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First Eagle interval fund offers healthy income in exchange for liquidity

Investors searching for a source of income could look to credit funds with attractive yields.

BY JEFF BENJAMIN

WITH A 2021 TOTAL RETURN of nearly 11%, including a 7% income yield, the First Eagle Credit Opportunities Fund is likely to continue gaining appeal among financial advisers working with clients hungry for strategies that fit the income side of the portfolio.

Launched in September 2020, the First Eagle interval fund has seen its assets balloon to $390 million from $40 million a year ago, when it temporarily waived the 1.2% management fee.

Although the fee cut, which ended Sunday, surely helped draw assets, the flows were also boosted by the fund's placement on the major brokerage platforms.

The fund is part of the lineup from First Eagle Investments, a $109 billion asset management firm.

In the world of interval funds, which are named for their reduced liquidity compared to mutual funds, this one is relatively straight forward, and is accessible to retail class investors with a $2,500 minimum investment.

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While the strategy includes regularly moving parts to capture yield, especially in the current rising interest-rate environment, the portfolio is broadly divided into two main categories: opportunistic credit, which often includes purchasing chunks of syndicated loans, and private credit, where First Eagle is the direct lender and underwriter.

The bulk of the opportunistic side is made up of levered loans.

Robert Hickey, one of six managers working on the fund, said a hypothetical example of an investment on the opportunistic side would be a bank like JPMorgan lending $1 billion to company like Boeing and then spreading its risk exposure by syndicating off most of the loan to other investors.

On the private credit side of the portfolio, the fund is often making loans to smaller companies that have been acquired by private equity investors with loans-to-value ratios in the 30% to 50% range.

That level of loan-to-value represents a kind of insurance against default, Hickey said.

What makes the strategy so appealing now is the floating-rate nature of the underlying loans, which will continue to drive income higher as the Federal Reserve continues to hike interest rates over the next several months.

"I have not encountered anyone who sees rates going anywhere but up in next 12 to 18 months," Hickey said. "Any floating-rate coupon in the portfolio will go up in response to the Fed, and everything in the portfolio is floating, with the exception of a small percentage of high yield and cash."

The private credit market, which represents the least liquid side of the portfolio, is part of a $1.2 trillion market today that is expected to grow to more than $2.5 trillion in the next four years.

In addition to the strong yield, which is paid out in the form of monthly dividends, and a weighted average duration of 0.42 years, First Eagle is betting on the growing appeal of the interval fund wrapper.

According to Jack Snyder, First Eagle's head of retail alternative sales, interval funds overall raised about $9.5 billion per year from 2018 through 2020, but last year that total jumped to $19 billion.

"Investors have realized 100% of fixed income doesn't need to be 100% liquid," Snyder said.

Interval funds offer quarterly liquidity of up to 5% of the outstanding shares, meaning it would be difficult to redeem a client's entire investment all at once, especially if there are a lot of investors seeking liquidity.

"Interval funds had some fits and starts in the early 2000s," Snyder said. "But they are growing now because the need for yield is alive and well."

Average Annual Returns as of 3/31/2022						Expense Ratio°		
	3 Month	YTD	1-Year	Inception	Inception Date	Gross°°	Net	Adjusted °°°
First Eagle Credit Opportunities Fund – Class A FECAX (without load)	0.39%	0.39%	6.71%	9.49%	12/02/2020	5.21%	2.07%	0.50%
First Eagle Credit Opportunities Fund – Class A FECAX (with load)	-3.12%	-3.12%	2.97%	6.60%				
First Eagle Credit Opportunities Fund – Class I FECRX (without sales charge)	0.49%	0.49%	7.40%	9.73%	09/15/2020	4.96%	1.82%	0.25%

The performance data quoted herein represents past performance and does not guarantee future results. Market volatility can dramatically impact the fund's short-term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance data through the most recent month end is available at www.firsteagle.com or by calling 800-334-2143. "With load" performance for Class A Shares gives effect to the deduction of the maximum sales charge of 3.50%.

The Fund intends to declare income dividends daily and distribute them monthly at rates intended to maintain a more stable level of distributions than would result from paying out amounts solely based on current net investment income by paying out less than all of its net investment income or paying out undistributed income from prior months (with any potential remaining deficiencies characterized as a return of capital at year end). To date, the distribution yield has only been derived from the Fund's net investment income and has not included borrowed funds or a return of capital. The distributions might not be made in equal amounts, and one month's distribution may be larger than another. Distribution yield presented excludes any special dividends and is based on the fund-level composite of all the share classes. Distribution yield indicates the annual yield received if the most recent composite Fund monthly distribution paid was the same for an entire year. The yield represents a distribution and does not represent the total return of the Fund. Because the Distribution Yield is annualized from a single month's distribution, no investor actually received the yield in a given year. The yield is calculated by annualizing the most recent composite monthly distribution paid by the Fund and dividing it by the Fund's average month-to-date NAV from the as-of date.

The minimum initial investment for Class A Shares is $2,500 per account. The minimum subsequent investment amount for Class A Shares is $100. The minimum initial investment for Class I Shares is $1 million per account. There is no minimum subsequent investment amount for Class I Shares.

