FRANKLIN TEMPLETON

Franklin Gold and Precious Metals Fund

United States - Retail

Advisor Class
Class A
June 30, 2024

Product Commentary

Performance Review

- Gold posted its third quarterly gain in a row (+4.3%, to $2,327 per troy ounce) during second-quarter 2024 (2Q24) despite a seemingly tough fundamental backdrop for precious metals: high interest rates, tapering inflation, a strong stock market, and a still-growing US economy. Gold also reached new nominal record highs, though it rose at a more subdued pace than in 4Q23 (+11.6%) and 1Q24 (+8.1%). This is gold's best quarterly winning streak since the pandemic-blighted 2020. Gold has traditionally traded in an inverse correlation to real (i.e., inflation-adjusted) yield of the 10-year US Treasury note, but the relationship in 2024 has shown signs of breaking down. Gold's advance year-to-date has been supported by investor expectations of interest-rate cuts by the US Federal Reserve, along with buying by central banks and investor demand for "haven" assets amid geopolitical tensions; in particular, Chinese buyers have been seeking an alternative hard asset in which to store value in the wake of the country's real estate slump. Among other precious metals, silver prices rose 16.7% in 2Q24, to $29.14 per ounce, and traded above $32 in late May—its highest level since 2012. Platinum prices increased 9.3% (to $996 per ounce), while palladium dropped 3.9% (to $977); both metals are in the midst of a protracted destocking phase. Base metals also rallied broadly, with the London Metal Exchange (LME) Index adding 9.3% in 2Q24 as all of the metals it tracks—copper, aluminum, lead, nickel, tin and zinc—commanded higher prices, including an 8.3% gain in LME copper futures. While copper ended June still roughly 12% higher year-to-date, it was also nearly 12% below the peak of $10,889 per metric ton (mt) set on 20 May 2024. The upswing was underpinned by the widely held view that the world's copper mines will struggle to meet fast-growing demand from artificial intelligence (AI) infrastructure and green-technology industries, but persistent weakness in top copper user China and soft physical demand indicators have since pulled it down from its record high through June. In global equity markets, gold-mining industry stocks generally rallied more than physical gold, especially among the world's smaller-scale, development-stage and single-asset miners. They were accompanied by similarly strong share-price gains across industrial metals producers, along with those focused on silver and platinum/palladium.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Gold Fields (Significant Underweight)	Gold (Stock Selection)
	Barrick Gold (Significant Underweight)	Precious Metals and Minerals (Off-Benchmark Exposure)
	Northern Star Resources (Significant Underweight)	Diversified Metals and Mining (Off-Benchmark Exposure)
HURT	Newmont (Significant Underweight)	Diversified Support Services (Off-Benchmark Exposure)
	Kinross Gold (Significant Underweight; Sold by Period-End)	Copper (Off-Benchmark Exposure)
	Victoria Gold (Off-Benchmark Exposure; Sold by Period-end)	—

- The fund's 2Q24 outperformance of the FTSE Gold Mines Index was supported by both stock selection and allocation decisions across industries. Stock selection was strongest in the gold industry, which averaged about 84% of the portfolio. Although the top three relative contributors—Gold Fields, Barrick Gold and Northern Star Resources—reflected the benefits of underweightings in large-capitalization gold miners that fared poorly, they were joined by a long list of off-benchmark or overweighted holdings that had a leveraged response to gold's rise and posted large, double-digit percentage gains. These included Pantoro, Robex Resources, G Mining Ventures, Spartan Resources and Emerald Resources. Australian gold producer Pantoro reported record production of 8,298 ounces in March and completed an A$100 million equity financing in May to restructure its debt and increase its exploration activity. G Mining announced plans to merge with Reunion Gold (also a fund holding). Off-index Reunion Gold is progressing a major new gold discovery in Guyana and reported positive results from its infill drilling program at the Oko West Project (thereby expanding an already impressive high-grade gold mineralization zone). The merger with G Mining will create a new gold-focused growth company in the Americas; the deal eventually closed in mid-July. Robex Resources, a new fund holding, is focused on West African gold mines, including its small Nampala producing mine in Mali and its Kiniero development project in Guinea (Conakry), which is part of the highly prospective Birimian Greenstone belt, an area renowned for its rich deposits of gold and diamonds. Robex successfully closed a public offering round in June and plans to use the proceeds for its Kiniero Gold Project development and other initiatives. Robex announced a significant increase in inferred resources at the Mansounia deposit, which is part of the Kiniero Gold Project. Robex owns several other deposits in the region—providing further resource upside—and with the ex-Tietto Resources Management team taking the reins, combined with a well-supported equity financing, the company is focused on quickly bringing the project to production. In general, surveys suggest gold investors perceive long-term threats to the economy that began with the pandemic and the Russia-Ukraine war and now extend to include the war in the Middle East, ballooning government debt, and deep political discord in the United States and internationally; in short, a highly turbulent and uncertain time that currently lacks the widespread economic decline that has often catalyzed gold rallies in the past. Gold has risen to 11% of all central bank global reserves, up from about 6% in 2014, and buying has continued in 2024 despite gold's spot price touching all-time highs above US$2,400 per troy ounce. However, the pace of gold buying does seem to have slowed with the rapid rise in price as China's central bank prominently displayed with its declining purchases in 2024 through April—and no purchases in either May or June.
- Off-benchmark allocations in the diversified metals and mining industry, along with the precious metals and minerals industry (where the gains were focused on platinum and palladium miners) outperformed the FTSE Gold Mines Index by wide margins. The diversified metals allocation, averaging 7.3% of the portfolio, held several outliers to the upside, including Vizsla Silver and Bravo Mining, with Bravo more than doubling in value. Producers of platinum, meanwhile, responded favorably as platinum ascended from multiyear lows, with industry forecasts suggesting that the 2024 platinum market faces what could be its largest supply shortfall in 10 years amid firm consumption trends, and as several major producers reduce costs and scale back expansion/development plans in response to low prices. Silver-focused miners were another area of strength as most of these off-index holdings rose well above the benchmark average. Silver can be affected by the same haven factors that influence gold, but it also has industrial uses,

