Franklin Gold and Precious Metals Fund

United States - Retail

Advisor Class
Class A
September 30, 2024

Product Commentary

Performance Review

- Gold prices finished the third quarter of 2024 (3Q24) up 13.2% (to US$2,635 per troy ounce in the spot market), the biggest quarterly advance since early 2016. While many investors grew more confident the US economy was going to pull off a soft landing, gold's outperformance of other commodities, as well as stocks and bonds, suggests skeptical investors may still be hedging against risks to the economic outlook. Along with rate-cut optimism, gold was boosted by continued central bank purchases and increased "safe haven" demand amid heightened geopolitical tensions in the Middle East and Ukraine/Russia. A weaker US dollar (-4.8% against a basket of major currencies) also offered support. Although gold bullion has gained almost 28% year-to-date, prices began to slip from the record nominal high of US$2,672 per ounce (for reference, in February 1980 gold reached over US$3,300 per ounce in today's dollars) in the latter half of September as the US Federal Reserve (Fed) interest-rate reduction cycle got underway and China stepped in to stimulate its economy. Among the precious metals with wider industrial applications, the 2024 silver rally continued (+6.9% for the quarter, to US$31.16 per ounce) while platinum (-1.4%, to US$982 per ounce) and palladium (+2.7%, to US$1,003 per ounce) saw comparatively muted 3Q24 returns, with both metals still in negative territory year-to-date, and with palladium well off its all-time highs above US$3,000 reached in both 2021 and 2022. In the global industrial metals complex, the key base metals tracked by the London Metal Exchange (LME) pulled out of their summer doldrums in September following announcements of numerous Chinese stimulus measures, resulting in quarterly gains for LME benchmark copper, aluminum, nickel, tin and zinc futures, while lead was an outlier to the downside. The LME Index, which tracks all six of these metals, rose 6.1% in September and 2.7% in 3Q24. Copper (+2.4%, to US $9,829 per metric ton) benefited from the mobilization of massive clean energy infrastructure investments and expectations for a wave of spending triggered by surging power needs from data centers focused on artificial intelligence (AI), with US and other countries' policy actions encouraging the widespread deployment of solar panels, electric vehicles (EVs) and other emission-cutting technologies that require sizeable amounts of copper. In US and global equity markets, 10 out of 11 sectors posted 3Q24 gains, including materials, which rose by 9.7% in the United States (per the Standard & Poor's 500 Index) and 9.8% globally (per the MSCI All Country World Index); the sector also outperformed those major index averages. Within materials, metals and mining companies were close to the sector averages, while the gold industry served as an outlier to the upside, having more than doubled the broader peer group's quarterly returns with a leveraged response to gold's summer rally.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Reunion Gold (Off-Benchmark Exposure; Not Held at Period-End)	—
	Osisko Mining (Off-Benchmark Exposure; Sold by Period-End)	—
	Gold Fields (Significant Underweight)	—
HURT	Ascot Resources (Off-Benchmark Exposure)	Diversified Metals and Mining (Off-Benchmark Exposure)
	Newmont (Significant Underweight)	Precious Metals and Minerals (Off-Benchmark Exposure)
	G Mining Ventures (Off-Benchmark Exposure)	Gold (Stock Selection)

- The fund's robust 3Q24 return trailed the FTSE Gold Mines Index due largely to the significantly weaker results seen in our non-core, off-benchmark industry allocations outside the booming gold industry (gold stocks covered about 85% of the portfolio, on average). In the precious metals and minerals industry, the overall return was positive but substantially lagged the index as Platinum Group Metals and other platinum/palladium mining companies sold off. Despite renewed interest in these metals (particularly in September), platinum is still down significantly from its multiyear high reached in 2021, while palladium was trading far below its all-time highs from about two-and-a-half years ago. Although destocking remains a challenge, the slowdown in the pace of EV sales has helped draw investors back to these metals that clean pollution from combustion engines. Demand for hybrid vehicles has surged as some consumers have grown wary of EVs, while combustion-engine vehicles are predicted to be around for longer than many had previously thought. The fund's investments in copper producers and diversified metals and mining companies, meanwhile, collectively appreciated but still ended the quarter with gains that were considerably less than the benchmark return. Although most of these stocks traded higher, Bravo Mining and a few other, largely pre-production companies depreciated amid the price weakness in non-gold metals mid-quarter, and they didn't participate in the late September rally.
- The rest of the notable 3Q24 dampened the fund's relative performance in the gold industry. Some off-benchmark or overweighted holdings didn't rise as much as the index (i.e., Orla Mining), others sustained losses based on company-specific setbacks (Ascot Resources, G Mining Ventures, Red 5, Bellevue Gold, Galiano Gold, Robex Resources and more), and a few were underweighted positions in large-capitalization gold producers that surpassed the benchmark average (Newmont, Agnico Eagle Mines and others). Australia-based Bellevue Gold was one of the larger decliners in the group. Bellevue, which briefly halted stock market trading (for just one day), reported higher-than-expected current and anticipated costs for the 2024-2025 period, and announced an AU$150 million placement in late July. The proceeds from the placement were used to repay debt, freeing up cash flow, so that Bellevue could self-fund its expansion plans. The company's cost guidance was not well-received by investors, especially since many of the world's larger gold producers were talking about declining cost pressures. Heading into October, Bellevue's equity value had yet to recover despite a modest September gain. The company remained focused on its key Bellevue Gold Mine, which achieved commercial production in May and continues to ramp up output. This mine has wide zones of high-grade gold deposits, and management remains committed to what it describes as significant exploration growth potential. Ascot, meanwhile, is a Canadian mineral development and exploration company focused primarily on restarting the Premier Gold Mine in the Golden Triangle region of British Columbia. The company had some operational challenges starting up the

