

Item 1. Cover Page

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This brochure provides information about the qualifications and business practices of Royce & Associates, LLC. If you have any questions about the contents of this brochure, please contact us at 212-508-4500. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority.

Additional information about Royce & Associates, LLC also is available on the website of the U.S. Securities and Exchange Commission at www.adviserinfo.sec.gov.

Item 2. Material Changes

None.

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Item 4. Advisory Business

Corporate History

Royce & Associates, LLC (“Royce”) is a wholly-owned subsidiary of Legg Mason, Inc. (“Legg Mason”), which owns a diversified group of global asset management firms and is listed on the New York Stock Exchange (symbol: LM). Royce’s principal office is located at 745 Fifth Avenue, New York, New York 10151. Royce has been investing in smaller-company securities with a value approach for more than 40 years.

Advisory Services

Royce offers investment advisory services to, among others, U.S. registered investment companies, a collective investment trust, non-U.S. investment companies, limited partnerships, limited liability companies, institutional separate accounts, a Cayman Islands exempted company, and a Cayman Islands limited partnership (together, the “Cayman Entities”). (In this document, limited partnerships, limited liability companies, institutional separate accounts, and the Cayman Entities are described collectively as “privately offered accounts”).

Royce serves as investment adviser to 34 U.S. registered management investment companies or separate series of such companies (collectively referred to herein as “The Royce Funds”), with aggregate net assets of approximately \$34 billion as of May 31, 2014. Royce also serves as an investment adviser to a collective investment trust, with aggregate net assets of approximately \$2 million as of May 31, 2014. In addition, Royce serves as a sub-investment manager to three series of an investment company organized under the laws of Ireland, one series of an investment company organized under the laws of the United Kingdom, and two series of an investment company organized under the laws of Austria, with aggregate net assets of approximately \$2.5 billion as of May 31, 2014. Additionally, Royce provides investment management services to several privately offered accounts, including four privately offered investment limited partnerships, six privately offered investment limited liability companies or separate series thereof, the Cayman Entities, and several institutional separate accounts, primarily for large pension and trust funds and not-for-profit foundations, with aggregate net assets of approximately \$808 million as of May 31, 2014.

Thus, as of May 31, 2014, Royce managed approximately \$37 billion in net assets, all on a discretionary basis.

Client Investment Guidelines and Restrictions

Royce manages its clients’ assets in accordance with applicable laws, rules, and regulations and, as applicable, each client’s investment guidelines and restrictions as set forth in the relevant prospectus and statement of additional information (in the case U.S. registered investment companies and non-U.S. investment companies); offering documents (in the case of limited partnerships, limited liability companies, and the Cayman Entities); investment policy statement (in the case of the collective investment trust); and investment management agreement (in the case of institutional separate accounts). Royce’s institutional separate account clients may impose additional reasonable restrictions on the types of securities and/or individual companies in which Royce invests.

In the event that Royce breaches any such restriction or makes any other trade error, Royce’s Trade Error Policies and Procedures require that such breach or trade error: (i) be corrected by Royce as soon as practicable following the discovery of the error and in such a manner that the client incurs no net loss; (ii) be reported to the appropriate supervisory personnel of Royce; and (iii) be scrutinized carefully by such personnel of Royce, with a view toward

providing guidance and supervision and, if appropriate, implementing additional or revised procedures to prevent or minimize the occurrence of future breaches or trade errors.

Item 5. Fees and Compensation

U.S. Registered Investment Company, non-U.S. Investment Company, and Collective Investment Trust Accounts

Royce is generally entitled to receive fees that are payable at the end of each month or quarter, as applicable, for the investment management services that it provides to U.S. registered investment companies, non-U.S. investment companies, and collective investment trusts under compensation formulas ranging from 0.5% up to 1.5% per year of their respective average net assets. For two closed-end U.S. registered management investment companies, these fees also include upward or downward adjustments of up to 0.5% per year based on the investment performance of such investment companies relative to the investment record of a specific equity index.

Royce typically bills U.S. registered investment company, non-U.S. investment company, and collective investment trust accounts on a monthly or quarterly basis in arrears, consistent with each fund's investment management agreement.

