Franklin Gold and Precious Metals Fund

United States - Retail

Advisor Class
Class A
December 31, 2024

Product Commentary

Performance Review

- After reaching all-time nominal highs amid sustained "haven" demand, gold prices plateaued in 4Q24, ending the quarter with a -0.4% return in the spot market, to $2,625 per troy ounce—a quiet end to its best year (+27.2%) since 2010. Gold's strong 2024 gains may signal a possible shift in the market's dynamics given they have come despite a rallying US dollar (+7.6% versus other major currencies to the highest levels since November 2022) and rising real (i.e., inflation-adjusted) US Treasury yields, as both are typically headwinds for gold. Its annual advance was fueled by US monetary policy easing, a stream of geopolitical risks and continued purchases by central banks. Conversely, investors reduced exposure to gold-backed exchange-traded funds (ETFs) for a fourth straight year in 2024 despite the backdrop of repeated record-high prices and the start of monetary easing by the US Federal Reserve. At the same time, geopolitical risks from the conflicts in Ukraine and the Middle East saw central banks in emerging market countries, Asian investors, and consumers flock to gold bullion as a portfolio diversifier and hedge. While bullion ticked slightly lower through year-end since Donald Trump's sweeping victory in November's US presidential election, its gains over 2024 still outstripped most other commodities (including all other precious metals). Silver prices were down 7.2% in 4Q24 (to US$28.90 per ounce), reducing its 2024 gains to 21.5%. Platinum and palladium, meanwhile, were down for the quarter (-7.6% and -9.0%, respectively) and the year (-8.5% and -17.1%). The palladium market spent most of 2024 trying to recover from six-year lows, while platinum has been rangebound near or below $1,000 per ounce since mid-2021. Aside from precious metals, copper (-10.8% in 4Q24, to $8,768 per metric ton, the lowest level since 2020) and all other major base metals traded lower in 4Q24 while investors waited for clearer demand signals as they attempted to sort out an array of challenges, including (1) economic stagnation in China, (2) weak global demand, (3) stable or increased supply, and (4) higher inventory levels. For 2025, the market is focused on whether there will be a sturdier recovery in global manufacturing activity and China's embattled property market, a key demand pillar for base metals. Commodity-linked equities mostly underperformed physical commodities over the October–December span, as was the case for metals and mining stocks, including some gold producers, many of which ended the period with substantial losses.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Newmont (Significant Underweight)	Gold (Stock Selection)
	Orla Mining (Off-Benchmark Exposure)	Diversified Metals and Mining (Off-Benchmark Exposure)
	G Mining Ventures (Off-Benchmark Exposure)	—
HURT	Agnico Eagle Mines (Significant Underweight)	Silver (Off-Benchmark Exposure)
	Pantoro (Off-Benchmark Exposure)	Copper (Off-Benchmark Exposure)
	Resolute Mining (Overweight)	—

- The fund sustained widespread absolute declines across all seven of its industry allocations but fared better than the FTSE Gold Mines Index given the strength of our stock selections among gold producers (which comprised roughly 85% of total net assets), along with a small secondary boost from off-index holdings in the diversified metals and mining industry (averaging 6.6% of the portfolio). In general, the quarter got off to a strong start when the fund posted its fourth consecutive month of gains in October, then descended into an intensifying selloff in both November and December as the 2024 gold rally began to stall. Our ongoing strategy of limiting portfolio exposure to the world's largest gold miners had mixed but mostly positive results in 4Q24 as beneficial underweightings in Newmont, Barrick Gold and other major gold producers were partially offset by a couple of underweighted large-cap detractors that posted smaller 4Q24 losses than the index (Agnico Eagle Mines and Northern Star Resources). Although Newmont—the fund's largest stock holding—was our biggest contributor to relative returns as we held less than a third of the capitalization-weighted index's huge 22.6% average weighting, it was also the largest absolute detractor as its shares collapsed by roughly 30% after the company reported its 3Q24 results. Newmont's earnings missed consensus analyst expectations due to higher-than-expected costs, while management talked down its production expectations for 2025 and beyond. We still believe Newmont has some of the largest, long-life gold assets in the world but has significant work ahead to rebuild shareholder confidence and trust after disappointing investors with its 1Q24 and 3Q24 earnings results. Nearly all other notable gold industry contributors were overweighted or off-benchmark holdings that bucked the overall downtrend, with some posting strong double-digit percentage gains. These included Orla Mining, G Mining Ventures, Skeena Resources, Torex Gold Resources, O3 Mining, De Grey Mining and Genesis Minerals.
- Key contributor Orla Mining owns 100% interests in the Camino Rojo mine located in Zacatecas, Mexico; the Cerro Quema project located in the Azuero Peninsula, Panama; and the feasibility-stage, open pit, heap leach South Railroad project located on the Carlin trend in Elko, Nevada (United States). Industry analysts grew more optimistic about Orla's earnings potential, with some raising their full-year 2024 earnings estimates for the company. Orla's financial performance has been robust, in our analysis, with significant revenue gains projected for 2024. Orla also announced strategic expansion into Ontario, Canada, with its acquisition of the Musselwhite Gold Mine from a subsidiary of Newmont (expected to close in 1Q25), which will help diversify the company's production profile and add new exploration opportunities in Canada.
- Some of the fund's small off-benchmark industry allocations fared worse than the FTSE Gold Mines Index, including six out of seven positions in silver-focused miners (averaging just 2.4% of total net assets) such as Aya Gold & Silver. We also saw widespread depreciation across copper producers (covering less than 1% of total net assets), as well as platinum and palladium miners in the precious metals and minerals industry (at just under 4% of the portfolio). However, the fund's largest detractor in the latter industry was Thesis Gold; while this junior resource company primarily focuses on gold and silver exploration and development properties in Canada, it is categorized within the broader precious metals and minerals industry. Thesis Gold is focused on advancing its Lawyers Ranch Project in the Toodoggone Mining District of British Columbia, Canada. The

