FRANKLIN TEMPLETON

# Franklin Natural Resources Fund–Advisor Class

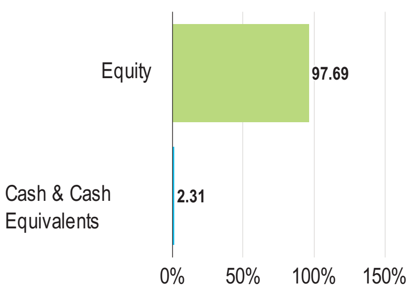
Sector Equity
March 31, 2020

**Product Profile**

## Product Details

| | |
|---|---|
| Fund Assets | $129,105,169.58 |
| Fund Inception Date | 06/05/1995 |
| Number of Issuers | 69 |
| NASDAQ Symbol | FNRAX |
| Maximum Sales Charge | 0.00 |
| Investment Style | Sector |
| Benchmark | S&P North American Natural Resources Sector Index<br>S&P 500 Index |
| Lipper Classification | Global Natural Resources Funds |
| Morningstar Category™ | Natural Resources |
| Dividend Frequency | Annually in December |

### Asset Allocation[1]



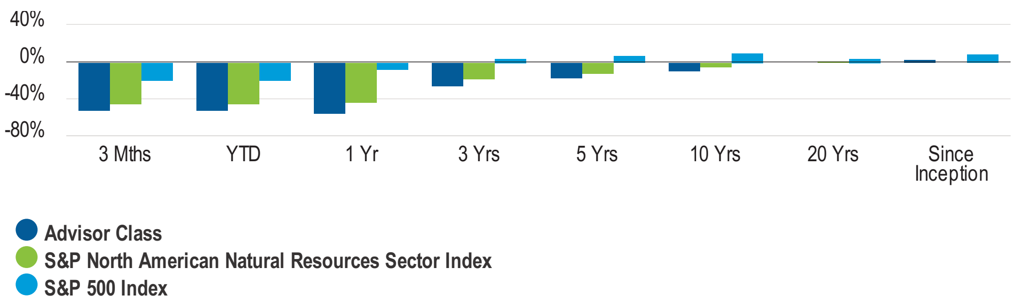

## Fund Description

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] (%)

| | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | 20 Yrs | Since Inception (06/05/1995) |
|---|---|---|---|---|---|---|---|---|
| Advisor Class | -51.42 | -51.42 | -54.20 | -24.77 | -16.50 | -9.32 | 0.34 | 2.88 |
| S&P North American Natural Resources Sector Index | -43.90 | -43.90 | -43.21 | -18.03 | -11.90 | -4.35 | 2.00 | - |
| S&P 500 Index | -19.60 | -19.60 | -6.98 | 5.10 | 6.72 | 10.53 | 4.79 | 8.60 |




**Total Annual Operating Expenses**—With Waiver: 0.79% Without Waiver: 0.79%

*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/342-5236 or visit franklintempleton.com for the most recent month-end performance.*

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 08/31/2020. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

### Calendar Year Returns (%)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Advisor Class | 10.23 | -23.53 | 0.54 | 34.89 | -27.64 | -19.90 | 9.87 | -4.62 | -11.46 | 30.52 |
| S&P North American Natural Resources Sector Index | 17.63 | -21.07 | 1.23 | 30.87 | -24.28 | -9.77 | 16.49 | 2.20 | -7.35 | 23.88 |
| S&P 500 Index | 31.49 | -4.38 | 21.83 | 11.96 | 1.38 | 13.69 | 32.39 | 16.00 | 2.11 | 15.06 |

1. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.
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.

## Portfolio Manager Insight[5]

### Performance Review

**QUARTERLY KEY PERFORMANCE DRIVERS**

| | Stocks | Industries |
|---|---|---|
| HELPED | Cabot Oil & Gas (Significant Overweight) | Diversified Metals and Mining (Stock Selection) |
| | Antofagasta (Off-Benchmark Exposure) | Copper (Stock Selection) |
| | BHP Group (Off-Benchmark Exposure) | Fertilizers and Agricultural Chemicals (Off-Benchmark Exposure) |
| HURT | Callon Petroleum (Off-Benchmark Exposure) | Oilfield Services (Significant Overweight, Stock Selection) |
| | Noble Energy (Overweight) | Oil and Gas Storage and Transportation (Stock Selection, Significant Underweight) |
| | Diamondback Energy (Overweight) | Gold (Underweight, Stock Selection) |

