ValueInvestor INSIGHT
The Leading Authority on Value Investing
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Persistence Pays

Matthew McLennan and Kimball Brooker of First Eagle Investments describe how they build resilience into their portfolios, why they think that's particularly important today, why they tend to be slow to trade, their latest thoughts on owning gold, and what they think the market is missing today in Haleon, Shimano, Itaúsa, Douglas Emmett and ONEOK.

INVESTOR INSIGHT

First Eagle Investments
Matthew McLennan, Kimball Brooker

Investment Focus: Seek companies with durable franchises when short-term factors cause them to trade at sufficient discounts to conservatively estimated intrinsic values.

It doesn't phase Matthew McLennan that a value investing approach has been mostly out of favor since he took over First Eagle Investments' Global Value team in 2008. "Being price sensitive has been a headwind when many stocks that have performed best have had valuations untethered to economic reality," he says. "But committing to this philosophy means being willing to be short social acceptance, often for some time."

He's managed the headwinds well. First Eagle's $53 billion (assets) Global Fund over the past 15 years has earned a net annualized 8.7%, vs. 6.8% for the average peer fund tracked by Morningstar. Today he and co-Global Value team head Kimball Brooker are finding value in such diverse areas as consumer healthcare, bicycles, real estate, banking, and energy infrastructure.

When we last spoke [*VII*, March 31, 2019], Matt prefaced a description of your approach by saying, "We often don't like the state of the world top-down, so we try to craft resilience in the portfolio from the bottom up." Is it safe to assume that's as true today as ever?

Matthew McLennan: The global risk most emergent over the past five years relates to sovereign debt. From the end of World War II through 2000, the U.S. budget on average was basically balanced before the payment of interest expenses. Sovereign debt and the related interest expense grew more or less in line with nominal GDP, so you had a fairly stable equilibrium. But what we've seen since the turn of the century, exacerbated by Covid, is the emergence of structural primary deficits in the U.S., such that the level of government debt is growing much faster than nominal GDP. And that debt now is paying higher interest rates than was the case over the last decade. This is not at all a U.S.-specific issue, but you see it throughout the developed world.

When people think of sovereign-debt problems they often think of full-blown crises, where government debt rates spike sharply higher and currencies collapse, as in the case, say, of Turkey or Argentina. It doesn't always have to be that way and the negative effects – the crowding out of private investment, inflationary drift, higher interest rates, depreciating currencies – can serve as slower-release toxins to an economy.

We think all that creates economic challenge that equity markets and political leaders don't seem to take very seriously today. That we're in a world that is evolving geopolitically into autocratic and democratic blocks, likely resulting in calls for higher spending on defense, makes the policy decisions that will need to be made even more difficult.

Starting first with equity selection, how do you "craft resilience in the portfolio from the bottom up?"

Kimball Brooker: We've always put primary emphasis on investing in businesses that can endure in all states of the world, that as Jean-Marie Eveillard used to say, "have the capacity to suffer." They have reasonably well-entrenched market positions, providing relatively important and not easily substituted products and services to their customers. They're managed by sensible people who have a clear owner mentality. They have solid pricing power and generate abundant cash flow. They have the financial flexibility to invest when times are tough, and they generally aren't reliant on capital markets to run the business.

Resilience also comes from our sensitivity to what we pay. Whether it's targeting companies that have temporarily disappointed or are in industries or countries going through a difficult period, in buying we're looking as a margin of safety to pay at least 25% below our conservative estimates of intrinsic value.

For some time now assets promising growth have earned premium valuations in the market, suggesting a lower level of risk aversion on the part of investors than we think is justified. But if the environment becomes more complex – if the eco-

nomic soft-landing scenario doesn't play out, say, or sovereign debt concerns cause a broad repricing of government paper, or if one of the global military hotspots ignites into broader conflict – we would expect the market to start valuing resilience as highly as we do.

You own a fairly eclectic mix of old-economy and new-economy businesses. What tends to be going on at a company that will attract your interest?

MM: We're quite at peace with not owning the "hot dot" investments of the moment. As Kimball described, we focus on businesses that provide resilience in moments of distress and that we believe will participate and then some in the growth in global nominal GDP. But while this approach is meant to be fashion independent and doesn't require us to express a view on what's going to go up the most in the next six to 12 months, we're trying to give our investors exposure to long-term investments in a range of industries and countries in businesses that have really strong market positions and/or control scarce real assets. Given that almost any business can go out of favor at one time or another, we don't limit ourselves to what might be considered old-economy businesses.

Oracle [ORCL], one of our largest and longest-held positions, is a good example. The company is a world leader in relational databases and cloud ERP [Enterprise Resource Planning] software, which as it turns out positions it well to benefit from all the current spending on artificial intelligence and the related infrastructure AI requires. When we bought Oracle stock years ago we weren't counting on that for the business and valuation case to work out, but it's certainly been a positive. I'd say the same of our holdings in Meta Platforms [META] and Alphabet [GOOG] – both of which we bought when they were generally out of favor. That they have been large-scale beneficiaries of what's going on in AI wasn't something we planned on, but given their strengths in their markets the fact that it's happening isn't a total shock either.

