

ROYCE VALUE TRUST INC  
Form N-CSR  
March 02, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT**  
**OF**  
**REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-04875

Name of Registrant: Royce Value Trust, Inc.

Address of Registrant: 745 Fifth Avenue

New York, NY 10151

Name and address of agent for service: John E. Denneen, Esquire

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New York, NY 10151

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Registrant's telephone number, including area code: (212) 508-4500

Date of fiscal year end: December 31

Date of reporting period: January 1, 2011 - December 31, 2011

**Item 1. Reports to Shareholders.**

[Royce Value Trust](#)

[Royce Micro-Cap Trust](#)

[Royce Focus Trust](#)

# ANNUAL REVIEW AND REPORT TO STOCKHOLDERS



## A Few Words on Closed-End Funds

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**Royce & Associates, LLC manages three closed-end funds: Royce Value Trust, the first small-cap value closed-end fund offering; Royce Micro-Cap Trust, the only micro-cap closed-end fund; and Royce Focus Trust, a closed-end fund that invests in a limited number of primarily small-cap companies.**

A closed-end fund is an investment company whose shares are listed and traded on a stock exchange. Like all investment companies, including open-end mutual funds, the assets of a closed-end fund are professionally managed in accordance with the investment objectives and policies approved by the Fund's Board of Directors. A closed-end fund raises cash for investment by issuing a fixed number of shares through initial and other public offerings that may include shelf offerings and periodic rights offerings. Proceeds from the offerings are invested in an actively managed portfolio of securities. Investors wanting to buy or sell shares of a publicly traded closed-end fund after the offerings must do so on a stock exchange, as with any publicly traded stock. This is in contrast to open-end mutual funds, in which the fund sells and redeems its shares on a continuous basis.

## A Closed-End Fund Offers Several Distinct Advantages Not Available from an Open-End Fund Structure

- Since a closed-end fund does not issue redeemable securities or offer its securities on a continuous basis, it does not need to liquidate securities or hold uninvested assets to meet investor demands for cash redemptions, as an open-end fund must.
- In a closed-end fund, not having to meet investor redemption requests or invest at inopportune times is ideal for value managers who attempt to buy stocks when prices are depressed and sell securities when prices are high.
- A closed-end fund may invest more freely in less liquid portfolio securities because it is not subject to potential stockholder redemption demands. This is particularly beneficial for Royce-managed closed-end funds, which invest in small- and micro-cap securities.
- The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.
- Unlike Royce's open-end funds, our closed-end funds are able to distribute capital gains on a quarterly basis. The Funds resumed the quarterly distribution policies for their common stock, at a 5% annual rate, in March 2011. Please see page 18-20 for more details.

*We believe that the closed-end fund structure is very suitable for the long-term investor who understands the benefits of a stable pool of capital.*

## Why Dividend Reinvestment Is Important

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A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages 13, 15 and 17. For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, please see page 20 or visit our website at [www.roycefunds.com](http://www.roycefunds.com).

[This page is not part of the 2011 Annual Report to Stockholders](#)

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*For more than 35 years, we have used a value approach to invest in small-cap securities. We focus primarily on the quality of a company's balance sheet, its ability to generate free cash flow and other measures of profitability or sound financial condition. We then use these factors to assess the company's current worth, basing the assessment on either what we believe a knowledgeable buyer might pay to acquire the entire company, or what we think the value of the company should be in the stock market.*

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## Performance Table

### NAV Average Annual Total Returns

Through December 31, 2011

	Royce Value Trust	Royce Micro-Cap Trust	Royce Focus Trust	Russell 2000 Index
One-Year	-10.06 %	-7.69 %	-10.51 %	-4.18 %
Three-Year	19.21	20.22	18.83	15.63
Five-Year	-0.65	-0.94	1.53	0.15
10-Year	6.10	7.09	9.51	5.62
15-Year	8.86	9.18	9.74	6.25
20-Year	10.24	n.a.	n.a.	8.52
25-Year	10.17	n.a.	n.a.	8.68
Since Inception	10.13	10.05	9.95	n.a.
Inception Date	11/26/86	12/14/93	11/1/96 <sup>1</sup>	n.a.

<sup>1</sup> Date Royce & Associates, LLC assumed investment management responsibility for the Fund.

### Important Performance and Risk Information

All performance information in this *Review and Report* reflects past performance, is presented on a total return basis and reflects the reinvestment of distributions. 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 sold. Current performance may be higher or lower than performance quoted. Current month-end performance may be obtained at [www.roycefunds.com](http://www.roycefunds.com). Investments in securities of micro-cap, small-cap and/or mid-cap companies may involve considerably more risk than investments in securities of larger-cap companies.

