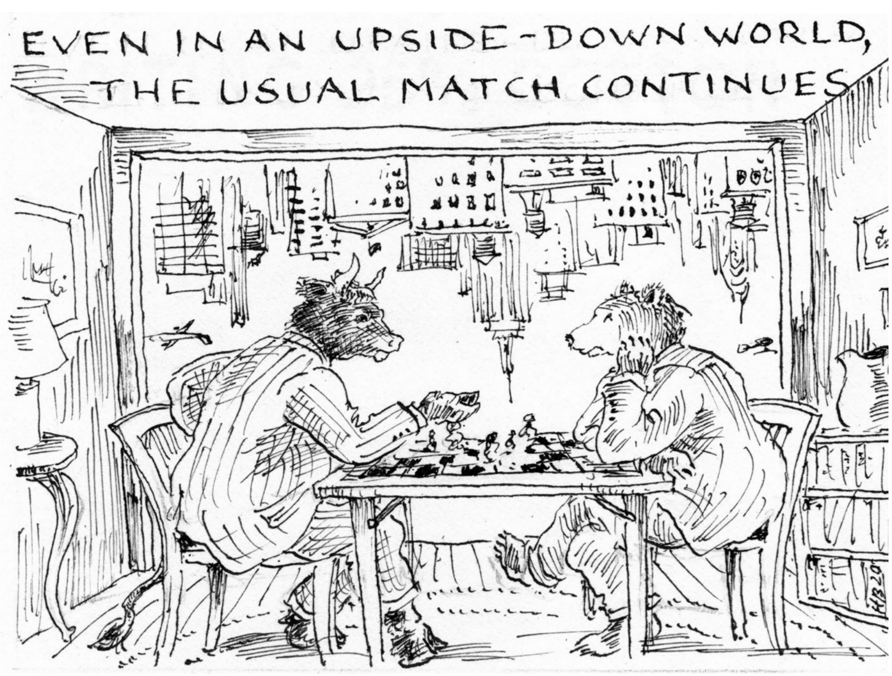
FOR FINANCIAL PROFESSIONALS ONLY

Small-Cap Market Review

3Q20



Interview

Although the next few months may be volatile, Portfolio Manager Chuck Royce and Co-CIO Francis Gannon are optimistic for small-caps over the next few years.

Chart Book

A comprehensive overview of our asset class including long-term market cycles and performance patterns for large-cap vs small-cap and cyclicals vs. defensives.

Fund Performance

A look at how Royce's featured value and core strategies have fared.

ROYCE Investment Partners

ROYCE
Investment Partners

Small-cap specialist with unparalleled knowledge and experience, offering distinct investment approaches to meet a variety of investors' goals.

Founded
1972

Unparalleled Knowledge + Experience

Pioneers in small-cap investing, with 40+ years of experience, depth of knowledge, and focus.

30+
Years Average PM Industry Experience

Independent Thinking

The confidence to go against consensus, the insight to uncover opportunities others might miss, and the tenacity to stay the course through market cycles.

$11.5B
AUM

Specialized Approaches

US, international, and global investment strategies that pursue approaches with different risk profiles.

$114M
Employee Investments[1]

Unwavering Commitment

Our team of 18 portfolio managers have significant personal investments in the strategies they manage.

As of 9/30/20

Source: Morningstar

[1] Our officers, employees, and their families have approximately $114 million invested in The Royce Funds and similarly managed strategies and vehicles as of 08/31/20.

3Q20 Interview

Although the next few months may be volatile, Portfolio Manager Chuck Royce and Co-CIO Francis Gannon are optimistic for small-caps over the next few years.

Do you think the market's strength is sustainable?

CR Over at least the next few years, yes. Based on what I see in small cap's fundamentals, current valuations, and market behavior, I'm cautiously optimistic. September was a volatile month, as well as the first month with negative returns for most of the indexes around the globe since the recovery began in March. The losses, however, weren't significant. This sort of more benign correction is common over the course of recoveries and gives me more confidence in the market's underlying strength. Yet with a vaccine still to come, a contentious election in November, ample economic uncertainty, and the recent positive diagnoses for the president and certain members of his staff, I don't have a firm conviction about the short run. Although I also don't see the likelihood of a major correction, I do think stocks could experience more of the corrective volatility we saw in September over the next few months.

What positive signs do you see that support your long-term conviction?

CR I'm encouraged by the number of welcome developments. The market's strength coming off the mid-March lows has been a pleasant surprise, and the economy is growing stronger, even if by fits and starts. Equally if not more important, the world is making progress toward a coronavirus vaccine that's likely to be available by the early to middle part of next year. I'm also pleased with the way that so many companies are moving forward and effectively managing their way through an extraordinary period—one that's been unprecedented for most of them. The markets are behaving mostly as we'd anticipate in a typical recovery from a recession. In fact, with so much of the world feeling upside down, it's interesting how "normal" the investment environment has been.

With the economy showing mixed signals, what's your sense of its condition?

CR I think the economy is in pretty good shape—and getting better. The road ahead looks promising to me, with no recession or financial crisis on the horizon. Because the coronavirus is an exogenous event, I think it makes the prospect of a sustained recovery more likely. The global economy was in solid shape going back to the early part of 2020. Indeed, some of our holdings, such as those with exposure to housing and certain niche consumer areas, are doing quite well. In addition, many of the management teams we've spoken to in industries such as chemicals, electrical equipment, and machinery are preparing for continued economic recovery.

How is your view of the recovery affecting how you're looking at companies?