company completed its 2024 field program, which included significant drilling and environmental baseline studies. This positions Thesis Gold well for the upcoming Pre-Feasibility Study (PFS) and Environmental Impact Assessment (EIA) in early 2025, but the slow pace of advancement has left many investors frustrated with the company. The rest of the key detractors were overweight or off-benchmark gold miners that sustained significant share-price declines, including Pantoro, Resolute Mining, St Barbara, Emerald Resources and Calibre Mining. Relative performance was also pressured by a lack of exposure to Kinross Gold and other index component companies that either appreciated or posted smaller-than-average losses for the quarter. In particular, the shares of Australia-based Resolute, which has gold-mining operations in Africa (Mali and Senegal), had reached a three-and-a-half-year high before selling off sharply in the first half of November; in percentage terms, it was by far the worst performer among the companies mentioned above. Resolute's chief executive officer (CEO) and two other employees were detained against their will by Mali's government officials. Management was in Bamako to hold discussions with the mining and tax authorities regarding general activities related to Resolute's in-country business practices and to discuss open claims made against Resolute, which the company maintains are unsubstantiated. Following several days of negotiations, a temporary trading halt by the Australian Securities Exchange was initiated. Resolute's stock recommenced trading shortly thereafter but fell sharply given the news that the CEO and other employees were still being prevented from leaving Mali, negatively impacting investor confidence. After extended negotiations, Resolute made an initial settlement payment of approximately $80 million to the Mali government from existing cash reserves, with future payments of approximately $80 million to be made in the coming months from existing liquidity sources. By 18 November, the CEO and employees were finally allowed to leave (about 10 days after their initial detainment). In our view, it has been disappointing to see the Mali government resorting to strong-arm tactics to extract additional payments from companies, and we will continue to closely follow the progress in the country, but we also think that Resolute's share-price decline more than priced in the cost of the extra payments; as such, we continued to hold the position at December-end.