To give a somewhat more recent example, we established a new position in CRM [Customer Relationship Management] software company Salesforce [CRM] during the pandemic sell-off in the second quarter of 2020. Oracle's Larry Ellison was an early investor in Salesforce and we had developed an appreciation for the market position it was building in CRM. This is an example where we thought there was a big difference between what the GAAP [generally accepted accounting principles] income statement was showing – as the company invested heavily through the P&L in research and development and in sales and marketing – and the economic value Salesforce was creating in putting on 70%-plus gross-margin business.

We thought the stock's valuation because of the pandemic was quite reasonable relative to the potential free-cash-flow generation as the business matured and the heavy investment spending moderated. This is a typical type of opportunity for us, to buy into a high-quality company when the market is inordinately focused on estimating the next quarter. If we pay a mature valuation for a business like this, we are essentially getting the growth optionality in the meantime for free. We're generally happy, as we have been here, to hold on as that plays out over the fullness of time. [*Note*: As low as $115 in March 2020, CRM shares closed recently at around $258.]

ON HEDGING:

Our gold-related assets and cash provide liquidity that allows us to be a beneficiary rather than victim of volatility.

What was your thought process in adding Walt Disney [DIS] to your Global Fund in August of last year?

KB: It's never easy to get the timing right on something like this, but at the time we were getting interested the shares had fallen significantly and the general consensus seemed to be that the direct-to-consumer streaming business was somewhat of a black hole. We spent much of our research and analysis time on that particular subject and thought the company was doing the right things to best monetize the content it had, and that it and the industry were necessarily entering a period of greater rationality and discipline around streaming. Backstopped by an excellent theme-park franchise and a declining but highly cash-generative linear-TV business, we thought the shares were attractively priced relative to our conservative estimate of intrinsic value. We still believe that's the case. [*Note*: DIS shares closed recently at around $93.75, 25% off their 52-week high.]

You also try to build resilience into your portfolios through asset allocation, namely through holding gold-related assets and cash, which in your Global Fund recently made up nearly 25% of total assets. Describe the rationale behind that.

MM: We want to hold enough gold-related assets and cash to provide us, one, with a resilient hedge against inevitable windows of difficulty and, two, with liquidity that allows us to be a beneficiary of volatility rather than a victim of volatility. That said, we don't want our exposure to gold and cash to get so high that we're making a huge bet against markets. In non-distressed environments, the exposure we have today is more or less in line with normal.

Your exposure to gold, at 15% of the portfolio, is at the higher end of what's been normal for you. Why?

MM: I should say first that we primarily want to invest in businesses. Wealth creation over time tends to come from ownership of productive assets run by good stewards of capital when bought at discounted prices. But as we've discussed, we're very risk aware and if you're as worried as we are about excessive sovereign

debt, gold strikes us as a sound store of value to keep some of our deferred purchasing power.

Gold has a demonstrated track record of not only keeping pace with the growth of nominal GDP – which most sovereign bonds have not done over time – but it has also generated some of the best returns when you need them the most. The worst decades for equities over the last century have tended to be among the best decades for gold. As we think about potential hedges, gold stands out as the best embodiment of scarcity value, and we expect it to hold its purchasing power much better than other alternatives. If we go into a recession and equity markets seize up, we'll hope to capitalize on that to the fullest extent possible.

How are you thinking today about the relative merits of bullion versus gold-miner stocks?

MM: We typically hold most of our gold exposure in bullion and try not to be too cute on shifting between it and gold-related equities. We own some of the big miners, like Newmont [NEM] and Barrick Gold [GOLD], as well as streaming and royalty companies like Wheaton Precious Metals [WPM]. We're willing to own equities in companies that we think can create value relative to the reserves they have in the ground, at times when that value doesn't appear to be appropriately priced. This is also an industry where trust in management's ability to manage capital is paramount, and not always easy to develop.

Are you finding more equity opportunity inside or outside the U.S.?

KB: We're still finding a lot to do in the U.S., but incrementally more outside the U.S., where valuations by and large are quite a bit more attractive. None of that is a top-down decision, but our equity portfolio in the Global Fund today is about 50% U.S. and 50% international. That's at a time when the MSCI World Index is around 70% U.S.

Walk through your investment case for U.K.-based Haleon [London: HLN].

MM: The backstory here is that we had owned GlaxoSmithKline (now known as GSK [GSK]) for some time, thinking the market was overly pessimistic about the future of its pharmaceutical business and not sufficiently appreciative of its vaccine and over-the-counter healthcare businesses. As time passed, some good things happened, including the merger of the consumer-healthcare business with similar units from Novartis and Pfizer, which were being well integrated by GSK into what we considered a strong core consumer-staples business. That OTC business was spun off as Haleon in 2022, and we concluded we'd rather own it than the remaining GSK businesses in pharma and vaccines.