Limited Partnership, Limited Liability Company, Institutional Separate Accounts, and Cayman Entity Accounts

These privately offered accounts usually compensate Royce for its investment management services at the end of each month or quarter and the compensation may be payable in advance or in arrears. The amount of the compensation is based on the market value of each account's net assets at the end of the month or quarter. Accounts that compensate Royce in advance on a quarterly basis may terminate their advisory agreement with Royce by giving written notice in accordance with the terms of the applicable investment advisory agreement. If Royce stops managing the account before the end of a calendar quarter, Royce will refund a prorated portion of the advisory fee for the period in which it was not managing the account. Royce does not have a basic fee schedule for its privately offered accounts; its fees for such accounts are generally negotiable and set forth in the applicable investment advisory agreement.

An affiliate of Royce, Royce Management Company, L.L.C. ("RMC"), is the general partner of the limited partnerships for which Royce serves as investment adviser. RMC is also the managing member of the limited liability companies for which Royce serves as the investment manager. RMC may receive an incentive allocation from the capital accounts of the limited partners or members. These incentive allocations, the terms of which are set forth in their respective partnership or limited liability company agreements, do not exceed 20% of the new net profits of the capital accounts of the limited partners or members. These allocations are accrued quarterly for each limited partnership or limited liability company and meet all applicable conditions of Rule 205-3 under the Advisers Act of 1940 (the "Advisers Act"). Management fees and performance allocations paid to Royce and RMC, respectively, by limited partnerships and limited liability companies are deducted directly by Royce from their custody accounts after being calculated by their administrator.

Other Fees and Expenses

In addition to the fees referenced above, Royce client accounts may incur other expenses, including, but not limited to, fees for administration; bookkeeping; taxes (other than income taxes); custody; bonding and insurance; auditing; legal services; acquired fund fees and expenses (such as management fees and other expenses); the preparation and distribution of reports and notices; and brokerage commissions and other transaction costs (please see the section entitled "Brokerage Practices" in this brochure for more information).

Item 6. Performance Based Fees and Side-By-Side Management

As mentioned in “Fees and Compensation,” some Royce client accounts pay performance-based management fees or incentive allocations. Royce's portfolio managers generally manage more than one client account. A conflict of interest and/or the appearance of a conflict of interest may arise when Royce or a related person receives an incentive allocation or a performance-based management fee that relates to the management of one or more client accounts with differing fee structures for which the same portfolio manager has day-to-day management responsibilities. These arrangements could incentivize Royce and Royce-related persons to favor a performance-based management fee or incentive allocation account in order to increase revenue.

In addition, in situations where Royce receives a performance-based management fee, Royce may have a financial incentive to make higher risk investments than it otherwise would. Royce's portfolio managers may also have a conflict of interest due to significant personal investment in a particular client account that may incentivize the portfolio manager to favor that account.

Royce tries to mitigate these conflicts of interest in a number of ways. First, Royce discloses any potential conflicts to ensure that clients and potential clients are aware of the risks. Second, Royce has adopted and implemented policies and procedures designed to deter and detect any actual and potential conflicts of interest that might arise (please see also “Code of Ethics,” “Ownership” and “Allocation” below) in connection with its management of a client account. Among other things, these policies and procedures require monitoring of client accounts so that Royce can determine whether accounts that pay performance-based management fees or incentive allocations receive more favorable pricing or trade allocations than other Royce client accounts. Third, Royce has structured its portfolio managers' compensation in a way designed to remove any incentive to favor a performance-based management fee or incentive allocation account.

Item 7. Types of Clients

Royce offers investment advisory services to U.S. registered investment companies, non-U.S. investment companies, limited partnerships, limited liability companies, and institutional investors, including, among others, employee benefit plans, endowments and foundations. Generally, Royce does not accept institutional separate accounts with assets of less than \$10 million. Please see “Advisory Business” above for other information on the types of clients Royce considers.

Item 8. Method of Analysis, Investment Strategies and Risk of Loss

Method of Analysis

Royce generally uses a disciplined value approach based on fundamental analysis in managing client accounts. Royce's security selection process puts primary emphasis on balance sheet quality, a company's ability to generate and effectively allocate free cash flow, high returns on invested capital, and the relationships that these factors have to the price of a given security. For certain client accounts, Royce uses a proprietary investment model, which employs quantitative factors similar to those used by Royce in its other accounts to take long and/or short positions and to determine when to sell the long positions and cover any short positions. This proprietary investment model is refined/adjusted from time to time.

