

# Rolling Returns

## A Better Way to Measure Performance

**Though calendar-year returns are among the most common measures of portfolio performance, rolling returns arguably offer a more robust analysis.**

When evaluating fund performance, it is common practice to review results for the most recent year (often the calendar year) along with its related longer-term trailing periods of three, five, and/or 10 years.

However, a calendar-year return is not necessarily any more or less important to consider than any other 12-month or related trailing period or during a manager's tenure. It is also true that few investors buy mutual funds on New Year's Eve and then sell exactly three (or five or 10) years later. Of course, the reality is that trailing returns ending last month or last quarter are the most commonly available and easily comparable results, so these otherwise arbitrary periods drive investor decisions and flows.

Keeping in mind that investors will buy and sell at any time throughout any given year, it makes sense to us to examine performance over a larger series of dates, which we think makes a highly convincing case for rolling returns. Rolling returns offer a more effective measure because they provide an accurate and in-depth picture of a portfolio's performance. Rather than "point-in-time" results anchored by the end of the month or quarter,



rolling returns account for the fact that investors typically did not invest at the beginning of the current three- or five-year period but instead are investing over many periods. So instead of assuming that an investment was made on January 1, three-year rolling returns calculate all of the three-year periods starting not only in January but also in February, March, April, etc. (Likewise, a five-year rolling return accounts for all of the five-year returns beginning at a given inception date and advancing one month sequentially.) This method allows an investor to evaluate the consistency of a fund's performance over time—including the ups and downs of market cycles, which are an important test of a manager's skill.

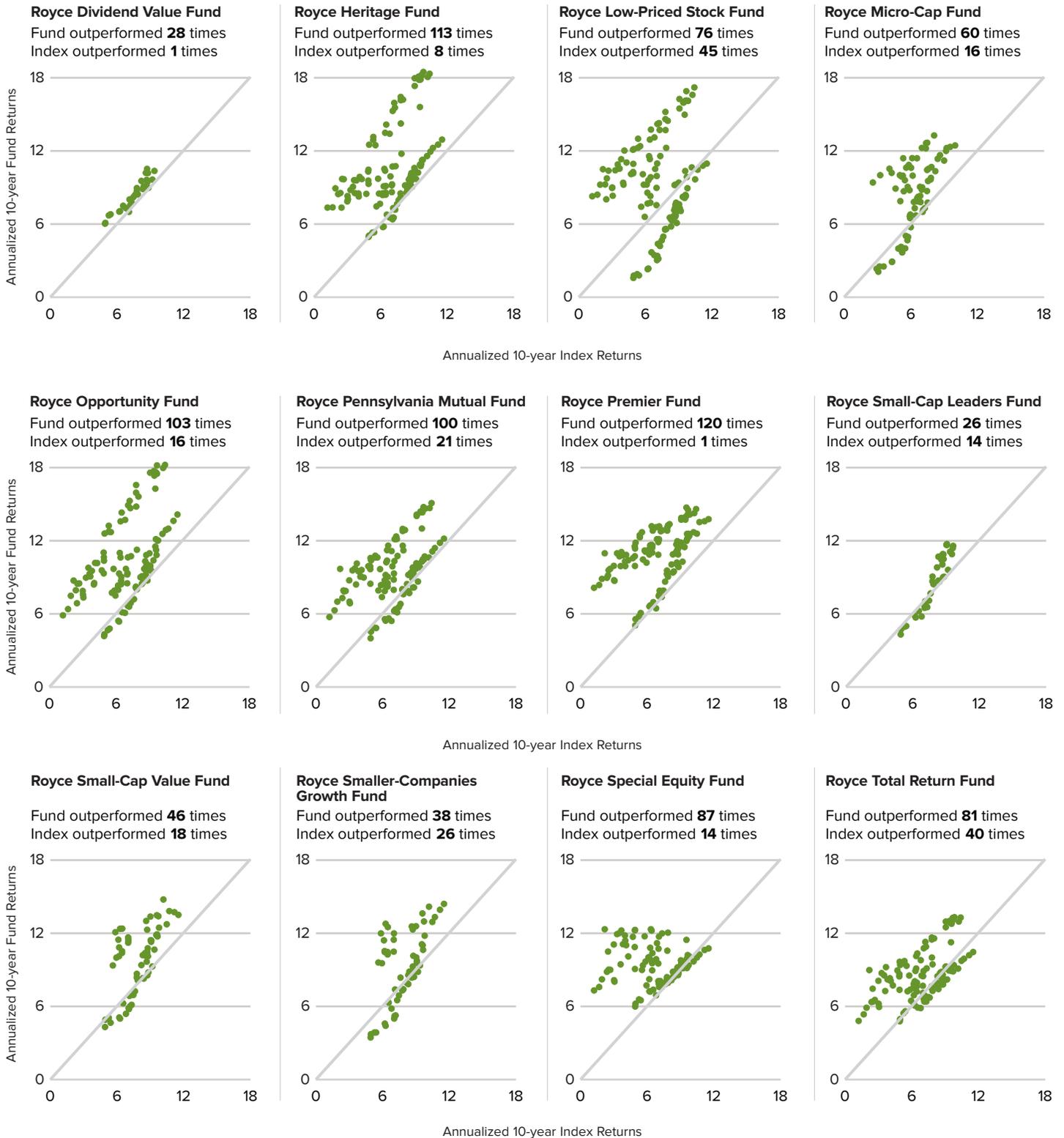
Rolling returns provide a particularly robust analytical tool for evaluating manager performance during volatile periods when simply shifting the performance date range one or two months in either direction can paint a very different picture.