<sup>2</sup> | [This page is not part of the 2011 Annual Report to Stockholders](#)

## Letter to Our Stockholders

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### Capitulation

A few years ago, we wrote that markets resemble Tolstoy's families: All the happy ones are alike, and all the unhappy ones are unhappy in their own way. The past calendar year's stock market results, which place it mostly, but not entirely, in the "unhappy" category, offer a striking example. One only has to compare it to recent years of poor performance to see its singularity. In 2008, stock markets across the globe cratered as part of a global financial crisis that saw once-mighty titans of Wall Street collapse. The crisis also had the effect of worsening both a correction in housing prices and a worldwide recession. (Of course, much of the globe's current difficulties in capital markets and economies can be traced back to this event.) The crisis saw a widespread exit from stocks, with major indexes in the U.S. and elsewhere posting sizable double-digit losses for the year. Earlier in the decade, 2002 saw mostly negative results as the exploding Internet Bubble and the lingering effects of the events of 9/11 led many investors to sell equities. Results were mostly negative, but within a much larger range, depending on one's exposure to Technology and related areas.

We suspect that, unlike those of 2002 and 2008, the stock market of 2011 will be remembered not for cataclysmic events or the severity of its losses, which weren't nearly as bad as one might think, but for its daily drama of extreme volatility. **The days between late April and the end of the year saw increasing numbers of investors opting to get out of equities, and stay out, which resulted in a large-scale capitulation that rivaled anything we have**



We suspect that, unlike those of 2002 and 2008, the stock market of 2011 will be remembered not for cataclysmic events or the severity of its losses, which weren't nearly as bad as one might think, but for its daily drama of extreme volatility.

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Charles M. Royce, President

*When used in a financial context, the technical definition of correlation is a statistical measure of how two securities move in relation to one another. Recently, this typically obscure data point has moved into the lexicon of mainstream investors as it aptly describes the sort of stock market returns that we have experienced over the last few years.*

*That is, returns have been highly correlated as the majority of stocks, irrespective of sector, industry, market cap, nation of origin or ostensible investment profile (i.e., value or growth), have either done well, as in 2009 and 2010, or poorly, as they did in 2008 and 2011.*

*Why is correlation important?*

*Correlated markets present definite challenges for disciplined contrarian investors like ourselves. There is simply not much incremental reward for the contrary stance when share prices are rising or falling more or less indiscriminately throughout the world's stock markets. Our practice is to go against the grain by investing in companies or industries that most investors are neglecting while we ignore trendy or fast-growing segments of the market that others are championing. Our fundamental analysis seeks to identify discounts*

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## Letter to Our Stockholders

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**seen during other recent bearish periods, when results were far, far worse. This last point made the past year as fascinating as it was frustrating.** Investors fled or avoided stocks for many reasons—because they lacked confidence in political leaders both here at home and abroad to deal effectively with the challenges of stimulating the economy and responsibly coping with enormous debt; because they couldn't bear the barrage of headlines with their seemingly endless parade of bad news; and because they simply ran out of patience with the daily jumps and dives of a market struggling to make sense of it all.

Absent from this list is the state of the companies themselves. **We would humbly suggest that the most relevant reasons why one would choose to invest in a business—its merits as a company, its prospects and the relationship these have to its stock price—were largely, if not wholly neglected through the market's most tumultuous months.** Again, this was unlike 2002, which for many Internet companies was an Emperor's New Clothes moment, and 2008, when the threat was systemic and fundamentals were, at least at the most tense moments, irrelevant. The disconnect between stock prices and fundamentals for many companies, including many small-caps, remains wide as we enter 2012. While this created no end of short-term disappointments for us—2011 being one of the most challenging years for The Royce Funds in our history—it has also provided ample seeding for what we hope will be a bountiful harvest in the years to come. Following a recap of 2011 performance, we will offer a more detailed explanation of our optimism below.

## Correlation

Perhaps the most notable thing about 2011 was how little returns shifted in the U.S. markets. High volatility was the order of the day through much of the year across most of the globe and was very much in evidence between August and the end of December. However, by the time the year ended, the major U.S. indexes posted returns that felt less like a bang than a whimper. After a solidly positive first half, the small-cap Russell 2000 Index came through the wild second half with a loss of 9.8%. For the same period, its large-cap counterparts, the Russell 1000 and S&P 500 Indexes, lost less, down 4.6% and 3.7%, respectively, while the more tech-laden Nasdaq Composite declined 6.1%.

