk through derivative structures like swaps, caps and collars, but few are transparent about their hedging strategy and true exposure. As a result, it's difficult to ascertain the market's risk profile as a whole.

Potential recovery rates in the event of default are another important consideration as rates pressure operating performance and constrain liquidity. Though loans historically have had significantly higher recovery rates than high yield bonds due to their seniority in the capital structure, I would not be surprised to see this advantage narrow somewhat during this cycle.⁴ Steadily deteriorating underwriting standards have resulted in a preponderance of covenant-lite structures that offer less protection to lenders, while capital structures biased toward senior debt have compressed the debt cushion that in the past helped insulate first-lien investors from losses. All in, it seems likely that recovery rates in the next default cycle are likely to be substantially lower than historical averages, perhaps by as much as 10–20%. In such an environment, experience through past default cycles and in loan workouts will prove critical.

Though the pain thus far has been mostly contained, floating-rate issuers seem likely to be the first to feel the true impact of higher rates.

1. Source: Federal Reserve; data as of June 30, 2023.

2. Source: S&P Global; data as of November 16, 2023.

3. Source: PitchBook; data as of October 31, 2023.

4. Source: S&P Global; data as of December 16, 2022.

Q:

Has the new macroeconomic regime impacted your approach to evaluating companies in your investment universe?

Kimball:

While macro trends can be informative, it's the Global Value team's view that a stock's performance over the long run ultimately is driven by the character of the company and the quality of the people running it. Time and again we've seen high-quality organizations thrive in challenging macro environments. This includes businesses in Japan, which has been plagued by deflation and poor demographics for decades, and in Latin America, where economies have faced multiple periods of high inflation and high real interest rates. This is not to say that domicile is meaningless, of course, but we believe a good company—that is, one well-positioned within its competitive environment, with a strong balance sheet and quality management—generally can execute in a variety of operating environments.

While macro trends can be informative, it's the Global Value team's view that a stock's performance ultimately is driven by the character of the company and the quality of the people running it.

Jon:

Speaking as a credit investor, the best I can do is get repaid at par at maturity. As a result, my team and I tend to focus our underwriting efforts on an investment's downside, regardless of current macro conditions. We model a credit's potential reaction to recession, whether or not one appears likely, and do the same for its interest rate sensitivity. Today, our analysis is particularly concerned with two factors we view as closely related: the resilience of a borrower's free cash flow and the sustainability of its business model. If there's no good reason for a company to exist, its cash flows would seem to be particularly vulnerable in a more difficult operating environment.

Jim:

We're also keeping a sharp eye on the covenants governing our loans. Covenant breaches aren't good for anyone involved, and it's important to get ahead of operational challenges before they become acute. We seek to work constructively with borrowers and their private equity sponsors at the first sign of trouble. We try to arrive at a mutually beneficial plan to address any serious issues and promote conditions that enable the borrower to succeed without compromising our interests or those of our investors. Among our considerations are the levers a company may be able to pull to generate incremental liquidity should its free cash flow come under pressure, including tapping its private equity sponsor for a capital injection.

Q:

With rising interest rates squeezing borrowers and tepid back-to-office trends calling demand into question, US commercial real estate (CRE) debt has come under scrutiny. Do you think stress in the CRE space has the potential to bleed into the broader economy and markets?

Jon:

I'll lead with the punchline: US commercial real estate debt, in my view, is not a systemic risk to the economy or the financial markets.

There are two main reasons for this. First, the magnitude of CRE debt is far less than many appreciate. US CRE debt in aggregate—which includes not only loans backed by office buildings but also multifamily, retail, industrial, hotel and a range of other income-producing properties—comprises less than 10% of bank loans outstanding, and office accounts for only about 16% of total CRE debt.⁵ Offices in those markets perceived to be particularly vulnerable to delinquency and default represent an even smaller subset. Second, CRE loans typically are written at low loan-to-value ratios, which should provide lenders with additional cushion and support recovery rates.

Kimball:

Because of the diversity Jon noted, it seems likely that any fallout from the challenges currently facing CRE will impact banks idiosyncratically. Smaller regional banks generally have greater exposure to CRE relative to total assets compared to large systemically important bank-holding companies.⁶ While some smaller banks may face difficulties because of their CRE portfolio's sector or regional concentration or because they provided loose borrowing terms on high-quality properties that are now being re-rated, significant contagion to the financial markets or real economy seems unlikely. At the end of the day, loans written on properties backed by stable cash flows are likely to continue to perform, regardless of property type or location.

