

Royce Small-Cap Fund

Investment Class: PENNX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** Small-caps remain much more attractively valued than large-caps and opportunities are plentiful.
- **Contributors:** The Fund's top five contributors in 1Q25 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 think it's important to remember that difficult economic and/or market phases are finite. Those who stand to profit most when a recovery arrives are almost always those investors who stayed the course during stormy weather.

Performance Review

- Royce Small-Cap Fund declined 9.3% for the quarter, outperforming its benchmark, Russell 2000 Index, which was down 9.5% for the same period. The portfolio outperformed its benchmark for the 3-, 5-, 10-, 20-, 25-, 30-, 35-, 40-, and 45-year periods ended 3/31/25.
- All of the portfolio's 10 sectors made a negative impact on quarterly performance. The sectors making the largest detractions came from Information Technology, Industrials and Consumer Discretionary while the least negative impacts came from Consumer Staples, Materials and Energy.
- At the industry level, semiconductors & semiconductor equipment (Information Technology), electronic equipment, instruments & components (Information Technology), and construction & engineering (Industrials) detracted most for the quarter, while metals & mining (Materials), insurance (Financials), and biotechnology (Health Care) were the largest contributors.
- The portfolio's advantage over its benchmark was primarily attributable to stock selection in the quarter, with the Financials, Materials and Industrials sectors making the most significant positive impact versus the benchmark. Conversely, Information Technology, Real Estate and Utilities detracted most from relative quarter results.

Outlook

- The first quarter appears to have marked the onset of a more sustained period of falling share prices. One crucial advantage to having been small-cap specialists for more than 50 years, however, is being accustomed to corrections and bear markets. We have always sought to act on the idea of being greedy when others are fearful and fearful when others are greedy. Of course, we also understand that psychology makes it difficult to keep investing when prices are falling—but we have seen over the years that panic selling or staying on the sidelines during downturns can be costly over the long run. We are admittedly facing uncertain days. The worrisome signs—tariffs, inflation, and falling consumer confidence—are all legitimate concerns. If we do endure a recession—or even a period of stagflation—we will continue to hunt for attractive stock prices in companies that also have some combination of low debt, robust cash flows, established earnings histories, strong long-term growth prospects, and proven management. We think it's also important to remember that difficult economic and/or market phases are finite. Those who stand to profit most when a recovery arrives are almost always those investors who stayed the course during stormy weather.

Morningstar Rating™

Overall Rating as of March 31, 2025


**(4-Star) Investment
Class**

As of 03/31/2025 the fund's Investment Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 582, 559 and 399 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.

Top Holdings (% of Total)

Holding	Fund
Arcosa	1.85
Air Lease Cl. A	1.63
Assured Guaranty	1.60
SEI Investments	1.51
Element Solutions	1.46
PAR Technology	1.30
Haemonetics Corporation	1.28
E-L Financial	1.27
Cirrus Logic	1.12
Popular	1.07

Sector Allocation (% of Total)

Sector	Fund
Industrials	27.19
Financials	21.67
Information Technology	17.16
Consumer Discretionary	8.78
Health Care	8.51
Materials	7.03
Energy	2.25
Real Estate	1.80
Other	2.38
Cash & Cash Equivalents	3.23

Average annual total returns and fund expenses (%)

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	
Investment Class	780905840	PENN	-9.30	-9.30	-8.76	3.93	15.30	7.65	—	-9.30	-9.30	-8.76	3.93	15.30	7.65	—	0.94	0.94	—	—	10/31/1972
Benchmark	—	—	-9.48	-9.48	-4.01	0.52	13.27	6.30	—	-9.48	-9.48	-4.01	0.52	13.27	6.30	—	—	—	—	—	—

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

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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®, 03/31/2025. 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.

Distributor: Royce Fund Services, LLC

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.