

## **Item 1. Cover Page**

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FORM ADV PART 2A  
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This Part 2A of Form ADV (referred to herein as this “Brochure”) provides information about the qualifications and business practices of Royce Investment Partners (“Royce”). 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 (the “SEC”) or by any state securities authority.

Royce is registered as an investment adviser with the SEC. Registration of an investment adviser with the SEC does not imply any level of skill or training.

Additional information about Royce also is available on the SEC’s website at <https://www.adviserinfo.sec.gov/>.

## **Item 2. Summary of Changes**

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## **Item 4. Advisory Business**

### ***Corporate History and Recent Developments***

Royce Investment Partners (“Royce”)<sup>1</sup> is a majority-owned subsidiary of Franklin Resources, Inc. (“FRI”). 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 45 years. FRI, whose principal executive offices are at One Franklin Parkway, San Mateo, California 94403, is a global investment management organization operating, together with its subsidiaries, as Franklin Templeton. As of September 30, 2021, Franklin Templeton’s asset management operations had aggregate assets under management of approximately \$1.5 trillion.

### ***Advisory Services***

Royce provides investment advisory services to U.S. registered investment companies, collective investment trusts, private investment funds, non-U.S. investment companies, and various institutional separate accounts. Royce is the investment adviser to a group of 16 U.S. registered investment companies (collectively referred to herein as “The Royce Funds”). The Royce Funds had aggregate net assets of approximately \$13.870 billion as of November 30, 2021. Royce also serves as an investment subadviser to a Legg Mason exchange-traded fund (“ETF”) operating as an index-based ETF (referred to in this Brochure as a “Self-Indexing Fund”), with aggregate net assets of approximately \$19.1 million as of November 30, 2021. In addition, Royce serves as a sub-investment manager to several non-U.S. investment companies, with aggregate net assets of approximately \$1.8 billion as of November 30, 2021. Additionally, Royce provides investment advisory services to collective investment trusts, two separate series of a privately offered limited liability company, and institutional separate accounts managed for a pension plan and a charitable organization, with aggregate net assets of approximately \$337 million as of November 30, 2021. In this Brochure, the limited liability company and institutional separate accounts are collectively referred to as “privately offered accounts”.

In addition to providing investment advisory services to U.S. registered investment companies, collective investment trusts, non-U.S. investment companies, and privately offered accounts where Royce has discretionary trading authority and responsibility (each, a “Non-SMA client account” and collectively, the “Non-SMA client accounts”), Royce also participates in various types of US-based retail separately managed account (“SMA”) arrangements. In particular, Royce has been retained as a subadviser by Legg Mason Private Portfolio Group (“LMPPG”) to provide investment advisory services in connection with SMA programs for which LMPPG has entered into an agreement with the relevant sponsor. Each of Royce and LMPPG is a subsidiary of FRI.

As subadviser to LMPPG, Royce may participate in various types of SMA programs, including LMPPG-Implemented Programs, Discretionary Model-Based Programs, and Non-Discretionary Model-Based Programs, which are defined as follows:

- *LMPPG-Implemented Programs.* Programs of sponsors in which Royce has security selection discretion and LMPPG implements investment instructions furnished by Royce in the form of model portfolios with respect to client accounts, subject to any implementation protocols or rules agreed to by LMPPG and Royce;

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<sup>1</sup> Royce & Associates, LP is a Delaware limited partnership that primarily conducts its business under the name Royce Investment Partners.

- *Discretionary Model-Based Programs.* Programs of sponsors in which Royce has security selection discretion and LMPPG forwards investment instructions furnished by Royce in the form of model portfolios to sponsors or their designees for implementation, subject to any implementation protocols or rules of the sponsors or their designees; and
- *Non-Discretionary Model-Based Programs.* Programs of sponsors in which LMPPG forwards Royce's non-discretionary investment recommendations in the form of model portfolios to sponsors or their designees for implementation, subject to the discretion of sponsors or their designees.

Royce offers various investment strategies in connection with these SMA programs, including Royce Premier SMA, Royce SMid Dividend Value SMA, Royce Small-Cap Equity Income SMA, and Royce Concentrated Value SMA (collectively, the "SMA client accounts"). The SMA client accounts had aggregate net assets of approximately \$46.4 million as of September 30, 2021, with approximately \$44.1 million being managed by Royce on a discretionary basis and approximately \$2.3 million being managed by Royce on a non-discretionary basis.

The SMA programs in which Royce participates include wrap fee programs that may be sponsored by banks, broker-dealers, or other investment advisers. LMPPG receives a portion of the wrap fee for services provided to such accounts and passes a portion of this fee onto Royce.

Model portfolio instructions or recommendations, as applicable, may be provided for investment strategies that are offered or utilized through other Royce client accounts (*e.g.* Royce Premier SMA). However, model portfolio instructions or recommendations, as applicable, may be provided for investment strategies that are not offered or utilized through other Royce client accounts (*e.g.* Royce SMid Dividend Value, Royce Small-Cap Equity Income, and Royce Concentrated Value SMAs). Not all investment strategies that are offered or utilized through other Royce client accounts are available through SMA programs.

