Franklin Natural Resources Fund–Class A

Sector Equity
June 30, 2021

Product Profile

Product Details[1]

Fund Assets	$272,338,698.19
Fund Inception Date	06/05/1995
Number of Issuers	84
Investment Style	Sector
Benchmark	S&P North American Natural Resources Sector Index S&P 500 Index
Lipper Classification	Global Natural Resources Funds
Morningstar Category™	Natural Resources
Dividend Frequency	Annually in December

	CUSIP	NASDAQ Symbol
Class A	354 713 604	FRNRX

	Maximum Sales Charges
Class A	5.50% initial sales charge

	Total Annual Operating Expenses	
	With Waiver	Without Waiver
Class A	1.17%	1.17%

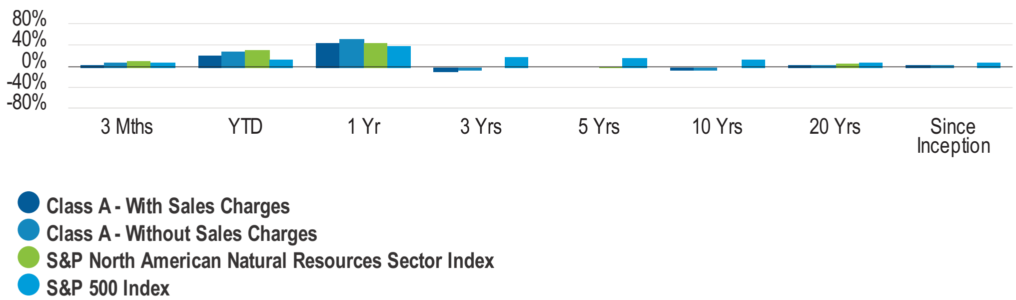
Fund Description

The fund seeks high total return by investing at least 80% of its net assets in equity and debt securities of companies that own, produce, refine, process, transport and market natural resources, as well as those that provide related services.

Performance Data[2,3]

Average Annual Total Returns[4,5] (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (06/05/1995)
Class A - With Sales Charges	3.91	22.30	45.48	-8.52	-2.21	-5.86	2.96	5.01
Class A - Without Sales Charges	9.95	29.43	53.91	-6.78	-1.10	-5.33	3.25	5.24
S&P North American Natural Resources Sector Index	11.12	32.73	45.92	-1.77	2.03	-0.58	5.25	-
S&P 500 Index	8.55	15.25	40.79	18.67	17.65	14.84	8.61	10.39



Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Calendar Year Returns (% Without Sales Charges)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Class A	-21.62	10.00	-23.75	0.32	34.56	-27.85	-20.17	9.55	-4.89	-11.71
S&P North American Natural Resources Sector Index	-19.01	17.63	-21.07	1.23	30.87	-24.28	-9.77	16.49	2.20	-7.35
S&P 500 Index	18.40	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11

If the sales charge had been included, the returns would have been lower.

1. All holdings are subject to change. Holdings of the same issuers have been combined.
2. Class A: Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.
3. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
4. Periods shorter than one year are shown as cumulative total returns.
5. Since inception return for the benchmark is calculated to the fund inception date.

Portfolio Manager Insight*

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Chevron (Significant Underweight)	Oilfield Services (Overweight, Stock Selection)
	Devon Energy (Significant Overweight)	Metal and Glass Containers (Significant Underweight)
	Churchill Capital Corp. IV (Off-Benchmark Exposure; purchased during the period)	Diversified Capital Markets (Off-Benchmark Exposure)
HURT	Cabot Oil & Gas (Overweight)	E&P (Stock Selection)
	Antofagasta (Off-Benchmark Exposure)	Copper (Stock Selection)
	TotalEnergies (Off-Benchmark Exposure)	Diversified Metals and Mining (Stock Selection)