Investment Strategy

Royce invests clients' assets primarily in the equity securities of U.S. and foreign companies at all capitalization levels using its value approach. A significant portion of such clients' assets are invested by Royce in the securities of micro-, small-, and mid-cap companies. Royce refers to the segment of companies with market capitalizations up to \$750 million as micro-cap. Royce defines the next tier, the small-cap universe, as those companies with market capitalizations between \$750 million and \$2.5 billion. Royce defines mid-cap as those companies with market caps between \$2.5 billion and \$15 billion. Finally, Royce defines large-cap as those companies with market caps over \$15 billion. Royce's value approach is based on its belief that the securities of certain micro-, small-, or mid-cap companies may sell at a discount from its estimate of the "current worth" of these companies. Royce attempts to identify and invest in these companies with the expectation that the value discount will narrow over time and thus provide capital appreciation for its clients.

Royce's investments for its clients' accounts include purchases of securities offered in initial public offerings, secondary offerings, private placements, long and/or short positions in U.S. and non-U.S. publicly issued and non-public common stocks, ADRs, preferred stocks, stock warrants and rights, bonds of all types, including (without limitation) distressed and defaulted bonds, notes or other debentures, debt participations or bank debt, convertible securities, distressed securities, partnership interests, swaps, participation notes, derivative contracts and structured notes, and other securities or financial instruments.

Royce may also invest a portion of the assets of certain accounts in exchange-traded funds, closed-end funds, money market funds and other funds. Royce generally will receive its applicable management fee on such amounts even though these types of funds usually are subject to their own management fees and other expenses.

Risk of Loss

Royce's estimate of a company's current worth may prove to be inaccurate, or other investors may not recognize this estimate, which could lead to portfolio losses. Royce offers no assurance that its approach will be successful and achieve its clients' desired investment objectives. Investments in securities involve a high degree of risk and there is no guarantee against losses. Principal risks associated with Royce's investment strategy include, but are not limited to:

Equity risk—includes the risk that the prices of equity securities held by a client account will fall due to perceptions regarding the industries in which the companies issuing such securities participate, and the issuer company's particular circumstances.

Market risk—the possibility that equity prices will decline over short or extended periods of time. The value of an investment will fluctuate with the market and client accounts could lose money over short or long periods of time.

The risks described below apply to some, but not all, Royce client accounts depending on the type of client account as well as the investment strategies, policies, restrictions and other terms of the applicable investment management agreement, prospectus, statement of additional information, and/or other offering documents.

Smaller-company risk—the prices of micro-cap, small-cap and mid-cap securities are generally more volatile and their markets are less liquid relative to larger-cap securities. Therefore, investment in these securities may involve considerably more risk of loss and returns may differ significantly from investing in larger-cap companies and other asset classes.

Foreign investment risk—investment in foreign securities involves risks that may not be found in U.S. investments, including adverse political, social, economic or other developments that are unique to a particular region or country. Prices of foreign securities in particular countries or regions may at times move in a different direction and/or be more volatile than those of U.S. securities. Because Royce does not intend to hedge clients' foreign currency exposure, the U.S. dollar value of clients' investments may be harmed by declines in the value of foreign currencies in relation to the U.S. dollar. This may occur even if the value of the investment in the currency's home country has not declined but the dollar rises in value. These risk factors may affect the prices of foreign securities issued by companies headquartered in developing countries more than those headquartered in developed countries. For example, many developing countries have experienced high rates of inflation or have sharply devalued their currencies against the U.S. dollar, causing a decline in the value of investments in companies located in those countries. Transaction costs are often higher in developing countries, and there may be delays in settlement procedures. These risks are heightened in connection with investments in emerging market securities.

Limited portfolio risk—a limited portfolio (that is, one that generally holds fewer than 100 securities) may involve more risk to investors than a more broadly diversified portfolio of micro-cap, small-cap and mid-cap securities because it may be more susceptible to any single corporate, economic, political, regulatory or market event.

Proprietary investment model risk—accounts that are dependent on Royce's proprietary investment models could be adversely affected if the portfolio manager who developed the models is unable to act on behalf of Royce. There is also no guarantee that a model will perform as it has in the past. To the extent that the market for micro-, small-, mid- and/or large-cap securities does not reward the factors a model utilizes, the performance of an account could be negatively affected.