The company today is one of the largest consumer-health businesses in the world, with a strong portfolio of popular brands. Just over 30% of the business is oral care, focused on toothpastes for specific needs like Sensodyne for sensitive teeth and Parodontax for sensitive gums. In general we like that people tend to habituate in such businesses on the brands they like, and the

INVESTMENT SNAPSHOT

Haleon
(London: HLN)

Business: Global manufacturing, marketing and sale of over-the-counter consumer healthcare products; key brands include Advil, Sensodyne, Tums and Theraflu.

Share Information
(@7/30/24, Exchange Rate: $1 = £0.78):

Price	**£3.46**
52-Week Range	£3.08 – £3.71
Dividend Yield	1.7%
Market Cap	£31.60 billion

Financials (TTM):

Revenue	£11.24 billion
Operating Profit Margin	21.2%
Net Profit Margin	9.6%

Valuation Metrics
(@7/30/24):

	HLN	S&P 500
P/E (TTM)	29.6	23.6
Forward P/E (Est.)	18.9	22.1

Largest Institutional Owners
(@3/31/24 or latest filing):

Company	% Owned
Dodge & Cox	10.4%
BlackRock	5.1%
Vanguard Group	3.5%
Massachusetts Fin Serv	2.3%
First Eagle Inv	2.0%

Short Interest (as of 7/15/24):

Shares Short/Float	n/a

HLN PRICE HISTORY

4 3 2
2022 2023 2024

THE BOTTOM LINE

With shares relatively new to the public market, Matthew McLennan thinks investors have been slow to appreciate the quality and durability of the company's business. He sees attractive upside in a business he believes trades at a discount to its private-market value, with a mid-single-digit free-cash-flow yield and revenues growing at a mid-single-digit rate.

Sources: S&P Capital IQ, company reports, other publicly available information

subcategories in toothpaste where Haleon is strong have been taking share. We consider oral care a low-risk growth engine for the future.

The next-largest segment, accounting for about 25% of total revenue, is pain relief, where the leading brand is Advil. Then there are a variety of smaller segments, again with well-established and trusted brands people tend to stick with. Flonase for allergy relief. Theraflu to treat colds and the flu. Tums antacid. Centrum multivitamins.

From an operating perspective we think the company is well run and continues to take advantage of both cost and revenue synergies from combining the three businesses. They've significantly streamlined the manufacturing and logistics footprint, while also leveraging category strengths, regional strengths, relationships with physicians, and heavy advertising spending to strengthen brand positions. The overall business is running with 20%-plus operating margins, with capacity for further improvement.

KB: One appeal to the types of products Haleon sells is that the pricing power tends to be quite good. In some cases it's a habitual but not that frequent a purchase, so price awareness is not quite as high. In other cases you need the product now, which also dampens somewhat the price sensitivity.

How attractively do you consider the shares priced at a recent £3.50?

MM: We often in our valuation work look closely at private-market transactions, and here those have tended be made at 4-5x revenue, which is reasonable given the ability of an acquirer to fold in individual products at very high marginal contribution rates. Unilever actually made a run at buying Haleon for close to 5x revenue before it was spun off. The stock today, however, on an enterprise value basis trades at around 3.6x revenue.

So we think there's a discount to the private-market valuation, and we own a company trading at a mid-single-digit free-cash-flow yield that we believe can grow its top line at a mid-single-digit rate. That to us sets up for a satisfactory return on a business with a below-average risk profile. There's also a dividend yield of 1.7%.

Maybe the fact that this is relatively recently listed has made the market slow to appreciate the quality and durability of this business. We expect that to show through over the full business cycle and can be patient as that plays out.

Why are you keen on the investment prospects today for long-time holding Shimano [Tokyo: 7309]?

MM: This is a good example of a long-term holding for us. The company was founded over a century ago and first made its name in single-gear flywheels for bicycles. (It comes from a part of Japan known for the forging of Samurai swords, so forging expertise was in the regional DNA.) Through continuous iteration and a consistent focus on building precision products, it is now the dominant global seller of premium bicycle gear, derailleur and braking systems, which account for around 80% of total revenue. Their franchise is such that biking enthusiasts regularly align more with the Shimano brand

INVESTMENT SNAPSHOT

Shimano
(Tokyo: 7309)

Business: Develops, manufactures and sells high-end bicycle components including gears, derailleurs and brakes; subsidiary business sells fishing rods, reels and lures.