The holdings and performance of accounts in a particular SMA program that are managed in accordance with a particular Royce investment strategy may, for a variety of reasons, differ from the holdings and performance of accounts in other SMA programs and Royce's Non-SMA client accounts managed in accordance with the same Royce investment strategy. Please see "Item 12 – Brokerage Practices" for more detailed information regarding such reasons.

As a provider of investment advice under an SMA program, Royce is not responsible for determining whether an SMA program or Royce's investment style or strategy is suitable or advisable for any particular SMA program client. Rather, such determinations are the responsibility of the SMA program sponsor and the client (or the client's financial advisor and the client). Likewise, although SMA program clients may impose reasonable restrictions, the implementing firm (such as LMPPG or the SMA program sponsor or such sponsor's designee), and not Royce, is responsible for complying with such restrictions. Royce is responsible only for furnishing a model portfolio that is consistent with the designated Royce investment strategy for implementation by another firm and does not tailor model portfolios to individual client needs.

SMA program clients should carefully review the terms of their agreement with the applicable SMA program sponsor to understand the terms, services, minimum account size and any additional fees that may be associated with their account and participation in such program.

As of November 30, 2021, Royce managed approximately \$16.075 billion in net assets in the aggregate.

#### ***Client Investment Guidelines and Restrictions***

Royce manages the assets of its discretionary clients 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 of the U.S. registered investment companies); offering documents (in the case of the limited liability company, and all but two non-U.S. investment companies); investment policy statement (in the case of the collective investment trusts); and investment management agreement (in the case of the institutional separate accounts, two non-U.S. investment companies, and, to the extent applicable, any discretionary SMAs for which Royce has trading discretion). Royce is responsible for complying with any additional reasonable restrictions that are imposed by its institutional separate account clients relating to the types of securities and/or individual companies in which account assets may be invested. Although SMA program clients may also impose reasonable restrictions on the types of securities and/or individual companies in which SMA program assets may be invested, the implementing firm (*i.e.*, LMPPG or the SMA program sponsor or such sponsor's designee), and not Royce, is responsible for complying with such restrictions.

In Royce's management of its client accounts, Royce is not responsible for, and does not consider, any circumstances outside of a client's specific investment with Royce. For example, Royce does not consider other securities, cash or investments owned by the client, other client investment objectives, and the like.

In the event that Royce makes a trade error for one of its client accounts for which it has trading discretion, Royce's Trade Error Policies and Procedures require that such trade error be: (i) 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; and (ii) reported to the appropriate supervisory personnel of Royce.

### **Item 5. Fees and Compensation**

#### ***Registered Investment Company and Collective Investment Trust Accounts***

Royce is generally entitled to receive fees that are payable as of the end of each month or quarter, as applicable, for the investment advisory services that it provides to registered 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 of the 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 registered investment company and collective investment trust accounts on a monthly or quarterly basis in arrears, consistent with each fund's investment advisory agreement.

#### ***Limited Liability Company and Institutional Separate Accounts***

These privately offered accounts usually compensate Royce for its investment advisory 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 generally based on the market value of each account's net assets at the end of the month or quarter. The investment advisory agreements for accounts that compensate Royce in advance on a quarterly basis may be terminated through written notice to Royce in accordance with the terms of such agreements. If Royce stops managing the relevant

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 investment advisory fee schedule for its privately offered accounts; its investment advisory fees for such accounts are generally negotiable and set forth in the applicable investment advisory agreement.

### ***SMA Programs***

As noted above under “Item 4 – Advisory Business,” Royce participates in various SMA programs primarily as subadviser to LMPPG, its affiliate. For each SMA program for which LMPPG retains Royce as a subadviser to provide investment instructions or recommendations, LMPPG: (i) receives an advisory fee from the SMA program sponsor or SMA client based on program assets managed in accordance with the applicable Royce investment strategy and the applicable per annum fee rate; and (ii) pays a portion of the advisory fee received from such SMA sponsor or SMA client to Royce as a subadvisory fee for Royce’s services, including the furnishing of investment instructions or recommendations. Fee rates charged by a SMA program sponsor to its SMA clients are negotiable and certain SMA program clients may have more favorable fees than other SMA program clients. For example, rates may vary based on a variety of factors, including the nature of the strategy and the size of the client’s account.

### ***Other Fees and Expenses***

Royce client accounts may be subject to other fees and expenses in addition to the investment advisory or subadvisory fees referenced above. Such fees and expenses may include (without limitation):

- custody fees, administration fees and all other fees charged by service providers providing services related to a Royce client account that are levied by the custodian, the administrator or other service providers for such account;
- legal, tax, bookkeeping, and accounting expenses, including expenses for preparation of annual audited financial statements, tax return preparation, routine tax and legal advice, and legal costs and expenses associated with indemnity, litigation, claims, and settlements;
- brokerage commissions, mark-ups, mark-downs and other commission equivalents as well as spreads and/or transaction costs related to transactions effected for Royce client accounts (please also see the section entitled “Brokerage Practices” in this Brochure for more information regarding these practices);
- insurance and fidelity bonding premiums (which premiums may cover numerous Royce client accounts, in which case participating Royce client accounts may be responsible for a share of such premiums);
- professional fees;
- taxes (other than income taxes);
- acquired fund fees and expenses (e.g., investment advisory fees and other expenses of any pooled investment vehicle in which a Royce client account invests);
- expenses related to the preparation and distribution of reports and notices to investors;
- fees and expenses related to the organization, offering of interests, and/or registration of the relevant Royce client account; and
- vendor charges and out-of-pocket expenses charged in connection with SMA programs.