- Among the energy sector's seven industry groups, shares of oilfield services and E&P (oil and gas exploration and production) companies, which generally hold greater operating leverage to commodity-price movements—and which comprised a combined 45.8% of the fund's portfolio—suffered much steeper-than-average first-quarter losses and were major areas of weakness relative to the benchmark index, which held only about half of our exposure to such companies.
- Across the entire portfolio, our position in independent E&P industry detractor Callon Petroleum was a distinct outlier to the downside at a time when the average E&P industry stock lost roughly half its value. Collapsing oil prices were the main reason for the decline, while shares of smaller producers such as Callon were more heavily impacted due to their higher financial leverage. Most independent E&Ps need oil prices of US$50 per barrel or higher to turn a profit; with prices below US$30, companies like Callon are forced to reduce spending and curb their growth plans in order to survive a prolonged downturn.
- Among the fund's top individual contributors to relative performance, only Jagged Peak Energy (E&P industry; liquidated through acquisition) and Albemarle (specialty chemicals industry; sold by period-end) advanced in absolute terms. Jagged Peak was bought out by Parsley Energy in January and the fund retained the position in Parsley. Albemarle benefited from unique drivers: Before the COVID-19 crisis hit, a sharp rise in shares of electric vehicle (EV) maker Tesla (not a fund holding) drove multiple expansion across the entire vehicle supply chain, particularly lithium producers such as Albemarle, the world's largest lithium producer. Additionally, prices for lithium carbide and lithium hydroxide appeared to be stabilizing after nearly two years of significant weakness due to oversupply. Aside from the fund's active holdings, relative returns were further aided by the portfolio's cash position (averaging 1.9% of total net assets).

### Outlook & Strategy

- Commodity demand has suffered and will continue to do so as economic activity around the world slows considerably, and inventories are set to climb as a result. When combined with potential changes in consumer behavior following the COVID-19 outbreak, the situation could maintain pressure on commodity prices for several months and perhaps longer. Somewhat offsetting these factors, supply for some commodities is also being curtailed as investment is reined in by companies attempting to conserve cash and as some countries shutter operations in an attempt to limit the spread of the virus.
- Oil has been one of the most negatively impacted commodities as prices received another blow in early March when Saudi Arabia and Russia failed to reach an agreement to reduce supply in an effort to offset demand destruction resulting from government efforts to contain the virus. Some relief came after quarter-end (in mid-April) as OPEC, Russia, and other assorted producers reached an historic agreement to curtail global supply by nearly 10 million barrels per day. While the agreement does not take effect until May and is far below the expected level of near-term demand destruction, it should help slow inventory accumulation and reduce inventories as demand returns, likely in the second half of this year. Meanwhile, production by other countries that were not part of the accord is also likely to decline in the coming months and quarters as drilling and completion activity is significantly curtailed, according to our analysis.
- The oil prices we are seeing currently are uneconomical for almost all market participants, in our opinion. While higher-cost producers like US shale clearly cannot generate profits at these levels, we believe even lower-cost producers such as those in the Middle East and Russia are likely to see challenges in this price environment. Saudi Arabia, while having very low production costs, also has domestic spending needs that require oil prices to be higher in the long term. Despite this, we believe there is continued room for prices to remain depressed in the short term, or even for the rest of 2020. Oil prices quite often under- or over-shoot price levels indicated by market fundamentals and may take time to settle back to normalized levels.
- We continue to have confidence in the resiliency of higher-quality producers and integrated oil firms. They are likely to not only endure through a period of lower prices—similar to what we saw in late 2015 and early 2016—but are also better able to position their businesses for the inevitable recovery in the markets. Meanwhile, lower prices can act as a cleansing mechanism by eliminating weaker companies and thereby setting the stage for a healthier recovery in the future.
- As April got underway, many energy companies were trading below intrinsic value and though we cannot predict the timing of a recovery with a high level of accuracy, the stocks of energy producers, in particular, appear to be presenting compelling long-term value propositions. Several E&P companies have already announced significant spending declines on the order of 30%-40% from previous guidance and larger integrated companies have provided similar updates, if not for more moderate declines in the 20%-25% range. This may not matter near term while demand is weak or falling, but as the world economy recovers, we believe we are likely to see oil demand rebound with a concomitant rise in prices and related equities—and perhaps strongly.
- In addition to the recovery in specific sectors, the global macro-economic outlook will be critical in determining the shape of the rebound in oil demand, which will likely be down sharply in April and May, though it could have a strong seasonal rebound in the second half of the year. Another, more recent development is the apparent limitations in US storage and pipeline capacity, with reports that some midstream companies are turning away oil volumes from smaller operators that do not have contracts guaranteeing access to the infrastructure. This trend could lead to a more rapid reduction in supply than generally expected as these producers are forced to shut-in their production.

