FRANKLIN TEMPLETON

Franklin Natural Resources Fund

Advisor Class: FNRAX Class A: FRNRX | **Commentary | as of March 31, 2025**

Key Takeaways

- **Global Commodities Market and Natural Resources Equities:** With tailwind support from a depreciating US dollar (-3.9% versus other major currencies) and slight improvements in global manufacturing activity, the commodity complex's first-quarter 2025 (1Q25) results were skewed to the upside, though the early strength gave way to bouts of weakness in the latter half of the period. Energy markets, notably crude oil, saw sustained volatility, reflecting shifting geopolitical and demand dynamics as well as protectionist, aggressive trade policies. Precious and base metals showed notable resilience in this fragmented environment. During a difficult and volatile quarter for a wide range of equities, commodity-linked energy and materials sector companies posted overall stock market gains.
- **Contributors:** Overweight investments in gold miners; off-index European energy conglomerates; and significant underweightings in the underperforming construction materials as well as paper and plastic packaging, products and materials industries; and a lack of exposure to coal producers.
- **Detractors:** Stock selloffs in eight off-benchmark industries, including renewable energy plays in the electrical components and equipment industry; an overweighting and stock selection among copper-focused mining companies; and an unfavorable combination of significant overweighting and stock selection in the oilfield services industry.
- **Outlook:** The deteriorating economic outlook and the potential impact on commodity demand remains murky, due in part to geopolitical trends that are hard to predict. The portfolio's balance across natural resources sectors, quality focus and exposure to identifiable growth trends position it well for various economic outcomes, in our view.

Performance Review

- Although the fund's quarterly return was strong in absolute terms, it lagged the S&P North American Natural Resources Sector Index as favorable stock selection was more than offset by the negative impacts of industry allocation choices. The allocation-based downside was exacerbated by selloffs in eight off-benchmark industries, including a small weighting in electrical components and equipment, in which there were significant share-price declines for three out of four renewable energy, "green tech" and utility-scale energy storage system companies, including standout detractors Fluence Energy (sold by period-end) and T1 Energy, the latter of which reflected a 1Q25 rebranding of the company previously known as FREYR Battery. Although competitive pressures were flagged by many in this industry subgroup, abrupt changes and uncertainty in government policies—especially in the United States, where the Trump administration's attitude towards energy and renewables stood in sharp contrast to the previous administration—have greatly influenced investors' assessments of future profitability and the overall appeal of equities linked to solar and wind power.
- The fund's core energy sector holdings appreciated across five out of six related industries, while a small weighting in oil and gas drilling served as the sole outlier to the downside due to a stock selloff in Precision Drilling. Unfortunately, our results versus the index were hindered by strategic underweightings in large-capitalization integrated oil and gas industry companies such as Chevron and Exxon Mobil that dominate the index's market cap-weighted composition, as their stocks advanced solidly during 1Q25—partially offset by benchmark-topping gains for our off-index positions in European energy conglomerates Shell and TotalEnergies.
- Alamos Gold and other overweighted investments in gold-focused mining companies were a bright spot as they all advanced by double-digit percentages. In diversified metals and mining, select fund holdings responded positively to rising prices for industrial metals.
- In the oil and gas exploration and production industry, the support from big rallies in Hess (the subject of an all-stock acquisition by Chevron) and other overweight or off-index contributors more than offset a few detractors that failed to advance. In the oilfield services industry, the rally in off-index contributor Technip Energies aided relative performance, as did smaller benchmark-topping gains for a few other holdings.

Outlook

- Amid the tariff angst that characterized the latter half of the quarter, commodities and natural resources equities followed a more stable path that appeared to stem from currently healthy supply-and-demand fundamentals, positioning ahead of tariff implementation and, in the case of gold markets, "safe-haven" demand.
- Until we receive greater clarity around policy and economic trends, we will remain patient and seek to take advantage of volatility as we did in March, when several holdings began to trade below our assessment of their intrinsic value.
- Oil markets have been on edge as President Trump tries to strike deals with Russia to end hostilities in Ukraine. The Trump administration is also trying to negotiate deals with Iran to limit the country's apparent nuclear aspirations while also rescinding producers' licenses to operate in—and sell oil from—Venezuela. Meanwhile, the Organization of the Petroleum Exporting Countries and the cartel's key allies (OPEC+) was set to increase its oil production as key members begin to roll back their voluntary production curtailments at the same time that economic concerns have clouded the outlook for oil demand. It appeared global oil markets would remain roughly in balance this year before the most recent announcement from OPEC+, which also cited healthy demand, but this more aggressive unwinding could move the market into surplus. And this is before one considers the potential impact on demand from tariffs announced by the Trump administration on April 2. Given the number of uncertainties, we continue to take a cautious approach and have raised cash while reducing the portfolio's energy exposure until we receive further clarity on the economic implications of these new tariff regimes and the evolving OPEC+ strategy, which appears to have shifted away from supporting prices in the near future.
- 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.

Top Equity Issuers (% of Total)

Holding	Fund
EXXON MOBIL CORP	4.77
CONOCOPHILLIPS	4.19
HESS CORP	2.84
NEWMONT CORP	2.70
SHELL PLC	2.63
COTERRA ENERGY INC	2.59
CHEVRON CORP	2.54
FREEPORT-MCMORAN INC	2.51
CANADIAN NATURAL RESOURCES LTD	2.46
TECHNIPFMC PLC	2.42

Sector Allocation (Equity as a % of Total)

	Fund
Oil, Gas & Consumable Fuels	49.45
Metals & Mining	22.40
Energy Equipment & Services	12.97
Chemicals	7.28
Containers & Packaging	1.84
Construction Materials	1.22
Electrical Equipment	1.00
Construction & Engineering	0.74
Other	1.24
Cash & Cash Equivalents	1.88

Average annual total returns and fund expenses (%)

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Advisor Class	354713851	FNRAX	5.88	5.88	-0.50	4.81	26.27	2.68	6.48	5.88	5.88	-0.50	4.81	26.27	2.68	6.48	0.77	0.76	—	—	6/5/1995
Class A	354713604	FRNRX	5.83	5.83	-0.74	4.55	25.96	2.42	6.03	125,000.00	125,000.00	-6.19	2.60	24.55	1.84	5.83	1.02	1.01	5.50	—	6/5/1995
Benchmark 1	—	—	7.13	7.13	4.17	7.55	26.60	5.60	—	7.13	7.13	4.17	7.55	26.60	5.60	—	—	—	—	—	—
Benchmark 2	—	—	7.12	7.12	-3.85	-1.16	16.20	6.31	—	7.12	7.12	-3.85	-1.16	16.20	6.31	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=S&P North American Natural Resources Sector Index

Benchmark 2=S&P Global Natural Resources Index

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

The fund began offering Advisor Class shares on 12/31/1996. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, a restated figure is used based on the fund's Class A performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 08/31/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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. The **investment style** may become out of favor, which may have a negative impact on performance. **Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. 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.** 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.

Glossary

Organization of the Petroleum Exporting Countries (OPEC) is an organization consisting of the world's major oil-exporting nations.

Important Information

Effective September 1, 2024 the fund changed its benchmark to the S&P Global Natural Resources Index.

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.

The **S&P North American Natural Resources Index** provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS energy and materials sector excluding the chemicals industry; and steel sub-industry. Source: © S&P Dow Jones Indices LLC. All rights reserved. The **S&P Global Natural Resources Index** includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining. Source: © S&P Dow Jones Indices LLC.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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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.