since it's a good electricity conductor. The tailwinds lifting copper, notably the global electrification push and demand for more-powerful semiconductors, also affect silver as it is used in the semiconductor chips needed for AI. Fresh full-year data from The Silver Institute, an industry group, said industrial demand in 2023 reached a record high, noting a 64% jump in demand from the solar-panel industry.

- On the downside, relative returns were hindered foremost by the fund's substantial underweighting in large-cap gold miners Newmont and Kinross Gold (not held at period-end), both of which enjoyed strong spring rallies. Paradoxically, Newmont—the portfolio largest holding (6.7% of total net assets at June-end)—was also our biggest absolute contributor by far. Nearly all of the other key detractors were off-benchmark or overweighted gold industry holdings that shed value, including a sharp drop in Victoria Gold and smaller losses for Ascot Resources, Predictive Discovery, Red 5, Troilus Gold and Banyan Gold. The fund divested its position in Victoria Gold after a heap leach pad at its Eagle gold mine (in Yukon Territory, Canada) experienced a landslide failure, leading to an operational suspension. This incident significantly impacted the company's production capabilities. While no injuries were reported, the site did sustain infrastructure damage, and the company has just enough debt to complicate a return to production. Our position in Canadian development-stage company Troilus Gold, which is focused on advancing the former Troilus gold and copper mine toward a restart, shed about a third of its equity value. The feasibility study completed in May outlined a 22-year, 50-kiloton-per-day mill fed by an open-pit mining operation. Although this is a significant project in Canada, its estimated profitability (based on net present value) and internal rate of return (14%) might not have met some investors' expectations, leading to a stock selloff. Canadian miner Ascot, meanwhile, was in the process of commissioning its Premier Gold Mine in the Golden Triangle region of northwestern British Columbia, which marked a major milestone with its first gold pour in April. While the company was moving toward the start of commercial production (anticipated in 3Q24), this ramp-up phase involves continued capital expenditure as it develops additional underground mining areas, which can be a period of financial uncertainty for investors. Just after period-end, Ascot announced an equity offering to provide additional working capital for the mine ramp-up.