FG What stands out most is the sizable gap between perception and fundamentals. Even as the market rises, much of the world seems apprehensive about the overall state of corporate health, especially in small-caps, where the companies are often seen as being less financially sound. Yet we see a large number of small-cap businesses that have solid free cash flows, strong balance sheets, and capable, innovative management teams that have been executing at a high level throughout 2020. Those are the kinds of characteristics that we think will help companies to emerge stronger.

Is there anything happening in the market that you think investors may be missing?

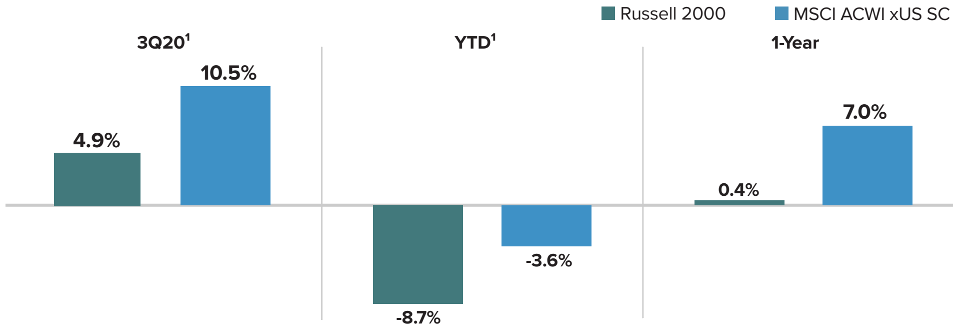
FG I think a lot of investors aren't aware of how much risk there is in passive equity products where mega-cap names predominate. Apple, Microsoft, and Amazon—along with Google and Facebook, part of the "FAAMG" group—each made up more than 10% of the Nasdaq 100 Index at the end of September—more than 30% of the index's total market cap. This high degree of concentration creates considerable risk. Given that investors often turn to passive vehicles in an effort to reduce risk, we think they may be particularly disappointed when risk shows up where it's least expected—and there's more concentration risk in large-cap passive investments right now than I can ever recall seeing.

What else have you observed that other investors may not be aware of?

CR I think one of the more interesting stories in the third quarter was the strength of non-U.S. small-caps. Along with their non-U.S. large-cap counterparts, they outpaced domestic small-cap stocks in the third quarter,

The Surprising Strength of non-U.S. Small-Caps

Recent performance of non-U.S. small-caps versus U.S. small-caps as of 9/30/20



[1]Not annualized. Past performance is no guarantee of future results.

beating the Russell 2000 in all three months. It's equally notable that non-U.S. small-caps (as measured by the MSCI ACWI ex-USA Small Cap Index) have outperformed their U.S. small-cap peers in three of the past four quarters and are now ahead on a one-year basis after trailing for several years.

This could be the beginning of an extended period of attractive returns for non-U.S. small caps. Yet many other investors aren't allocating or even looking at what we see as very fertile ground that can provide terrific opportunities for active managers.

What are the implications for small-cap investors of the Fed's decision to keep very low rates longer, allow higher inflation, and welcome strong labor markets?

FG We can't be certain yet about the full extent of the effects. However, the Fed's decision to keep rates lower for longer certainly suggests tailwinds that can help equity prices to continue drifting higher. The Fed has also become what I'd call a fiscal policy advocate. By essentially saying that the deficit is not something we currently need to worry about, the central bank is encouraging additional fiscal stimulus to revitalize the economy.

Are there any themes emerging in areas you find attractive?

FG There are two related factors we look for, regardless of industry or sector. The first is companies that are profitably using their technology and/or intellectual property to help other businesses innovate or execute more effectively. The second would be companies that are effectively absorbing technology and other innovations for their own uses. I don't know if other investors are scrutinizing the advantages that these attributes can create, but we see them as absolutely critical to a company's long-term success. We also like companies that help businesses make smarter decisions about technology—which is a specialty of **Forrester Research**.

Which sectors and industries do you think look most likely to emerge stronger?

CR We own two machinery companies, **Valmont Industries** and **Lindsay Corporation**, that are good examples of what Frank just referred to. They're involved in precision engineering for agriculture, which is another area that we like. These companies are leveraging intellectual property and technological skill to enhance crop yields, which benefits their customers, most of whom are farmers. Another area would be companies that have an edge in supply chain logistics and inventory management, such as **Manhattan Associates**, a holding we've discussed before. The company has the number one share in warehouse management systems software. COVID-19's global reach made this industry especially important, but we think the companies that were most successful in helping other businesses manage their supply chains and logistics through the pandemic have a long runway for growth in a post-COVID-19 environment.

Were you encouraged by the relative strength of small-cap cyclicals in 3Q20?

FG Within small-caps, the third quarter was good for both cyclical stocks and risk in general. Because cyclical stocks are viewed as riskier than defensives, that makes sense. From a risk perspective, small-caps with no earnings or dividends, as well as those with higher debt, all performed relatively better. Those factors made the quarter more challenging for our quality-focused strategies. Within the Russell 2000 Growth, we saw a shift away from those areas that have led most often over the last several years—the bio-pharma complex and software—with some of the best results coming from the more prosaic precincts of retailing in Consumer Discretionary and, to a lesser extent, insurance in Financials and capital goods in Industrials.

What conditions need to be present for small-caps to outperform large-caps?