These single-digit declines belie the tortuous road of the year's last six months. During the third quarter, each of the aforementioned indexes suffered significant double-digit losses, with the Russell 2000 down 21.9%, the Russell 1000 falling 14.7%, the S&P 500 off 13.9% and the Nasdaq losing 12.9%. Fears of European defaults and the possibility of a double-dip recession in the U.S. were factors, though U.S. and European investors may well have been more motivated to sell based on their utter lack of confidence in the abilities of the developed world's political leaders to meet the challenges of economic stagnation and staggering government debt. When some progress seemed to be made on these fronts, share prices rebounded through much of the fourth quarter. The bull

run was dominated by an October rally just as the third-quarter downturn was primarily driven by a disastrous August and September. Each major index finished the fourth quarter with double-digit gains. Small-caps led the way in this dynamic period, gaining 15.5%, compared to a gain of 11.8% for both the Russell 1000 and S&P 500 Indexes, and 7.9% for the Nasdaq. **Yet after all the *Sturm und Drang* in 2011—in its second half in particular—here is where the four domestic indexes wound up for the calendar year: The Russell 2000 fell 4.2%, the Russell 1000 gained 1.5%, the S&P 500 climbed 2.1%, and the Nasdaq lost 1.8%.** After a year of prices leaping and crashing, the U.S. stock markets did not move much at all. Were the bullish October and the less wildly volatile months of November and December positive signs that investors were beginning to pay less attention to headlines and more to company fundamentals? We would like to think so, but this remains an open question.

The disconnect between stock prices and fundamentals for many companies, including many small-caps, remains wide as we enter 2012.

The ongoing possibility of government defaults in Portugal, Italy, Ireland, Greece, and Spain, as well as the resulting economic slowdown that gripped much of Europe, continued to weigh heavily on the minds of investors in the second half. This anxiety was reflected in the larger calendar-year losses for global, international and European indexes. **The Russell Global ex-U.S. Small Cap Index finished the year down 18.7%, behind its large-cap sibling, the Russell Global ex-U.S. Large Cap Index, which declined 13.8%.** Each enjoyed a modestly positive first half, up 0.8% and 4.1%, respectively, before succumbing to the same woes that afflicted the U.S. markets in the third quarter. The Russell Global ex-U.S. Small Cap was down 19.4% and its large-cap equivalent lost 20.1% in the third quarter. So far, so close to their U.S. compeers. Yet the non-U.S. markets lagged behind considerably in the fourth quarter, with the Russell Global ex-U.S. Small Cap gaining a paltry 0.1% and its large-cap sibling climbing 3.6%. It remains to be seen whether this was a temporary phenomenon, a sign that the global economy outside the U.S. remains weak, or was evidence that the U.S. economy, for all its struggles, remains fundamentally strong on both an absolute and relative basis.

U.S. mid-cap stocks acquitted themselves well enough, though they did not lead the market in the second half as they did in the first, when the Russell Midcap Index gained 8.1%. The mid-cap index slid 18.9% in the third quarter before rebounding 12.3% in the fourth. For the year as a whole, the Russell Midcap was down 1.6%. As measured by the Russell Microcap Index, domestic micro-cap stocks continued to struggle, which was unsurprising in a market that saw investors growing less and less comfortable with risk through the end of September. After finishing the first half with a 3.1% gain, the microcap index declined 22.7% in the third quarter. So while its fourth-quarter gain of 13.8% was strong, it was not enough to shore up earlier losses. The Russell Microcap Index closed out 2011 with a 9.3% loss.

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*when intrinsic value becomes meaningfully detached from stock prices. In general, we look for well-managed businesses with pristine financial profiles and histories of high returns on invested capital that are attractively priced on an absolute basis. To find these attributes in common often means that a company has disappointed a set of shareholders for any number of reasons such as poor management execution, challenging business conditions, increased competition or earnings misses.*

*While still in an environment that offers plenty of opportunity to locate these kinds of companies, often in industries that are falling out of favor and/or are nearing the bottom of a business cycle, our efforts are not being rewarded as distinctly. Markets where correlation is more historically normal often see us enjoying the fruits of earlier contrarian investments that fit the profile we described. This combination of reaping the benefits of previous efforts while repositioning for the future has historically led to long-term performance differentiation versus both small-cap indexes and peers. Yet a correlated market can constrict both kinds of opportunity.*