Share Information
(@7/30/24, Exchange Rate: $1 = ¥152.47):

Price	**¥26,385**
52-Week Range	¥19,270 – ¥27,165
Dividend Yield	1.1%
Market Cap	¥2.36 trillion

Financials (TTM):

Revenue	¥448.85 billion
Operating Profit Margin	15.4%
Net Profit Margin	14.4%

Valuation Metrics
(@7/30/24):

	7309	S&P 500
P/E (TTM)	36.8	23.6
Forward P/E (Est.)	31.8	22.1

Largest Institutional Owners
(@3/31/24 or latest filing):

Company	% Owned
BlackRock	5.1%
First Eagle Inv	4.6%
Sumitomo Mitsui Trust	3.5%
Vanguard Group	3.2%
Nomura Asset Mgmt	3.1%

Short Interest (as of 7/15/24):

Shares Short/Float	n/a

7309 PRICE HISTORY

THE BOTTOM LINE

While not optically inexpensive, Matthew McLennan believes the company's shares on his estimate of normalized earnings and after netting out the 20% of the current market cap in balance-sheet cash trade today at a high-teens earnings multiple. He considers that quite attractive for a well-run business that has grown annual revenues at close to 7% over time.

Sources: S&P Capital IQ, company reports, other publicly available information

than the bicycle brand itself. In the just completed Tour de France, around 70% of all participants rode with its gear.

There are a few things going on that make this of particular interest today. One is cyclical, as the company has just gone through a pretty rough patch. There was a surge in demand for bicycle equipment with Covid that led to excess global inventories that over the last several quarters have had to be worked off. That process is not over, but we believe we're in the early stages of recovering from that inventory correction.

We also believe the emergence of e-bikes could prove to be a category extender for bicycling. Here we're not talking about bikes becoming motorcycles, which we think is a different market, but the broader adoption of electric-assist bikes that would still need the Shimano kit and arguably might call for higher-end components if you're riding such equipment faster and harder.

The last thing I'd mention would be the opportunity in China. Shimano is already well established in China but we think there's a very long runway for potential growth there as people continue to migrate from more basic bicycles to more sophisticated ones.

The stock at a recent ¥26,400 doesn't appear particularly inexpensive. How are you looking at valuation?

MM: The shares, based on our estimate of normalized earnings and after netting out the 20% of the current market cap that's in cash, trade today at a high-teens earning multiple. While that's not bargain-basement, we think it's quite attractive for a business with this kind of duration, a track record of annual top-line growth in dollar terms of close to 7% over time, and with a rational management team reinvesting intelligently into the business and willing to buy back stock when the price is depressed.

What do you think the market is missing today in Brazilian investment holding company Itaúsa [Sao Paulo: ITSA4]?

KB: The company owns significant stakes in a number of public and private Latin American companies, including Itaú Unibanco, the largest private bank in the region, Alpargatas, a large manufacturer of shoes and apparel, CCR, which operates Brazilian airport and highway concessions, and Nova Transportadora do Sudeste, which transports roughly 50% of the natural gas consumed in Brazil.

The primary asset here is Itaú, the Brazilian bank, which makes up roughly 80% of the total holding-company value. It's the largest retail and commercial bank in Brazil, offering a wide range of products and services for individuals and institutions, built on a retail-deposit foundation that is by far the country's largest. It's a testament to the quality and persistence of this business that even with the challenging macroeconomic climate in Brazil over the past 20 years, the company has regularly generated high-teens returns on equity.

Roughly two-thirds of the stock floats freely and the other one-third is owned by various segments of the Egydio de Souza Aranha family. We have been impressed with the family's stewardship – they're extremely knowledgeable and well connect-

INVESTMENT SNAPSHOT

Itaúsa
(Sao Paolo: ITSA4)

Business: Multi-holding investment company based in Brazil whose top position is a 37% stake in the country's largest commercial bank, publicly traded Itaú Unibanco.

Share Information
(@7/30/24, Exchange Rate: $1 = BRL 5.61):

Price	**BRL 10.25**
52-Week Range	BRL 8.18 – BRL 10.94
Dividend Yield	8.6%
Market Cap	BRL 106.10 billion

Financials (TTM):

Revenue	BRL 7.61 billion
Operating Profit Margin	15.0%
Net Profit Margin	185.9%

Valuation Metrics
(@7/30/24):

	ITSA4	S&P 500
P/E (TTM)	7.4	23.6
Forward P/E (Est.)	6.6	22.1

Largest Institutional Owners
(@3/31/24 or latest filing):

Company	% Owned
Fundacao Zerrenner	6.5%
BlackRock	3.3%
Norges Bank Inv Mgmt	2.4%
Vanguard Group	2.1%
First Eagle Inv	1.7%

Short Interest (as of 7/15/24):

Shares Short/Float	n/a

ITSA4 PRICE HISTORY

THE BOTTOM LINE

The holding company's primary asset, Itaú Unibanco, has a long record of profitable returns and is currently available at a "double discount," says Kimball Brooker. The holding company trades at an 18% discount to estimated net asset value, while Itaú shares on their own trade at what he considers an overly discounted 8x estimated forward earnings.

Sources: S&P Capital IQ, company reports, other publicly available information

ed in the Brazilian market and have over time been thoughtful and conservative in investing capital. We're comfortable that their interests are fully aligned with ours as minority shareholders.