FG I think the case is pretty straightforward: We agree with the consensus that's expecting the economic recovery to continue broadening and deepening. A consistently strengthening economy should be highly supportive for small-cap stocks, as it has been historically, especially the economically sensitive cyclical sectors that our portfolios lean toward. There are other developments that should also help small-cap cyclicals. We've been hearing a lot about increased CapEx spending, inventory restocking, and expanded connectivity in several industries. Increased growth in these areas would boost many cyclical companies.

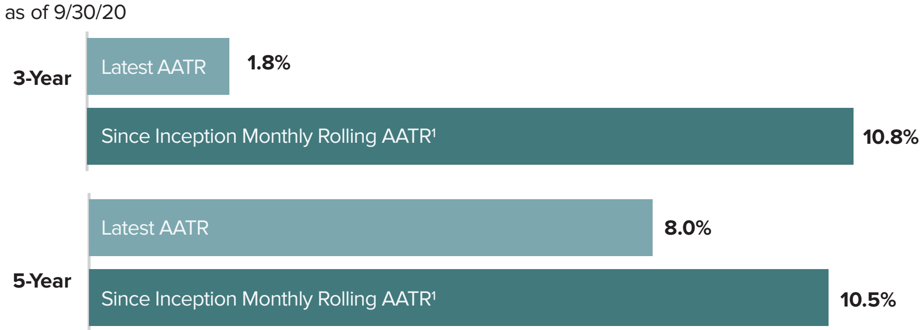
Are there any specific advantages you believe 2020 has provided for active managers?

CR The surges in volatility have been the key. We've always sought to take advantage of tumultuous markets—and I think we've managed it well so far in 2020 across the firm. In the portfolios I lead, we're always looking for attributes such as strong balance sheets, industry leadership, and innovation. These are the qualities that have historically helped companies to make it through difficult markets and recover successfully. When the market is hit with volatility, those attributes go on sale, as it were, because so many investors begin to sell without taking fundamentals or long-term success into account. That short-term mindset is something that any effective active manager tries to use to their advantage. So far this year, we've seen extreme volatility during February and March and less dramatic instances in July and September—and we were actively buying through each period.

Are you optimistic about the long-term prospects for small-cap stocks?

FG I think the prospects for small-caps look especially positive. At the end of September, the Russell 2000 finished 10.7% off its all-time peak from August of 2018, and its three- and five-year annualized returns were below their three- and five-year rolling monthly averages—dramatically lower in the case of the three-year return at the end of 3Q20. So a sustainable period of strong small-cap returns is definitely possible. I

Recent Small-Cap Returns Lower Than Historical Averages
3- and 5-Year Monthly Rolling Averages vs. Average Annualized Returns for the Russell 2000 as of 9/30/20



[1] From Russell inception on 12/31/78-9/30/20. Past performance is no guarantee of future results.

From our perspective, small-cap cyclicals represent the most attractive opportunities in the asset class. At the end of September, they were selling near 20-year lows on a relative valuation basis compared to small-cap defensives.

think it's even more plausible in the context of record-low rates and a large-cap market that looks a lot more overvalued than small-cap, though admittedly much of large-cap's richer valuations are attributable to mega-cap names.

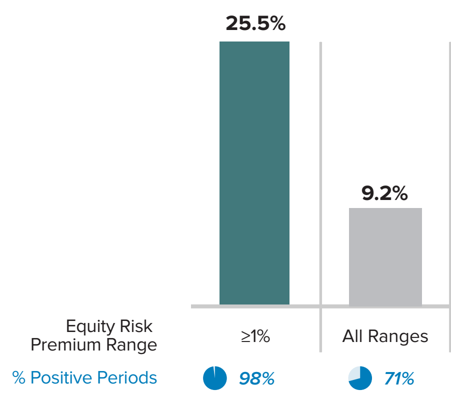
What also bolsters our optimism is the absence of two negative indicators that often precede difficulties or present challenges for small-cap stocks. The first is an aggressive Federal Reserve raising interest rates. The Fed's recent announcements suggest quite the opposite scenario, in which the central bank seems content to leave rates at their current near-zero levels for at least the next few years. The second would be an impending recession such as what we're coming out of now. Yet at this stage the economy appears to be firmly (if unevenly) in recovery mode, having put the recession in its rearview mirror.

What is your view of current valuations for small-caps?

FG Based on how we look at valuations, we think they're attractive. In fact, small-cap valuations relative to interest rates finished September at levels that historically precede higher returns. The Equity Risk Premium—which compares the free cash flow yield of the Russell 2000 to current interest rates—was more than 1% at the end of 3Q20. The average one-year return for the small-cap index following periods where the risk premium was 1% or more was more than 25%. That's really impressive—though past performance doesn't guarantee future results.

Historically High Equity Risk Premium Has Led to High Returns

Average Subsequent Russell 2000 1-Year Performance in Equity Risk Premium Ranges[1]
From 9/30/00 to 9/30/20



[1] Equity Risk Premium = Latest Twelve Months Free Cash Flow divided by Enterprise Value minus 10-Year Treasury Yield.
Source: FactSet

Do these views bolster your confidence in small-cap cyclicals?

CR Very much so. From our perspective, small-cap cyclicals represent the most attractive opportunities in the asset class. At the end of September, they were selling near 20-year lows on a relative valuation basis compared to small-cap defensives. In addition to the areas we mentioned, several other select cyclical industries, such as road & rail, air freight, and building products, have been doing well over the last few months. And of course, the case for select small-cap cyclicals becomes even stronger if the dollar continues to weaken, giving a boost to export opportunities.