5. Source: Mortgage Bankers Association; data as of September 29, 2023.

6. Source: Federal Reserve Bank of St. Louis; data as of November 17, 2023.

Q:**What are you thinking about as we head into 2024 and are another year removed from the era of cheap money?****Kimball:**

Taking a page from the Austrian school of economics, I think it's important for markets and the real economy that capital has a cost. It promotes the efficient allocation of resources and discourages malinvestment and the market distortions than often result. I'm surprised the unwind of a decade-plus of free money hasn't had broader and larger negative impacts to date, but I don't think we're safe from the unintended consequences of this period quite yet. The massive amount of Treasury debt outstanding and increasingly high cost of servicing it is one example of a reckoning that may be looming on the horizon.

Jim:

With capital again having a cost, it seems likely that at some point companies and entire sectors that had depended on cheap money will struggle relative to businesses less reliant on borrowing. Higher prevailing interest rates in an environment that rewards selectivity could result in an attractive vintage year for private credit portfolios with disciplined underwriting standards.

Jon:

The diversity of potential economic outcomes that may result from the Fed's ongoing efforts to "land" the economy presents an interesting challenge. Continued inflation pressures could prompt more aggressive Fed policy and weigh on risk assets, but a soft landing may drive market gains that leave behind the overly risk averse. This kind of uncertainty can stand in the way of investing with conviction, but I think it can also create some really attractive opportunities for active market participants willing to do so, across asset classes.

The diversity of potential macro outcomes can stand in the way of investing with conviction, but it also can create attractive opportunities for those willing to do so.

About Us

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.