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

As mentioned in “Fees and Compensation,” some Royce client accounts pay performance-based investment advisory fees. 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 a performance-based investment advisory 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 portfolio management responsibilities. These arrangements could incentivize Royce and Royce-related persons to favor a performance-based investment advisory fee in order to increase revenue.

In addition, in situations where Royce receives a performance-based investment advisory 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 seeks to mitigate these conflicts of interest in the following 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 for Accounts over Which Royce Exercises Trading Discretion” below) in connection with its provision of investment advisory services to 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 investment advisory fees receive more favorable pricing or trade allocations than other Royce client accounts.

## **Item 7. Types of Clients**

Royce offers investment advisory services to U.S. registered investment companies, non-U.S. investment companies, collective investment trusts, two separate series of a privately offered limited liability company, and institutional separate accounts managed for a pension plan and a charitable organization. Generally, Royce has not accepted institutional separate accounts with assets of less than \$10 million. Through its subadvisory relationship with LMPPG, Royce also provides investment advisory services through participation in SMA programs. Sponsor firms include banks, broker-dealers or other investment advisers that may use Royce's services for the benefit of their own underlying clients. Unless Royce has investment discretion, Royce does not consider itself to have an investment advisory relationship with clients of the SMA program sponsor or its designee. Please see “Item 4 – 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 for All Royce Client Accounts***

Royce uses various methods primarily rooted in the valuation of each stock and an evaluation of each company in managing client accounts. Royce's security selection process puts primary emphasis on the quality of a company's balance sheet and other measures of a company's financial condition and profitability, such as the history and/or potential for improvement in cash flow generation, internal rates of return, and sustainable earnings. Royce may also consider other factors, such as a company's unrecognized asset values, its future growth prospects, or its turnaround potential following an earnings disappointment or other business difficulties. As part of its investment research process, Royce may meet with management of companies in which it has invested or in which Royce is considering



an investment. These meetings may be organized by Royce directly or by a third party, such as an investment research provider. Depending on the venue and context, other parties, often including other investment firms, may be present in these meetings. While having others present can be valuable, in that the meeting may then be more efficient for the companies, multiple points of view can add to the discussion, etc., Royce also recognizes the need in those circumstances to take steps to protect the confidentiality of its investment decisions. Royce's policies and procedures prohibit Royce's officers, Board members and employees from disclosing any non-public information relating to Royce or its securities transactions, or plans regarding future securities transactions, to any person outside Royce. These policies and procedures also include specific requirements for managing information transmission risks associated with the use by a number of third parties, including other investment firms, of Royce's office space. For certain client accounts, Royce may also select some portfolio securities using a proprietary investment model, which employs quantitative factors similar to those used by Royce in its other accounts to take long positions and to determine when to sell the long positions. This proprietary investment model is refined/adjusted from time to time. Royce also uses a "passive" or indexing approach to achieve the investment objective for one client account. The strategy is designed to track the investment results of an index that is based on a proprietary methodology created and sponsored by Royce. The index seeks to track the investment results of an index composed of equity securities of small-capitalization companies that are traded in the United States.

#### ***Investment Strategies for Non-SMA Client Accounts***

Royce invests clients' assets primarily in the equity securities of U.S. and foreign companies at all capitalization levels using its disciplined valuation-based investment approach. A significant portion of such clients' assets are invested by Royce in the securities of micro- and small-cap companies. Royce generally defines small-cap companies as those that have market capitalizations not greater than that of the largest company in the Russell 2000® Index at the time of its most recent reconstitution. Within small-cap, Royce generally defines companies that have market capitalizations not greater than that of the largest company in the Russell Microcap® Index at the time of its most recent reconstitution as micro-cap.

Royce's investment approach is generally based on its belief that the securities of certain micro- and small-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 may include purchases of securities offered in initial public offerings, secondary offerings, private placements, long 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, repurchase agreements, distressed securities, partnership interests, participation notes, 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 pooled investment vehicles. 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.

### ***Investment Strategy for Royce Premier SMA***

The Royce Premier SMA strategy seeks long-term growth of capital. Royce invests the assets of Royce Premier SMA in a limited number of equity securities (generally less than 100) of primarily small-cap companies measured at the time of investment. Small-cap companies are those that have a market capitalization not greater than that of the largest company in the Russell 2000® Index at the time of its most recent reconstitution. Royce looks for companies that it considers “premier”—those that it believes are trading below its estimate of their current worth that also have excellent business strengths, strong balance sheets and/or improved prospects for growth, the potential for improvement in cash flow levels and internal rates of return, and franchise sustainability. Royce Premier SMA may continue to hold or, in some cases, build positions in companies with market capitalizations greater than that of the largest company in the Russell 2000® Index at the time of its most recent reconstitution. Unlike Royce Premier Fund (“Royce Premier Fund”), a series of an open-end U.S. registered management investment company which uses a similar investment strategy, Royce Premier SMA will not invest in any non-U.S. traded securities.