For more specific information relating to a particular Royce-managed investment vehicle, please see the applicable prospectus, statement of additional information and/or offering documents.

Item 9. Disciplinary Information

None.

Item 10. Other Financial Industry Activities and Affiliations

Royce Fund Services, Inc. ("RFS") is a broker-dealer that is registered with the U. S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, Inc. RFS is the distributor of The Royce Fund and Royce Capital Fund, two open-end U.S. registered management investment companies with 30 separate series between them. It is also a wholly-owned subsidiary of Royce that provides solicitation and other related services for some of Royce's privately offered accounts. RFS does not execute any securities transactions for client portfolios.

All principals and registered persons of RFS are affiliated with Royce. Certain members of Royce's management are registered representatives of RFS. While Royce does not compensate RFS for providing these services, the arrangement could create conflicts of interest in that RFS and its registered persons have an incentive to recommend an investment to potential investors in one of the privately offered accounts that Royce manages that could benefit Royce and RMC. RFS does not solicit potential investors for unaffiliated funds.

Royce is a sub-investment manager to: (i) Legg Mason Royce U.S. Small Cap Opportunity Fund, Legg Mason Royce Smaller Companies Fund, Legg Mason Royce Global Smaller Companies Fund, Legg Mason Royce European Smaller Companies Fund, and Legg Mason Royce Smaller Companies Fund II, each a series of Legg Mason Global Funds plc, an investment company organized under the laws of Ireland; and (ii) Legg Mason U.S. Smaller Companies Fund, a series of Legg Mason ICVC, an investment company organized under the laws of the United Kingdom. Legg Mason Investments (Europe) Limited and Legg Mason Investment Funds Limited, each a wholly-owned subsidiary of Royce's parent company, Legg Mason, are the Investment Managers of the Irish investment company and the United Kingdom investment company, respectively.

One series of a U.S. registered investment company managed by Royce is an investment option for a 529 Savings Plan managed by Legg Mason Global Asset Allocation, LLC, a wholly-owned subsidiary of Royce's parent company, Legg Mason.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The Royce Funds, Royce and RFS have adopted a Code of Ethics (the "Code") that covers interested trustees/directors, officers and most employees of The Royce Funds and Royce-related persons (other than non-management members of the Board of Managers of Royce). The Code stipulates that these persons are generally prohibited from personal trading in any security that is then being purchased or sold or considered for purchase or sale by any account of Royce, with the exception of securities with market capitalizations of \$20 billion or more at the time of purchase. These individuals may engage in other personal securities transactions if the securities involved are:

- certain debt securities,
- money market instruments/funds,
- issued by passively managed investment companies or other baskets of securities or commodities, or notes issued by banks, brokers or other financial institutions, or options to purchase or sell such securities or notes, and whose investment return relates to the performance of an index of securities or the price of one or more commodities or commodities indices,
- shares of registered open-end investment companies, or
- shares acquired from an issuer in a rights offering or under an automatic investment plan, including among other things, dividend reinvestment plans or employee-approved automatic payroll deduction cash purchase plans.

In addition, these individuals may engage in transactions that are either non-volitional or are effected in an account over which such person has no direct or indirect influence or control. If an individual wants to trade any other security, such person must receive pre-approval from both a Royce compliance officer and either an executive officer or senior portfolio manager of Royce.

The Code contains standards for the granting of such permission. The Code does not restrict most transactions effected by Royce for its privately offered accounts. However, purchases of initial public offerings or private placements of unregistered securities by such privately offered accounts in which Royce, RMC and/or Royce-related persons have an interest require written pre-approval by the Royce Chief Compliance Officer and either an executive officer or Co-Chief Investment Officer of Royce.

The Code establishes standards of business conduct for all persons subject to the Code and requires such persons to comply with applicable federal securities laws. Copies of the Code are available to Royce's clients or any prospective client of Royce upon request by calling 212-508-4500.

