Franklin Gold and Precious Metals Fund

United States - Retail

Advisor Class
Class A
March 31, 2024

Product Commentary

Performance Review

- Despite outflows from gold-backed exchange-traded funds (ETFs), gold spot prices rose 9.1% in March 2024 and 8.1% for the first quarter (to a record high of US$2,230 per troy ounce), with March signaling the largest one-month gain since July 2020, propelled by US interest-rate cut expectations and the metal's appeal as a "safe-haven" asset in times of economic volatility and geopolitical risk. Notably, gold was the only major commodity that set all-time highs during the quarter. Non-US central banks have been active buyers with China, India, Turkey and Poland serving as strong early-2024 government-demand centers for gold. Decoupling factors were noted as gold has advanced in the face of headwinds from higher interest rates, especially in real (inflation adjusted) terms, and a firm US dollar, which strengthened 3.1% versus other major currencies and made gold more expensive for non-dollar buyers. The other big disconnect has been between the record bullion price and the prices of gold miners' shares: Over the past two years, the S&P 500 Index is up nearly 20%, while the FTSE Gold Mines Index, which tracks the world's largest gold producers, was down 18% despite a solid rally in March. All other precious metals underperformed gold for the quarter. Silver jumped 10.1% in March, reversing earlier losses to bring its quarterly return up to 4.9% (to US$24.96 per ounce). Platinum and palladium also caught bids late in the period, having risen by 3.5% and 7.4% in March, respectively, but they were still down 8.1% and 7.6% for the quarter as a whole. In the global industrial metals complex, trading continued to be erratic. Base metal prices generally drifted lower in the first half of the period before recovering most of their losses through March, leading to a 1.3% gain on the London Metal Exchange (LME) Index, which tracks the futures contracts for copper, aluminum, zinc, nickel, tin and lead. Among them copper, tin and nickel appreciated. Overall buying was constrained by slow (but improving) manufacturing growth in the largest economies, demand concerns from top metals consumer China, and the stronger US dollar.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Newmont (Significant Underweight)	Gold (Stock Selection)
	Barrick Gold (Significant Underweight)	Diversified Metals and Mining (Off-Benchmark Exposure)
	G Mining Ventures (Off-Benchmark Exposure)	—
HURT	Agnico Eagle Mines (Significant Underweight)	Precious Metals and Minerals (Off-Benchmark Exposure)
	Gold Fields (Significant Underweight)	Silver (Off-Benchmark Exposure)
	AngloGold Ashanti (Significant Underweight)	Diversified Support Services (Off-Benchmark Exposure)