### ***Investment Strategy for Royce SMid Dividend Value SMA***

The Royce SMid Dividend Value SMA strategy seeks long-term capital appreciation and current income. Royce invests the assets of the Royce SMid Dividend Value SMA strategy in a limited number of equity securities of primarily U.S. small- and mid-cap dividend paying companies. For these purposes, small- and mid-cap companies are those that have market capitalizations up to \$15 billion.

Royce uses a quantitative, strategic multi-factor approach that generally favors dividend paying small-cap stocks with lower-than-average valuations, higher-than-average profitability, and higher-than-average debt coverage ratios. Royce fundamentally weights holdings to add value by relying on more efficient estimations of an issuer’s true economic value than those provided by market capitalization (e.g., targeting lower exposures to overvalued companies). As part of its portfolio construction optimization efforts, Royce will also analyze the active risk of the strategy’s holdings versus that of the Royce Small-Cap Dividend Value Index in an attempt to control the number of holdings and turnover for the strategy. The Royce SMid Dividend Value SMA strategy will not invest in any non-U.S. traded securities.

### ***Investment Strategy for Royce Small-Cap Equity Income SMA***

The Royce Small-Cap Equity Income SMA strategy seeks long-term capital appreciation and current income. Royce invests at least 80% of the assets of the Royce Small-Cap Equity Income SMA strategy in equity securities issued by U.S. small-cap companies. For these purposes, small-cap companies are those that have a market capitalization, measured at the time of investment, not greater than that of the largest company in the Russell 2000® Index at the time of its most recent reconstitution. Royce generally invests the assets of the strategy in a limited number of equity securities. The strategy seeks long-term ownership of high-quality businesses with sustainable and increasing dividends over time. Royce also focuses on what it believes are high-quality businesses selling at a discount to fair value that will generate superior risk-adjusted returns over time. The Royce Small-Cap Equity Income SMA strategy will not invest in any non-U.S. traded securities.

### ***Investment Strategy for Royce Concentrated Value SMA***

The Royce Concentrated Value SMA strategy seeks long-term growth of capital. Royce invests the assets of Royce Concentrated Value SMA in a limited number of equity securities of primarily small- and micro-cap companies in an attempt to take advantage of what it believes are opportunistic situations for undervalued securities. Small and micro-cap companies are those that have a market capitalization not greater than that of the largest company in the Russell

2000® Index at the time of its most recent reconstitution. The Royce Concentrated Value SMA strategy will not invest in any non-U.S. traded securities.

### ***Risk of Loss for All Royce Client Accounts***

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. Securities held in a client may not increase as much as the market as a whole and some securities may continue to be undervalued for long periods of time. Royce can provide no assurance that its approach will be successful or that its clients' desired investment objectives will be achieved. Investments in securities involve a high degree of risk and there is no guarantee against losses.

*The risks described immediately below apply to all Royce client accounts.*

*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 due to overall market, financial, and economic conditions and trends, governmental or central bank actions or interventions, changes in investor sentiment, and other factors, such as the COVID-19 pandemic, that may not be directly related to the issuer of a security held by a client account. This pandemic could continue to adversely affect global economies and markets and individual companies in ways that cannot necessarily be foreseen. As a result, the value of your client account will fluctuate, sometimes sharply and unpredictably, and you could lose money over short or long periods of time.

*Cybersecurity risk*—Cybersecurity incidents may allow an unauthorized party to gain access to Royce client account assets, client data (including private shareholder information), or proprietary information, or cause Royce or a client account and/or one of their service providers (including, but not limited to, accountants, auditors, custodians, sub-custodians, transfer agents, prime brokers, administrators, and financial intermediaries) to suffer data breaches, data corruption or lose operational functionality.

*Investment Style Risks*—Different investment styles (e.g., "value," "growth," or "quantitative") tend to shift in and out of favor depending upon market and economic conditions as well as investor sentiment. Royce client accounts may outperform or underperform other accounts that invest in similar asset classes but employ different investment styles.

*The risks described immediately 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 than those of larger-cap securities. In addition, because these securities tend to have significantly lower trading volumes than larger-cap securities, Royce may have difficulty selling holdings or may only be able to sell holdings at prices substantially lower than what it believes they are worth. Therefore, investments in these securities may involve considerably more risk of loss and returns may differ significantly from investments in larger-cap companies or 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 (e.g., one that invests more than 75% of its net assets in less than 75 issuers, one that focuses its investments in a particular sector or industry, or one that holds the securities of less than 100 issuers, etc.) may involve more risk to investors than a more broadly diversified portfolio of securities because it may be more susceptible to any single corporate, economic, political, regulatory or market event.

*Liquidity risk*—certain assets held by a Royce client account may be impossible or difficult to sell, particularly during times of market turmoil or extended market holidays. These illiquid assets may also be difficult to value. If a Royce client account is forced to sell an illiquid asset to meet redemption requests or other cash needs, such account may be forced to sell the illiquid asset at a loss.