- Integrated oil and gas conglomerate Chevron posted a three-month gain that was much lower than the energy sector as a whole, so the fund benefited from its lighter-than-index stake in the company. A few of our other industry holdings rallied beyond the benchmark index average as the latest quarterly earnings season reflected a big return to profitability for the oil majors as crude prices recovered from the pandemic-affected plunge in energy one year ago. In this environment, investors focused more heavily on industry laggards and those with greater debt leverage that could disproportionately benefit from rising cash flow.
- Devon Energy and other oil-focused E&P holdings traded substantially higher, though our overall performance within the industry was held back by declines in natural gas-heavy producer Cabot. Cabot nonetheless reported good results for fiscal first-quarter 2021 that demonstrated the company's ability to deliver significant growth, profitability and free cash flow in a more normalized natural gas price environment than what it experienced during 2020. Meanwhile, oil-weighted Devon Energy has been using recent profits from sharply higher oil prices (along with improved cost discipline) to reward shareholders by aiming to return up to 50% of its excess cash each quarter via a variable dividend program. Devon has been one of the first E&Ps to start those increased payouts, with the most recent supplemental dividend nearly doubling its base dividend and confirming the potential for strong free cash flow.
- The mining sector has enjoyed a solid demand and stock market recovery over the past year, but the rally began to show fatigue in May and June as the Chinese government took steps to slow credit growth and curb speculation in metals-related markets. Select copper-focused producers such as Antofagasta and Lundin Mining traded lower as copper prices fell from all-time highs (despite crimped supplies and robust manufacturing data in the United States and Asia), and as a result of newly proposed royalties on copper production and strike pressure from unions ahead of the November presidential election in Chile. A too-close-to-call presidential election in Peru that could lead to rising taxes or government stakes in copper mines if the leftist candidate wins also weighed on the shares of companies with operations in the country. By mid-May, benchmark copper futures had essentially doubled from the pandemic low point, and though there were signs that previous supply constraints were easing, resource nationalism in countries such as Peru and Chile could limit investment and further curtail supply.

Outlook & Strategy

- Natural resources stocks got off to a strong start in June and held gains for most of the month before succumbing to concerns the Fed may become less supportive in response to inflationary pressures. The stocks regained most of the ground by month-end, however, as investors refocused on economic growth and government stimulus fueled, in part, by reports that the Biden administration and a bipartisan Congressional committee had reached an agreement on an infrastructure bill. While fundamental trends remain supportive and the equities have performed well, issues such as rising COVID-19 cases in certain parts of the world and the potential for supply responses have kept valuations in check, particularly in the energy sector given excess production capacity in OPEC+ countries. Although commodity prices appear to already reflect a robust demand recovery, with many trading far above the marginal cost of supply, related equities have generally lagged the resulting uplift in earnings, which is fairly typical as investors assess the durability of the cycle. Although this presents upside potential for the equities, assessing demand trends is now even more important in estimating upside potential given that the stocks appear to already reflect healthy fundamental trends.
- Factors influencing investment decisions of commodity producers and processors are also important components of understanding supply dynamics. Typically, at this point in cycles, investors are very focused on indications of spending increases that can alleviate supply tightness and often tip balances and pressure prices, particularly if demand growth is slowing or, even worse, goes into decline. This is why natural resources equities' sensitivity to commodity prices often fades when prices exceed marginal cost as producers respond to price signals by investing more aggressively. However, every cycle is different and this one is particularly unique given the preceding events, including the collapse in demand related to the pandemic. Producers were already hesitant to spend more and increase capacity after several years of weak pricing and poor returns, while shareholders had already been clamoring for more disciplined spending and increasing returns. And then the pandemic arrived. Although it seems rational to see the event as unlikely to recur, at least for many decades, we think it highlighted the kind of risk potential that is fresh in the minds of every CEO. Combined with uncertainty created by any offshoot of the pandemic, an acceleration in the green-economy push and net-zero-emissions initiatives, this is a very potent spending deterrent that could keep supplies tight much longer than would typically be the case. Against this backdrop, we believe our portfolios are well-positioned to benefit as companies generate excess cash and return it to shareholders through dividends and share repurchases.
- Signs of this trend abound. E&P companies that outspent cash flow and layered in debt for many years over the last decade have committed to spending no more than 60% to 70% of operating cash flow (and we believe it could be lower than 50% this year due to higher oil prices) while paying down debt and distributing the rest to shareholders. Several companies have instituted variable dividends in addition to their regular quarterly dividend, so shareholders can directly benefit from rising commodity prices. Meanwhile, these companies continue to possess growth optionality if the market indicates it is needed, which increasingly appears to be the case when we look out to the beginning in 2022. And while some companies (such as those in the integrated oil and gas industry) remain focused on reducing debt after deficit spending during the pandemic, several have already increased dividends and should be in a position to resume share repurchases by the end of this year.