Outlook & Strategy

- **Gold was rangebound and a little directionless in December, closing one day above $2,700 per troy ounce and two days below $2,600, as the numerous crosscurrents filtered through the gold market, but we are quite encouraged by the resilience of gold against the strong US dollar and rising US Treasury yields.** Physical gold ETFs divested 275,000 ounces in December, but there were some big swings in holdings in both directions reflecting the uncertainty in the market. ETF-based holdings ended the month at 82.9 million ounces of gold—still well below 2020's peak levels of 111 million ounces, but above the May low of 80.5 million ounces. The US dollar's strength was a major headwind in 4Q24 given gold's statistically strong negative correlation to the greenback. Gold generated notably strong year-to-date returns through October, so we were not surprised to see some profit-taking following the US election into year end. We continue to see signs that gold's increasing use as a financial asset for trade may be contributing to ongoing higher prices.
- **Significantly higher gold prices should provide a meaningful profit-margin boost to gold miners' quarter-over-quarter and year-over-year earnings as companies begin reporting their overall 2024 results, despite some potential escalation in costs.** Gold prices averaged $2,660 per ounce in 4Q24 compared to $2,476 per ounce in 3Q24—up $184 per ounce, maintaining the upward momentum we have seen over the prior three quarters. On a year-ago basis, gold was up $685 in 4Q24 compared to the $1,975 per-ounce average in 4Q23. Although we think current cost inflation and skills shortages in the broader mining industry may continue to weigh on operating costs to some degree, many of those pressures have been easing in the near term, and the higher gold prices should more than offset any cost pressures, allowing companies to deliver potentially meaningful earnings and free cash flow growth.
- **The Republican sweep of the 2024 US election (the presidency and control of both chambers of Congress) in November is likely to bring significant changes to the global landscape in the next couple of years.** The clear victory removed uncertainty, triggering an initial rally in US equity markets, a surge in the US dollar, and a decline in gold, but markets seem to have lost conviction over the past couple of weeks as uncertainty has crept back in. US economic data has remained resilient, driving expectations for fewer rate cuts in 2025, which has supported the US dollar. A strengthening dollar (which makes gold more expensive for non-US buyers) should be a major headwind for gold prices, but interest in gold as an asset not tied to any one government or financial system seems to be offsetting this pressure for the time being. One medium-term headwind for gold could come from US Senator Cynthia Lummis (from the state of Wyoming), who plans to propose a bill to sell some of the US Department of Treasury's physical gold holdings to fund the accumulation of one million bitcoin (the world's most popular and widely recognized cryptocurrency) over a five-year period. This would represent roughly 5% of the total bitcoin supply and would cost over $90 billion at year-end 2024 prices, which would require selling over 10% of the gold held by the US Treasury (also based on year-end prices). If this bill passes in its current form, it could add about 5% to the global gold supply each year for the next five years. Gold represents 74.3% of US currency reserves, compared to less than 6% of Chinese reserves (as of the end of 2024), despite the active buying by the People's Bank of China (PBoC) over the past couple of years. In early January 2025, official data from the PBoC showed that it had resumed gold purchases in November and December, after not making any purchases in the prior sixth months. If the United States were to move forward with gold sales, the action of other central banks would be a key driver for the gold price, in our view.
- **In the gold market, attention seems to have shifted from focusing on the path of interest-rate reductions to the lingering threat of inflation in a world defined by tariffs and declining global trade.** Although the reversal in US Treasury yields following the US election results and stronger-than-expected economic data should be a headwind for gold prices, we believe that gold can work well in periods of financial uncertainty or increasing inflation. Each year, new gold production adds about 1.7% to the estimate of all gold ever mined, which is well below the money-supply growth of most major countries. New mine supply is quite slow to respond to price signals given the long timeline (typically greater than 10 years from initial discover to a producing mine. Since the amount of above-ground gold is likely to increase at a slower rate than most currencies in the world, one could expect gold to increase in price relative to currencies. In addition, the currently low gold-producer equity valuations provide little incentive to accelerate new mine-supply growth, though we believe strong cash generation at current gold prices could promote higher spending on M&A (merger and acquisition) as well as exploration. The election of Donald Trump as the next president of the United States triggered a surge in the US dollar,

which built on the greenback's strength in October and continued into mid-January. President-elect Trump promised lower interest rates as part of his campaign agenda, but this runs counter to his plans for significant import tariffs, which tend to be inflationary for US consumers, so the path for interest rates going forward is uncertain.