As described above, The Royce Funds, Royce and RFS have adopted a Code pursuant to which interested trustees/directors, officers and most employees of The Royce Funds and Royce-related persons (other than non-management members of the Board of Managers of Royce) are generally prohibited from personal trading in any security that is then being purchased or sold or considered for purchase or sale by any account of Royce. Because they are designed to be fair to all of Royce's accounts, including those in which Royce, RMC and/or Royce-related persons have an interest, the foregoing restrictions do not prevent: (i) Royce's investment decisions concerning a security for accounts in which Royce, RMC and Royce-related persons have no interest from affecting the price of the same security held in an account in which Royce, RMC and/or a Royce-related person has an interest; (ii) the allocation to an account in which Royce, RMC and/or a Royce-related person has an interest, or the purchase by such an account from Royce's other accounts, of securities of limited availability; or (iii) the sale by an account in which Royce, RMC and/or a Royce related person has an interest to Royce's other accounts of securities with limited trading volumes.

Because a Royce-related person may occasionally own securities in which Royce may later invest for one or more of its clients' accounts, Royce's decision to purchase such a security is generally subject to an independent post-trade review by investment personnel with no personal interest in the issuer.

Ownership

Royce-related persons personally invest in shares of the registered open-end and closed-end investment companies comprising The Royce Funds. Such persons may own substantial amounts of the outstanding shares of one or more of these companies or their separate series, representing in several cases 5% or significantly more of the outstanding shares of such company or series. In addition, Royce's clients include several privately offered accounts in which Royce, RMC and/or Royce related persons may have substantial investments, but in no event will they own 25% or more of any such account's equity interests. Separate from their ownership interests, such persons or entities may also have a right to receive in the aggregate performance allocations of up to 20% of a privately offered account's realized and unrealized net capital gains and appreciation.

Certain Royce-related persons, including but not limited to, Charles M. Royce, W. Whitney George, Boniface A. Zaino and Jack E. Fockler, Jr., may acquire non-voting membership interests in RMC pursuant to which they would participate in such "carried interest" profit participations that RMC may derive from such privately offered accounts. Messrs. Royce, George and/or Zaino also potentially have the right to acquire RMC's general partnership interest in certain of such privately offered accounts upon the termination of their employment with Royce.

Allocation

Royce seeks to avoid either advantaging or disadvantaging Royce client accounts in which Royce-related persons may have a financial interest vis-à-vis other Royce client accounts in which Royce-related persons have no such interest or less of such interest. To that end, Royce uses the following restrictions and internal procedures for conflicts of interest in client transactions in which Royce or a Royce-related person may participate or have an interest: Each Royce client account is managed independently and, although one or more client accounts may have the same or similar investment goals and strategies, Royce may or may not buy or sell the same investments for such client accounts. Nevertheless,

Royce does frequently purchase or sell the same securities for more than one client account because the same security is deemed suitable for more than one client account. Such purchases and sales of the same security are generally effected pursuant to Royce's Trade Allocation Guidelines and Procedures.

Royce's portfolio manager(s) generally pre-allocate the majority of Royce's purchase and sale orders to one or more Royce client accounts. Partial fills of such orders are generally allocated to the participating accounts involved in the same ratios as set forth in the pre-allocation order, subject to Royce's minimum ticket size requirements.

When Royce is purchasing or selling the same security for more than one Royce client account managed by the same primary portfolio manager on the same trading day, Royce generally seeks to average the transactions as to price and allocate them as to amount in a manner that Royce believes to be equitable to each Royce client account. Although Royce's portfolio managers generally pre-allocate the majority of Royce's purchase or sale orders to one or more Royce client accounts, under Royce's Trade Allocation Guidelines and Procedures, Royce portfolio managers may place and execute unallocated orders with broker-dealers during the trading day and then allocate the securities purchased or sold in such transactions to one or more Royce client accounts at or shortly following the close of trading, generally using the average net price obtained by client accounts with the same primary portfolio manager. Royce allocates based on a number of judgmental factors that it believes should result in fair and equitable treatment to each of its client accounts for which the securities may be deemed suitable, subject to Royce's minimum ticket size requirements. Among other things, these factors may include: (i) cash available for investment relative to total assets; (ii) applicable investment restrictions/limitations for the account(s) involved; (iii) the investment focus and/or grouping of the account(s) involved (e.g., small-cap vs. micro-cap; concentrated vs. diversified; etc.); (iv) Royce's concentration and number of position goals (this may sometimes be referred to as portfolio rebalancing); and (v) tax-related considerations. Trades for Royce client accounts that are managed by different portfolio managers, or trades placed using Royce's quantitative models, are not generally so averaged as to price. Under certain circumstances, Royce may allocate trades in a manner other than that described above if it determines that the allocation is fair and equitable under the circumstances. In some cases, this procedure may adversely affect the price paid or received by a client account or the size of the position obtained for a client account. In addition, on a limited, infrequent basis, and in accordance with written procedures, Royce may change initial allocations from one Royce client account to another Royce client account prior to the booking of the trade on the day after trade date when: (i) it is determined that a security is unsuitable or inappropriate for a particular Royce client account in the original allocation; (ii) there is insufficient cash in a Royce client account to which a security is initially allocated; (iii) there is a client-imposed restriction on the purchase of the security being allocated; or (iv) the portfolio manager has decided to change his initial allocation for some other reason. Such rebookings are subject to review by Royce's compliance department.