FG We're also mindful that the world hasn't seen anything like this pandemic in at least a century, so we're balancing our long-term confidence with the acknowledgment that our collective near-term situation is uncertain. With all of this in mind, we remain confident in the prospects for a solid to strong global economic recovery that should reward select small-cap cyclicals.

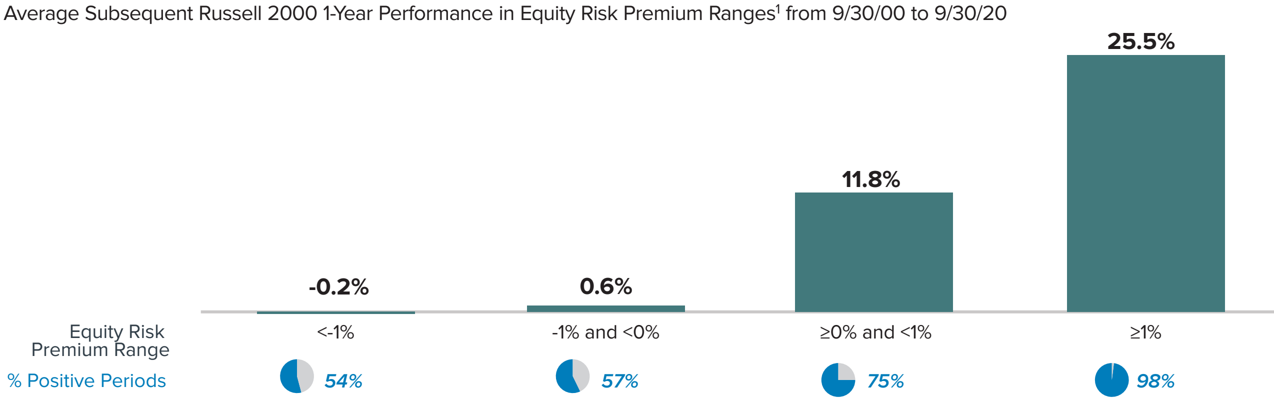
3Q20 Chart Book

A comprehensive overview of our asset class including long-term market cycles and performance patterns for large-cap vs small-cap and cyclicals vs. defensives.

1 Better Days Ahead for Small-Cap?

When the Equity Risk Premium—which compares the free cash flow yield of the Russell 2000 to current interest rates—has been more than 1%, the average subsequent one-year return for periods starting with a risk premium ≥1% were in excess of 25%.

Historically High Equity Risk Premium Has Led to High Returns
Average Subsequent Russell 2000 1-Year Performance in Equity Risk Premium Ranges[1] from 9/30/00 to 9/30/20



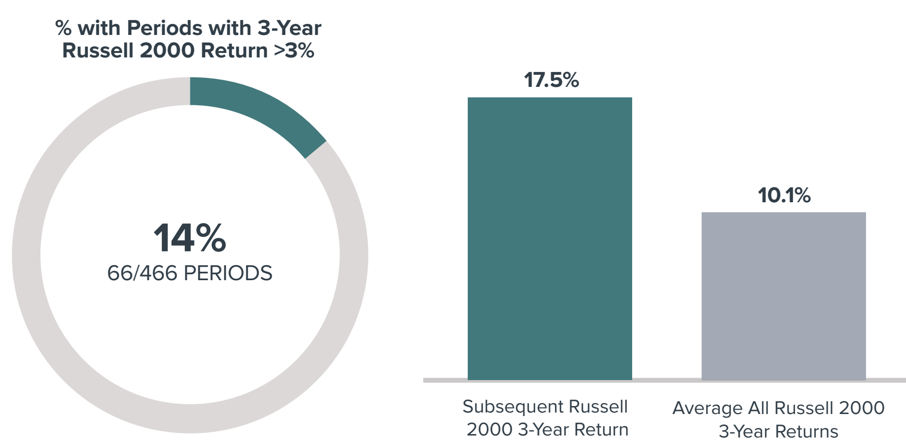
Equity Risk Premium = Latest Twelve Months Free Cash Flow divided by Enterprise Value minus 10-Year Treasury Yield. Source: FactSet

2 What Has Historically Followed Periods with Low 3-Year Returns?

Small-caps have endured a multi-year period of significantly below average returns.

Historically, 3-year periods following 3-year periods with less than 3% have had much higher than average returns.

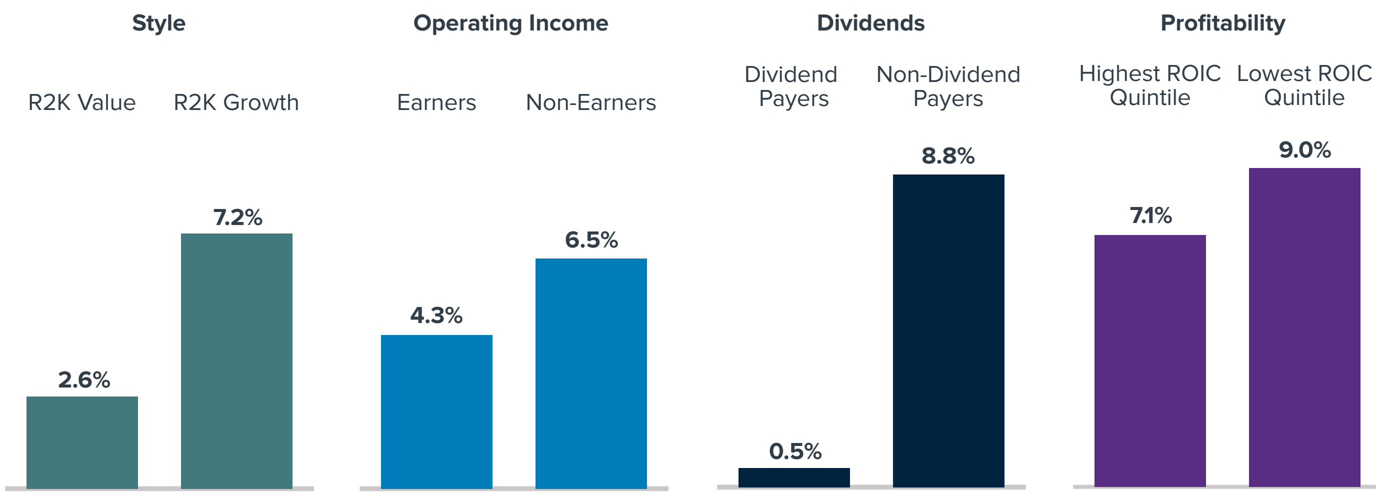
When 3-Year Return was <3%, What Was Subsequent 3-Year Return?
From Russell 2000 Inception (12/31/78) through 9/30/20