\$134B

in assets under management†

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

1864

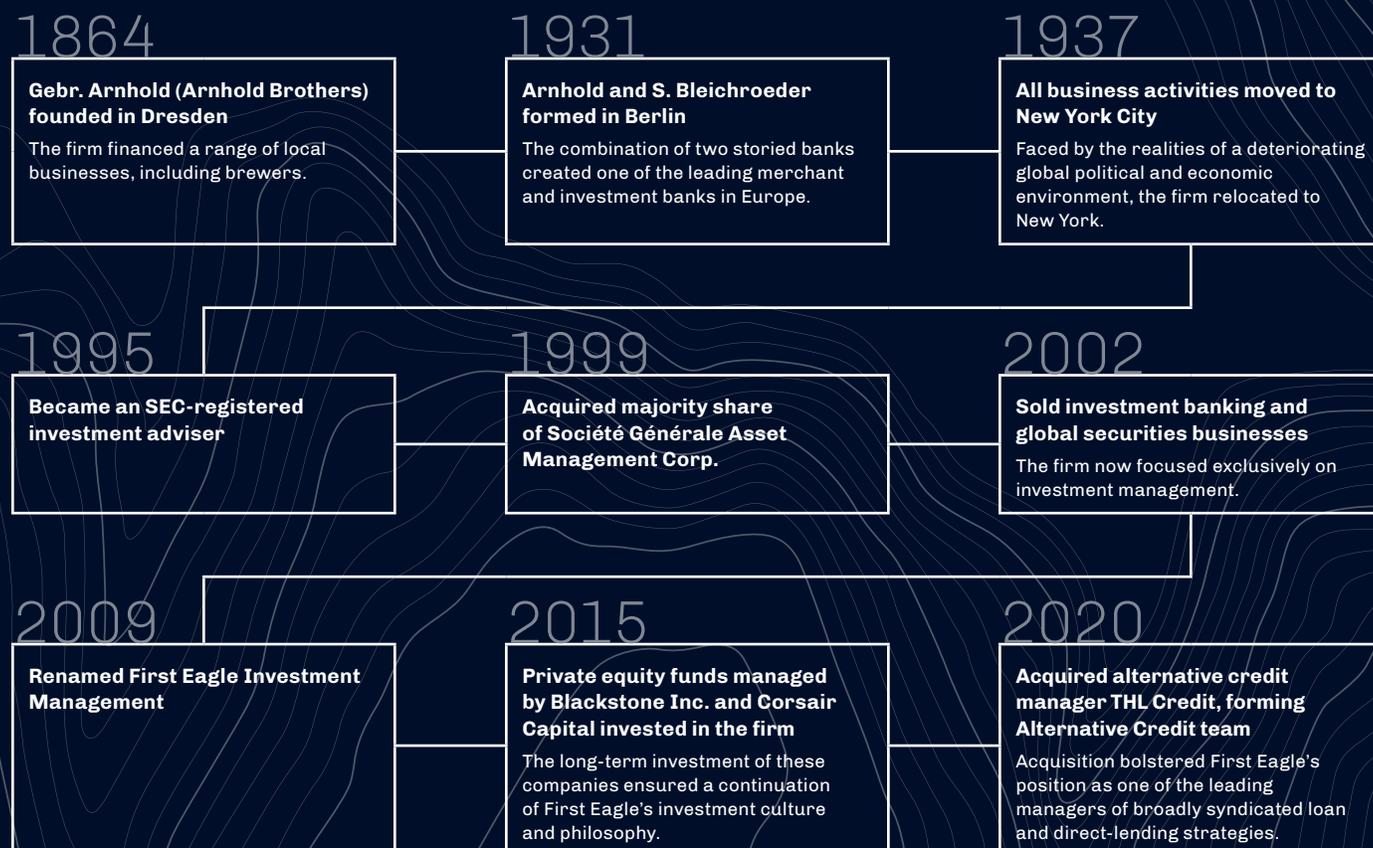
612

employees, including 147
investment professionals

12

offices globally, with
headquarters in New York

Seeking to Preserve Wealth since 1864



Source: First Eagle Investments; data as of December 31, 2023.

† The total AUM represents the combined AUM of First Eagle Investment Management, LLC and its subsidiary investment advisers as of December 31, 2023. It includes \$1.6 billion of committed and other non-fee-paying capital from First Eagle Alternative Credit, LLC and \$1.5 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.
For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

While 2023 saw financial markets rebound from the depths of 2022, the investment management industry continues to operate amid a shifting and complex landscape.

As new challenges emerge and old ones persist, First Eagle’s commitment to putting clients first remained steadfast, and we spent the past 12 months balancing growth with resilience as we continued to evolve our business alongside the needs of our clients. This included the establishment of a new investment capability to leverage the opportunities we see in the US municipal credit market. Under the leadership of veteran investor John Miller, our High Yield Municipal Credit team represents a differentiated solution and a strong complement to the offerings of our Global Value, Small Cap, First Eagle Alternative Credit and Napier Park teams. The first vehicle managed by this team, intended primarily for retail investors and institutions in the US, became available in late December 2023.

Of course, we remain committed to delivering value-added solutions to clients across geographies and channels, and were pleased to add several new senior distribution professionals to the team during the year. Katie Cowan, head of Insurance Client Solutions; Frank Riccio, head of sales and strategic relationships for US Wealth Solutions; and Allison Shaw, global head of Consultant Relations, joined the firm in 2023 to help drive our efforts to provide tailored solutions and excellent service to clients globally.

Recognizing that many of the challenges our clients face are interwoven with the challenges of our communities, our industry and the world at large, we broadened our Corporate Social Responsibility efforts in 2023. For example, we joined the United Airlines’ Eco-Skies Alliance program, which seeks to lower greenhouse gas emissions from aviation. Meanwhile, the First Eagle Foundation continued to support a range of nonprofit partnerships, and we were humbled to be honored for these efforts by Working in Support of Education (WISE), a nonprofit organization whose mission is to improve economic mobility through programs that develop financial literacy and readiness for college and careers. Alongside ongoing educational grants and our employee matching-gift programs, the Foundation also expanded the scope of our annual “Season of Giving.” Across the entire fourth quarter, employees in our New York, Boston and Chicago offices granted holiday wishes to underprivileged children, prepared care packages for vulnerable populations and hosted holiday events for low-income children, teens, families and seniors.

First Eagle strives to foster conditions that enable our colleagues to do their life’s best work on behalf of our clients. We believe success in this pursuit entails nurturing a high-performance culture that attracts, develops and retains a talented, inclusive workforce, and we were gratified to be named among the “Best Places to Work in Money Management” by Pensions & Investments.¹ Our headcount grew to 615 at the end of 2023, up from 582 at the end of 2022, and we continued to emphasize diversification of thought and experience in our recruitment. Mindful of our commitment to continuous improvement, we launched a mentorship program in 2023, with the goal of cultivating meaningful relationships across the firm and fostering inclusion and engagement.

