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First Eagle Global Fund Management Is One of the Very Best

FIRST EAGLE INVESTMENT MANAGEMENT

By Eric Nager, CRPS®

Long time clients of Southern Capital will recognize the First Eagle Global Fund as a regular holding in their portfolios. Our philosophy in selecting funds has always been to focus on the manager and his or her long term performance record, and one of the best fund managers in history is Jean-Marie Eveillard of First Eagle. He managed the Global Fund for most of its history and is today a Senior Advisor there. Terry connected with him last month.

Even at age 80 Jean-Marie comes into the office 2-4 times per week and displays no sense of entitlement or arrogance that one might expect from someone who has achieved such success in an industry where the best managers are compensated like rock stars or professional athletes. In fact, he still commutes by bus from his Upper East Side home to the midtown New York City office.

Recently, I had opportunity to speak with Al Barr, an Associate Portfolio Manager for the Overseas Fund and a Senior Analyst with First Eagle across all funds. He has worked there for 18 years, so some of his time overlapped with when Jean-Marie was the Portfolio Manager. I asked Al what he learned from the legendary manager and it is advice that applies to any investor: yesterday does not matter. What he meant by that is that no matter what news or events are going on, it does not help to get panicked or excited. The question always is, how is the portfolio valued today looking forward? Taking such an approach, though not always easy to do, helps to disassociate from the past and keep an objective mindset for the present.

First Eagle Global is a value fund. This means that it looks for bargains, or stocks that the management perceive to be undervalued. They are always evaluating risk and most of their holdings are for the long term. One question they ask themselves when they are considering purchasing a company stock, according to Barr, is how have the company's executives behaved in past market downturns. This is similar to the approach that Southern Capital takes when we evaluate the management teams of various mutual funds.

With that in mind, I asked Mr. Barr what First Eagle perceives to be either cautionary or encouraging signs in the world economy. His answer on the cautionary side is rising debt levels combined with currency devaluation. All of the major economies of the world: the United States, the European Union, Japan, and China are running deficits and, as a result, especially with China, First Eagle Global currently has no holdings there. Instead, about 18% of the portfolio is in cash and gold with the latter as a hedge against currency devaluation. And, even though gold or other precious metals do not "pay anything" in the form of interest, in his view, that is better than the negative interest rates on some European and Japanese bonds. In other words with negative interest rates, if you purchased a 10-year European bond, you would have to pay them interest!

Terry Nager, *President of Southern Capital Services,* with **Jean-Marie Eveillard**, *Senior Advisor of First Eagle.*

Mr. Barr was quick to point out that those negative rates can also be viewed in a positive light in the sense that central banks around the world have signaled they will do whatever is needed to help get through economic rough patches, and interest rates are one example. From a value standpoint, short term economic problems or dislocations, although not pleasant at the moment, can also be a great opportunity to buy. For example, when the Brexit vote took place three years ago for the United Kingdom to leave the European Union, many stocks for companies of luxury products like Louis Vuitton or Richemont took a tumble. The analysts at First Eagle recognized that only 2-3% of the sales for these companies took place within the U.K. and that these companies then represented a great value. First Eagle bought them, and their analysis was rewarded with good stock performance since then.

First Eagle Global is a world allocation fund, meaning that it is free to invest anywhere in the world. This is in contrast to international funds that typically focus outside of the United States. While there is no internal benchmark as to how much the fund strives to have in or out of the Unites States, I asked Mr. Barr about how they look at that in light of the fact that U.S. markets have outperformed international ones over the past decade. Today they have about 37% of the portfolio overseas and 35% in the U.S. and he pointed me back to the fact that they look for where they can find the best deals. As an example, he cited years ago when they perceived that Japanese stocks were significantly undervalued, First Eagle had about 25% of their holdings there. He added that they typically would not hold more than that in any one country other than the U.S.

Of course, First Eagle is just one of many funds currently employed in the Southern Capital portfolio lineup. Because it is a value fund, it has a greater allocation in the portfolios with conservative objectives, and little or none in the more aggressive ones. You regularly receive our economic outlook through the newsletter, and occasionally we like to add the perspectives of others. In the words of Jean-Marie, "I would rather lose half of my shareholders than lose half of my shareholders' money." It is safe to say that, over the years, Jean-Marie has made his shareholders a great deal of money.