- **The latest World Gold Council (WGC) demand trends report—released on October 30 and covering 3Q24—showed total demand, including OTC (over the counter) investment, gained 5% year-over-year and reached record levels.** Net central bank purchases were 186 metric tons in 3Q24, essentially flat compared with 2Q24 and well above historical averages, but below the record accumulation in the first nine months of 2023. Jewelry sales were hit hard by the rapid rise in gold prices, with sales dropping 12% compared to last year. Although this was the weakest 3Q sales total for the WGC records back to 2000, they were still up 17% from 2Q24 levels with the support of a cut to import duties in India. Although the gold ounces purchased was impacted by elevated prices, the overall value spent actually increased 13% versus the same quarter last year— indicating the issue sits with affordability, not the desire to buy gold jewelry. Gold bar and coin investment fell 9% in 3Q24 compared to last year, but total investment demand surged 132%, with physical gold ETFs swinging from being a larger seller in 2023 to a meaningful buyer in 3Q24. Gold-mine supplies rose 5% versus last year, setting a new record for the first nine months of production in any year. Additionally, gold recycling rose 11% on a year-ago basis but was below the levels in 1Q24 and 2Q24, despite prices pushing even higher through September.
- **M&A Update:** After 18 months of slower-than-expected M&A activity from mid-2022 through the end of 2023, 2024 delivered a fairly steady pace of deals, but rapidly increasing cash flow from producers still leaves us optimistic about our expectation for further meaningful industry consolidation. We think the pendulum has swung too far from reckless spending back in 2010 to the current scenario characterized by fiscal conservatism at the expense of the longer-term business health, and we are hopeful that it will swing back to a more balanced approach in the coming years. We think M&A is an efficient and cost-effective way for producers to replace depleting reserves given current market conditions. Overall M&A activity, in our view, helps support the equity valuations of earlier-stage companies with quality assets—companies in which the portfolio is currently overweighted relative to the FTSE Gold Mines Index and many of its mutual fund peers.
- **M&A Details:** Newmont (the fund's top holding as of 31 December) detailed a plan to divest six of its operating mines and two development-stage projects, as part of its 2023 year-end results presentation in February 2024. Since then, the company announced the divestiture of the Telfer mine in Australia to Greatland Gold (not a holding when announced but now a holding) in September, the sale of its Akyme gold mine in Ghana to Zijin Mining (not a fund holding) in early October, the sale of its Éléonore mine in Canada to Orla Mining (fund holding) and sale of its Cripple Creek Mine (United States) to SSR Mining (not a fund holding) in December. The management of Newmont continued to say the company is on track to sell the remaining North American assets by the end of 1Q25. At the end of March, fund holding Alamos Gold announced the acquisition of Argonaut Gold (not held by the fund), in a deal (completed in July) that delivered significant synergies as Argonaut's Magino mine is directly adjacent to Alamos' Island Gold operations. Coincident with the July closing, fund holding Heliostar Metals announced its plans to acquire Argonaut's Mexican operations, and spinoff company Florida Canyon Gold (not held by the fund at the time but became a fund holding) announced plans to merge with fund holding Integra Resources (both deals closed in November). In mid-July, fund holding G Mining Ventures closed the acquisition of Reunion Gold (also a fund holding at that time), bringing G Mining's now-operational Brazilian gold mine and experienced development team together with Reunion's high-quality development project in Guyana to create one of the highest-profile growth stocks in the industry, according to our analysis. Fund holding Contango ORE closed the acquisition of then-holding HighGold Mining in July, bringing together Contango's newly completed cash-flowing mine and a separate exploration site with HighGold's development project, all of which are in the US state of Alaska. Westgold Resources, meanwhile, finalized its acquisition of Karora Resources in August (neither is a fund holding), creating Australia's third-largest listed gold miner; this deal follows the Australian consolidation between fund holding Red 5 and Silver Lake Resources, which closed in June; the merged company was named Vault Minerals. Fund holding Gold Fields closed its all-cash acquisition of former fund holding Osisko Mining in October; and fund holding AngloGold Ashanti's closed its share-based acquisition of then-holding Centamin in November. In early December, Northern Star Resources announced plans to acquire De Grey Mining in an all-stock transaction and Agnico Eagle Mines announced plans to acquire O3 Mining in an all-cash deal (all four companies are fund holdings).

Fund Details

Inception Date	05/19/1969
Benchmark	FTSE Gold Mines Index, S&P 500 Index

Fund Description

The fund seeks capital appreciation by investing at least 80% of its net assets in the securities of companies around the world that mine, process or deal in gold or other precious metals such as silver, platinum and palladium. The fund has a secondary goal of current income.

Performance Data

Average Annual Total Returns[1] (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Advisor Class - With Sales Charges[a,b]	-8.62	-11.87	17.83	-2.58	5.13	6.88	4.99	05/19/1969
Advisor Class - Without Sales Charges[a,b]	-8.62	-11.87	17.83	-2.58	5.13	6.88	4.99	05/19/1969
Class A - With Sales Charges[a]	-13.67	-16.76	11.02	-4.64	3.70	6.01	4.69	05/19/1969
Class A - Without Sales Charges[a]	-8.63	-11.92	17.49	-2.82	4.88	6.62	4.79	05/19/1969
FTSE Gold Mines Index	-9.50	-16.51	8.97	2.21	3.64	8.01	-	-
S&P 500 Index	-2.38	2.41	25.02	8.94	14.52	13.10	10.63	-

***Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit www.franklintempleton.com.*

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Share Class Details

			Sales Charges		Expenses	
	CUSIP	Ticker	Max	CDSC	Gross	Net
Advisor Class	353535305	FGADX	–	–	0.67%	0.67%
Class A	353535107	FKRCX	5.50%	–	0.92%	0.92%

The **FTSE Gold Mines Index** is designed to reflect the performance of the worldwide market in the shares of companies whose principal activity is the mining of gold. Source: FTSE.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Portfolio Diversification

Top Equity Issuers
% of Total

Top Holdings	%
NEWMONT CORP	4.79
ALAMOS GOLD INC	4.53
G MINING VENTURES CORP	4.46
AGNICO EAGLE MINES LTD	4.43
PERSEUS MINING LTD	3.48
BARRICK GOLD CORP	3.15
ORLA MINING LTD	3.05
TOREX GOLD RESOURCES INC	2.81
ARTEMIS GOLD INC	2.74
ANGLOGOLD ASHANTI PLC	2.68

Investment Team

Steve Land, CFA
Years with Firm 27
Years Experience 28

Fred Fromm, CFA
Years with Firm 32
Years Experience 33

1. Periods shorter than one year are shown as cumulative total returns.

What Are The Risks?

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

a. The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.
b. Performance quotations for this class reflect the following methods of calculation: a) For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A performance, excluding the effect of Class A's maximum initial sales charge but reflecting the effect of the Class A Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.

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