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.

2023

Established High Yield Municipal Credit team

Unique risk/return profile of the asset class expanded our range of differentiated investment solutions and complemented our existing capabilities.

1. Any published third-party rankings, awards or similar groupings have inherent limitations and qualifications, and are not indicative of the experience of any client or investor or of the future performance of any product described herein. **Unless otherwise specified, all awards shown are based on the one-year period immediately preceding the date listed.** First Eagle pays a licensing fee for the right to disclose this information.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

In our annual tradition, we asked our colleagues a few questions about their lives outside the office, including what they do to challenge themselves, how they unwind after a day of work and the events they're looking forward to most at the 2024 Summer Olympics. Selected responses follow.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

» Did you do anything in 2023 to make yourself mentally and/or physically uncomfortable?

“ I tried a lot of things for the first time in 2023, and pushing myself physically has translated to increased resilience and overall excitement for life.”

Anubhi Ghuwalewala
Napier Park

Suzanne Franks
Small Cap

“ Reconstructing a beyond-dilapidated 1940s farmhouse, including the acrophobia-inducing roof.”

“ My young children specialize in inflicting mental and physical discomfort on their parents.”

Benjamin Bahr
Global Value

Elle Sisco
Napier Park

“ Hiking in the Rockies during an unexpected snowstorm.”

“ Cold plunge!”

Garrett Stephen, Brook Seifu and Jamie Daul
First Eagle Alternative Credit

Melanie Hanlon
Napier Park

“ I trained for and ran a marathon.”

“ I competed in a 2.5 mile stand-up paddleboard race in Chicago—in December.”

Jake Szymczak
First Eagle Alternative Credit

Melody Zhang
Global Value

“ Snorkeling and skiing for the first time.”

“ Not on purpose.”

Bill Hench
Small Cap

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

» How do you unwind from work?

“Coaching a lot of youth sports (field hockey and basketball) and playing with my new dog.”

Rob Kosowsky
Small Cap

Jim Fellows
First Eagle Alternative Credit

“Walking—before work to prepare for the day ahead and after work with my dog to reflect.”

“A daily meditation or mindfulness practice and regular physical exercise; when things are busy, even a “micro” session can help to rejuvenate me.”

Aaron Kirsch
First Eagle Alternative Credit

Joseph Dargan
Global Value

“Coaching travel ice hockey.”

“Watching football and playing with my one-year-old daughter.”

Marty Loew
First Eagle Alternative Credit

Murad Sardar
Napier Park

“Family time, reading.”

“Summer: hiking 4000-footers in New Hampshire’s White Mountains; winter, backcountry skiing in Vermont’s Northeast Kingdom.”

Jake Szymczak
First Eagle Alternative Credit

Larry O
Napier Park

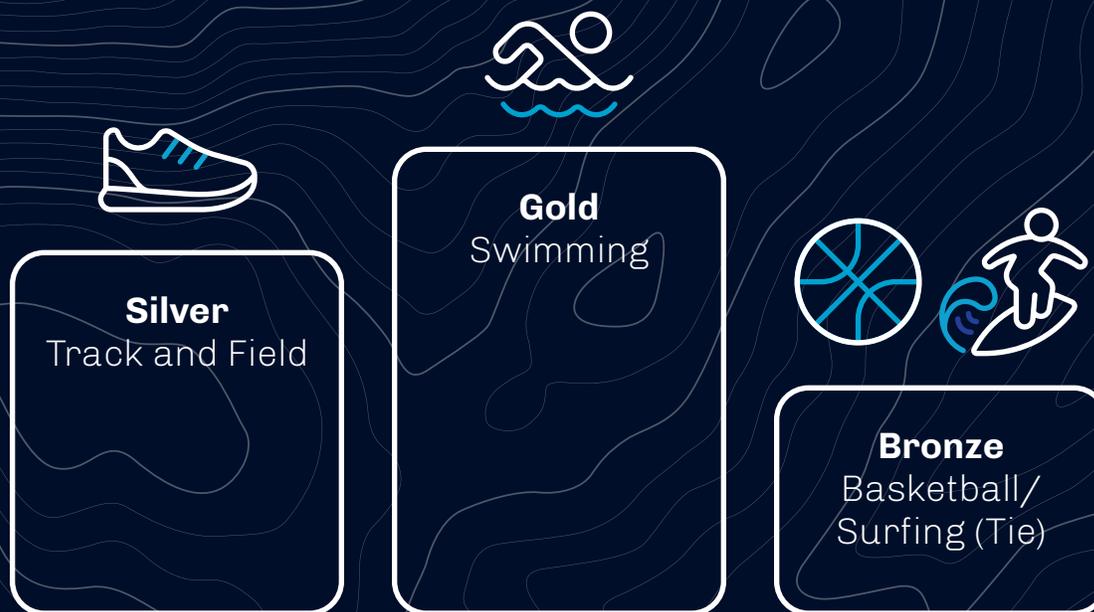
“Working out, getting outdoors, spending time with family and friends... and too much Netflix.”