*There are two other, related challenges: Highly correlated up markets tend to reward passively managed index funds and ETFs (Exchange Traded Funds) because of their inherently lower fee structure and fully invested status. Correlated downturns can also foster greater demand for these same vehicles as investors become frustrated*

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Letter to Our Stockholders

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## Consternation

Loss unfortunately looms rather large over this year's *Review and Report*. We were disappointed that our closed-end portfolios did not do better, especially in a year that saw mostly poor results for smaller companies. For decades, we have made risk management a central part of what we do here at Royce, and in 2011 we did not meet that challenge successfully. So while we are encouraged by the large number of opportunities that we sought to take advantage of throughout the year, the sting of a poor showing will remain sharp until performance improves.

Net losses were most significant in three sectors: Materials companies, particularly those in the metals & mining industry, were hurt by volatile gold and silver prices. The Financials sector's net losses came mostly from holdings in the capital markets group, including several asset management stocks, while many Information Technology companies failed to rebound in accordance with our expectations. Finally, results for Royce Value Trust and Royce Focus Trust, portfolios with greater exposure to non-U.S. stocks, suffered as both European and Asian markets posted more substantial losses than those in the U.S.

### 2011 NAV TOTAL RETURNS FOR THE ROYCE FUNDS VS. RUSSELL 2000 as of 12/31/11

Even as we grapple with the year's disappointments, we were struck by the inconsistent, decidedly nonlinear direction of average annual total returns for the Funds and for the major equity indexes over longer-term periods. The one- and five-year returns were low to negative, while the three-year numbers were terrific. The difference between the three- and five-year results is attributable to the former period spanning all of the recovery that ran from March 9, 2009 through April 29, 2011, along with just the tail end of the 2008 crisis and the volatile market of the last seven months of 2011. The five-year period encompassed all of these events as well as the low returns of 2007 and the deep declines of 2008. Most interesting to us is the 10-year period ended December 31, 2011, which includes the full peak-to-peak cycle that ran from July 13, 2007 through April 29, 2011,

as well as the bulk of the previous cycle, which began on March 9, 2000 and lasted until July 13, 2007. This cycle includes, then, a large part of one major market dislocation—the bursting Internet bubble—and the bear market that was intensified by the global financial crisis in the fall of 2008. Even with these difficulties, small-cap results were solid for the Russell 2000 and strong to solid for our closed-end portfolios. **Each of our closed-end funds outpaced the small-cap index on an NAV (net asset value) basis for the 10-year period ended December 31, 2011.**

## Contention

As we take the measure of the micro-cap, small-cap and mid-cap universe, we like much of what we see. **We remain disciplined, bottom-up stock-pickers with a time horizon measured in years, so our sights are trained squarely on the long run. From that vantage point, we see a strong case to be made for investing in equities.** What has gotten lost in all of the fiscal worry and political melodrama of the last couple of years is the fact that many companies across the globe, and certainly here in the U.S., successfully navigated the recession and have been effectively managing their way through the current slow-growth economy. The overall condition of corporate balance sheets and cash flows—two key metrics in our security analysis process—is excellent. So we expect that as the economy continues to grow and political leaders finally begin to implement workable policies, more investors will begin to notice that fundamentals are strong throughout the equity world, which should help to usher in a solid decade for stocks, one that we suspect will feature frequent leadership rotation between asset classes and between higher quality and more speculative stocks.

**In our estimation, small-caps look very well-positioned to bounce back strong as part of a general upward move for equities.** More specifically, some recent research has shown that high-quality small-caps, as measured by returns on invested capital (ROIC), are not only cheap on an absolute basis, but relative to their large-cap counterparts as well. There has been a lot of recent analysis devoted to showing that small-caps are statistically more expensive than large-caps, yet many of the companies that have been drawing our interest are not. It comes as no surprise, then, that we think this is a very opportune time for active small-cap management. Historically, when returns are both highly correlated and underwhelming, inefficiencies develop that we seek to use to our long-term advantage. We are confident that active small-cap managers can generate satisfactory absolute results when returns begin to differentiate again. As we detailed in a research paper on the importance of active small-cap management, consistency, discipline and a long-term investment horizon are critical to realizing the goal of strong absolute long-term results that, as a byproduct of that effort, have also beaten small-cap benchmarks. **The last several years have certainly underscored the poor track record of predictions for markets and economies, but as equity returns become less closely correlated, we see the potential for active and disciplined small-cap management to succeed.**

What has gotten lost in all of the fiscal worry and political melodrama of the last couple of years is the fact that many companies across the globe, and certainly here in the U.S., successfully navigated the recession and have been effectively managing their way through the current slow-growth economy. The

overall condition of corporate balance  
sheets and cash flows—two key metrics in  
our security analysis process—is excellent.