# TheRoyceFunds

Each point on the chart represents a coordinate showing the Fund's performance and the index performance for the same period. The distance from the line is the degree of outperformance or underperformance versus the benchmark.

**Royce Funds vs. The Benchmark<sup>1</sup>**  
**10-Year Rolling Monthly Average Annual Return Periods**

Since Fund Inception or Most Recent 20 Years through September 30, 2016



<sup>1</sup> Included are all U.S. Royce Funds at least with 12 years of history. The Russell 2000 is the benchmark for most funds. Royce Micro-Cap Fund is compared to the Russell Microcap Index and is measured from the that Index's inception.

## Royce Funds<sup>1</sup> vs. The Benchmark<sup>2</sup>

Monthly Rolling Average Annual Return Periods and Relative Results Since Fund Inception or Most Recent 20 Years through September 30, 2016

FUND	Average Annual 10-Year Rolling Return			Average Annual 5-Year Rolling Return				
	PERIODS BEATING THE INDEX	FUND AVG (%) <sup>3</sup>	INDEX AVG (%) <sup>3</sup>	PERIODS BEATING THE INDEX	FUND AVG (%) <sup>3</sup>	INDEX AVG (%) <sup>3</sup>		
<b>U.S. EQUITY</b>								
Dividend Value	28/29	97%	8.3	7.5	59/89	66%	9.0	7.7
Heritage	113/121	93%	10.4	6.9	148/181	82%	11.1	7.4
Low-Priced Stock	76/121	63%	9.4	6.9	130/181	72%	9.7	7.4
Micro-Cap	60/76	79%	8.5	6.3	92/136	68%	8.8	7.5
Opportunity	103/119	87%	10.3	6.9	137/179	77%	11.6	7.5
Pennsylvania Mutual	100/121	83%	9.5	6.9	136/181	75%	10.2	7.4
Premier	120/121	99%	11.0	6.9	140/181	77%	11.1	7.4
Small-Cap Leaders	26/40	65%	8.7	7.9	63/100	63%	8.1	7.1
Small-Cap Value	46/64	72%	9.8	7.9	77/124	62%	10.1	8.3
Smaller-Companies Growth	38/64	59%	9.3	7.9	56/124	45%	9.8	8.3
Special Equity	87/101	86%	9.4	6.7	106/161	66%	10.7	8.0
Total Return	81/121	67%	8.6	6.9	124/181	69%	9.4	7.4

<sup>1</sup> Included are all Royce Funds with at least 12 years of history.

<sup>2</sup> The Russell 2000 Index is the benchmark for most funds. Royce Micro-Cap Fund is compared to the Russell Microcap Index from the inception of that index.

<sup>3</sup> Average return shown is the average of all month-end trailing five- and 10-year total returns.

Past performance is no guarantee of future results. For more information on performance please see page 4.

We believe that rolling returns provide a particularly robust analytical tool for evaluating manager performance during volatile periods when simply shifting the performance date range one or two months in either direction can paint a very different picture.