Outlook & Strategy

- **Gold prices pushed higher for the quarter but pulled back from the highs set in May.** Gold's new nominal peak level and sustained high pricing continued to draw some incremental interest to the industry from generalist investors, but gold equities continued to dramatically underperform the increase in free cash flow growth expected in 2Q24, implying investors are not yet comfortable with the sustainability of the profit-margin increase. Interestingly, despite the strong price move up in gold, physical gold exchange-traded fund (ETF) flows continued to be largely absent as a driver, with outflows from gold ETFs for the quarter, though June positioning did turn positive. Outflows from gold ETFs totaled 1.1 million ounces in 2Q24, bringing total ETF-based holdings to 81.05 million ounces, which was 30 million below 2020's peak levels of 111 million ounces. Although we are surprised with the pace of gold's ascent over the past several months, we see signs that its increasing use as a financial asset for trade may be contributing to the higher prices this year.
- **Gold-mining equites showed their high beta to gold in 2Q24, with equities delivering approximately twice the 4.3% price increase in physical gold over the quarter, yet many of these stocks were still trading at notably low valuation multiples compared to historical levels, and in light of the record highs.** In broad terms, the past four years have been the longest, most sustained period of strong gold-company earnings, yet the market remains skeptical about the sustainability given the poor stock performance of the industry over the prior 10 years—and seemingly have forgotten the positive periods when gold equities were one of the best-performing industries from 2000 to 2010. We see a potentially significant upside in gold-exposed equities if investors begin to price in essentially flat (never mind higher) prices looking forward. Our base case is that production costs will move higher over time, and that gold prices will likely move higher in response. Generally, we see this as an opportunity for producing companies to earn more money even on flat profit margins, given the high fixed costs associated with mine development. However, we believe there is even more compelling risk/return profiles in select advanced-stage exploration and development companies given their generally low current equity valuations, the industry's underinvestment in future supply growth, and the likely rise in exploration and development costs over time that together should make existing work more valuable, in our view.
- **Significantly higher prices to start the year should provide a meaningful profit-margin boost to gold miners' quarter-over-quarter and year-over-year earnings, in our view, despite some potential escalation in costs.** Gold prices averaged $2,338 per ounce in 2Q24, which was $266 above the $2,072 per ounce average achieved in 1Q24 and more than $362 above the 2Q23 average of $1,976 per ounce. Although we think current cost inflation and skills shortages in the broader mining industry will continue to weigh on operating costs, those pressures seem to be easing in the near term and the surge in gold prices should allow companies to deliver meaningful earnings and free cash flow growth.
- **The role of gold in global trade seems to be increasing, creating new demand dynamics.** Central banks returned to being net buyers of gold after the 2008 global financial crisis as they saw the benefits of owning an asset with low correlation to the stock and bond markets. Gold's historically negative correlation to the US dollar added to the appeal for central banks that were generally long in US dollars. More recently, the sanctions related to the Russia-Ukraine war highlighted other risks for central bankers as accounts were frozen, assets were seized, and Russia was unable to transact on many financial systems. As a result, there has been an increase in non-US dollar trade. Many trading partners don't want to take on other countries' currency risk, so gold is often used, either directly (e.g., trading gold for oil), or more as a reference, which replaces local-currency risk with gold-price risk. This activity has once again expanded gold's role as a financial instrument. Gold represents 69.7% of the US currency reserves, compared to only 4.3% of Chinese reserves, despite the active buying by China's central bank over the past couple of years. In early July, official data from the People's Bank of China (PBoC) showed that its reserves did not increase in June, repeating May's no-show and capping a year-to-date trend of decreasing purchases in response to the run-up in gold prices. Gold sold off in response to the initial announcement in June of no May purchases by the PBoC, but it did make it clear that the PBoC purchases were not a factor in gold's May appreciation, and the PBoC is now positioned to potentially provide some cushion to downward price moves when it resumes purchases. Gold offers a large, liquid market that has a remarkably long history as a hard asset not tied to any one country or financial system, which seems to garner a growing appeal given increasing global tensions.
- **The outlook for falling interest rates is supportive of gold as a non-interest paying asset, but we think an incorrect central bank policy decision could be an even bigger driver.** Lowering rates in an environment where inflation is not fully under control brings risks, and gold can work well in periods of unexpected 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 currencies. New mine supply is quite slow to respond given the long timeline (typically greater than 10 years) for exploration, mine definition, permitting and construction. 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 paper currencies. The currently low gold-producer equity valuations provide little incentive for new mine-supply growth, though we believe the strong cash generation at current gold prices could promote higher spending on mergers and acquisitions (M&A), as well as exploration.

