FRANKLIN TEMPLETON INVESTMENTS

# Franklin Gold and Precious Metals Fund

Franklin Templeton Investment Funds

A (acc) USD
31 January 2019

**Fund Commentary**

## Performance Review

- All major precious and industrial metals traded higher in January. Gold (+3.0%, to US$1,321 per troy ounce) reached a seven-month high and posted a fourth straight monthly gain as the US dollar's value moved lower, investors added to their holdings in gold-backed exchanged-traded funds, and the US Federal Reserve signalled it would pause raising interest rates. Silver (+3.7%, to US$16.06 an ounce) touched the highest price since July 2018 and platinum rose 3.3% to US$822. Palladium prices were up for a sixth straight month (+6.4%, to US$1,343) and the metal has become more valuable than gold due to tight supplies, reaching a record high of US$1,400 per ounce in mid-January. Amongst base metals, robust supply-side fundamentals, especially shrinking inventories for nickel and copper, underpinned the strongest month for the industrial metals complex since late 2017.
- For the month, the fund's A (acc) USD shares returned 10.05%, and its benchmark, the FTSE Gold Mines Index, returned 7.77%.

**ONE-MONTH KEY PERFORMANCE DRIVERS**

| | Stocks | Industries |
|---|---|---|
| HELPED | Barrick Gold (Significant Underweight) | Gold (Stock Selection) |
| | Newmont Mining (Significant Underweight) | Precious Metals and Minerals (Significant Overweight) |
| | Alamos Gold (Significant Overweight) | Diversified Metals and Mining (Off-Benchmark Exposure) |
| HURT | Pretium Resources (Off-Benchmark Exposure) | — |
| | Newcrest Mining (Underweight) | — |
| | OceanaGold (Significant Overweight) | — |

- Canada-based intermediate gold producer Alamos Gold, which has mines in Canada and Mexico as well as development projects Turkey, produced a record 505,000 ounces of gold in 2018, meeting production guidance and marking an 18% increase from 2017. Alamos' management, which highlighted the company's debt-free balance sheet, expects a similar rate of production in 2019 with lower costs driving stronger profit margins as it aims to transition from reinvesting in growth to generating robust free cash flow.
- Amongst the fund's most influential contributors, our off-index stake in Australian gold miner Red 5 had an exceptionally high January return of nearly 40%. Red 5's Western Australia gold operations showed strong production results in the December quarter, while its exploration activity achieved a major breakthrough by identifying what is shaping up to be a potentially transformational bulk mining opportunity at the company's King of the Hills property.
- In terms of individual detractors, the portfolio's lack of investment in Kirkland Lake Gold and Goldcorp had a more significant negative impact on relative performance than any of our active holdings. Within the portfolio, low-cost intermediate gold producer Pretium Resources, which operates the high-grade underground Brucejack Mine in British Columbia, has seen volatile share-price swings over the past few months, and suffered a modest January decline based primarily on disappointing fourth quarter production figures. Despite the impact of a soft quarter, the company made progress elsewhere by successfully renegotiating its debt terms and buying back the royalty on the project in December, moves that were aided by strengthening cash flow from Brucejack's 2018 operations.

## Outlook & Strategy

- Gold had a strong start to 2019, as increasingly uncertain markets helped drive further investor interest in the metal and promoted additional gold bullion buying from central banks. Physical gold held globally by exchange-traded funds (ETFs) increased by 2.27 million ounces during the month, from 71.06 to 73.33 million ounces.
- According to the World Gold Council's 2018 annual review, net central bank gold purchases rose 74% from 2017's year-end level as central banks bought 651 metric tons (mt) of gold, the largest annual purchase since 1971 (when the United States stopped the dollar's convertibility into gold). On a country-specific basis, Russia led the way in 2018 with purchases of 274 mt.
- Gold equities remain highly correlated to gold bullion, but with higher beta, continuing a trend that has been in place over past few years. We expect the high correlation and elevated daily volatility to continue in 2019 as gold prices remain close to the marginal cost of supply incurred by many producers, so that a small change in the gold price can result in large swings in cash flow.
- Gold prices averaged US$1,229 per ounce in 2018's fourth quarter, up from US$1,213 in the third quarter but still well below the second quarter's US$1,306 average. Although slightly higher gold prices will help, upward cost pressures and seasonally weaker fourth quarter production are expected to weigh on gold mining companies as the fourth quarter earnings season continues to unfold. More recently, gold averaged US$1,291 per ounce in January, raising hopes of stronger earnings and cash flow for the current quarter.
- Following closely on the heels of the Barrick–Randgold merger—announced in September 2018 as a move to create the world's largest gold miner—Newmont Mining entered into an agreement to acquire Goldcorp to retake the title of the world's largest. The equity market's positive response to these deals has highlighted the potential for value creation through merger-and-acquisition activity in the current environment, and we expect more M&A deals to be announced this year. We also believe potential asset divestment from Barrick and Goldcorp will also provide opportunity for smaller mining companies to expand their portfolios.

- We continue to see attractive opportunities in gold- and precious metals-focused equities, especially if gold prices continue to move higher. We also believe many gold companies are well-positioned to survive a further downturn in prices if it should occur, and yet they offer significant upside potential if prices rise. Most mining companies have maintained a focus on improving the cost structure of their operations, debt repayment and asset rationalisation, which we believe should result in improved performance potential going forward.

## Fund Details

| | |
|---|---|
| Inception Date | 30/04/2010 |
| Benchmark | FTSE Gold Mines 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 and other precious metals such as platinum, palladium and silver. The fund has a secondary goal of current income.

## Performance Data

**Performance Net of Management Fees as at 31/01/2019 (Dividends Reinvested) (%)[1]**

| | 1 Mth | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Inception |
|---|---|---|---|---|---|---|---|
| A (acc) USD | 10.05 | 19.47 | 10.05 | -9.60 | 10.27 | -2.77 | -9.81 |
| Net of Sales Charge - A (acc) USD | 4.55 | 13.50 | 4.55 | -14.12 | 8.41 | -3.76 | -10.34 |
| A (acc) SGD | 8.74 | 16.03 | 8.74 | -7.23 | 8.22 | -1.72 | -9.99 |
| Net of Sales Charge - A (acc) SGD | 3.31 | 10.23 | 3.31 | -11.86 | 6.39 | -2.72 | -10.52 |
| FTSE Gold Mines Index USD | 7.77 | 20.89 | 7.77 | -5.73 | 16.61 | 1.26 | -7.84 |
| FTSE Gold Mines Index SGD | 6.32 | 17.38 | 6.32 | -3.18 | 14.42 | 2.30 | -8.04 |

## Investment Team

**Steve Land, CFA**
Years with Firm 21
Years Experience 22

**Fred Fromm, CFA**
Years with Firm 26
Years Experience 27

## What Are the Key Risks?

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. The Fund invests mainly in equity and equity-related securities of gold and precious metal companies in both developed and emerging countries. Such securities have historically been subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate very significantly over relatively short time periods. Other significant risks include: currency risk, emerging markets risk, liquidity risk. For full details of all of the risks applicable to this Fund, please refer to the “Risk Considerations” section of the Fund in the current prospectus of Franklin Templeton Investment Funds.

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Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance.

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1. Source for all information is Franklin Templeton Investments. Benchmark related data provided by FactSet. Fund performance computed in share class currency, on NAV-NAV basis and dividends reinvested. Net of Sales Charge figures are after 5% sales charge. Past performance is no guarantee of future results. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Other commissions, taxes and other relevant costs paid by investor are not included.



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