Management Fee Waived: Effective May 1, 2021, FEIM and FEAC agreed to waive all management fees and subadvisory fees payable to them under the Management Agreement (defined in Prospectus) and Subadvisory Agreement (defined in Prospectus) until April 30, 2022 (the ''Management Fee Waiver''), resulting in an Adjusted Net Expense Ratio of 0.50% for Class A and 0.25% for Class I. Amounts waived pursuant to the Management Fee Waiver will not be subject to any right of future recoupment in favor of FEIM and FEAC. Effective May 1, 2022 this waiver expired.

°The annual expense ratio is based on expenses incurred by the fund, as stated in the most recent prospectus. FEIM has contractually undertaken to waive and/or reimburse certain fees and expenses of the Fund so that the total annual operating expenses (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend and interest expenses relating to short sales, and extraordinary expenses, if any) ("annual operating expenses") of the Class A and Class I shareholders are limited to 0.50% and 0.25%, respectively, of

average net assets, respectively. This undertaking lasts until April 30, 2022 and may not be terminated during its term without the consent of the Board of Trustees. The Fund has agreed that each of Class A and Class I will repay FEIM for fees and expenses waived or reimbursed for the class provided that repayment does not cause annual operating expenses (after the repayment is taken into account) to exceed either: (1) 0.50% and 0.25% of the class' average net assets, respectively; or (2) if applicable, the then-current expense limitations. Any such repayment must be made within three years after the date in which the Fund incurred the fee and/or expense. Additionally, FEIM has agreed to pay the Fund's organizational and offering costs until effectiveness of the Fund's registration statement and such costs will not be recoupable by FEIM.
Effective May 1, 2022 through April 2023, these expense limitations were raised to 2.25% and 2.00%, respectively, of average net assets of Class A and Class I.
°°The Gross Expense Ratio includes an estimate of interest payments the Fund expects to incur in connection with its use of leverage of 1.56% and Acquired Fund Fees and Expenses (''AFFE''), which are fees and expenses incurred by the Fund in connection with its investments in other investment companies, which are excluded from the expense waiver.
°°°The Adjusted Expense Ratio of 0.25% for Class I and 0.50% for Class A excludes certain investment expenses, such as interest expense from borrowings and repurchase agreements and dividend expense from investments on short sales, incurred directly by the Fund or indirectly through the Fund's investments in underlying First Eagle Funds (if applicable), none of which are paid to First Eagle. The information is not intended to provide and should not be relied on for accounting or tax advice. Any tax information presented is not intended to constitute an analysis of all tax considerations.

AUM is as of 3/31/2022.

Source: Stanger Market Intelligence Report as of 12/31/2021.

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The Credit Opportunities Fund is an Interval Fund, a type of fund that, in order to provide liquidity to shareholders, has adopted a fundamental investment policy to make quarterly offers to repurchase between 5% and 25% of its outstanding Common Shares at net asset value ("NAV"). Subject to applicable law and approval of the Board of Trustees for each quarterly repurchase offer, the Fund currently expects to offer to repurchase 5% of the Fund's outstanding Common Shares at NAV on a quarterly basis. The Credit Opportunities Fund's Common Shares are not listed for trading on any national securities exchange, have no trading market and no market is expected to develop.

Risk Disclosures
An investment in the First Eagle Credit Opportunities Fund (the "Fund") involves a number of significant risks. Before you invest, you should be aware of various risks, including those described below. For a more complete discussion of the risks of investing in the Fund, see the Fund's prospectus under the heading, "Principal Risks of the Fund."

All investments involve the risk of loss of principal. The Fund may not be able to pay distributions or may have to reduce distribution levels if the income and/or dividends the Fund receives from its investments decline. Investment in private and middle market companies is highly speculative and involves a high degree of risk of credit loss, and therefore the Fund's securities may not be suitable for someone with a low tolerance for risk. The Fund is required to rely on the ability of the First Eagle Alternative Credit's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies.

Below investment grade securities or comparable unrated instruments may be subject to greater risks than securities or instruments that have higher credit ratings, including a higher risk of default, and the Fund might have difficulty selling them promptly at an acceptable price.

Investments in loans potentially expose the Fund to the credit risk of the underlying borrower, and in certain cases, of the financial institution. The Fund's ability to receive payments in connection with the loan depends primarily on the financial condition of the borrower. Even investments in secured loans present risk, as there is no assurance that the collateral securing the loan will be sufficient to satisfy the loan obligation. The market for certain loans is expected to be illiquid and the Fund may have difficulty selling them. In addition, loans often have contractual restrictions on resale, which can delay the sale and adversely impact the sale price.

Investments in debt securities and other obligations of companies that are experiencing significant financial or business distress involve a substantial degree of risk, including a material risk that the issuer will default on the obligations or enter bankruptcy. The level of analytical sophistication, both financial and legal, necessary for successful investment in distressed assets is unusually high. There is no assurance that First Eagle Alternative Credit will correctly evaluate the value of the assets collateralizing the Fund's investments or the prospects for a successful reorganization or similar action in respect of any company.

Investors may not have access to all share classes at certain financial intermediaries. Please consult your financial professional for more information.

Investors should consider Common Shares of the Fund to be an illiquid investment. There is no guarantee that investors will be able to sell the Common Shares at any given time or in the quantity the investor desires.

An investment in the Credit Opportunities Fund is not suitable for investors who need certainty about their ability to access all of the money they invest in the short term.

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