*The risks described immediately below apply to the Self-Indexing Fund.*

*Model risk*—neither the Self-Indexing Fund nor Royce can offer any assurance that the allocation methodology used to determine the components of the underlying index will achieve its intended results or maximize returns or minimize risks.

*Passive investment risk*—the Self-Indexing Fund is not actively managed. As a result, Royce may not take defensive positions in response to market events.

*Tracking error risk*—Tracking error is the divergence of the performance of the Self-Indexing Fund from that of its underlying index. Tracking error may occur because of differences between the securities and other instruments held in the Self-Indexing Fund's portfolio and those included in the underlying index, pricing differences, transaction costs, the Self-Indexing Fund's holding of uninvested cash, differences in timing of the accrual of distributions, tax gains or losses, changes to the underlying index or the need to meet various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Self-Indexing Fund incurs fees and expenses, while the underlying index does not.

*Calculation methodology risk*—the underlying index for the Self-Indexing Fund relies on various sources of information to assess the criteria of issuers, including information that may be based on assumptions and estimates. Royce does not guarantee the accuracy of such underlying index or have liability for any errors therein.

*The risks described immediately below apply to the collective investment trusts, the privately offered accounts, the non-U.S. investment companies, and SMA programs.*

*Absence of Protections Afforded by the Investment Company Act of 1940*—the collective investment trusts, the privately offered accounts, the non-U.S. investment companies, and SMA programs are not registered with the SEC as investment companies under the Investment Company Act of 1940, as amended (the “Investment Company Act”). As a result, certain provisions of the Investment Company Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities held in custody to be segregated, regulate the relationship between the investment company and its investment adviser and require investor approval before fundamental investment policies can be changed) will not apply to such client accounts or their investors.

**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. The prospectuses and statements of additional information for The Royce Funds that operate as open-end investment companies can be found at <https://www.royceinvest.com/>.**

## **Item 9. Disciplinary Information**

None.

## **Item 10. Other Financial Industry Activities and Affiliations**

Royce Fund Services, LLC (“RFS”), a wholly-owned subsidiary of Royce, is a broker-dealer that is registered with the SEC 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 13 separate series between them. 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.

In rendering investment advisory services to one series of a U.S. registered management investment company and four non-U.S. investment companies, Royce utilizes the portfolio management, research and other resources of Legg Mason Investments (Europe) Limited. Legg Mason Investments (Europe) Limited is not registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Legg Mason Investments (Europe) Limited has entered into a Memorandum of Understanding (“MOU”) with Royce pursuant to which it is considered a “participating affiliate” of Royce as that term is used in certain no-action relief granted by the staff of the SEC allowing U.S. registered investment advisers to use portfolio management or research resources of advisory affiliates subject to the supervision of such registered investment adviser. The investment professionals from Legg Mason Investments (Europe) Limited render portfolio management, research, and other services to the one series of a U.S. registered management investment company and the four non-U.S. investment companies under the MOU and are subject to supervision by Royce.

One series of a U.S. registered investment company managed by Royce and the Self-Indexing Fund are investment options for asset allocation models established by Franklin Advisers, Inc., a subsidiary of FRI, Royce’s parent company.

### ***Sub-Investment Management***

Royce is a sub-investment manager to: (i) Legg Mason Royce U.S. Small Cap Opportunity Fund, Legg Mason Royce U.S. Smaller Companies Fund, and Royce Global Small Cap Premier Fund, each a series of Legg Mason Global Funds plc, an investment company organized under the laws of Ireland; and (ii) FTF Royce U.S. Smaller Companies Fund, a series of Franklin Templeton Funds II, an investment company organized under the laws of the United Kingdom (collectively, the “FT European Funds”). Legg Mason Investments (Europe) Limited and Franklin Templeton International Services S.a.r.l. are the investment managers of the Irish investment company and the United Kingdom investment company, respectively. In addition, Royce is a sub-investment manager to Legg Mason Global Premier Small-Cap Equity Fund. Franklin Templeton (Japan) Co., Ltd is the investment manager of Legg Mason Global Premier Small-Cap Equity Fund. Royce is also a sub-investment manager to Royce Global Small Cap Premier Fund, a registered managed investment scheme that is an unlisted Australian unit trust. Franklin Templeton Australia Limited is the responsible entity for such Australian fund. In addition, Royce is a sub-investment manager to Franklin Royce Global Small Cap Premier Fund, a Canadian mutual fund. Franklin Templeton Investments Corp. is the investment manager for such Canadian mutual fund. Each of Legg Mason Investments (Europe) Limited, Franklin Templeton International Services S.a.r.l., Franklin Templeton (Japan) Co., Ltd, Franklin Templeton Australia Limited, and Franklin Templeton Investments Corp. is a subsidiary of FRI, Royce’s ultimate parent company. Finally, Royce is also a sub-investment manager to RP-Fonds Institutionnel – Actions Marchés Développés, a sub-fund of RP-Fonds institutionnel, a Swiss investment fund. Retraites Populaires is the Investment Manager of the Swiss investment fund.