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*with mounting losses. In addition, investors, losing sight of the long view, also tend to lose their appetite for actively managed products when short-term performance differentiation is diminished.*

*Unsurprisingly, then, a correlated market usually indicates a low tolerance for risk. While this can help over the long run—the rampant selling during the last seven months of 2011 created as large a set of purchase opportunities as we’ve seen in nearly three years—it also equates to ample levels of emotional and undifferentiated selling, which hinders more established positions from rising to price levels that our analysis indicates they are capable of attaining.*

*Throughout much of 2011, we found ourselves building existing positions and revisiting old favorites at least as frequently as investing in new companies. In all cases, our purchases comprised high-conviction ideas as we sought to ultimately tap the inevitable differentiation that occurs between corporate performance and correlated investor sentiment. While not necessarily rewarding in the short run, taking advantage of such mispricings remains the best way we know of building strong, long-term performance.*

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## Letter to Our Stockholders

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### Conclusion

This is the environment for which we have been preparing. We invested in 2011 in much the same way that we have since 1972—with a disciplined, long-term approach that searches far and wide for what we deem are attractive prices for great companies. Historically, we have sought to use volatility as part of our arsenal of

tactics. Highly volatile markets tend to create even greater opportunities because they drive share prices lower, and they do so with little or no regard for a business's fundamentals. While this helped to create a host of short-term disappointments last year, at the same time it presented us with a number of what we believe are very promising long-term opportunities. It is also important to point out that, though daily volatility was very high, monthly returns in 2011 were not as wildly out of sync with other years as the day-to-day drama might lead one to believe. We think that we are in a new era of high daily volatility that investors will better adjust to in 2012 and beyond. More important is our belief that fundamentals are much better than the headlines; that quality will continue to be an important driver of long-term outperformance; and that non-U.S. small-caps will enjoy improved performance in the years to come.

Sincerely,

Charles M.  
Royce  
*President*

W.  
Whitney  
George  
*Vice  
President*

Jack E.  
Fockler, Jr.  
*Vice  
President*

January 31, 2012

## Why Volatility Is the Friend of Discipline

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Throughout much of Royce's history, we have talked about our attempts to use stock market volatility to our advantage without offering a great deal of detail about precisely how that works. We have always made an implicit assumption that the bulk of our readers nod in agreement with statements, which tend to proliferate in our materials during bear markets, that describe market tumult as the value investor's friend. With close to four years of particularly tumultuous markets in the books (and who-knows-what still to come), we reexamined this and concluded that volatility was a subject worth discussing at greater length, both for its own sake and

for the sake of offering more details about how and why volatile stock prices play such a crucial role in our quest for strong absolute returns achieved over the long term.

The term "volatile" originally derives from Chemistry, defined in that discipline by the American Heritage Dictionary as "evaporating readily at normal temperatures and pressures" or "capable of being readily vaporized," which unfortunately may describe some investors' experiences with equity returns over the last few years. In a more general sense, it means (among other related things), "tending to vary often, as in price: the ups and downs of volatile stocks." In one sense, then, the globe's equity markets are volatile every day as each day's trading brings changing prices. However, there is a range of price movement that is widely viewed as "normal" or "typical," though that range is admittedly flexible depending on current

and past market conditions. (The most popular measure of stock market volatility is the Chicago Board Options Exchange Market Volatility Index, commonly referred to as the VIX, which measures the implied volatility of S&P 500 index options.)

Over the last few years, certainly since the fall of 2008, market volatility has seen frequent and often dramatic spikes, with the just-ended 2011 adding several more heart-stopping sessions, especially between August and November. It is not our task here to determine whether or not the market's extreme behavior during this period was good, bad or otherwise. Instead, we want to offer our take on the market's recent activity as an illustration of how we seek to use dramatic swings in share prices to help us build wealth for our shareholders over the long run.

First, we have an unshakeable conviction that entry price is a key constituent of attractive long-term results. We also believe strongly in the idea that success in equity investing is best and most consistently achieved with a disciplined approach that values deep knowledge about companies, much of which focuses on establishing the worth of a business. Our analysis of the intrinsic value of a business is among the primary factors used in determining what we think we should pay for a stock in order to potentially maximize our return while also seeking to minimize risk.