Past performance is no guarantee of future results.

3 3Q20 Small-Cap Factor Overview

Within the Russell 2000, perceived risk was rewarded as non-earners, non-dividend payers, and low-profitability stocks performed best.

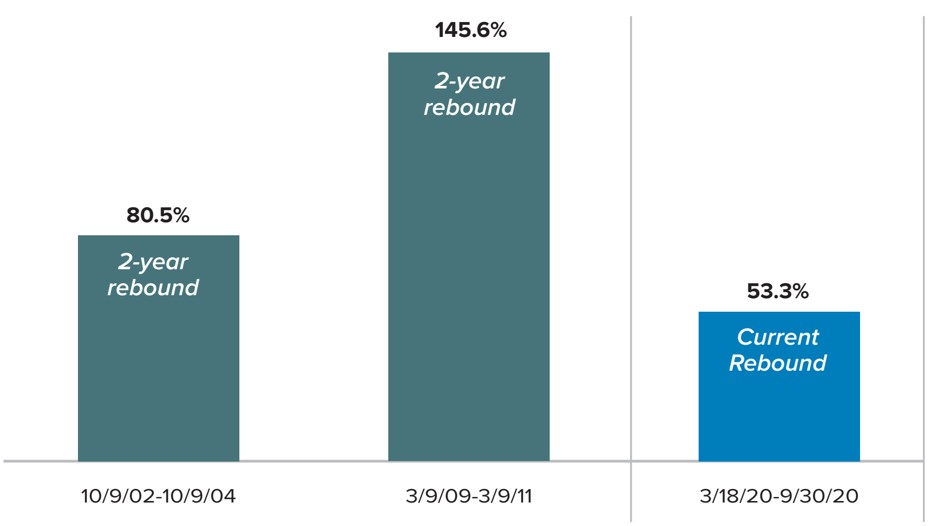


Return on Invested Capital is calculated by dividing a company's past 12 months of operating income (earnings before interest and taxes) by its average invested capital (total equity, less cash and cash equivalents, plus total debt, minority interest, and preferred stock).

4 Room to Run

In the subsequent two-year periods following its last major declines, small-caps advanced significantly more than they have so far in 2020.

Small-Cap's Bear-Market Rebounds
Russell 2000 subsequent two-year periods following troughs

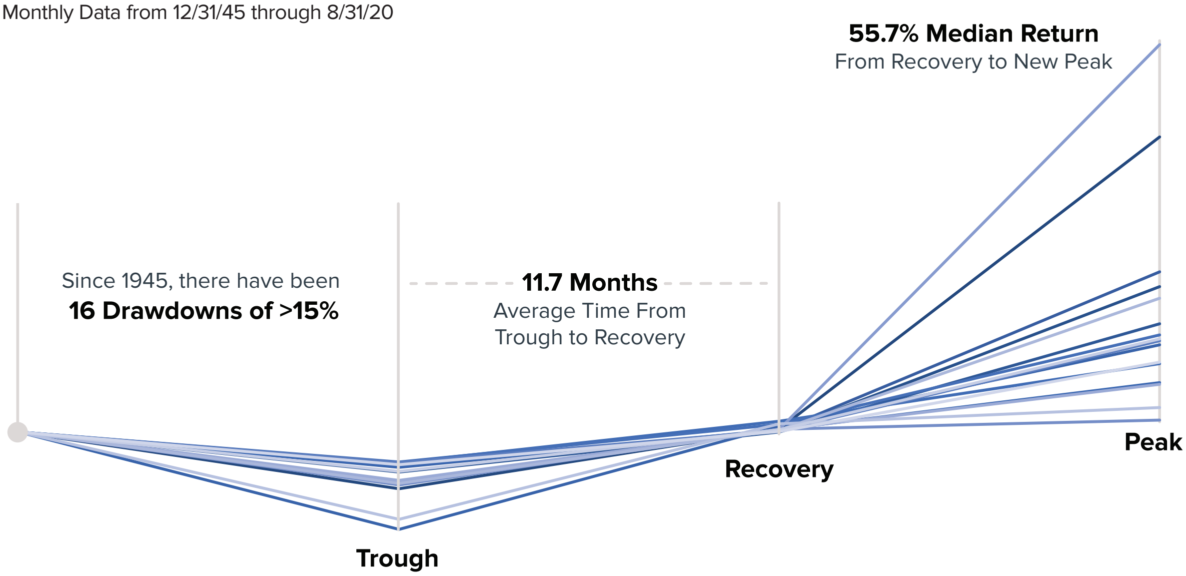


Past performance is no guarantee of future results.