Short Positions

From time to time, one or more of Royce's portfolio managers may sell short or purchase long a security for the client accounts he manages even though one or more other Royce client accounts, either managed by another Royce portfolio manager or an account in which the portfolio manager shares responsibility with another Royce portfolio manager, may have or acquire an opposite way position in this same security or its equivalent. In addition, from time to time two portfolio managers with independent discretion over separate portions of a single client account may place opposite way trades for that account in the same security or its equivalent on the same trading day or within a short period of time thereafter. This could result in adverse income tax consequences to its clients who are taxable shareholders or taxable owners of other Royce client accounts.

Initial Public Offerings or New Issues

Initial public offerings (“new issues”) that Royce purchases for permitted client accounts and expects to hold for “investment” purposes are allocated among those client accounts in the same way as other portfolio purchases – i.e., according to Royce’s Trade Allocation Guidelines and Procedures. (Certain Royce accounts are prohibited from purchasing new issues. Certain other Royce client accounts may be managed by portfolio managers who do not actively pursue allocations of new issues from underwriters as part of their investment strategy and therefore these accounts may not generally participate in purchases of new issues for “investment purposes”). New issues expected to be quickly sold or otherwise not identified by the portfolio manager who has obtained the allocation as being held for “investment purposes” will be allocated among those client accounts that are not prohibited from purchasing them managed by such person and by the other portfolio managers on a pro-rata basis – i.e., in the same proportions, as nearly as may be practicable, as the accounts’ relative net asset levels.

Cross Transactions

Royce may cause certain of its non-ERISA accounts to purchase and sell portfolio securities to one another. Whether or not one of Royce’s U.S. registered investment company accounts is involved, such transactions are effected in accordance with the procedures and requirements of Rule 17a-7 under the Investment Company Act of 1940.

Item 12. Brokerage Practices

Royce is responsible for selecting the brokers who effect the purchases and sales of portfolio securities for its client accounts. Royce does not select a broker to make securities transactions for its accounts unless Royce believes the broker is capable of obtaining “best execution” for the security involved. Several factors in addition to transaction price comprise best execution, including the liquidity of the market for the security, the commission charged, the promptness and reliability of execution, priority accorded to the order and other factors affecting the overall benefit obtained.

In addition to considering a broker’s execution capability, Royce generally considers the research and brokerage services that the broker has provided to it, including any research relating to the security involved in the transaction and/or to other securities. Royce may use commission dollars generated by agency transactions for its client accounts to pay for such services. Research services that may be paid for in this way assist Royce in carrying out its investment decision-making responsibilities. These research services may include general economic research, market and statistical information, industry and technical research, strategy and company research, advice as to the availability of securities or purchasers or sellers of a particular security, and research related to performance measurement. This information may be written or oral. Brokerage services that may be paid for in this way include effecting securities transactions and incidental functions, such as clearance, settlement and custody.

In accordance with Section 28(e) of the Securities Exchange Act of 1934 and under the investment advisory agreements for its accounts, Royce is authorized to pay brokerage commissions in excess of those that another broker might have charged for effecting the same transaction in recognition of the value of research and brokerage services provided to Royce by the broker. As a result, Royce accounts generally pay higher commissions to those brokers who provide both research and brokerage services than they do to those who provide only execution services. Royce determines the overall reasonableness of brokerage commissions paid based on prevailing commission rates for similar transactions and the value it places on the research and/or brokerage services the broker provides, viewed in terms of either the particular transaction or Royce’s overall responsibilities with respect to its accounts. Royce does not consider liquidity

rebates and payments for order flow to be significant factors when selecting brokers and setting broker commission rates.