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.



With the opening ceremonies of the 2024 Summer Olympics in Paris about six months away, our colleagues have made their sporting preferences known.



Other Finalists

Beach Volleyball, Boxing, Cycling, Golf, Gymnastics, Rugby, Sailing, Soccer, Tennis

The opinions expressed are not necessarily those of the 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 views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation to buy, hold or sell or the solicitation or an offer to buy or sell any fund or security.

Past performance is not indicative of future results.

Risk Disclosures

All investments involve the risk of loss of principal.

There are risks associated with investing in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates.

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.

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 US 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.

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 have traditionally 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.

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

Alternative Investment Risks

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 or 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.

Asset-based lending (ABL) is corporate borrowing supported by specific assets of the borrower.

The Conference Board Leading Economic Index (LEI) is a composite index of economic and market variables that aims to identify potential turning points in the business cycle.

Credit-risk transfers (CRTs) are transactions that transfer the credit risk of all or a tranche of a portfolio of financial assets.

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

Fitch Ratings is a nationally recognized statistical rating organization (NRSRO) registered with the SEC that provides credit rating as an assessment of credit worthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other bonds. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. Not Rated (NR) indicates that the debtor was not rated and should not be interpreted as indicating low quality.

Government-sponsored enterprises (GSEs) were established and chartered by the US federal government for public policy purposes. They are private companies, and their securities are not backed by the full faith and credit of the federal government.

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

Personal consumption expenditures (PCE) price index is a measure of consumer spending on goods and services among households in the US.

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

ICE BofA MOVE Index is a measure of US interest rate volatility. It is a yield curve-weighted index of the normalized implied volatility on one-month Treasury options.

MSCI China Index (Net) measures the performance of large and midcap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

MSCI EAFE Index (Net) measures the performance of large and midcap securities across 21 developed markets countries around the world, excluding the US and Canada. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

MSCI World Index (Net) measures the performance of large and midcap securities across 23 developed markets countries around the world. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

Russell 1000® Growth Index (Gross/Total) 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-value ratios, higher I/B/E/S forecast medium-term growth (two years) and higher sales per share historical growth (five years). A total-return index tracks price changes and reinvestment of distribution income.

Russell 1000® Value Index (Gross/Total) measures the performance of 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 growth (two years) and lower sales per share historical growth (five years). A total-return index tracks price changes and reinvestment of distribution income.

Russell 2000® Index (Gross/Total) 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. A total-return index tracks price changes and reinvestment of distribution income.

S&P 500 Index (Gross/Total) is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the US economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 80% coverage of US equities, it is also considered a proxy for the total market. The S&P 500 Index includes dividends reinvested. A total-return index tracks price changes and reinvestment of distribution income.

Large Blend Morningstar Category: Large blend portfolios are fairly representative of the overall US stock market in size, growth rates and price. Stocks in the top 70% of the capitalization of the US equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of US industries and, owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

Large Growth Morningstar Category: Large growth portfolios invest primarily in big US companies that are projected to grow faster than other large cap stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Large Value Morningstar Category: Large value portfolios invest primarily in big US companies that are less expensive or growing more slowly than other large cap stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value and cash flow).

Small Blend Morningstar Category: Small blend portfolios favor US firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks, while others employ a discipline that leads to holdings with valuations and growth rates close to the small cap averages. Stocks in the bottom 10% of the capitalization of the US equity market are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Small Growth Morningstar Category: Small growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early-growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the US equity market are defined as small cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value and cash flow) and high valuations (high price ratios and low dividend yields).