- Importantly, these trends are not unique to the energy sector. Mining companies, which entered a cycle trough roughly one to two years before the energy sector and emerged sooner, have been enjoying elevated prices for a longer period of time, paid down debt and have been raising dividends. Meanwhile, demand appears set to increase over the next several years and perhaps decades as a result of green initiatives that require increasing amounts of metals such as copper. The combination of steady demand growth and limited supply set the stage for a period of elevated profitability for many mining companies while the stocks are responding in a way that suggests expectations for a typical boom-and-bust cycle, which may not be the case, potentially leaving room for further equity gains.
- While our natural resources portfolios remain heavily weighted to these traditional industries, we have the flexibility to invest in other related sectors such as those tied to energy transition themes (we prefer the term "energy evolution" as we believe traditional energy sources are unlikely to be fully phased out for many decades). Current holdings include manufacturers of windmill blades, utility-scale solar equipment, batteries, and a battery recycling company in addition to a lithium producer. Many of these companies appeared overvalued to us until they pulled back over the past couple months once election-related froth dissipated, and we have been opportunistically adding to positions on share price weakness. As these types of companies will likely benefit from many years of market growth, we believe we can afford to be patient in establishing and building positions. However, we also believe selectivity will be critical as many renewable sectors are already highly competitive and some technologies are likely to fail or become obsolete as innovation creates new winners. We believe this "barbell" approach of investing in a mix of traditionally cyclical and higher-growth sectors can potentially reward shareholders over the long term.

*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.

Portfolio Characteristics[6,7]

	Portfolio	S&P North American Natural Resources Sector Index
Market Capitalization (Millions in USD)	55,854	74,509
Price to Earnings Growth Ratio	0.70x	1.05x
3-Year Sales Growth	0.03%	-0.77%
Estimated 3-5 Yr EPS Growth	16.90%	13.41%
Price to Earnings (12 Month Forward)	14.66x	16.62x

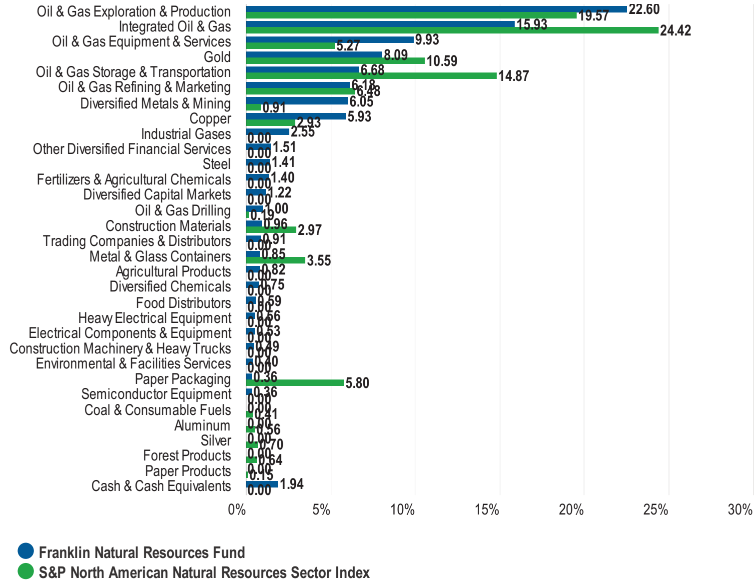
6. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: FactSet, Refinitiv. There can be no assurance that the Estimated 3-5 Year EPS Growth figure, based on Institutional Brokers Estimate System (IBES) consensus estimates, will be realized. All holdings are subject to change.
7. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Portfolio Diversification

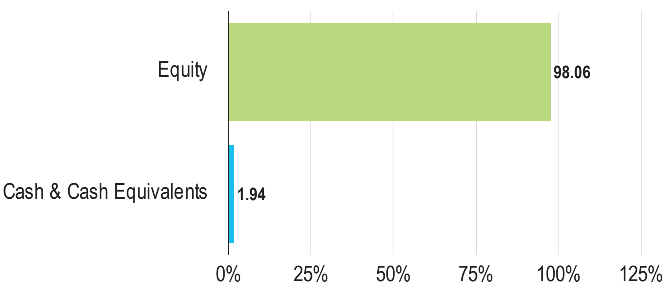
Top Ten Holdings[8]
Percent of Total

Top Holdings	%
CONOCOPHILLIPS	4.27
CHEVRON CORP	3.99
DEVON ENERGY CORP	3.68
EXXON MOBIL CORP	3.49
EOG RESOURCES INC	3.21
SUNCOR ENERGY INC	3.16
NEWMONT CORP	2.79
CABOT OIL & GAS CORP	2.69
PIONEER NATURAL RESOURCES CO	2.51
CANADIAN NATURAL RESOURCES LTD	2.35

Sector Weightings vs. S&P North American Natural Resources Sector Index[9,10]
Percent of Total



Asset Allocation[11]
Percent of Total



Performance Statistics

Risk Statistics[12,13]
Class A

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	38.33	31.49	28.72
Tracking Error (%)	7.55	6.42	6.10
Information Ratio	-0.66	-0.49	-0.78
Beta	1.15	1.15	1.16
Sharpe Ratio	-0.21	-0.07	-0.21

Past performance is not an indicator or a guarantee of future performance.