Do you have to have a favorable top-down view of Brazil to find this interesting?

KB: Not really, given how the stock is priced and how resilient the banking business has been through significant ups and downs in the macro environment. That said, I'd say we're mostly positively inclined to Brazil from a top-down perspective today. Demographics in the country are very favorable and it is broadly resource-independent. The political situation is never particularly benign, but the general stance of the current administration appears relatively supportive of foreign investment.

The shares at a recent 10.25 Brazilian real are trading at about the same level they did five years go. What upside do you see from here?

KB: We think there's a double discount in the stock. The shares of Itaú Unibanco [Sao Paolo: ITUB4] today trade at only about 8x estimated forward earnings, which we consider low for a bank with its profitability and durable performance over time. Through Itaúsa you can access those shares even more cheaply. The holding company regularly updates its estimated net asset value [NAV] based on current market prices, and those estimates have been relatively consistent with our own numbers. The most recent NAV estimate was 12.46 real, meaning the shares today trade at a roughly 18% discount. We expect NAV to continue to grow modestly and that the company will continue to return capital to shareholders in the form of dividends and interest on capital employed. The total return, including reinvested dividends, over the last 10 years has been roughly 13% per year. While we wait, there's a healthy and we think sustainable 8.6% dividend yield on today's share price.

Turning to an idea in the U.S., describe your interest in real estate company Douglas Emmett [DEI].

KB: Douglas Emmett is a relatively small, $2.6 billion market-cap real estate investment trust that owns and operates office and multifamily properties in the supply-constrained Los Angeles and Honolulu markets. Roughly 80% of its rental income is from offices, with the rest from residential multifamily.

There are a few unique aspects to the business. One is the diversity of the tenant base. The average lease is for only 2,500 square feet and the tenant mix is well diversified across industries. The top industry exposure is to law firms, which in aggregate take up only about 18% of the available space.

What's also unique is the sub-market concentration of the properties, particularly in Los Angeles. Emmett controls close to 40% of the office space capacity in West L.A., which gives them a level of scale and market share in that subset of the market that is quite different from the typical REIT. That has also allowed the company to handle more things in-house, from leasing to design and construction,

INVESTMENT SNAPSHOT

Douglas Emmett
(NYSE: DEI)

Business: Owns, operates, leases and maintains commercial-office and multifamily-residential real estate located exclusively in metropolitan Los Angeles and Honolulu.

Share Information (@7/30/24):

Price	**15.79**
52-Week Range	10.76 – 16.12
Dividend Yield	4.9%
Market Cap	$2.64 billion

Financials (TTM):

Revenue	$976.8 million
Operating Profit Margin	11.2%
Net Profit Margin	(-5.3%)

Valuation Metrics
(@7/30/24):

	DEI	S&P 500
P/E (TTM)	n/a	23.6
Forward P/E (Est.)	n/a	22.1

Largest Institutional Owners
(@3/31/24 or latest filing):

Company	% Owned
Vanguard Group	15.7%
BlackRock	14.6%
First Eagle Inv	8.2%
Wellington Mgmt	6.4%
State Street	6.0%

Short Interest (as of 7/15/24):

Shares Short/Float	11.1%

THE BOTTOM LINE

Given the unique and high-quality nature of its properties, Kimball Brooker believes the company can navigate today's challenging environment for U.S. commercial office space better than the market seems to assume. Based on his normalized estimates of free cash flow and assuming a 7% cap rate, he estimates intrinsic value in the low-$20s per share.

Sources: S&P Capital IQ, company reports, other publicly available information

which we believe makes them a more efficient and effective operator in the areas where they have scale.

One big issue obviously is the magnitude and ultimate duration of the commercial office space downturn in the U.S. We tend to be on the more optimistic end of the scale with respect to the market overall and with respect to Emmett in particular. They have seen occupancy come down somewhat since before Covid, but the top line has been little affected given their ability to raise rents. We generally believe good assets in good markets will hold their value. It may be that more properties are converted to residential from office – the company has two such conversions underway, one in L.A. and one in Honolulu – but we think the land value here provides a lot of long-term optionality on the upside.

How cheap do you consider the shares at a recent price of around $15.75?

KB: The stock currently trades at an implied cap rate – based on net operating income – of 7.6%. That's high by industry standards and we don't think will prove to be warranted here as the company continues to increase rental income and earnings over time. On our cash-flow estimates two to three years out, at what we consider a conservative 7% cap rate, we estimate intrinsic value in the low-$20s per share. In the meantime we're being paid to wait with a nearly 5% dividend yield.

One last note on management: the CEO and the COO have been in place for a long time, own a lot of stock, and have generally avoided taking on too much leverage – there's currently no debt at the holding-company level. At a time when expectations seem so low, we think we're in good hands.

Oklahoma-based energy infrastructure firm ONEOK [OKE] is a relatively new addition to your portfolio. What attracted your attention to it?