Small Value Morningstar Category: Small value portfolios invest in small US companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the US equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value and cash flow).

Important Information

This material is provided to Professional Clients, including financial intermediaries, and is not intended for and should not be provided to the public.

This is a marketing communication. Please refer to the prospectus / information document and to the KID/KIID before making any final investment decisions

This document contains information about investment services provided by Amundi group companies or undertakings for collective investment in transferable securities or open-ended umbrella Irish collective asset- management vehicles (the "Funds") established under the laws of Luxembourg and authorised for public distribution by the Commission de Surveillance du Secteur Financier or the laws of Ireland and authorized for public distribution by the Central Bank of Ireland. The management company of:

- Amundi Funds, Amundi Fund Solutions, First Eagle Amundi and Amundi Index Solutions is Amundi Luxembourg S.A., 5, allée Scheffer, L-2520 Luxembourg;
- CPR Invest is CPR Asset Management, 91-93 Boulevard Pasteur, 75015 Paris, France;
- KBI Funds ICAV and Amundi Fund Solutions ICAV is Amundi Ireland Limited, 1 George's Quay Plaza, George's Quay, Dublin 2, Ireland.

This material is for information purposes only, is not a recommendation, financial analysis or advice, and does not constitute a solicitation, invitation or offer to purchase or sell any the Funds or services described herein in any jurisdiction where such offer, solicitation or invitation would be unlawful.

This material has not been submitted for regulatory approval and is solely for issue in permitted jurisdictions and to persons who may receive it without breaching applicable legal or regulatory requirements. The information contained in this document is confidential and shall not, without prior written approval of Amundi Asset Management S.A. ("Amundi"), be copied, reproduced, modified, or distributed, to any third person or entity in any country.

The Funds described in this document may not be available to all investors and may not be registered for public distribution with the relevant authorities in all countries.

Please note that the management company may decide to terminate the arrangements made for the marketing of its collective investment undertakings in a Member State of the EU in respect of which it has made a notification.

A summary of information about investors' rights and collective redress mechanisms can be found in English on the regulatory page at <https://about.amundi.com/Metanav-Footer/Footer/Quick-Links/Legal-documentation>.

Investment involves risk. Investment return and the principal value of an investment in the Funds or other investment product may go up or down and may result in the loss of the amount originally invested. The decision of an investor to invest in the Funds should take into account all the characteristics or objectives of the Funds. **Past performance does not predict future results.** Investment return and the principal value of an investment in the Funds or other investment product may go up or down and may result in the loss of the amount originally invested. All investors should seek professional advice prior to any investment decision, in order to determine the risks associated with the investment and its suitability. It is the responsibility of investors to read the legal documents in force in particular the current prospectus for each Fund. Subscriptions in the Funds will only be accepted on the basis of their latest prospectus in English or in local language in EU countries of registration, and/or the Key Investor Information Document / Key Information Document ("KIID"/

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

"KID" available in local language in EU countries of registration) which, together with the latest annual and semi-annual reports may be obtained, free of charge, at the registered office of Amundi Luxembourg S.A. or at www.amundi.lu. In Italy, this documentation is available at www.amundi.it. In Ireland, this documentation is available at www.amundi.ie or, for KBI Funds ICAV, at www.kbiglobalinvestors.com. Information relating to costs and charges of the Funds may be obtained from the KIID/KID.

The performance data do not take account of the commissions and costs incurred on the issue and redemption of units/shares of the Funds.

Information on sustainability-related aspects can be found at <https://about.amundi.com/Metanav-Footer/Footer/Quick-Links/Legal-documentation>.

In **EEA** Member States, the content of this document is approved by Amundi for use with Professional Clients (as defined in EU Directive 2004/39/EC) only and shall not be distributed to the public. Amundi Ireland Limited is authorised and regulated by the Central Bank of Ireland. KBI Global Investors Ltd is regulated by the Central Bank of Ireland and deemed authorised and regulated by the Financial Conduct Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. Société Générale, Dublin Branch 3rd Floor, IFSC House, IFS, Dublin 1 is the facilities agent for those sub-funds of Amundi Funds, First Eagle Amundi registered in Ireland.