- Despite the dire outlook resulting from virus concerns, we think energy fundamentals at the company and industry levels have seen marked improvement, with operations, balance sheets and hedging positions in much better shape than during the previous downturn. Elsewhere in the natural resources sector, many companies in the mining industry, while also susceptible to the unprecedented impact to the world economy, are in strong positions given management teams' reticence to invest in large projects over the past several years, which led to a strengthening in balance sheets. Well-capitalized companies should therefore be able to withstand the short-term demand shock and may benefit from various stimulus measures that governments employ to help restart economic activity, and we see recent weakness as providing an opportunity to increase the portfolio's weightings in such holdings.
- Given widespread stock market weakness, we are attempting to allocate capital to equities that we believe provide the most attractive trade-off between relative resilience and appreciation potential. We believe many companies in the natural resources sector appear undervalued, in some cases drastically so, but with great uncertainty with respect to the depth and duration of the COVID-19 crisis combined with OPEC's currently aggressive approach, we are paying particular attention to liquidity and the ability of companies to survive until supply-and-demand balances improve. Similar to our experience in 2008, we believe the right approach is to consolidate holdings into the highest quality companies while seeking to increase exposure on weakness.

5. 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) | 32,039 | 46,184 |
| Price to Earnings Growth Ratio | 1.01x | 1.45x |
| 3-Year Sales Growth | 20.56% | 12.45% |
| Estimated 3-5 Yr EPS Growth | 6.37% | 7.19% |
| Price to Earnings (12 Month Forward) | 14.75x | 18.26x |

## Portfolio Diversification

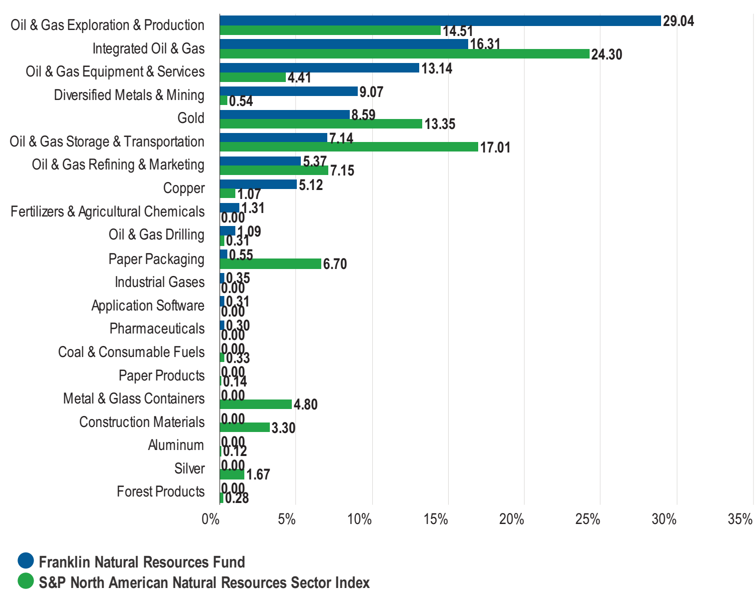
### Top Ten Holdings[8]

Percent of Total

| Top Holdings | % |
|---|---|
| CHEVRON CORP | 5.17 |
| CONCHO RESOURCES INC | 3.99 |
| CABOT OIL & GAS CORP | 3.77 |
| CONOCOPHILLIPS | 3.52 |
| EOG RESOURCES INC | 3.27 |
| PIONEER NATURAL RESOURCES CO | 3.17 |
| BHP GROUP PLC | 3.15 |
| ROYAL DUTCH SHELL PLC | 3.00 |
| SCHLUMBERGER LTD | 2.88 |
| SUNCOR ENERGY INC | 2.74 |

