

Franklin Natural Resources Fund

Advisor Class: FNRAX Class A: FNRX

Commentary | as of June 30, 2025

Key Takeaways

- **Global Commodities Market and Natural Resources Equities:** The global commodities market reflected a complex interplay of supply-demand dynamics, war and geopolitical shifts, and macroeconomic factors, with the Refinitiv CoreCommodity CRB Index (CRB) falling 3.9% during the second quarter of 2025 (2Q25) despite a 2.4% June gain. While many precious and industrial metals showed strength, energy and agricultural commodities were pressured by concerns about oversupply and weakening demand. Similar to equities' bumpy ride, commodities were jostled by US President Donald Trump's unpredictable shifts in trade and tariff policies, and were also vulnerable to perceived macro shocks. Unlike equities, the CRB and other major commodity indexes never fully recovered from the selloff that followed the president's flurry of tariff announcements on April 2—much of which remained unsettled at the end of June. Following volatile and downbeat stock market results in early April, commodity-linked natural resources equities saw notable improvement in May and June. Energy companies still declined in 2Q25 and underperformed all 10 other sectors. Materials sector stocks topped their energy counterparts with modest overall gains.
- **Contributors:** Favorable overweighting and stock selection among copper-focused mining companies, underweighting and stock selection in the poor-performing integrated oil and gas industry, a significant overweighting in diversified metals and mining, and overall gains in several off-benchmark industry allocations.
- **Detractors:** Stock selection and underweighting among gold miners, an underweighted exposure to rallying uranium producers (in the coal and consumable fuels industry), and underweighting and stock selection in oil and gas refiners.
- **Outlook:** Although we believe the fundamental backdrop has improved, a myriad of uncertainties remain that may continue to pressure certain natural resources industries, and we are taking a somewhat cautious stance by focusing portfolio holdings on operational and financial resilience.

Performance Review

- In absolute terms, the fund's 2Q25 advance was supported by positive returns in 16 out of 24 industry allocations. In relative terms, its outperformance of the S&P North American Natural Resources Index was driven by strong allocation decisions and, to a lesser extent, security selection, particularly within the materials sector. A balanced approach between materials and energy, combined with selective positioning in high-conviction companies, proved effective in a challenging market environment characterized by commodity price volatility and shifting trade dynamics.
- At the industry level, all five holdings in off-benchmark or overweighted copper-focused miners rallied with a combined gain of more than 20%, led by key contributors ERO Copper and Lundin Mining. Most of our positions in diversified metals and mining companies also rose solidly, including US-based titanium processor IperionX, copper and gold producer Hudbay Minerals and US-based rare earths producer MP Materials.
- Several off-benchmark industry allocations also topped the index, led by fertilizers and agricultural chemicals, where Corteva's (seed and crop protection technologies) stock set a new all-time high and potash/nitrogen fertilizer producer Nutrien's shares rallied to a two-year high; and heavy electrical equipment, where GE Vernova appreciated nearly 75%.
- The fund also saw positive relative returns in its two largest energy-related industry allocations: integrated oil and gas, where underweightings in Chevron and ExxonMobil helped as their share prices declined further than the index; and oil and gas exploration and production, where a strategic lack of exposure to index component companies such as Texas Pacific Land and Diamondback Energy were beneficial as their equity values fell sharply.
- While most of the fund's gold industry holdings appreciated, they collectively underperformed due to a lack of exposure to several index component companies that posted outsized three-month returns.
- In the coal and consumable fuels industry (the fund has no coal holdings), a new portfolio position in uranium producer Cameco delivered an exceptional absolute return of about 80%, from our April purchase date through period-end; however, we were underweighted versus the index, which curbed the fund's results on a relative basis.
- Holdings in the oil and gas refining and marketing industry lagged those tracked by the index due to an underweighting in Marathon Petroleum. Other key detractors included off-index or overweight holdings that sold off, including Huntsman in diversified chemicals; and natural gas infrastructure and power specialist New Fortress Energy in the oil and gas storage and transportation industry, where an underweighted stake in Enbridge also proved detrimental. In oilfield services, overall returns were mostly negative amid falling oil prices and flattening US oil production, while relative returns were hindered by an overweighting in Liberty Energy.

Outlook

- While the broader energy sector remains our largest portfolio weighting, related holdings are diversified across industries that typically display less leverage to commodity prices, such as integrated oil and gas, refiners and marketers, and midstream (energy pipeline and transportation infrastructure) companies. Although oil prices have recovered from recent lows, we see limited upside in the near to intermediate term unless OPEC+ (Organization of the Petroleum Exporting Countries and key allies) limits the amount of supply it's returning to the market.
- We believe copper and related equities are likely to remain well supported by longer-term supply/demand trends. Similar to our energy exposure, copper-focused portfolio holdings are concentrated in the largest producers in the United States, namely Freeport-McMoRan (deriving more than 75% of its revenues from copper), which we believe should be a beneficiary of US tariffs and ongoing elevated prices for gold (comprising about 12% of Freeport's revenues). Gold-focused producers, meanwhile, still do not appear to discount current prices and are expected to generate significant cash in the current environment, which can bolster their balance sheets or be deployed into acquisitions, share repurchases and dividends.

Top Equity Issuers (% of Total)

Holding	Fund
EXXON MOBIL CORP	4.96
CONOCOPHILLIPS	4.25
FREEPORT-MCMORAN INC	3.49
NEWMONT CORP	3.46
BHP GROUP LTD	2.87
COTERRA ENERGY INC	2.85
CORTEVA INC	2.56
BARRICK MINING CORP	2.37
LINDE PLC	2.37
AIR PRODUCTS AND CHEMICALS INC	2.22

Sector Allocation (Equity as a % of Total)

	Fund
Oil, Gas & Consumable Fuels	43.94
Metals & Mining	29.97
Chemicals	10.43
Energy Equipment & Services	6.60
Containers & Packaging	2.03
Construction Materials	1.79
Electrical Equipment	0.98
Machinery	0.79
Other	1.37
Cash & Cash Equivalents	2.09

Average annual total returns and fund expenses (%) - as of June 30, 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	
Advisor Class	354713851	FNRA	1.69	7.67	2.77	9.98	19.17	2.86	6.48	1.69	7.67	2.77	9.98	19.17	2.86	6.48	0.77	0.76	—	—	6/5/1995
Class A	354713604	FRNR	1.63	7.55	2.52	9.70	18.86	2.60	6.04	-3.95	1.63	-3.11	7.65	17.52	2.03	5.84	1.02	1.01	5.50	—	6/5/1995
Benchmark 1	—	—	-1.93	5.07	3.64	10.86	19.42	5.69	—	-1.93	5.07	3.64	10.86	19.42	5.69	—	—	—	—	—	—
Benchmark 2	—	—	3.42	10.78	1.22	5.75	12.71	6.66	—	3.42	10.78	1.22	5.75	12.71	6.66	—	—	—	—	—	—

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.

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.

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. Source: © S&P Dow Jones Indices LLC. 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.

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

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.