In the **United Kingdom** (the "UK"), this marketing communication is being issued by Amundi (UK) Limited ("Amundi UK"), 77 Coleman Street, London, EC2R 5BJ, UK. Amundi UK is authorised and regulated by the Financial Conduct Authority ("FCA") and entered on the FCA's Financial Services Register under number 114503. This may be checked at <https://register.fca.org.uk/> and further information of its authorisation is available on request. This marketing communication is approved by Amundi UK for use with Professional Clients (as defined in the FCA's Handbook of Rules and Guidance (the "FCA Handbook") and shall not be distributed to the public. **Past performance is not a guarantee or indication of future results.** Amundi Funds SICAV, First Eagle Amundi SICAV, Amundi Index Solutions, CPR Invest SICAV, KBI Funds ICAV and Amundi Fund Solutions ICAV are recognised schemes under the FCA's Temporary Marketing Permission Regime. Where a fund is an unregulated collective investment scheme under the Financial Services and Markets Act 2000 (the "FSMA"), this marketing communication is addressed only to those persons in the UK who qualify as non-retail clients (Professional Clients or Eligible Counterparties) as set out in the FCA's Handbook, Conduct of Business Sourcebook 4.12B - "Promotion of non-mass market investments", as amended from time to time, and thereby fall with an exemption from the restrictions in Section 238 FSMA. This marketing communication must not be relied on or acted upon by any other persons for any purposes whatsoever.

Potential investors in the UK should be aware that none of the protections afforded by the UK regulatory system will apply to an investment in a Fund and that compensation will not be available under the UK Financial Services Compensation Scheme.

In **Switzerland**, this document is for Qualified Investors (as defined in Swiss Collective Investment Schemes Act of 23 June 2006 as amended or supplemented) use only and shall not be offered to the public. The Representative and Paying Agent for Funds registered for public offering in Switzerland are, in respect of Amundi Funds, First Eagle Amundi and Amundi Index Solutions: Representative - CACEIS (Switzerland) SA and Paying Agent - CACEIS Bank, Nyon Branch both at 35 Route de Signy, Case postale 2259, CH-1260 Nyon; KBI Funds ICAV: Representative - ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich and Paying Agent - NPB Neue Privat Bank AG, Limmatquai 1, CH-8001 Zurich. Free copies of the prospectus, key investor information documents, annual and semi-annual reports, management regulations and other information are available at the representative's address shown above.

In **France**, a free prospectus is available from Amundi Asset Management, 91-93 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris France or from the centralisateur of the Funds which in the case of Amundi Funds, Amundi Index Solutions and CPR Invest SICAV is CACEIS Bank SA, 1-3 place Valhubert, 75013 Paris and in the case of First Eagle Amundi SICAV is Société Générale, 29 Boulevard Haussmann, 75008 Paris.

In **Germany**, for additional information on the Fund, a free prospectus may be requested from Amundi Deutschland GmbH, Arnulfstr. 124-126 80636 Munich, Germany (Tel. +49.89.99.226.0). The information and paying agent for Amundi Fund Solutions ICAV is Marcard Stein & CO AG, Ballindamm 36, 20095 Hamburg, Germany.

In **Austria** the paying agents for Funds registered for public distribution are, in respect of Amundi Fund Solutions: UniCredit Bank Austria AG, Rothschildplatz 1, A-1020 Vienna; Amundi Funds, Amundi Index Solutions and First Eagle Amundi: Société Générale, Vienna Branch, Prinz Eugen Strasse 8 - 10/5/Top 11, A-1040 Vienna; CPR Invest: Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Wien; and KBI Funds ICAV: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna.

In **Spain**, the Funds are foreign undertakings for collective investment registered with the CNMV and numbered Amundi S.F. (493); Amundi Fund Solutions (1333); Amundi Fund Solutions ICAV (1969); Amundi Funds (61) First Eagle Amundi (111); Amundi Index Solutions (1495); CPR Invest (1564) and KBI Funds ICAV (1248). Any investment in the Funds or their respective sub-funds must be made through a registered Spanish distributor. Amundi Iberia SGIIC, SAU, is the main distributor of the Funds in Spain, registered with number 31 in the CNMV's SGIIC registry, with address at P^o de la Castellana 1, Madrid 28046. A list of all Spanish distributors may be obtained from the CNMV at www.cnmv.es. Units/shares may only be acquired on the basis of the most recent prospectus, key investor information document and further current documentation, which may be obtained from the CNMV.