- Strong stock selection in the fund's core gold industry allocation (averaging just over 84% of the portfolio) led to positive returns, while those tracked by the benchmark FTSE Gold Mines Index depreciated. Off-index and overweighted holdings were instrumental in this regard as key contributors G Mining Ventures, Ascot Resources, Red 5, Artemis Gold, Perseus Mining and many more posted robust, double-digit percentage gains. Investors appeared to reward the evolving value creation and growth strategy of G Mining, which continued to make progress developing its Tocantinzinho open-pit gold mine in Para State, Brazil as it ramps up to become the next intermediate-tier gold producer. The project remains well funded, its operational infrastructure construction is 76% complete, and the remaining work is trending on time and on budget. When it's finished, Tocantinzinho—with total gold reserves estimated at about two million ounces—is expected to produce an average of 175,000 ounces annually (including an average of 196,000 ounces per year over the first five years), and at a low all-in sustaining cost of $681 per ounce (near the bottom of the industry cost curve). Process-plant commissioning is expected to commence in the second quarter of 2024, while commercial production is slated to begin in the second half of the year. Artemis Gold announced the results of a phase two expansion study for its Blackwater Mine in Central British Columbia, Canada (where phase one of the project is currently under construction). The Blackwater Mine is a world-class, large-scale advanced development project in a tier-one mining jurisdiction. Positive outcomes from this study may have boosted investor confidence. Furthermore, Blackwater's ongoing construction of phase one remains fully funded, within the guidance for initial capital expenditure, and was on schedule for the first gold pour later in the second quarter. Aside from gold-focused producers, our off-index exposure to diversified metals and mining companies (averaging just under 7% of the portfolio) had a larger combined gain than our gold industry holdings as sizable rallies in Ivanhoe Mines and several others more than offset a host of industry peers that experienced sharp declines.
- Relative returns versus were further lifted by substantial underweightings in select large-capitalization companies that sustained quarterly losses, including Newmont and Barrick Gold. Conversely, the same tendency created a relative-return lag with standout large-cap detractors Agnico Eagle Mines, Gold Fields, AngloGold Ashanti and Northern Star Resources, all of which rose beyond the benchmark average. Larger gold producers' equity valuations were hovering near all-time lows ahead of March's rally, and despite strong equity performance in March, their forward-looking valuations may have contracted further given the positive impact of elevated gold prices on earnings and cash flow.
- The fund would have fared better if not for the steep decline in SSR Mining, which was a key detractor. The stock shed more than half of its equity value before we eliminated it from the portfolio, after SSR was forced to suspend operations at its Copler gold mine in eastern Turkey due to a large slip on the heap leach pad (an area where ore is placed) that triggered a landslide. The incident left nine miners missing and sparked a plunge of more than 50% in SSR's shares. Copler produced 56,768 ounces of gold in the third quarter of 2023 and was SSR's second-largest producing gold mine in its highest-growth region. The company also suspended its dividend and financial guidance following the incident. Several of the fund's other off-benchmark gold stocks also suffered substantial losses, including Lion One Metals and Endeavour Mining. Outside the gold industry, small off-benchmark allocations in the precious metals and minerals as well as silver industries depreciated more so than the FTSE Gold Mines Index, with Impala Platinum Holdings and other platinum/palladium producers seeing some of the biggest three-month declines.