## Performance and Expenses

As of September 30, 2016

FUND	AVERAGE ANNUAL TOTAL RETURNS (%)									ANNUAL OPERATING EXPENSES (%)	
	3Q2016 <sup>1</sup>	YTD <sup>1</sup>	1-YR	5-YR	10-YR	15-YR	20-YR	40-YR/ SINCE INCEPT.	INCEPTION DATE	GROSS	NET
Dividend Value	4.51	9.25	11.99	12.02	7.00	N/A	N/A	8.27	5/3/04	1.14	1.14
Heritage	6.78	12.59	16.15	11.20	6.39	9.39	12.03	12.36	12/27/95	1.01	1.01
Low-Priced Stock	10.39	7.98	11.72	3.74	3.39	7.38	9.27	9.96	12/15/93	1.29	1.25
Micro-Cap	8.99	8.21	12.82	5.26	4.01	8.37	9.25	10.71	12/31/91	1.50	1.50
Opportunity	13.11	16.75	18.62	15.80	6.75	10.56	N/A	11.84	11/19/96	1.17	1.17
Pennsylvania Mutual	6.47	14.58	16.54	12.10	6.28	9.60	10.14	13.18	N/A	0.93	0.93
Premier	6.71	13.66	15.01	10.13	7.55	10.78	10.66	11.25	12/31/91	1.13	1.13
Small-Cap Leaders	6.16	12.58	14.26	10.33	6.49	N/A	N/A	9.16	6/30/03	1.24	1.24
Small-Cap Value	4.43	7.89	6.19	8.61	5.78	10.51	N/A	9.38	6/14/01	1.23	1.23
Smaller-Companies Growth	5.56	2.02	3.50	12.26	5.21	11.70	N/A	10.88	6/14/01	1.33	1.25
Special Equity	5.71	14.49	13.78	11.50	7.60	10.52	N/A	8.82	5/1/98	1.15	1.15
Total Return	5.87	14.99	17.13	13.04	6.64	9.32	9.75	10.62	12/15/93	1.22	1.22
<b>INDEX</b>											
Russell 2000 Index	9.05	11.46	15.47	15.82	7.07	9.26	8.06	N/A	N/A	N/A	N/A
Russell Microcap Index	11.25	9.38	13.47	16.37	5.50	8.85	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> Not Annualized

### Important Performance and Expense Information

All performance information in this piece reflects past performance, is presented on a total return basis, reflects the reinvestment of distributions, and does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when redeemed. Investment and Service Class shares redeemed within 30 days of purchase may be subject to a 1% redemption fee payable to the Fund. Redemption fees are not reflected in the performance shown above; if such fees were reflected, performance would be lower. Current month-end performance may be higher or lower than performance quoted and may be obtained at [www.roycefunds.com](http://www.roycefunds.com). All performance and expense information reflect results of the Fund's Investment Class shares. Gross operating expenses reflect each Fund's gross total annual operating expenses and include management fees, any 12b-1 distribution and service fees, other expenses, and any applicable acquired fund fees and expenses. Net operating expenses reflect contractual fee waivers and/or expense reimbursements exclusive of any applicable acquired fund fees and expenses. All expense information is reported as of the Fund's most current prospectus. Royce & Associates has contractually agreed to waive fees and/or reimburse operating expenses through April 30, 2017 to the extent necessary to maintain net annual operating expenses (excluding brokerage commissions, taxes, interest, litigation expenses, acquired fund fees and expenses, and other expenses not borne in the ordinary course of business) to no more than 1.24% for the Investment Class of Royce Low-Priced Stock and Smaller-Companies Growth Funds. Acquired fund fees and expenses reflect the estimated amount of the fees and expenses incurred indirectly by any applicable Fund through its investments in mutual funds, hedge funds, private equity funds, and other investment companies.

All performance and risk information presented in this material prior to the commencement date of Investment Class shares on 9/14/07 for Royce Dividend Value Fund, 3/15/07 for Royce Heritage, Low-Priced Stock, Small-Cap Leaders, Small-Cap Value, and Smaller-Companies Growth Funds. Service, Consultant, R, and K Class shares bear an annual distribution expense that is not borne by the Fund's Investment Class. The Royce Funds invest primarily in securities of micro-cap, small-cap, and/or mid-cap companies, which may involve considerably more risk than investments in securities of larger-cap companies (see "Primary Risks for Fund Investors" in the respective prospectus). The Funds may also invest to varying degrees in foreign securities which may involve political, economic, currency, and other risks not encountered in U.S. investments. Please read the prospectus carefully before investing or sending money. Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. The Russell 2000 Index is an unmanaged, capitalization-weighted index of domestic small-cap stocks that measures the performance of the 2,000 smallest publicly traded U.S. companies in the Russell 3000 Index. The Russell Microcap Index includes 1,000 of the smallest securities in the small-cap Russell 2000 Index. The Russell Global Small Cap Index is an unmanaged, capitalization-weighted index of global small-cap stocks. The Russell Global ex-U.S. Small Cap Index is an unmanaged, capitalization-weighted index of global small-cap stocks, excluding the United States. Index returns include net reinvested dividends and/or interest income. The performance of an index does not represent exactly any particular investment, as you cannot invest directly in an index. Distributor: Royce Fund Services, Inc.

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