5 Small-Cap Recoveries Since 1945

Since 1945, there have been 16 small-cap market declines of 15% or more. In each of those declines, small-caps eventually recovered to their previous peak over an average of 11.7 months. Small-caps then went on to achieve returns above the prior peak, with a 55.7% median return when reaching a new peak.

CRSP 6-10 Market Cycles After 15% Drawdown
Monthly Data from 12/31/45 through 8/31/20

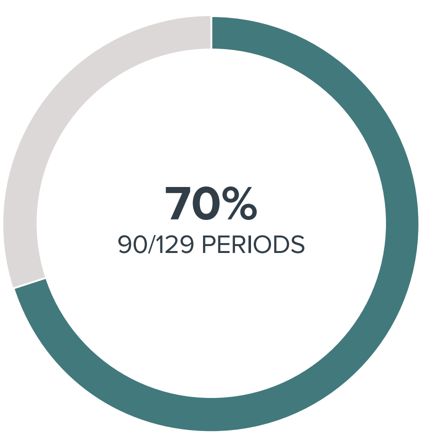


Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements.

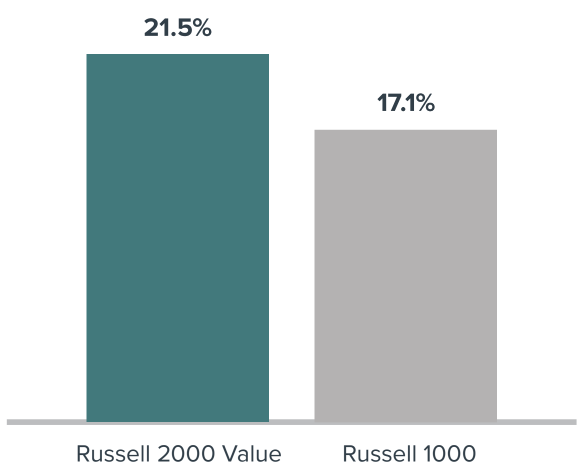
6 Are We in a Positive Market Environment for Small-Cap Value?

If we see continued economic recovery, it seems reasonable to expect high yield credit spreads to tighten. It may be helpful to know that in past periods when high yield spreads narrowed, small-caps outperformed large-caps most of the time.

Small-Cap Value Often Outperformed Large-Cap When High Yield Credit Spreads Narrowed
Russell 2000 Value vs Russell 1000 Trailing Monthly Rolling 1-Year Returns from 9/30/99 through 9/30/20



Batting Average
Small-Cap Value vs Large-Cap in Narrow High Yield Credit Spread Environments

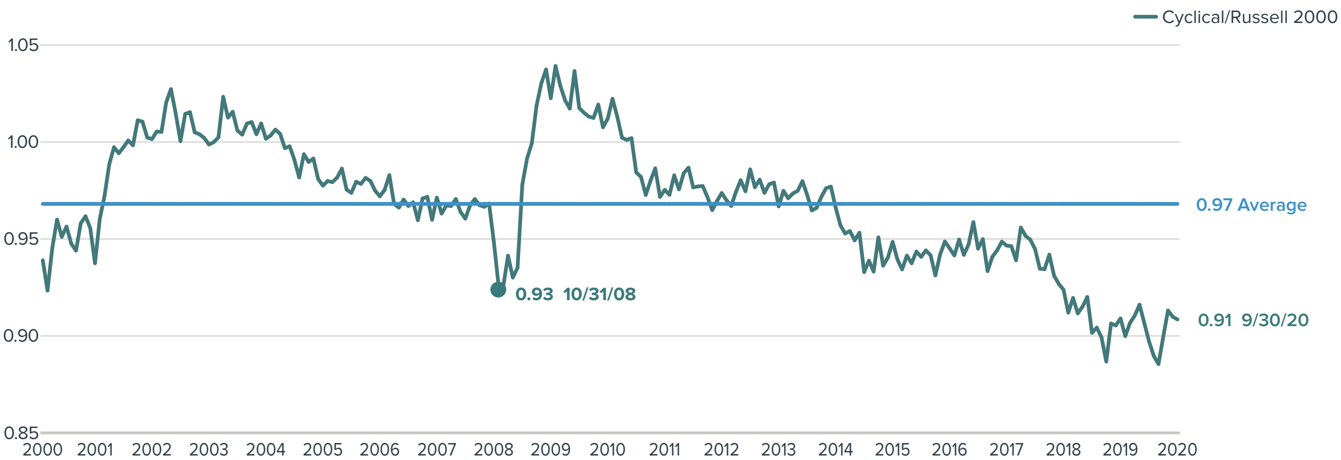


Past performance is no guarantee of future results.

7 Small-Cap Cyclicals Are Cheaper Than Their Historical Average Compared with Defensives

Following the small-cap troughs in 2002 and 2009, small-cap cyclicals substantially outperformed defensives.