Outlook & Strategy

- **Gold prices staged an impressive rally in March, confidently breaking above previous nominal highs.** The March surge seemed to be enough to break the investor apathy toward gold miners, but it still left many gold producers with negative stock returns for the first quarter despite the 8% increase in the gold price. Interestingly, physical gold ETF flows were not a feature of the March rally, with ongoing asset outflows from gold ETFs through the end of March—even as gold prices were reflecting robust physical demand supported by an uncertain economic outlook; continued buying interest from central banks; and ongoing conflicts in Ukraine, the Gaza Strip and along the Red Sea. Reduced interest in gold ETFs led to a total of 3.41 million ounces of liquidations in the first quarter, bringing total ETF-based holdings to 82.17 million ounces, which was 28.8 million below 2020's peak levels of 111 million ounces. The first two days of April saw gold continue to push higher, which further aided sentiment in gold-related equities, but the stocks have continued to trade at what we consider to be significant discounts to historical valuations. Although we are surprised with the pace of increase in gold over the past two months, we see signs that gold may be once again increasing in utility as a financial asset.
- **Gold equites showed their high beta to gold in March, with a roughly 20% increase relative to a roughly 10% move in gold, but many equities are still trading at notably low valuation multiples compared to historical levels.** 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 past 15 years, and seemingly forgetting the positive periods when it was 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 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, but we believe there is even more upside potential in advanced-stage explorations 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, in our view.
- **Higher prices to start the year—combined with the even stronger prices at the outset of April—should provide a meaningful profit-margin boost to gold miners' quarter-over-quarter and year-over-year earnings, despite some escalation in costs.** Gold prices averaged US$2,072 per ounce for the first quarter of 2024-US$95 above the 4Q23 average of US$1,977 and US$182 above the US$1,890 average in 1Q23. Although we think current cost inflation and skills shortages in the broader mining industry will continue to weigh on profit margins, cost pressures seem to be easing and the surge in gold prices should help relieve some of the investor concerns that have lingered since the summer of 2022, when we saw a more detrimental combination of sharply rising costs and falling gold prices.
- **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 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. These days, 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 scenario 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 continued buying by China's central bank over the past couple of years. 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 hold a growing attraction 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. 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, although we believe strong cash generation at current gold prices should provide support in that regard.
- **The latest World Gold Council (WGC) demand trends report—released on 31 January and covering 2023—showed record demand inclusive of OTC (over the counter) and stock flows, supported by robust central-bank purchases that fell just 45 metric tons (mt) short of the 2022 record.** Net central-bank purchases were 1,037 mt in 2023, the second-highest year in the WGC's historical data. More specifically, jewelry sales held steady despite average gold prices running 8% above 2022 levels, and was supported by remarkably strong demand out of China, where 4Q23 consumption was up 17% year-over-year (y/y), bringing 2023 purchases to +10% y/y. Despite recent strength, China's jewelry demand remains 1% below 2019 pre-pandemic levels. Gold bar and coin investment, meanwhile, fell 3% amid weaker demand from Germany, but 2023 marked the third-highest year on record of US demand for bars and coins with a 5% gain (to 113 mt). Gold ETF holdings continued to decline, down 7% y/y in 2023, but given gold's appreciation, total assets in gold ETFs actually rose by 6%. Gold-mine supplies rose 1%, remaining just below 2018's record-production year. At the same time, the supply of recycled gold increased 9% y/y in response to the higher gold prices but was still 30% below the 2009 record.
- **M&A Update:** 2023 showed a notable uptick in merger-and-acquisition (M&A) activity, but the overall pace was still below our expectation for meaningful industry consolidation. Many management teams lost their jobs due to fiscal imprudence coming off the peak in 2011, and the teams that replaced them 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:** Calibre Mining (not owned by the fund prior to acquisition) completed its acquisition of Marathon Gold (previously held by the fund) in an all-stock deal, combining Calibre Mining's assets in Nicaragua and Nevada (US) with Marathon Gold's Canadian mine development project, which requires additional capital to finish construction. Moneta Gold and Nighthawk Gold (two pre-production companies previously owned by the fund) also finalized their merger in February, creating fund-held STLLR Gold, a Canada-focused developer with 7.8 million ounces of indicated-and over 10 million ounces of inferred-gold resources across two Canadian mining camps. 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, Canadian development project and strong balance sheet to create a new mid-tier producer in Australia. Newmont (a top-10 fund holding) provided details in its fourth-quarter 2023 earnings call that emphasized a plan to divest six operating mines and two development-stage projects in 2024, which may create opportunity for several mid-tier producers. 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 is nearing completion in its construction of the Mara Rosa mine in Brazil, having delivered the project on time and on budget, while Cerrado has struggled to find funding for the project in the current environment.

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]	20.08	2.27	-4.22	-4.75	9.07	2.86	4.78	05/19/1969
Advisor Class - Without Sales Charges[a,b]	20.08	2.27	-4.22	-4.75	9.07	2.86	4.78	05/19/1969
Class A - With Sales Charges[a]	13.48	-3.46	-9.68	-6.76	7.58	2.04	4.48	05/19/1969
Class A - Without Sales Charges[a]	20.04	2.16	-4.42	-4.99	8.81	2.61	4.59	05/19/1969
FTSE Gold Mines Index	20.37	-1.40	-1.14	-0.84	7.65	4.15	-	-
S&P 500 Index	3.22	10.56	29.88	11.49	15.04	12.96	10.53	-

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	6.27
AGNICO EAGLE MINES LTD	4.87
ALAMOS GOLD INC	4.39
BARRICK GOLD CORP	4.04
RED 5 LTD	3.95
PERSEUS MINING LTD	3.87
ENDEAVOUR MINING PLC	3.77
G MINING VENTURES CORP	2.56
EMERALD RESOURCES NL	2.35
ORLA MINING LTD	2.25

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.