### ***Self-Indexing Fund and Affiliated Persons***

Royce is an investment subadvisor to an ETF offered by Legg Mason ETF Equity Trust that is considered a Self-Indexing Fund. Royce utilizes a “passive” or indexing investment strategy designed to invest in a sample of securities that collectively has an investment profile matching that of the underlying index of the ETF. Legg Mason Partners Fund Advisor, LLC is the investment manager and Legg Mason Investor Services, LLC is the distributor for these ETFs.

Royce, an “affiliated person” (as defined in Section 2(a)(3) of the Investment Company Act) of the Self-Indexing Fund, has created a proprietary, rules-based methodology to create an underlying index that is used in the management of the Self-Indexing Fund. The construction (*i.e.*, determination of index constituents and their weights) of the underlying index is performed by Royce. A third-party agent has been hired to calculate, compile, maintain and disseminate the customized index based on methodologies provided by Royce. Although Royce owns the underlying index, its parameters (*i.e.*, weightings, capping factors and other similar data) and the methodology for its construction, compilation and calculation, it does not, however, guarantee the accuracy of the calculations for such index or have liability for any errors therein.

As an “affiliated person” to the Self-Indexing Fund, Royce recognizes that its activities relating to the construction of the underlying index could raise concerns regarding the potential ability of Royce to manipulate the underlying index to the benefit or detriment of the Self-Indexing Fund. Royce further recognizes the potential for conflicts of interest that may arise for Royce and its personnel who may have access to or knowledge of changes to the underlying index’s composition methodology or the constituent securities in the underlying index prior to the time that the holdings of the Self-Indexing Fund are publicly disseminated. This information could be deemed to be material, non-public information. Royce believes that protections under the Investment Company Act and its various policies and procedures help to mitigate these potential conflicts of interest, including implementation of “firewalling” procedures on the data and research used to generate the index and personal trading restrictions on employees with knowledge of the constituents of the underlying index prior to the information being made public, and that

maintaining full portfolio transparency of the Self-Indexing Fund also provides an additional mechanism for addressing certain potential conflicts of interest.

In the future, Royce may provide similar services for ETFs offered by third parties.

#### ***SMA Programs and LMPPG***

Royce participates in various types of SMA arrangements, including LMPPG-implemented SMA programs, discretionary model delivery SMA programs, and non-discretionary model delivery SMA programs. Royce participates in such retail SMA programs primarily as subadviser to its affiliate, LMPPG. LMPPG is a subsidiary of FRI, Royce's ultimate parent company.

Under LMPPG-implemented model delivery arrangements, Royce forwards its investment instructions in the form of a model portfolio to LMPPG, which entity is obligated to implement such instructions with respect to client accounts, subject to any implementation protocols or rules agreed to by LMPPG and Royce. Royce has security selection discretion and LMPPG has trading discretion under these types of model delivery arrangements.

Under discretionary model delivery arrangements, Royce or its designee (LMPPG) forwards Royce's investment instructions in the form of a model portfolio to the SMA program sponsor or its designee, which entity is obligated to implement such instructions with respect to client accounts, subject to any implementation protocols or rules of such sponsor or designee. Royce generally has security selection discretion, but not trading discretion, under these types of discretionary model delivery arrangements.

Under non-discretionary model delivery arrangements, Royce or its designee (LMPPG) forwards Royce's non-discretionary investment recommendations in the form of a model portfolio to the SMA program sponsor or its designee for implementation, subject to the discretion of such sponsor or designee. Royce generally has neither security selection discretion nor trading discretion under these types of non-discretionary model delivery arrangements.

Participation in these types of retail SMA programs by Royce includes participation in wrap fee programs that may be sponsored by banks, broker-dealers, or other investment advisers. LMPPG generally receives a portion of the wrap fee for services provided to such accounts and passes a portion of this fee onto Royce. Royce currently receives fees in connection with the Royce Premier SMA strategy. Although Royce currently does not receive any fees in connection with the Royce SMid Dividend Value SMA strategy, the Royce Small-Cap Equity Income SMA strategy, or the Royce Concentrated Value SMA strategy, it may in the future receive fees in connection with those SMA strategies.

### **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 by any client account of Royce, with the exception of securities with market capitalizations of \$20 billion or more at the time of purchase. In addition, 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.

These individuals also 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 a Co-Chief Investment Officer 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.

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 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 and Royce-related persons have no interest from affecting the price of the same security held in an account in which Royce and/or a Royce-related person has an interest; (ii) the allocation to an account in which Royce 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 and/or a Royce related person has an interest to Royce's other accounts of securities with limited trading volumes.

### ***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.

### ***Allocation for Accounts over Which Royce Exercises Trading Discretion***

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 and the performance of such accounts will likely differ based upon various factors, including the amount and timing of cash flows available for investment and redemptions or withdrawals requiring sales of portfolio securities. 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 (among others): (i) cash available for investment relative to total assets; (ii) applicable investment restrictions/limitations for the account(s) involved; (iii) the specific 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, position limits, size of position, and number of position goals for the account(s) involved (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 the initial allocation for some other reason. Such rebookings are subject to review by Royce's compliance department.

#### ***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, including, without limitation, the FT European Funds and the SMA client 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). 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 participating 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.