Russell 2000 Relative Median EV/EBIT (Ex Negative EBIT)
From 9/30/00 to 9/30/20

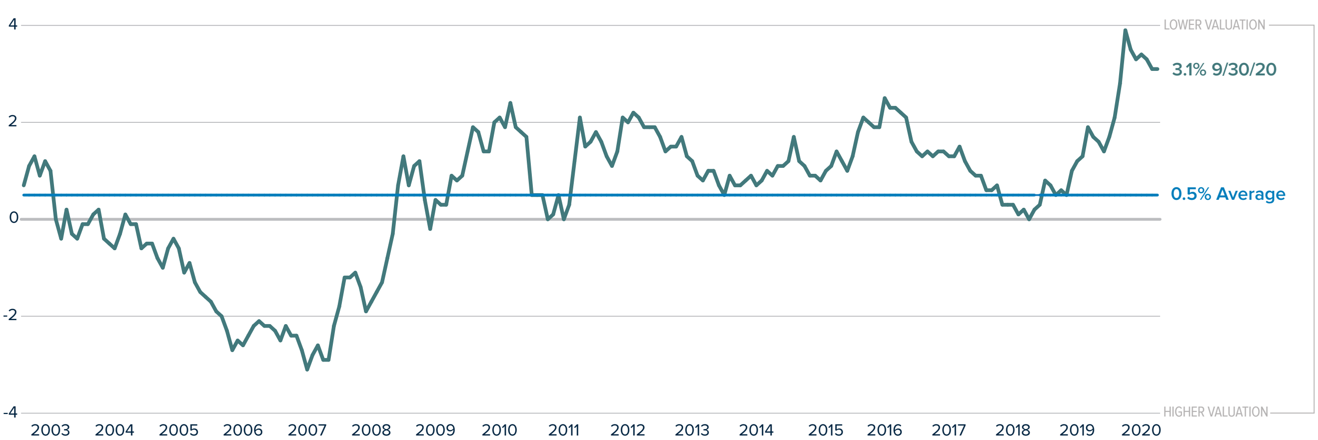


EV/EBIT: Enterprise Value/Earnings Before Interest and Taxes. **Cyclical** is defined as follows: Communication Services, Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials. Defensive: Consumer Staples, Health Care, Real Estate, Utilities. Source: FactSet

8 International Small-Cap's Equity Risk Premium Is Significantly Higher Than Average

The Equity Risk Premium for international small-caps is much higher than its historic average. Historically, periods starting with high equity risk premiums have been followed by strong returns.

MSCI ACWI ex USA Small Cap Equity Risk Premium
Relative Weighted Median FCF/EV-10-Year Treasury[1] from 1/31/03 to 9/30/20



[1] Free Cash Flow divided by Enterprise Value minus 10-Year Treasury Yield
Source: FactSet Past performance is no guarantee of future results.

3Q20 Fund Performance

Five consecutive months of positive returns came to a close after a highly volatile September, affecting most of the globe's major indexes. The Russell 2000 Index advanced 4.9% in a quarter when bigger was better—the Russell 1000 Index gained 9.5% and the mega-cap Russell Top 50 Index rose 11.8% in 3Q20.

Value

Royce Opportunity Fund advanced 11.1%, far outpacing both of its small-cap benchmarks, the Russell 2000 Value and the Russell 2000, which returned 2.6% and 4.9%, respectively, for the quarter. Ten of the Fund's 11 equity sectors finished 3Q20 in the black, while Utilities was flat.

Royce Special Equity Fund finished the quarter with a gain of 2.5%, narrowly lagging the Russell 2000 Value while trailing the Russell 2000. Five of the Fund's nine equity sectors positively contributed to results. Consumer Discretionary made the strongest positive impact, while Communication Services detracted most.

Royce Total Return Fund returned 0.3% for 3Q20, trailing the Russell 2000 and Russell 2000 Value. Small-cap non-dividend payers beat dividend payers in the quarter. Industrials made the most sizable contribution to performance, while Financials hindered results most.

Core

Royce Premier Fund gained 2.6%, falling behind the Russell 2000 during 3Q20. The Fund did, however, maintain its long-term advantage over its benchmark for the three-, five-, 15-, 20-, 25-year, and since inception (12/31/91) periods ended 9/30/20. Five of the Fund's nine equity sectors made positive contributions to results in 3Q20.

Royce Pennsylvania Mutual Fund returned 3.8% for the quarter, trailing the Russell 2000 Index. Seven of the Fund's 10 equity sectors finished the quarter in the black. Industrials made the most sizable positive contribution while Energy detracted most—though at a moderate level.

Royce International Premier Fund advanced 10.4%, narrowly lagging the MSCI ACWI ex USA Small Cap Index for the quarter, which returned 10.5%. Eight of the Fund's nine equity sectors positively contributed to performance. Industrials was the top performer for 3Q20, while Energy detracted modestly.

Average Annual Total Returns 9/30/20 (%)

											Annual Operating Expenses (%)	
FUND	STYLE[1]	3Q20[2]	YTD[2]	1-YR	5-YR	10-YR	15-YR	20-YR	45-YR/SINCE INCEPT.	INCEPT. DATE	GROSS	NET
Opportunity	VALUE	11.11	-8.95	0.10	8.48	8.79	6.91	8.60	10.86	11/19/96	1.22	1.22
Special Equity	VALUE	2.53	-7.73	-0.69	5.83	7.27	6.85	9.52	7.93	5/1/98	1.21	1.21
Total Return	VALUE	0.26	-17.11	-11.46	5.47	7.25	5.76	7.71	9.41	12/15/93	1.23	1.23
International Premier	CORE	10.31	2.14	17.79	12.42	N/A	N/A	N/A	8.14	12/31/10	1.58	1.44
Pennsylvania Mutual	CORE	3.80	-10.28	-2.43	8.93	8.52	6.72	8.79	13.24	N/A	0.94	0.94
Premier	CORE	2.60	-11.02	-3.43	10.50	9.03	8.13	9.66	10.99	12/31/91	1.19	1.19
Russell 2000		4.93	-8.69	0.39	8.00	9.85	7.03	6.88	N/A	N/A	N/A	N/A
Russell 2000 Value		2.56	-21.54	-14.88	4.11	7.09	4.93	7.40	N/A	N/A	N/A	N/A
MSCI ACWI ex USA Small Cap		10.50	-3.64	6.97	6.80	5.31	5.68	7.02	N/A	N/A	N/A	N/A