KB: We got increasingly interested in this last year when the company announced it was merging with Magellan Midstream Partners. This combined ONEOK's core business of transporting natural gas liquids [NGLs] from the Rocky Mountain, Mid-Continent and Permian regions in the U.S. with Magellan Midstream's pipelines moving refined gasoline and diesel fuel throughout the middle part of the country. Post-acquisition the business mix is roughly 40% natural gas liquids and close to 30% refined products. The balance is made up of a variety of gathering and processing assets and natural-gas pipelines.

I wouldn't say these are particularly exciting businesses, but there's a utility-like nature to them that limits direct competition and provides fairly decent visibility into pricing and volumes going forward. Once you have pipelines like these built and established, especially today with concerns about the energy transition, it's unlikely additional capital will flow into the market to build new competing infrastructure. The pipelines also aren't overly expensive to maintain, so cash flow once they're up and running tends to be quite healthy.

How are you judging the impact of energy transition on the company's business?

INVESTMENT SNAPSHOT

ONEOK
(NYSE: OKE)

Business: Gathers, processes, stores and transports primarily natural gas liquids and refined fuel products traveling between buyers and sellers in the U.S.'s midsection.

Share Information (@7/30/24):

Price	**82.79**
52-Week Range	60.58 – 86.20
Dividend Yield	4.8%
Market Cap	$48.32 billion

Financials (TTM):

Revenue	$17.94 billion
Operating Profit Margin	21.2%
Net Profit Margin	12.5%

Valuation Metrics
(@7/30/24):

	OKE	S&P 500
P/E (TTM)	19.1	23.6
Forward P/E (Est.)	15.6	22.1

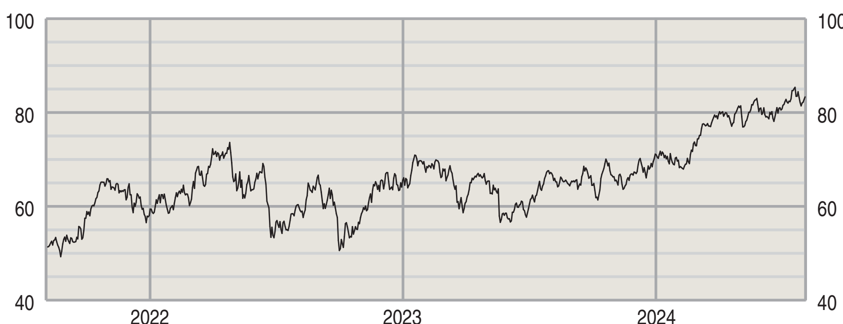
Largest Institutional Owners
(@3/31/24 or latest filing):

Company	% Owned
Vanguard Group	11.8%
BlackRock	8.8%
State Street	6.4%
Charles Schwab Inv Mgmt	2.8%
Geode Capital Mgmt	2.3%

Short Interest (as of 7/15/24):

Shares Short/Float	1.4%

OKE PRICE HISTORY



THE BOTTOM LINE

Kimball Brooker expects the company to continue to benefit from its recent large acquisition and to reap sufficient financial reward through the ongoing energy transition to more than justify the current share valuation. The stock today pays a 4.8% dividend yield and on his run-rate estimate of annual free cash flow trades at around a 7% FCF yield.

Sources: S&P Capital IQ, company reports, other publicly available information

KB: There shouldn't be much impact on the NGL-related business. NGLs are byproducts from oil and gas production such as ethane and butane, which are used to make a wide variety of things, including plastics, synthetic rubber, antifreeze and detergents. Demand has proven pretty stable and tends to be contracted well in advance. We don't see a lot of viable substitutes for NGLs going forward.

The debate is on the refined-products side of the business. Increased adoption of electric vehicles would over time negatively impact demand for gasoline and diesel fuel. When judging the investment implications of that, the timing and the extent of the transition are difficult to predict. Our essential contention here is that the impacts will take longer than conventional wisdom would suggest, and that the threats inherent in the transition are likely to discourage any new competition. We believe the company in the meantime can generate sufficient financial reward – including more than $200 million in annual merger-related savings – to more than justify the current share valuation.

How are you looking at valuation from today's share price of around $82.75?

KB: On our conservative $3.5 billion run-rate estimate of annual free cash flow, the stock today trades at around a 7% free-cash-flow yield. We're not counting on much growth, but we do expect that free cash flow to grow. The dividend yield is 4.8%. It's maybe not a change-the-world idea, but with a management team that seems content to stick to their knitting and execute, we think all this sets up well for shareholders going forward.

With annual turnover typically in the 10% range, you appear quite slow to sell. Describe why that's the case.

MM: With so much of the market focused on estimating the next quarter, it's not surprising that's a very competitive endeavor and one where we think it's hard for us to distinguish ourselves. And a long-term approach is very much in our DNA at First Eagle. Our mentor, Jean-Marie Eveillard, was a benchmark for patience, not unlike Warren Buffett and Charlie Munger in truly wanting to buy something forever. Thinking through whether you could imagine owning a business forever is a very clarifying thought.