## **Item 12. Brokerage Practices**

*Non-SMA Client Accounts.* Royce is responsible for selecting the brokers who effect the purchases and sales of portfolio securities for all of its Non-SMA client accounts. Royce does not select a broker to make securities transactions for Non-SMA client 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 Non-SMA client accounts to pay for such services. These types of arrangements are generally referred to as "soft dollar" arrangements. Royce uses traditional soft dollar arrangements in which the executing broker charges a bundled commission that includes both the cost of execution and the cost of the additional proprietary or third-party research. Royce also uses Client Commission Arrangements ("CCAs"). In a CCA, the executing broker charges an unbundled commission that separates the costs of trade execution from those of research. CCAs allow for the creation of pools of credits that Royce directs the executing broker to use to compensate research providers. Notwithstanding the foregoing, Royce reimburses the FT European Funds to the extent commission dollars generated by agency transactions for the FT European Funds are used to pay for research services.

Research services that may be paid for in this way assist Royce in carrying out its investment decision-making responsibilities for all of its client accounts, including the FT European Funds and SMAs. These research services may include, without limitation, 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 Exchange Act and under the investment advisory agreements for its Non-SMA client 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, Non-SMA client 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 discretionary 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, including the FT European Funds and SMAs (both of which have special trading circumstances as described above). Furthermore, the particular account that generated the applicable research or brokerage services is typically not the sole beneficiary (and, as to a particular service, potentially may not be a beneficiary at all); this is in part because some accounts regularly benefit from research or other services generated by trading by other accounts while themselves generating few or no commissions associated with such services. Royce does not attempt to allocate these kinds of benefits proportionately among clients or, except in limited circumstances, to track the benefits of research and brokerage services to the commissions associated with a particular account or group of accounts. Royce's receipt of these services also does not reduce the investment advisory fees payable to Royce, even though Royce might have otherwise been required to purchase some of those services for cash. The arrangements thus present various conflicts of interest for Royce. Because research and other services paid for by client trading can reduce Royce's costs, Royce has an incentive both to prefer trades and brokers whose commissions pay for such services over potentially less expensive alternatives and to prefer higher volumes of trading over lower volumes. Those incentives also can be heightened when acting for clients with different trading profiles. Limited opportunities to generate commissions from trading by some clients (e.g., Royce's less frequent trading clients or those, like the SMAs, where Royce may have no or limited brokerage discretion) increases the incentive to generate commissions from trading by the remaining clients. Notwithstanding these incentives, it is Royce's judgment that the research and brokerage services it obtains benefit both Royce and its clients and are reasonable on an overall basis in light of the considerations outlined in the preceding paragraph.

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 commission dollars from Non-SMA client accounts.

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.

*Collective Investment Trusts.* The collective investment trusts advised by Royce may use the same investment strategies that are offered or utilized through its U.S. registered investment companies. Royce will not effect portfolio transactions for certain collective investment trusts until the investment performance for such collective investment trusts deviates from that of the corresponding U.S. registered investment company account beyond certain thresholds established by Royce. Thus, the investment composition of such collective investment trusts will not always be identical to that of the relevant U.S. registered investment company. As a result, performance and other information relating to Royce's services for its U.S. registered investment company accounts is generally provided in respect of such collective investment trusts for informational purposes only, and may not be representative of the results or experience of such collective investment trusts.

*Aggregation of Orders.* Please see the section entitled "Allocation for Accounts over Which Royce Exercises Trading Discretion" above for information concerning aggregation of orders for client accounts over which Royce exercises trading discretion.

*SMA.* As noted above under the heading "Item 4 – Advisory Business", Royce participates in various types of SMA arrangements, including LMPPG-implemented SMA programs, discretionary model delivery SMA programs, and non-discretionary model delivery SMA programs. Royce participates in such retail SMA programs primarily as subadviser to its affiliate, LMPPG. LMPPG is a subsidiary of FRI, Royce's ultimate parent company.

Under LMPPG-implemented model delivery arrangements, Royce forwards its investment instructions in the form of a model portfolio to LMPPG, which entity is obligated to implement such instructions with respect to client accounts, subject to any implementation protocols or rules agreed to by LMPPG and Royce. Royce has security selection discretion and LMPPG has trading discretion under these types of model delivery arrangements.

Under discretionary model delivery arrangements, Royce or its designee (LMPPG) forwards Royce's investment instructions in the form of a model portfolio to the SMA program sponsor or its designee, which entity is obligated to implement such instructions with respect to client accounts, subject to any implementation protocols or rules of such sponsor or designee. Royce generally has security selection discretion, but not trading discretion, under these types of discretionary model delivery arrangements.

Under non-discretionary model delivery arrangements, Royce or its designee (LMPPG) forwards Royce's non-discretionary investment recommendations in the form of a model portfolio to the SMA program sponsor or its designee for implementation, subject to the discretion of such sponsor or designee. Royce generally has neither security selection discretion nor trading discretion under these types of non-discretionary model delivery arrangements.