This is where volatility becomes key. In highly volatile markets, increasingly

emotional and/or short-sighted sellers tend to keep on selling, allowing us to buy opportunistically. As bottom-up, quality-centric investors, we like to see stock prices with a pronounced downside disconnect between a company's fundamentals (such as a strong balance sheet, long-term earnings history and positive cash flow) and its share price. The greater the difference, the more promising the opportunity.

The bulk of our purchases throughout 2011 (and large swaths of the last four years) have followed this pattern. Of course, few of the purchases made in 2011 have borne fruit to date. Since we typically hold stocks for two to five years, this is not troubling. If anything, the turbulence of the last few years has only solidified the importance of our long-term outlook. As we wade through a still unsettled global economy, governments throughout the developed

world overburdened with debt and a thus-far fragile (and mostly jobless) economic recovery underway here in the U.S., we find an investment horizon measured in years is even more of a necessity than it usually is.

So while last year was highly challenging and at times very frustrating, we have been pleased with the values that we have found in micro-cap, small-cap and mid-cap companies across the globe. Along with the slowly improving U.S. economy, these opportunities, which high volatility has been instrumental in creating, give us a quiet optimism about the years ahead, a sense of confidence made possible by the market's wild swings.



## Small-Cap Market Cycle Performance

**We believe strongly in the idea that a long-term investment perspective is crucial for determining the success of a particular investment approach. While flourishing in an up market is wonderful, surviving a bear market by losing less (or not at all) is at least as good. However, the true test of a portfolio's mettle is performance over full market cycle periods, which include both an up and down market period.**

Since the Russell 2000's inception on 12/31/78, there have been 10 full market cycles, with the most recent peaking on 4/29/11. Market cycles are defined as those that have retreated at least 15% from a previous market peak and have rebounded to establish a new peak above the previous one. Each market cycle contains a peak-to-trough and a trough-to-peak period. Interestingly, over the small-cap index's 30+ year history, each style index—the Russell 2000 Value Index and the Russell 2000 Growth Index—outperformed in five of the 10 full market cycles. In fact, leadership has alternated between growth and value over the last six cycles. If history were to adhere to this pattern, value would lead in the current cycle that began on 4/29/11.

The most recently completed cycle lasted approximately three and a half years and saw a modest gain for the small-cap index. Small-cap value was actually underwater for the full cycle, while small-cap growth was marginally positive. Only Royce Focus Trust outperformed the small-cap index for the just completed cycle.

### Peak-to-Trough (7/13/07-3/9/09)

Performance during the peak-to-trough phase of the most recent cycle was especially difficult, encompassing the financial crisis of late 2008 and early '09. Surprisingly, growth narrowly outperformed value during this phase. Once again, Royce Focus Trust outpaced the Russell 2000 Index during this down phase.

### Trough-to-Peak (3/9/09-4/29/11)

The dynamic market recovery lasted 25 months and saw the small-cap index appreciate 159.3% (50%+ per annum). Both value and growth saw substantial gains during this period, although growth once again provided the advantage. Each of our closed-end funds outperformed the small-cap index.

#### SMALL-CAP MARKET CYCLE: RUSSELL 2000 INDEXES TOTAL RETURNS

#### ROYCE FUNDS NAV TOTAL RETURNS VS. RUSSELL 2000 INDEX: MARKET CYCLE RESULTS

	Peak-to-Peak 7/13/07- 4/29/11	Peak-to-Trough 7/13/07- 3/9/09	Trough-to-Peak 3/9/09- 4/29/11	Peak-to-Current 4/29/11- 12/31/11
<b>Russell 2000</b>	<b>6.6%</b>	<b>-58.9%</b>	<b>159.3%</b>	<b>-13.5%</b>
<b>Russell 2000 Value</b>	<b>-1.4</b>	<b>-61.1</b>	<b>153.7</b>	<b>-12.8</b>
<b>Russell 2000 Growth</b>	<b>14.3</b>	<b>-56.8</b>	<b>164.4</b>	<b>-14.2</b>

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Royce Value Trust	6.2	-65.6	208.3	-19.3
<hr/>				
Royce Micro-Cap Trust	-0.5	-66.3	195.5	-14.1
<hr/>				
Royce Focus Trust	10.2	-58.3	164.0	-19.2
<hr/>				

All performance information above 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. Current performance may be higher or lower than performance quoted. See page 2 for important performance information for all of the above funds.

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**AVERAGE ANNUAL NAV TOTAL  
RETURNS**