In **Chile** and **Peru**, this document is approved for use by Administradora de Fondos de Pensiones/Pension Fund Administrators and other institutional investors.

In **Mexico**, this document is approved for use with institutional investors. It may not be distributed to third parties or to the public.

In **Singapore**, this document is provided solely for the internal use of distributors and financial advisors and is not to be distributed to the retail public in Singapore. Investors should read the Singapore information memorandum of the Funds before deciding to invest in the Funds. Distribution occurs through Amundi Singapore Limited, 80 Raffles Place, UOB Plaza 1, #23-01, Singapore 048624 and/or the Funds' authorised distributors. Amundi Singapore Limited is regulated by the Monetary Authority of Singapore ("MAS"). Certain sub-funds of the Funds are notified as restricted schemes under Section 305 of the Securities and Futures Act 2001 of Singapore ("SFA") and the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 ("Restricted Schemes"). This document shall be construed as part of the Singapore information memorandum of the Restricted Schemes (the "Singapore IM"), which shall be deemed to include and incorporate the prospectus of the Restricted Schemes, any supplement to the prospectus relating to the Restricted Schemes, this document and any other document, correspondence, communication or material sent or provided to eligible participants in relation to the Restricted Schemes from time to time. Accordingly, this document must not be relied upon or construed on its own without reference to and as part of the Singapore IM. Investors should read the relevant Singapore IM before deciding to invest in the Restricted Schemes. The units/shares offered under the Restricted Schemes as set out in the relevant Singapore IM are not authorised or recognised by the MAS and are not allowed to be offered to the retail public. Accordingly, this document and the material contained within, may not be circulated or distributed, nor may the relevant units/shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. By accepting receipt of this document and any other document or material issued in connection with the offer or sale of the shares/units, a person (within the meaning of Singapore law) in Singapore represents or warrants that person is entitled to receive such document in accordance with the restrictions set forth above and agrees to be bound by the limitations contained herein. Distribution/dividends (if applicable) are not guaranteed unless otherwise stated in the

For professional clients only.

Opinions, views and statements are as of December 31, 2023, constitute our judgment and are subject to change without prior notice.

dividend policy for the relevant share class/class contained in the relevant Singapore IM. This document and the Singapore IM is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and the offeree/an investor should consider carefully whether the investment is suitable for him. The MAS assumes no responsibility for the contents of this document. This document has not been reviewed by the MAS.

This information is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities or services in the United States or in any of its territories or possessions subject to its jurisdiction to or for the benefit of any U.S. Person (as defined in the prospectus of the Funds). The Funds have not been registered in the United States under the Investment Company Act of 1940 and units/shares of the Funds are not registered in the United States under the Securities Act of 1933.

This document is not intended for and no reliance can be placed on this document by persons falling outside of these categories in the above-mentioned jurisdictions. **In jurisdictions other than those specified above, this document is for the sole use of the professional clients and intermediaries to whom it is addressed. It is not to be distributed to the public or to other third parties and the use of the information provided by anyone other than the addressee is not authorised.**

This material is based on sources that Amundi considers to be reliable at the time of publication. Data, opinions and analysis may be changed without notice. Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material

Date of publication: 01 February 2024

Doc ID nr: 3340593

©2024 Morningstar. All Rights Reserved. The information, data, analyses and opinions ("Information") contained herein: (1) include the proprietary information of Morningstar; (2) may not be copied or redistributed; (3) do not constitute investment advice; (4) are provided solely for informational purposes; (5) are not warranted to be complete, accurate or timely; and (6) may be drawn from fund data published on various dates. Morningstar is not responsible for any trading decisions, damages or other losses related to the Information or its use. Please verify all of the Information before using it and do not make any investment decision except upon the advice of a professional financial adviser. Past performance is no guarantee of future results. The value and income derived from investments may go down as well as up.

Lipper is not responsible for the accuracy, reliability or completeness of the information that you obtain. In addition, Lipper will not be liable for any loss or damage resulting from information obtained from Lipper or any of its affiliates. ©Thomson Reuters 2024. All rights reserved.

The Funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such Funds or securities or any index on which such Funds or securities are based. The offering documents of the Funds contain a more detailed description of the limited relationship MSCI has with Amundi and any relevant Funds.

First Eagle Investments

Equities

Fixed Income &
Currencies

Alternative
Credit

Real Assets

For professional clients only.