[1] Royce classifies a client account as 'Value' because it anticipates it will have a weighted average price-to-book ratio or weighted average normalized price-to-earnings ratio lower than its general asset class (e.g. U.S. Small-Cap, U.S. Micro-Cap, International Small-Cap, Global Small-Cap); as 'Core' because it anticipates the client account equity holdings will have a weighted average price-to-book ratio or weighted average normalized price to earnings ratio that is similar to, or somewhat higher than, its general asset class.

[2] Not Annualized.

Important Performance and Expense Information

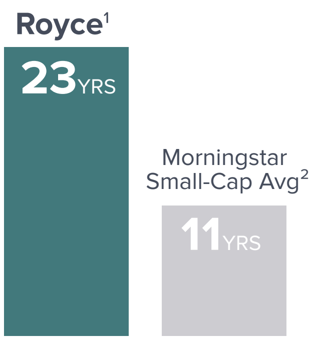
All performance information reflects past performance, is presented on a total return basis, reflects the reinvestment of distributions, and does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. Past performance is no guarantee of 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 (2% for International Premier 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.royceinvest.com. All performance and expense information reflect results of the Fund's Investment Class shares. Gross annual operating expenses reflect the 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 annual operating expenses reflect contractual fee waivers and/or expense reimbursements. All expense information is reported as of the each Fund's most current prospectus. Royce & Associates has contractually agreed, without right of termination, to waive fees and/or reimburse expenses to the extent necessary to maintain the Investment Class of International Premier Fund's 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) at or below 1.19% through April 30, 2021. 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 International Premier Fund Investment Class shares on 1/22/14 reflects Service Class results. Service, Consultant, and R Class shares bear an annual distribution expense that is not borne by each 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.

What Makes Royce Distinctive?

Portfolio Manager Tenure

We have a seasoned staff of 18 portfolio managers

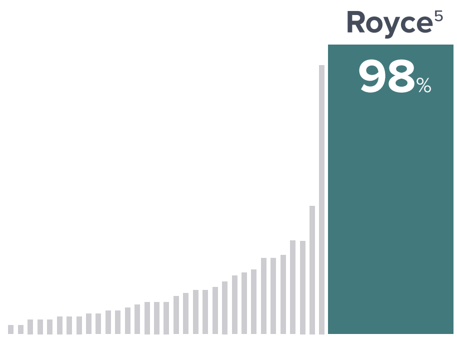


AVG YEARS OF MANAGER TENURE[3]

Small-Cap Specialists

34 firms have >$5B in small-cap fund assets[4]

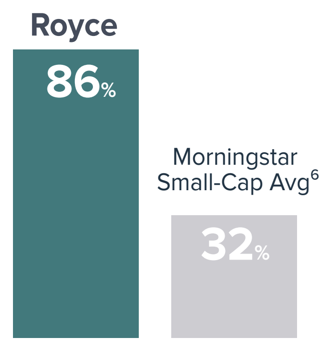
Only Royce has >95% AUM invested in small-cap



% OF TOTAL FUND ASSETS IN SMALL-CAP BY FIRMS WITH >$5B INVESTED IN SMALL-CAP

Significant Portfolio Manager Commitment

Portfolio managers have substantial ownership in the strategies they manage



PERCENTAGE OF FIRM ASSETS WHERE THE MANAGER INVESTS AT LEAST $1M[7]

Source: Morningstar

1 Includes all U.S. small-cap open end Royce Funds as categorized by Morningstar (8 Funds as of 9/30/20). **2** Includes all small-cap open-end mutual funds as categorized by Morningstar (506 Funds reported data as of 9/30/20). **3** Reflects the manager with the longest tenure on each fund including time spent as an assistant portfolio manager, co-portfolio manager or portfolio manager. **4** Includes Morningstar data of all open-end and closed-end equity funds domiciled in the U.S. as of 9/30/20, narrowing the list to include only those companies with at least one U.S. equity fund. From that group of 646 fund companies, products were included in at least one of the following categories: U.S. Fund Foreign Small/Mid Blend, U.S. Fund Foreign Small/Mid Growth, U.S. Fund Foreign Small/Mid Value, U.S. Fund Small Blend, U.S. CE Small Blend, U.S. Fund Small Growth, U.S. Fund Small Value, US Insurance Small Blend, US Insurance Small Value, and US Insurance Small Growth. This resulted in 254 firms with small-cap assets. We narrowed the list again to include only firms with more than $5 billion in small-cap assets and more than $10 billion in total assets, which resulted in 34 firms. **5** Includes all of the Royce Funds U.S. open-end, closed-end, and insurance funds as categorized by Morningstar (13 Funds as of 9/30/20). **6** Includes any fund company with at least one small-cap open-end mutual fund as categorized by Morningstar (225 fund companies reported data as of 9/30/20). **7** The percentage of mutual fund assets with manager investment of more than $1 million shows the portion on an investment adviser's open-end mutual fund assets where at least one fund manager has invested more than $1 million in fund shares.

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