

Royce Small-Cap Fund

Investment Class: PENNX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** In the eventful quarter that closed the books on 2025, the small-cap Russell 2000 and Russell Microcap Indexes were each in positive territory, while the micro-cap index led all the major domestic indexes, solidifying the market leadership that began off the April low.
- **Contributors:** Information Technology made the biggest contribution at the sector level by a good-sized margin due in large part to the substantial contribution by the Fund's semiconductors & semiconductor equipment holdings.
- **Detractors:** The biggest negative impact by far came from Health Care, which was the Fund's top contributor in 4Q25. Software was the Fund's biggest detractor at the industry level.
- **Outlook:** Several catalysts, including reindustrialization, reshoring, and ongoing infrastructure improvements, should help keep the Fund's risk-averse approaches in a sustained leadership role, as can the possibility of a healthy CapEx cycle and the benefits accruing to those small-cap companies that continue to provide AI's 'picks & shovels.'

Performance Review

- Royce Small-Cap Fund advanced 3.90% for the quarter, outperforming its benchmark, Russell 2000 Index, which was up 0.89% for the same period.
- Five of the portfolio's 10 sectors made a positive impact on quarterly performance. The sectors making the largest positive contributions were Information Technology, Industrials and Materials while the largest negative impacts came from Health Care, Real Estate and Consumer Staples.
- At the industry level, semiconductors & semiconductor equipment (Information Technology), machinery (Industrials), and electronic equipment, instruments & components (Information Technology) contributed most for the quarter, while software (Information Technology), professional services (Industrials), and IT services (Information Technology) were the largest detractors.
- The portfolio's advantage over its benchmark was primarily attributable to stock selection in the quarter, with the Information Technology, Materials and Industrials sectors making the most significant positive impact versus the benchmark. Conversely, Energy, Health Care and Consumer Staples detracted most from relative quarter results.

Outlook

- We are confident that small-caps can sustain market leadership and are working to use short-term volatility to our long-term advantage and create market-beating returns. We also want to remind investors that the opportunity still exists to build one's small-cap allocation at attractive valuations. The current period looks to us like an especially opportune time to invest in select small-caps for the long run. We think it's also important to know that at the end of March, the Russell 2000's 5-year annualized total return was 3.8%. Since the inception of the small-cap index at the end of 1978, whenever the average annualized 5-year return was 5% or less, subsequent 3- and 5-year returns were positive 100% of the time—and were higher than each period's average annualized returns since inception. This underscores our conviction that, current volatility notwithstanding, we are in a very promising period for small-cap leadership and disciplined active small-cap management. **Past performance is not an indicator or a guarantee of future performance.**

Morningstar Rating™

Overall Rating as of March 31, 2026



(4-Star) Investment Class

As of 03/31/2026 the fund's Investment Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 580, 558 and 440 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Top Holdings (% of Total)

Holding	Fund
Arcosa	2.27
Element Solutions	1.81
Assured Guaranty	1.31
SEI Investments	1.19
RBC Bearings	1.13
Enpro	1.06
JBT Marel	1.06
Quaker Chemical	1.02
ESAB Corporation	0.96
International General Insurance Holdings	0.95

Average annual total returns and fund expenses (%) - as of March 31, 2026

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	3.90	3.90	24.81	12.38	6.49	10.86	—	3.90	3.90	24.81	12.38	6.49	10.86	—	0.93	0.93	—	—	10/31/1972
Benchmark	—	—	0.89	0.89	25.72	13.05	3.77	9.88	—	0.89	0.89	25.72	13.05	3.77	9.88	—	—	—	—	—	

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

The **Russell Microcap Index** measures the performance of the smallest publicly traded companies in the U.S. equity market.

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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

Morningstar Rating™: Source: Morningstar®, 03/31/2026. 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, 4 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. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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Reports and other information about the funds are available on the EDGAR Database on the SEC's Internet site at www.sec.gov.

Royce & Associates, LP primarily conducts its business under the name Royce Investment Partners.

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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.