mill, which caused management to lose focus on the underground mine development to a point where, although it believes it had addressed the major mill issues, it did not have access to enough ore to run the mill at full capacity. As a result, the mill was placed in care and maintenance while the company focused on mine development activities. The company is currently exploring various alternatives for funding to restart operations in 2025.

- On the upside, a host of overweighted or off-index gold industry contributors dominated the fund's leaderboard over the July–September span. The standouts included Reunion Gold (merged with G-Mining Ventures by quarter-end) and Catalyst Metals, both of which more than doubled in value, along with impressive yet smaller rallies in Osisko Mining (sold by period-end), Ora Banda Mining, Greatland Gold, Skeena Resources, Spartan Resources and Calibre Mining. The merger between Reunion and G Mining was finalized in July, and it's expected to enhance the development of Reunion's Oko West Project (in northwest Guyana, South America) by leveraging the combined expertise and resources of both companies. The Oko West Project is seen as a significant asset with excellent expansion potential in a mining-friendly jurisdiction; a recent Mineral Resource Estimate at Oko West included 4.3 million ounces of gold in indicated resources and 1.6 million ounces in inferred resources (covering both open pit and underground zones). We also fared well by keeping much lower-than-index exposures to Gold Fields and AngloGold Ashanti, as their 3Q24 gains came up well short of the FTSE Gold Mines Index's overall return. Large-cap, geographically diversified Gold Fields saw its share price constrained by its all-cash bid to acquire Osisko. In Canada, Osisko's principal project is the Windfall Lake Project in Québec, where Gold Fields had previously entered into a 50/50 joint venture to help develop the mine. In August, South Africa-based Gold Fields announced plans to acquire Osisko for approximately C$2.16 billion. This acquisition included a substantial premium of 67% over Osisko's closing share price ahead of the deal. Similarly, AngloGold announced a plan to acquire Centamin (also held by the fund) in September, offering a 38% premium (roughly US$2.4 billion acquisition cost) in a mostly-stock deal. Finally, key contributor Greatland Gold's primary asset was a stake in the Havieron gold-copper deposit located in the Paterson region of Western Australia. In mid-September, Newmont announced it had reached an agreement to sell its 70% stake in Havieron and 100% of the nearby Telfer mine to Greatland Gold. The company successfully raised funds to acquire the assets, during which the fund initiated a position, with the asset sale expected to close before year-end. We like the solid industrial logic behind this deal and see significant opportunity for Greatland to maximize the potential of these assets by bringing the full focus of its team to this consolidated land package, benefiting from the current production at Telfer that will be significantly extended as Havieron ore is fed through the Telfer mill.

Outlook & Strategy

- **Gold's new nominal peak levels and sustained high pricing continued to draw incremental interest from generalist investors in September,** with physical gold exchange-traded funds (ETFs) accumulating gold throughout much of the month and gold equities showing typical leverage, thereby outperforming the move in bullion. ETF flows have been trending higher since May, reversing the prior 12-month streak of outflows. Overall gold ETF inflows totaled 2.1 million ounces in 3Q24. Total ETF-based holdings ended September at 83.2 million ounces—still well below 2020's peak levels of 111 million ounces, but above the May low of 80.5 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 higher prices this year—and positive ETF flows indicate increased interest in gold by more traditional investors.
- **Gold-mining equities showed their high beta to gold over the past seven months (coming off of the February lows), with equities delivering about twice the 28.9% return of gold bullion over that period, yet many of these stocks, in our analysis, were still trading at notably low valuation multiples compared to historical levels, in light of close to record-high gold prices.** In broad terms, the past four-and-a-half years have been the longest, most sustained period of strong and improving gold-company earnings, yet the market remains cautious about the sustainability given the poor stock performance of the industry over the previous 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 the potential for 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 up over time, but most producers are currently enjoying a significant profit margin well above any previous period. Unlike previous period where we typically needed gold to move higher to justify a concomitant boost in stock prices, we are now at a level where we think gold producers should be making significant profits; even if gold prices plateau for a while, it should still be positive for gold-mining equities. However, we also believe there are even more compelling risk/return profiles in select advanced-stage exploration and development companies given their generally low current equity valuations, as well as the industry's underinvestment in future supply growth. We believe mergers and acquisitions (M&A) remain the most efficient way for producers to extend production profiles and push growth.
- **Significantly higher gold prices should provide a meaningful profit-margin boost to gold miners' quarter-over-quarter and year-over-year earnings, despite some potential escalation in costs.** Gold prices averaged US$2,476 per ounce in 3Q24, maintaining the upward momentum we have seen over the past three quarters. Gold was up US$138 from the US$2,338 per ounce average in the second quarter and US$550 above the year-ago (3Q23) average of US$1,926 per ounce. Although we think current cost inflation and skills shortages in the broader mining industry will continue to weigh on operating costs to some degree, those pressures have been easing in the near term, and the surge in gold prices should help many companies to deliver meaningful earnings and free cash flow growth.
- **The role of gold in global trade seems to be increasing, thus 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 or balancing item. 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 October, official data from the People's Bank of China (PBoC) showed that its reserves did not increase again in September, marking the fifth month of no purchases and capping a year-to-date trend of reduced government buying in response to the run-up in gold prices. It is noteworthy that gold has appreciated as much as it has over