KB: If you're buying into a company you believe has an advantaged market position, at a discount because it's going through some sort of industry or economic turmoil, the benefits of its advantaged position tend to pay off over full economic cycles. If you're aligning yourself with long-term stewards, the accretion from sensible investment decisions tend to play out over the long term as well. We will certainly sell if a stock price rises so far above intrinsic value that we're taking valuation risk, but what more often happens is that the businesses we own sort of plod along, the stock prices move in an aligned way with intrinsic value over time, and we're happy to remain owners.

ON STAYING POWER:

If the environment becomes more complex, we'd expect the market to start valuing resilience as highly as we do.

Would Comcast [CSCMA], which you've owned in the Global Fund for nearly 20 years, be a representative example?

MM: Even though on the surface a lot has changed for Comcast with the rise and fall of the cable bundle, coaxial cable remains the best way to deliver bandwidth to the home, and demand for that bandwidth continues to increase. The majority of the company's cash flows are derived from providing an essential service in markets where it has a dominant position. Where they compete with cellular providers, those providers can only devote so much of their network to intensive uses like streaming. Competing fiber providers find it hard to justify the expense of laying fiber to break into new markets. We think people have serially underestimated the duration of Comcast's core cash-flow stream.

Management's stewardship of capital has had pluses and minuses, but the Roberts family have been very long-term stewards of this business. As the cash flow has grown at the same time the share count has shrunk through reasonably well-timed buybacks, you've seen a steady compounding of intrinsic value per share. With the change in the industry and the maturity of the business, these types of companies tend to have less froth in the valuation. All of this has left us comfortable holding the stock as long as we have.

What's something you've sold in the not-distant past for reasons not having so much to do with valuation?

KB: Another reason to sell is if the character of the business has materially changed. That's what happened for us with Scotts Miracle-Gro [SMG]. We very much like its core business selling consumer seed, fertilizer and garden products, where it is the market leader. There's family ownership and management with a long track record of value creation. What happened is they started investing heavily in building out a cannabis-related business, meant to be a picks-and-shovels provider to cannabis growers. While we were concerned about that effort from the outset, the market loved it for a time and the stock after the onset of the pandemic became very much in demand.

In this case we ultimately concluded the business was evolving in a way we weren't comfortable with, not out of any moral objection to cannabis, but because the returns on capital were declining and the acquisitions were being done at prices that seemed too high, encumbering the balance sheet with increasing levels of debt. I wouldn't say we top-ticked it, but that the market at the time was still as enthusiastic as it was about the cannabis initiatives made it that much easier to part ways with the stock. We've seen that they're now re-

viewing alternatives related to the cannabis piece, so this could certainly be something we'd look at again. [*Note*: As high as $250 in April 2021, SMG shares closed recently at just over $70.]

Matt, would you say anything of note has changed in your investing approach since joining First Eagle 15 years ago.

MM: We've tried to be open minded about where there may be pockets of hidden value that may not be picked up in a pure statistical value approach. I think that's helped us make a range of technology investments over the years like I described with Salesforce, where we concluded the creation of economic value was much higher than what was captured in the GAAP financials. It also explains our interest in things like investment holding companies, where the asset values on a sum-of-the-parts basis may suggest a quite different opportunity than indicated by the GAAP P&L.

One organizational evolution we've made is to invest more heavily in the industry specialization of our research team. As the mix of assets residing on company balance sheets continues to shift from tangible to intangible, we think industry-specific experience and knowledge is increasingly important in assessing long-term opportunities.

In this long period of existential angst for value investors we may not be winning any popularity contests, but our portfolios have accreted in absolute terms at an acceptable clip and we're much more comfortable with what we own today than I would argue should be the case for an index or growth investor. We own a diverse range of durable, eclectic businesses at sensible valuations. At a time when we worry about global fiscal dynamics and about markets overall, that's very much where we want to be. VII

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Average Annual Returns

Data as of 30-Jun-2024

	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Inception	Gross Expense Ratio[1]	Fund Inception Date
First Eagle Global Fund Class A (SGENX) w/o load	7.64%	11.18%	4.96%	7.81%	6.22%	12.31%	1.10%	Jan 1, 1979[2]
First Eagle Global Fund Class A (SGENX) w/ load	2.26%	5.62%	3.18%	6.71%	5.67%	12.18%	1.10%	Jan 1, 1979[2]
First Eagle Global Fund Class C (FESGX)	6.23%	9.33%	4.15%	6.99%	5.42%	8.94%	1.86%	Jun 5, 2000
First Eagle Global Fund Class I (SGIIX)	7.76%	11.44%	5.21%	8.08%	6.49%	9.92%	0.86%	Jul 31, 1998
First Eagle Global Fund Class R6 (FEGRX)	7.80%	11.53%	5.29%	8.16%	-	7.31%	0.79%	Mar 1, 2017
MSCI World Index	11.75%	20.19%	6.86%	11.78%	9.16%	9.80%		

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The annual expense ratio[1] is based on expenses incurred by the Fund, as stated in the most recent prospectus.