- **The latest World Gold Council (WGC) demand trends report—released on 30 April and covering 1Q24—showed slightly weaker physical demand being more than offset by sizable OTC (over the counter) buying, leading to a 3% rise in total gold demand versus year-ago levels, which is the best start to any year since 2016.** Net central-bank purchases were 290 mt in the quarter, marking a new record in the WGC's historical data. Jewelry sales fell 2% globally, but they rose 4% in India, as the pullback in gold price early in the year encouraged additional buying. Gold bar and coin investment, meanwhile, increased 3% as it was supported by a 68% increase in Chinese demand. Gold ETF holdings continued to decline, down 28% year-over-year in 1Q24, but given gold's appreciation, total assets in gold ETFs actually rose by 4%. Gold-mine supplies rose 4% annualized, setting a new record for a first-quarter production—but it was still down 5% from 4Q23 levels given that many mining operations see higher production rates in the second half of a calendar year. Additionally, gold recycling rose 12% on a year-ago basis and reached the highest level since the 3Q20.
- **M&A Update:** Year-to-date 2023 showed a notable uptick in M&A activity, but the overall pace was still below our expectation for a meaningful industry consolidation. Numerous management teams lost their jobs due to fiscal imprudence coming off the peak in 2011, and the teams that replaced them since then have been much more disciplined and fiscally conservative. This has created a massive decline in the capital available for earlier-stage exploration and development projects in this cycle compared to previous cycles. The billions of dollars sitting on gold producers' balance sheets seem to help management teams "sleep well at night" in the short term. However, mines are built around finite ore bodies that deplete over time, so if gold producers don't continually reinvest, their businesses can wither away to nothing. We think the pendulum has swung too far from reckless spending to fiscal conservatism at the expense of the longer-term health of the business, and we are hopeful that it will swing back to a more balanced approach over the coming years. We feel that M&A should be an efficient and cost-effective way for producers to replace depleting reserves given current market conditions. We began to see pockets of this in 2023 but expect significantly more M&A to come in 2024, supporting 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:** In early February, Red 5 (a top-10 fund holding) announced plans to merge with Silver Lake Resources (not owned by the fund), thereby bringing Red 5's long-life, large-scale mining operation together with Silver Lake's two Australian mines, a Canadian development project, and a strong balance sheet as they create a new mid-tier producer in Australia, with the deal successfully closing in June. Newmont (a top-10 fund holding) emphasized a detailed plan to divest six of its operating mines and two development-stage projects this year as part of its 2023 year-end results presentation in February 2024, which may create opportunity for several mid-tier producers, but no deals were announced in the first half of this year. In early March, Hochschild Mining agreed to an option to buy the Monte do Carmo gold project in Brazil from Cerrado Gold (both companies are held by the fund). Hochschild Mining's construction of the Mara Rosa mine (Brazil) was delivered on time and on budget in 2Q24, while Cerrado has struggled to find funding for its project in the current environment. 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 Argonauts Magino mine is directly adjacent to Alamo's Island Gold operation. In April, G Mining Ventures and Reunion Gold (both fund holdings) announced plans to combine the companies (completed in mid-July), bringing G Mining's nearly completed gold mine in Brazil 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. At the end of April, Silvercorp Metals (not held by the fund)—China's largest listed primary silver producer—announced plans to acquire fund holding Adventus Mining for stock; this deal brings Silvercorp's strong balance sheet and cash flow from its mines in China to fund the development of Adventus's copper and gold project in Ecuador; however, although the deal received a positive shareholder vote and regulatory approval, Silvercorp has delayed closing the transaction, citing one or more pursuant conditions that were not met, thus adding uncertainty to the deal. Contango ORE announced in May that it plans to acquire fund holding HighGold Mining (both are held by the fund) in a friendly all-stock deal that would bring together Contango's soon-to-be cash-flowing mine and a separate exploration site with HighGold's development project, all of which are in the US state of Alaska. The deal closed in July.

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] (%) at NAV

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Advisor Class - With Sales Charges[a,b]	-5.32	9.79	14.61	-3.45	8.80	2.54	4.94	05/19/1969
Advisor Class - Without Sales Charges[a,b]	-5.32	9.79	14.61	-3.45	8.80	2.54	4.94	05/19/1969
Class A - With Sales Charges[a]	-10.59	3.67	8.03	-5.51	7.30	1.70	4.64	05/19/1969
Class A - Without Sales Charges[a]	-5.38	9.70	14.32	-3.71	8.52	2.28	4.75	05/19/1969
FTSE Gold Mines Index	-2.20	8.52	14.25	1.01	5.98	4.14	-	-
S&P 500 Index	3.59	4.28	24.56	10.01	15.04	12.86	10.57	-

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 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	6.66
AGNICO EAGLE MINES LTD	4.63
ALAMOS GOLD INC	4.23
PERSEUS MINING LTD	3.81
BARRICK GOLD CORP	3.31
ENDEAVOUR MINING PLC	3.01
G MINING VENTURES CORP	2.95
RED 5 LTD	2.86
ARTEMIS GOLD INC	2.54
EMERALD RESOURCES NL	2.27

Investment Team

Steve Land, CFA
Years with Firm 26
Years Experience 27

Fred Fromm, CFA
Years with Firm 31
Years Experience 32

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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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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