Investment Philosophy

We Seek to Provide Solid Risk-Adjusted Returns through the Employment of Fundamental Analysis with a Focus On:

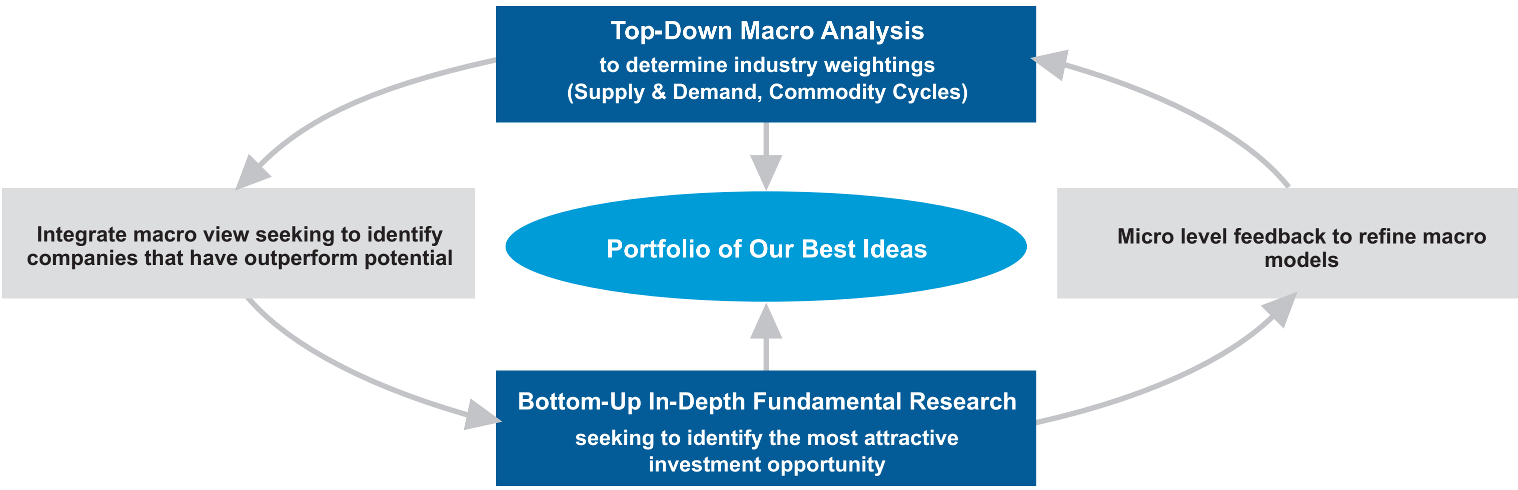
- Long-term trends/themes

8. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager reserves the right to withhold release of information with respect to holdings that would otherwise be included.
9,11. Percentage may not equal 100% due to rounding. All holdings are subject to change.
10. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
12. Beta, Information Ratio and Tracking Error information are measured against the S&P North American Natural Resources Sector Index.
13. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

- Growth
- Intrinsic value
- Active management/opportunistic approach
- Security and subsector diversification

Investment Process

- Top-down/bottom-up approach
- Research driven
- Attempt to identify and invest in companies with:
  - Long-term revenue growth visibility
  - Solid profitability
  - Sustainable and meaningful competitive advantage
  - Growth initiatives/differentiated upside potential



Investment Team

Portfolio Manager	Years with Firm	Years Experience
Fred Fromm, CFA	28	29
Matthew Adams, CFA	15	23
Steve Land, CFA	23	24

Beta: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

Estimated 3-5 Year EPS Growth: An estimated measure of the growth of earnings per share over a forward-looking period. For a portfolio, the value represents a weighted average of the stocks it holds.

Historical 3 Yr Sales Growth: The rate at which sales have increased for the fund's underlying holdings over the last three years.

Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

Market Capitalization: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share. Market capitalization is expressed in millions of USD.

Price to Earnings (12-mon Trailing): The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the value represents a weighted average of the stocks it holds.

Price to Earnings Growth Ratio: A ratio used to determine a stock's value while taking into account earnings growth. For a portfolio, the value represents a weighted average of the stocks it holds.

Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

Standard Deviation: A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

Tracking Error: Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

What Are The Risks?

All investments involve risks, including possible loss of principal. Investing in a fund concentrating in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector. Growth stock prices may fall dramatically if the company fails to meet projections of earnings or revenue; their prices may be more volatile than other securities, particularly over the short term. Smaller companies can be particularly sensitive to changes in economic conditions and have less certain growth prospects than larger, more established companies and can be volatile, especially over the short term. The fund may also invest in foreign companies, which involve special risks, including currency fluctuations and political uncertainty. These and other risks are described more fully in the fund's prospectus.

Important Legal Information

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial professional, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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