the past five months without the PBoC's participation and what so far appears to be lower central bank buying overall in 3Q24. 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 the rise in global geopolitical 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 strong cash generation at current gold prices could promote higher spending on M&A as well as exploration. The Fed's decision to lower the federal funds target rate by 50 basis points on 18 September was on the more aggressive end of consensus expectations, adding slight downward pressure on the US dollar after the announcement, but with minimal initial impact on gold.
- **The latest World Gold Council (WGC) demand trends report—released on 30 July and covering 2Q24—showed continued weakness in physical demand being more than offset by sizable over-the-counter buying, leading to a 4% rise in total gold demand versus year-ago levels, which is the best start to any year since 2016.** Net central bank purchases were 183 metric tons (mt) in 2Q24, down from 290 mt in 1Q24 but still a healthy level of accumulation. Jewelry sales were hit hard by record gold prices, with sales dropping 19% compared to last year. Although such sales reached a four-year low as they fell 2% globally, they did rise by 4% in India, as the pullback in gold prices earlier this year encouraged additional buying. Gold bar and coin investment, meanwhile, increased 3%, supported by a 68% increase in Chinese demand. Gold ETF holdings were comparatively flat with a 7.0 mt net outflow—a positive turn from the consistent outflows witnessed over the past couple of quarters. Gold-mine supplies rose 3% annualized, setting a new record for a first-half production in 2024. Additionally, gold recycling rose 4% on a year-ago basis and reached the highest level since 2012.
- **M&A Update:** After 18 months of slower-than-expected M&A activity, 2024 has delivered a 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 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) detailed a 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. Since then, the company announced its first divestiture, selling the Telfer mine in Australia to Greatland Gold (not a holding when announced but now a holding) in September. Newmont also announced the sale of its Akyme gold mine in Ghana to Zijin Mining (not a fund holding) in early October. The management of Newmont continued to say the company is on track to complete the sales process of 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, Argonaut's Mexican operations were sold to fund holding Heliostar Metals, and spinoff company Florida Canyon Gold (not held by the fund at the time but now a fund holding) announced plans to merge with fund holding Integra Resources. 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. Silvercorp Metals (not held by the fund at the time)—China's largest listed primary silver producer—completed the acquisition of then-holding Adventus Mining for stock in a deal that brings Silvercorp's strong balance sheet and cash flow to fund the development of Adventus's copper and gold project in Ecuador. 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 (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. As previously mentioned, Gold Fields made an all-cash offer for Osisko Mining in August; and in early September, AngloGold Ashanti announced a planned share-based acquisition of Centamin with a small cash component (all four companies were fund holdings at the end of August, but the fund liquidated its position in Osisko Mining by the end of September).

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]	5.32	19.07	54.01	6.83	10.97	6.68	5.25	05/19/1969
Advisor Class - Without Sales Charges[a,b]	5.32	19.07	54.01	6.83	10.97	6.68	5.25	05/19/1969
Class A - With Sales Charges[a]	-0.49	12.46	45.20	4.57	9.46	5.81	4.95	05/19/1969
Class A - Without Sales Charges[a]	5.31	19.02	53.68	6.56	10.70	6.42	5.05	05/19/1969
FTSE Gold Mines Index	2.27	21.97	58.49	12.58	9.27	8.25	-	-
S&P 500 Index	2.14	5.89	36.35	11.91	15.97	13.38	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	6.97
ALAMOS GOLD INC	4.55
AGNICO EAGLE MINES LTD	4.39
G MINING VENTURES CORP	3.99
PERSEUS MINING LTD	3.59
BARRICK GOLD CORP	3.38
ARTEMIS GOLD INC	2.78
ENDEAVOUR MINING PLC	2.76
PANTORO LTD	2.37
TOREX GOLD RESOURCES INC	2.31

Investment Team

Steve Land, CFA
Years with Firm 27
Years Experience 27

Fred Fromm, CFA
Years with Firm 32
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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