

Royce Small-Cap Fund

Investment Class: PENNX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** Many small-cap stocks are just emerging from a two-year earnings recession, which should help boost performance for an asset class that's lagged large-cap for several years and currently faces low expectations.
- **Contributors:** Three of the Fund's top five contributors in 2Q25 are longer-term holdings in which we have high conviction.
- **Detractors:** We remain confident in the long-term prospects for rebounds in the Fund's top detracting industries.
- **Outlook:** We remain cautiously optimistic for the advantages of active, risk-conscious, small-cap investing for the long run.

Performance Review

- Royce Small-Cap Fund advanced 9.4% for the quarter, outperforming its benchmark, Russell 2000 Index, which was up 8.5% for the same period. The portfolio was ahead of the Russell 2000 Index for the year-to-date period ended 6/30/25, down 0.8% versus -1.8%. The portfolio outperformed its benchmark for the 3-, 5-, 10-, 20-, 25-, 30-, 35-, 40-year and 45-year periods ended 6/30/25.
- Seven of the portfolio's 10 sectors made a positive impact on quarterly performance. The sectors making the largest positive contributions were Industrials, Information Technology and Financials while the largest negative impacts came from Energy, Real Estate and Communication Services.
- At the industry level, construction & engineering (Industrials), capital markets (Financials), and electronic equipment, instruments & components (Information Technology) contributed most for the quarter, while financial services (Financials), real estate management & development (Real Estate), and oil, gas & consumable fuels (Energy) were the largest detractors.
- The portfolio's advantage over its benchmark was primarily attributable to sector allocation in the quarter, with the Health Care, Financials and Real Estate sectors making the most significant positive impact versus the benchmark. Conversely, Materials, Consumer Discretionary and Industrials detracted most from relative quarter results.
- Six of the portfolio's 10 sectors made a negative impact on year-to-date period performance. The sectors making the largest detractions came from Consumer Discretionary, Information Technology and Real Estate while the largest positive impacts came from Financials, Industrials and Health Care.
- At the industry level, semiconductors & semiconductor equipment (Information Technology), chemicals (Materials), and specialty retail (Consumer Discretionary) detracted most for the year-to-date period, while capital markets (Financials), construction & engineering (Industrials), and insurance (Financials) were the largest contributors.
- The portfolio's advantage over its benchmark was primarily attributable to sector allocation in the year-to-date period, with the Financials, Health Care and Energy sectors making the most significant positive impact versus the benchmark. Conversely, Information Technology, Consumer Discretionary and Materials detracted most from relative year-to-date period results.

Outlook

- Against a backdrop of ample economic and geopolitical uncertainty, we know that as of the end of June, the Russell 2000 remained much less expensive than the Russell 1000. Based on our preferred index valuation metric, EV/EBIT or enterprise value over earnings before interest and taxes, small-caps stayed close to a 25-year low relative to large-cap stocks. Many small-caps stocks are just beginning to emerge from a two-year earnings recession, which should help boost performance for an asset class that's lagged large-cap for several years and currently faces low expectations. And previous low expectations and relatively underwhelming returns have often been opportune times to increase allocations. Historically, sitting on the sidelines during corrections or the early stage of rallies has carried a high cost. We are therefore cautiously optimistic for the advantages of active, risk-conscious, small-cap investing for the long run.

Morningstar Rating™

Overall Rating as of June 30, 2025


**(4-Star) Investment
Class**

As of 06/30/2025 the fund's Investment Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 575, 554 and 398 Small Blend funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Sector Allocation (% of Total)

Sector	Fund
Industrials	29.06
Financials	21.44
Information Technology	16.71
Health Care	9.13
Consumer Discretionary	9.02
Materials	7.20
Energy	1.92
Real Estate	1.36
Other	1.89
Cash & Cash Equivalents	2.27

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
			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	Date
Investment Class	780905840	PENN	9.40	-0.78	1.70	12.32	12.44	8.74	—	9.40	-0.78	1.70	12.32	12.44	8.74	—	0.93	0.93	—	—	10/31/1972
Benchmark	—	—	8.50	-1.79	7.68	10.00	10.04	7.12	—	8.50	-1.79	7.68	10.00	10.04	7.12	—	—	—	—	—	—

Benchmark(s)

Benchmark =Russell 2000 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 total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

What are the Risks?

The Fund invests primarily in **small-cap stocks**, which may involve considerably more risk than investing in larger-cap stocks. The Fund's broadly **diversified portfolio** does not ensure a profit or guarantee against loss. The Fund may invest up to 25% of its net assets in **foreign securities** that may involve political, economic, currency, and other risks not encountered in U.S. investments. These and other risks are discussed in the fund's prospectus.

Glossary

Enterprise value (EV) is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization.

Important Information

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 **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. Source: FTSE.

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

Morningstar Rating™: Source: Morningstar®, 06/30/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Investment Class shares received a Morningstar Rating of 4, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Investment Class shares only. Other share classes may have different Morningstar ratings.

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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.