The Fund[2] commenced operation on 28-Apr-1970. Performance for periods prior to 1-Jan-2000 occurred while a prior portfolio manager of the Fund was affiliated with another firm. Inception date shown is when the prior portfolio manager assumed portfolio management responsibilities.

The performance data quoted herein represent past performance and do 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 are available at www.firsteagle.com. The average annual returns for Class A Shares "with sales charge" or "w/load" performance gives effect to the deduction of the maximum sales charge of 3.75% for periods prior to 1-Mar-2000 and of 5.00% thereafter. Performance information Class A Shares "without the effect of sales charges" or "w/out load" assumes all distributions have been reinvested and if sales charge was included values would be lower. The average annual returns for Class C Shares reflect a CDSC (contingent deferred sales charge) of 1.00% in the year-to-date and first year only. Class I Shares require $1MM minimum investment and are offered without sales charge. There is no minimum subsequent investment amount for Class I Shares. Class R6 Shares are offered without sales charge. Operating expenses reflect the Fund's total annual operating expenses for the share class as of the Fund's most current prospectus, including management fees and other expenses.

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

As of 08/08/2024, **Newmont** makes up 0.73% of the First Eagle Global Fund. Newmont has the 2nd largest weighting within gold related securities in the First Eagle Global Fund.

As of 08/08/2024, **Barrick** makes up 0.80% in the First Eagle Global Fund. Barrick has the 2nd largest weighting within gold related securities in the First Eagle Global Fund.

As of 08/08/2024, **Wheaton** makes up 0.80% in the First Eagle Global Fund. Wheaton has the largest weighting within gold related securities in the First Eagle Global Fund.

As of 08/08/2024, **Itaúsa** makes up 0.48% of the First Eagle Global Fund. Itausa has the 11th largest weighting in the Financial sector of the First Eagle Global Fund. Itaúsa makes up the 2nd largest weighting within the Banks industry in the First Eagle Global Fund.

As of 08/08/2024, **Douglas Emmett** makes up 0.26% of the First Eagle Global Fund. Douglas Emmett has the 6th largest weighting in the Real Estate sector of the First Eagle Global Fund. Douglas Emmett makes up the 2nd largest weighting within the Office REITs industry in the First Eagle Global Fund.

As of 08/08/2024, **Oneok** makes up 0.38% of the First Eagle Global Fund. Oneok has the 5th largest weighting in the Energy sector of the First Eagle Global Fund.

As of 08/08/2024, **Comcast** makes up 1.60% of the First Eagle Global Fund. Comcast has the 2nd largest weighting in the Communication Services sector of the First Eagle Global Fund.

As of 08/08/2024, **Unilever PLC** makes up 1.49% of the First Eagle Global Fund. Unilever PLC has the 2nd largest weighting in the Consumer Staples sector of the First Eagle Global Fund.

As of 08/08/2024, **Haleon** makes up 0.98% of the First Eagle Global Fund. Haleon has the 7th largest weighting in the Consumer Staples sector of the First Eagle Global Fund.

As of 08/08/2024, **Oracle** makes up 2.43% of the First Eagle Global Fund. Oracle has the largest weighting in the Information Technology sector of the First Eagle Global Fund.

As of 08/08/2024, **Meta** makes up 2.40% of the First Eagle Global Fund. Meta has the largest weighting in the Communication Services sector of the First Eagle Global Fund.

As of 08/08/2024, **Alphabet** makes up 2.19% (both Alphabet Inc. Class C and Class A) of the First Eagle Global Fund. Alphabet has the 2nd largest weighting in the Communication Services sector of the First Eagle Global Fund.

As of 08/08/2024, **Shimano** makes up 0.84% of the First Eagle Global Fund. Shimano has the 3rd largest weighting in the Consumer Discretionary sector of the First Eagle Global Fund.

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Top Ten Holdings

Data as of 30-Jun-2024

Name	(%)	Country	Sector
Gold Bullion	11.6%	Gold	Materials
Oracle Corporation	2.7%	United States	Information Technology
Meta Platforms Inc Class A	2.5%	United States	Communication Services
Exxon Mobil Corporation	2.1%	United States	Energy
HCA Healthcare Inc	1.9%	United States	Health Care
SLB	1.8%	United States	Energy
Comcast Corporation Class A	1.6%	United States	Communication Services
Alphabet Inc. Class C	1.6%	United States	Communication Services
Philip Morris International Inc.	1.5%	United States	Consumer Staples
Elevance Health, Inc.	1.5%	United States	Health Care

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.

Investment in gold and gold-related investments present certain risks and returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets.

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Indices are unmanaged. One cannot invest directly in an index.

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