

Franklin Natural Resources Fund

Advisor Class: FNRAZ Class A: FRNRX
Commentary | as of December 31, 2025

Key Takeaways

- Global Commodities Market and Natural Resources Equities:** In the global commodities complex, the fourth quarter of 2025 (4Q25) was a metals-led period defined by record highs, heightened speculative swings and dominant industrial demand narratives—while oil and many agricultural markets lagged. The US dollar's (USD's) value rose 0.6% versus other major currencies, which likely had a negative influence on dollar-denominated commodities. The Refinitiv CoreCommodity CRB Index (CRB) fell 0.6%, while the Bloomberg Commodity Index—broader and less sensitive to energy and agricultural price swings than the CRB—posted a 4.8% gain that owed much to its weighted exposure to rallying metals. As signs of cyclical return to the equity markets, natural resources equities in the materials and energy sectors posted respective gains of 6.5% and 2.6% globally (per MSCI All Country World Index data in USD terms), better than their corresponding US returns of 1.1% and 1.5% (according to the S&P 500 Index). These results capped full-year 2025 gains of 32.4% for global materials and 13.7% for global energy (per MSCI ACWI in USD terms).
- Contributors:** Overweighting and effective stock selection in rallying metals and mining firms, portfolio concentration in copper-focused producers, and strong results versus the index across most energy-related industries.
- Detractors:** Declines or lagging gains for several off-index allocations (focused mainly on industrial gases), and lack of portfolio exposure to rallying silver- and aluminum-focused miners.
- Outlook:** Our view on natural resources is balanced yet somewhat cautious in the near term, as global growth continues to soften outside the United States, policy easing has been gradual and uneven, and geopolitical risks persist.

Performance Review

- Beneficial allocation choices and security selection combined to boost the fund's (Advisor Class without sales charges) 4Q25 results versus the S&P North American Natural Resources Index, with notable strength across metals and mining stocks. We maintained significant sector deviations from the benchmark, with an emphasis on materials companies and a de-emphasis on energy—a portfolio mix that worked in our favor. In general, commodities caught some late-2025 tailwinds with an upbeat batch of economic indicators. Lower interest-rate expectations in key economies, along with geopolitical risk, were powerful cross-commodity drivers, boosting "safe-haven" flows into hard assets. Industrial demand for metals tied to clean energy, electric vehicles (EVs), artificial intelligence (AI) and data centers, and utility grid expansions also lifted metal prices.
- Within the materials sector, diversified metals and mining companies averaged nearly 12% of total net assets, which was more than 10 percentage points above the benchmark exposure. Relative-return upside was supported by the rallies in Rio Tinto and several other off-index miners. A sizable overweighting in copper industry stocks further boosted absolute and relative returns as all five of them appreciated, led by key off-index contributors Lundin Mining and ERO Copper. For the companies cited above, two upside catalysts were in place: strong third-quarter 2025 production and earnings reports and rising industrial (and precious) metals prices, including copper and iron ore. The copper industry was contending with operational constraints at major mines in Chile, Africa and Indonesia that were limiting global supplies.
- Several of the fund's overweight holdings in gold-focused miners, including key contributors Barrick Mining and Equinox Gold, also posted impressive double-digit percentage gains. Precious metals continued to draw attention in 4Q25, with both gold (+11.9%, to \$4,319 per troy ounce) and silver (+53.6%, to \$71.66) reaching all-time, inflation-adjusted highs in December.
- In the energy sector, the fund fared well by maintaining reduced exposure versus the index in energy giant Chevron as it traded lower. Keeping about half of the index's weight in oil and gas storage and transportation companies such as Enbridge was also helpful as the group sold off. Oilfield services industry holdings fared much better in absolute terms, having gained about 9% as Liberty Energy (significant overweight) and others rallied despite falling crude oil prices, while relative performance was boosted by both stock selection and overweighting.
- The fund had small exposures to 12 industries that are not tracked by the benchmark index, about half of which either lagged it or sustained overall losses in 4Q25. The largest detractors in this regard were industrial gases, where Linde and Air Products and Chemicals declined; industrial machinery, supplies and components, where water-technology specialist Xylem sold off; and construction and engineering, where a solitary position in offshore wind turbine specialist Cadeler traded lower. And while the specialty chemicals industry was among the six off-index allocations that topped the benchmark thanks to lithium producer Albemarle's solid rally, our overall gains there were trimmed by a significant decline for a smaller position in Neo Performance Materials, a maker of advanced rare earth-based materials and components.
- In the diversified metals and mining industry, off-benchmark or overweight investments in IperionX, Brazilian Rare Earths (purchased during the period) and two other companies involved with rare earths and critical minerals exploration, development and/or production sustained policy event-driven losses as their shares retrenched from recent peak levels.
- There were some detractors in the energy sector, including detrimental underweighting in energy conglomerate Exxon Mobil, which hindered results in the integrated oil and gas industry (covering just over 13% of the portfolio, on average).

Outlook

- Recent volatility has created opportunities to add portfolio exposure to high-quality, low-cost producers aligned with long-term structural demand, in our view. Lately, these conditions have been most evident in producers of critical minerals such as uranium and rare earths, but traditional oil and gas industries have also been experiencing heightened volatility.
- We believe gold should remain well supported by stable-to-declining real (i.e., inflation-adjusted) yields, ongoing central bank bullion purchases and persistent geopolitical uncertainty, reinforcing gold's role as a defensive asset.
- Diversified metals, in our view, are likely to benefit modestly from early signs of stabilization in global manufacturing activity and sustained investment tied to electrification and EVs, power infrastructure, AI and data centers.

Top Equity Issuers (% of Total)

Holding	Fund
NEWMONT CORP	4.42
EXXON MOBIL CORP	4.38
BARRICK MINING CORP	3.61
CONOCOPHILLIPS	3.42
CHEVRON CORP	3.26
BHP GROUP LTD	2.83
COTERRA ENERGY INC	2.54
AGNICO EAGLE MINES LTD	2.52
FREEPORT-MCMORAN INC	2.17
LUNDIN MINING CORP	2.08

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge						With Maximum Sales Charge						Expenses	Sales Charges	Inception Date				
			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	Inception Date
Advisor Class	354713851	FNRAX	7.48	30.71	30.71	11.17	19.61	8.21	7.05	7.48	30.71	30.71	11.17	19.61	8.21	7.05	0.76	0.75	—	—	6/5/1995
Class A	354713604	FRNRX	7.43	30.39	30.39	10.89	19.32	7.94	6.61	1.53	23.21	23.21	8.81	17.97	7.33	6.41	1.01	1.00	5.50	—	6/5/1995
Benchmark 1	—	—	3.17	21.11	21.11	10.72	20.56	9.75	—	3.17	21.11	21.11	10.72	20.56	9.75	—	—	—	—	—	—
Benchmark 2	—	—	6.88	29.66	29.66	7.36	11.32	11.08	—	6.88	29.66	29.66	7.36	11.32	11.08	—	—	—	—	—	—

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 franklintontempleton.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 08/31/2026 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

The **Bloomberg Commodity Index (BCOM)** is a broadly diversified commodity price index. Source: Bloomberg Indices.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

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 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.

The **Refinitiv Core Commodity CRB Index** is a commodity futures price index that serves as a benchmark for global commodity market dynamics.

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 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. 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.

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

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