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

Percent of Total




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. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
7,10. 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.
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. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

## Supplemental Performance Statistics

**Supplemental Risk Statistics**[11,12]

| | 3 Yrs | 5 Yrs | 10 Yrs |
|---|---|---|---|
| **Standard Deviation (%)** | 31.25 | 29.18 | 26.70 |
| **Tracking Error (%)** | 6.46 | 6.22 | 5.83 |
| **Information Ratio** | -1.04 | -0.74 | -0.85 |
| **Beta** | 1.16 | 1.17 | 1.16 |
| **Sharpe Ratio** | -0.85 | -0.60 | -0.37 |

*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/342-5236 or visit franklintempleton.com for the most recent month-end performance.*

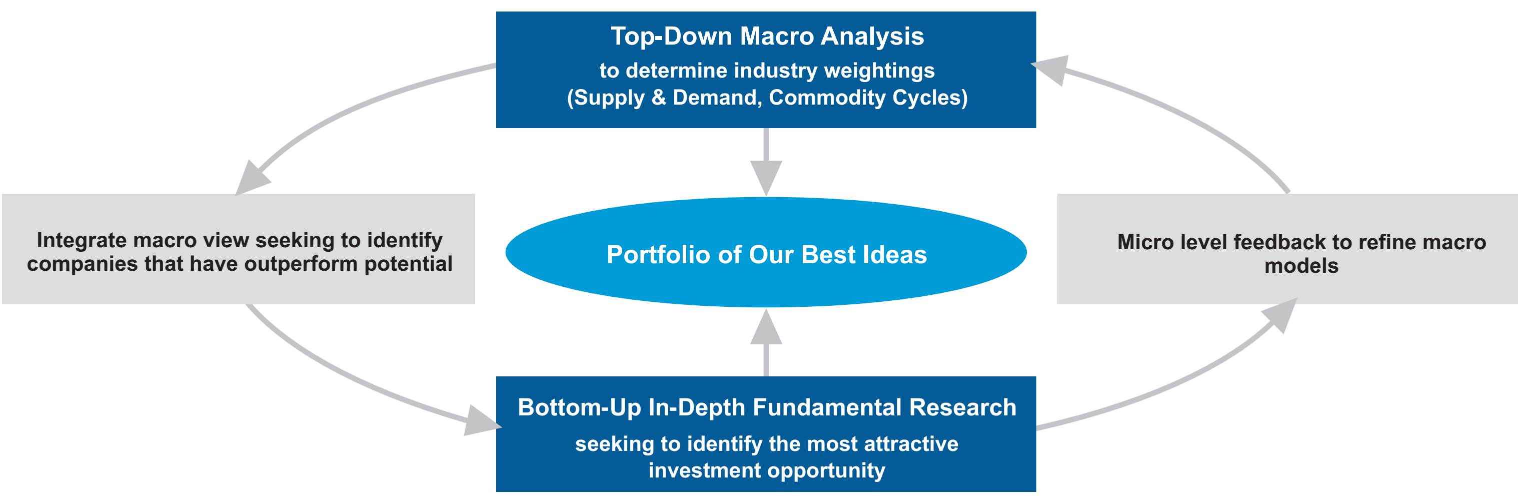
## Investment Philosophy

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

- Long-term trends/themes
- 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




11. Beta, Information Ratio and Tracking Error information are measured against the S&P North American Natural Resources Sector Index.
12. 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).

## Investment Team

| Portfolio Manager | Years with Firm | Years Experience |
|---|---|---|
| Fred Fromm, CFA, Portfolio Manager/Research Analyst | 27 | 28 |
| Matthew Adams, CFA, Portfolio Manager/Research Analyst | 14 | 22 |
| Steve Land, CFA, Portfolio Manager/Research Analyst | 22 | 23 |

**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-mo Forward)**: A measure of the price to earnings ratio for a stock using the forecasted earnings for the next 12 months. 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 advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.*

*CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.*

Standard & Poor's®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC. S&P does not sponsor, endorse, sell or promote and S&P index-based product.

*Important data provider notices and terms available at: www.franklintempletondatasources.com*

2. Effective 12/31/1996, the fund began offering Advisor Class Shares. 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.

FRANKLIN TEMPLETON

**Franklin Templeton Distributors, Inc.**
One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN/342-5236
franklintempleton.com