Royce may use research and brokerage services furnished by brokers in connection with the effecting of securities transactions for a particular account in managing all of its client accounts. Furthermore, Royce may not use all of these services in connection with that account. Moreover, Royce's receipt of these services does not reduce the investment advisory fees payable to Royce with respect to the particular account, even though Royce might have otherwise been required to purchase some of those services for cash. Royce may therefore be viewed as having a conflict of interest relating to its obtaining such services with client account commission dollars.

In some cases, Royce may receive a service from a broker that has both a "research/brokerage" and a "non-research/non-brokerage" use or a "mixed use." When this occurs, Royce makes a good faith allocation between the research/brokerage and non-research/non-brokerage use of the service. Only the portion of the service that Royce uses for research/brokerage purposes may be paid for with client account commission dollars.

Brokerage firms that provide research and brokerage services to Royce may also promote the sale of shares of The Royce Funds, and Royce and/or RFS may separately compensate them for doing so. Such brokerage business is placed by Royce on the basis of brokerage and research services provided by the relevant broker and is not based on any sales of the shares of The Royce Funds. RFS does not effect portfolio security transactions for Royce client accounts or others.

Personal and family relationships are not factors in the selection of broker-dealers to execute transactions for Royce clients. However, based on its broker selection criteria described above, Royce may select a broker-dealer that happens to employ a relative of someone employed by Royce. When Royce is aware of such circumstances, Royce will take steps to ensure that neither the Royce employee nor the employee's relative benefits from any such trade by requesting the broker-dealer to ensure that no compensation resulting from transactions for Royce clients is paid to the relative of the Royce employee.

Please see the section entitled "Allocation" above for information concerning aggregation of orders for Royce client accounts.

Item 13. Review of Accounts

One or more of Royce's senior investment staff reviews the investment performance and composition of Royce client accounts on a monthly or more frequent basis. Charles M. Royce serves as Chairman and Chief Executive Officer, Christopher D. Clark serves as President, Co-Chief Investment Officer, and Managing Director, and Francis D. Gannon serves as Co-Chief Investment Officer and Managing Director, of Royce. Each is responsible for supervising Royce's investment management activities and participates in these reviews. Royce's investment staff includes the following additional portfolio managers and assistant portfolio managers: W. Whitney George, Charles R. Dreifus, Boniface A. Zaino, James A. Skinner, III, Jay S. Kaplan, Jenifer L. Taylor, David A. Nadel, Lauren A. Romeo, William A. Hench, James J. Harvey, George Necakov, Steven G. McBoyle, James P. Stoeffel, Brendan J. Hartman, Carl D. Brown, Chris E. Flynn, Dilip P. Badlani, and Mark Rayner.

Royce generally furnishes its clients with quarterly and/or semiannual and annual reports on their accounts covering performance information, fees and other expenses and portfolio composition. Partnership agreements for Royce's

limited partnership accounts and limited liability company agreements for Royce's limited liability company accounts set forth the nature and frequency of the reports on their limited partners' and members' investments.

Item 14. Client Referrals and Other Compensation

To the extent permitted by applicable laws, rules, and regulations, Royce and/or RMC have agreements with certain solicitors to compensate them for each prospect they introduce that becomes either a client of Royce or an investor in one of the investment partnerships or limited liability companies for which Royce is the investment adviser and/or for which RMC is the general partner or managing member.

RFS may refer potential investors to the private limited partnership and limited liability company accounts for which Royce serves as investment adviser. RFS provides services that may include directly or indirectly soliciting prospective investors for these accounts, responding to questions from limited partners or members regarding their accounts, and performing related services. RFS receives no compensation for providing these services, but the arrangement could create certain conflicts of interest in that RFS and its registered persons may have an incentive to recommend an investment in the limited partnerships or limited liability company accounts to potential investors that would benefit Royce and RMC.

Item 15. Custody

Royce does not intend to maintain physical custody of its clients' assets. However, under the provisions of Rule 206(4)-2 under the Advisers Act, Royce may be deemed to have custody of a client's assets because Royce, or its affiliates, acts as adviser and/or general partner or managing member for a client that is a pooled investment vehicle. Royce's investment limited partnership accounts and investment limited liability accounts are audited annually by an independent public accountant registered with the Public Company Accounting Oversight Board and distribute their audited financial statements prepared in accordance with U.S. generally accepted accounting principles to all limited partners, members or other beneficial owners within 120 days of fiscal year end. Royce's institutional separate account clients select their own custodians to hold the cash and securities in their accounts. A client custodian may be a broker-dealer, bank, or other financial institution that satisfies the U.S. Securities and Exchange Commission's definition of "qualified custodian". Royce is not a qualified custodian and does not provide custody services.

Clients will receive quarterly account statements from their qualified custodian(s). These statements should be reviewed carefully and compared to statements provided by Royce.

Item 16. Investment Discretion

Royce has discretionary authority over its client accounts pursuant to its investment advisory agreements with its respective clients. At the time an investment management agreement is negotiated with a client, the investment guidelines that will govern the management of the account are agreed to in writing. These guidelines are reviewed and discussed with the client prior to commencement of Royce's management of the account. Royce generally will not commence the management of a client account without a signed investment management agreement that contains related investment guidelines.

Item 17. Voting Client Securities

Royce has adopted written proxy voting policies and procedures (the "Proxy Voting Procedures") for itself and clients accounts for which Royce is responsible for voting proxies. Royce is generally granted proxy voting authority at the inception of its management of each client account. Proxy voting authority is generally either (i) specifically authorized in the applicable investment management agreement or other instrument; or (ii) where not specifically authorized, is granted to Royce where general investment discretion is given to Royce in the applicable investment management agreement. In voting proxies, Royce is guided by general fiduciary principles. Royce's goal is to act prudently, solely in the best interest of the beneficial owners of the accounts it manages. Royce attempts to consider all factors of its vote that could affect the value of the investment and will vote proxies in the manner it believes will be consistent with efforts to enhance and/or protect stockholder value.

Royce's personnel are responsible for monitoring receipt of all proxies and ensuring that proxies are received for all securities for which Royce has proxy voting authority. Royce divides proxies into "regularly recurring" and "non-regularly recurring" matters. Examples of regularly recurring matters include non-contested elections of directors and non-contested approvals of independent auditors. Regularly recurring matters are generally voted as recommended by the issuer's board of directors or management. Non-regularly recurring matters are all other proxy matters and are brought to the attention of the relevant portfolio manager(s) for the applicable account(s). After giving consideration to advisories provided by an independent third party research firm with respect to such non-regularly recurring matters, the portfolio manager(s) directs that such matters be voted in a way that he or she believes should better protect or enhance the value of the investment.

If the portfolio manager determines that information relating to a proxy requires additional analysis, is missing, or is incomplete, the portfolio manager will give the proxy to an analyst or another portfolio manager for review and analysis. Under certain circumstances, Royce may vote against a proposal from the issuer's board of directors or management. Royce's portfolio managers decide these issues on a case-by-case basis. A portfolio manager of Royce may, on occasion, decide to abstain from voting a proxy or a specific proxy item when such person concludes that the potential benefit of voting is outweighed by the cost or when it is not in the client's best interest to vote.

There may be circumstances where Royce may not be able to vote proxies in a timely manner, including, but not limited to, (i) when certain securities are out on loan at the time of a record date; (ii) when administrative or operational constraints impede Royce's ability to cast a timely vote, such as late receipt of proxy voting information; and/or (iii) when systems, administrative or processing errors occur (including errors by Royce or third party vendors).

To further Royce's goal to vote proxies in the best interests of its client, Royce follows specific procedures outlined in the Proxy Voting Procedures to identify, assess and address material conflicts that may arise between Royce's interests and those of its clients before voting proxies on behalf of such clients. In the event such a material conflict of interest is identified, the proxy will be voted by Royce in accordance with the recommendation given by an independent third party research firm.

You may obtain a copy of the Proxy Voting Procedures at www.roycefunds.com or by calling 212-508-4500. Additionally, you can obtain information on how your securities were voted by calling 212-508-4500.

Item 18. Financial Information

None