Participation in these types of retail SMA programs by Royce includes participation in wrap fee programs that may be sponsored by banks, broker-dealers, or other investment advisers. LMPPG receives a portion of the wrap fee

for services provided to such accounts and passes a portion of this fee onto Royce. Royce currently receives fees in connection with the Royce Premier SMA strategy. Although Royce currently does not receive any fees in connection with the Royce SMid Dividend Value SMA strategy, the Royce Small-Cap Equity Income SMA strategy, or the Royce Concentrated Value SMA strategy, it may in the future receive fees in connection with those SMA strategies.

Model portfolio instructions or recommendations, as applicable, may be provided for investment strategies that are offered or utilized through other Royce client accounts (e.g. Royce Premier SMA). However, model portfolio instructions or recommendations, as applicable, may be provided for investment strategies that are not offered or utilized through other Royce client accounts (e.g. Royce SMid Dividend Value SMA, Royce Small-Cap Equity Income SMA, and Royce Concentrated Value SMA). Not all investment strategies that are offered or utilized through other Royce client accounts are available through SMA programs.

As a general matter, R&A's goal is to transmit model portfolio revisions for a particular Royce investment strategy used in an SMA program (referred to herein as "model change trades") to LMPPG at the same time R&A transmits them directly to any SMA sponsors and other firms that are responsible for portfolio implementation, trade placement, and/or trade execution. Following its receipt of a model change trade from Royce, LMPPG generally will implement such model change trade (in the case of LMPPG-Implemented Programs) or communicate such model change trade to SMA program sponsors or their designees for implementation on behalf of SMA program clients (in the case of Discretionary Model-Based Programs and Non-Discretionary Model-Based Programs) at the same time in accordance with LMPPG's trade communication policy, which is described in detail in Item 12 of LMPPG's Form ADV brochure. In certain cases, however, administrative requirements (e.g. formatting requirements) or implementation practices of an SMA sponsor or its designee (e.g. accepting instructions or recommendations only once daily or only during particular times of the day) may delay the communication or implementation of investment instructions or recommendations. Similarly, required portfolio implementation work may delay LMPPG's communication of trade orders to an SMA sponsor or its designee. As a result, model change trades may be implemented and effected by LMPPG and/or SMA program sponsors or their designees on behalf of SMA program clients at different times, typically resulting in varying execution prices.

To the extent an investment strategy is used in an SMA program and in one or more Non-SMA client accounts that are structured as pooled investment vehicles (each, a "Non-SMA pooled investment vehicle" and collectively, "Non-SMA pooled investment vehicles"), the manner in which Royce seeks to implement such investment strategy for use in an SMA program may, for a variety of reasons, differ from how that same investment strategy is implemented for use in a Non-SMA pooled investment vehicle. For example, the model portfolio supplied by Royce for an SMA program may not include non-U.S. traded securities that are held by the applicable Non-SMA pooled investment vehicle(s). This is true for Royce Premier SMA which, unlike Royce Premier Fund, does not hold non-U.S. traded securities. Likewise, the model portfolio supplied by Royce for an SMA program may not include every security held by the relevant Non-SMA pooled investment vehicle in the event the SMA program is significantly smaller than such Non-SMA pooled investment vehicle in terms of net assets. In addition, R&A undertakes an "active risk" assessment comparing Royce Premier SMA with Royce Premier Fund (excluding non-U.S. securities) with the goal of seeking to achieve performance for Royce Premier SMA that is comparable to that of Royce Premier Fund while avoiding excessive model change trades for Royce Premier SMA. Therefore, R&A will only transmit trade orders for Royce Premier SMA when R&A deems there to have been a "model change" to such account. In the case of Royce Premier SMA, R&A monitors for model changes daily by comparing the "active risk" between Royce Premier SMA and Royce Premier Fund. When the "active risk" exceeds a threshold deemed by R&A to be sufficient to justify a "model change", Royce Premier SMA is

then adjusted to reduce “active risk.” In these situations, where R&A has decided to adjust the model based on the “active risk” threshold described above, R&A will have transmitted trade orders on behalf of Royce Premier Fund prior to adjusting Royce Premier SMA and prior to transmitting trade orders, investment instructions, or investment recommendations to any other institutional accounts, LMPPG, SMA program sponsors, and/or other firms that are responsible for portfolio implementation, trade placement, and/or trade execution. In addition, when a portfolio security is added to Royce Premier Fund or completely eliminated from Royce Premier Fund, R&A’s goal is to transmit the initial trade adding a new position, or the last trade deleting entirely a position, at the same time to all SMA accounts, Royce Premier Fund and any other institutional accounts. R&A actively monitors the performance of Royce Premier SMA versus Royce Premier Fund to confirm that the above-stated goals of the “active risk” assessment are being achieved.

For the foregoing reasons, the performance of a particular SMA program managed in accordance with a particular Royce strategy will likely differ from the performance of other SMA programs and Royce’s Non-SMA client accounts managed in accordance with the same Royce strategy. In addition, because Royce does not control trading activity in respect of SMA program accounts over which it does not exercise trading discretion, Royce cannot control the market impact of such transactions to the same extent that it would for client accounts over which it does retain trading discretion.

As a provider of investment advice under an SMA program, Royce is not responsible for determining whether an SMA program or Royce’s investment style or strategy is suitable or advisable for any particular SMA program client. Rather, such determinations are the responsibility of the SMA program sponsor and the client (or the client’s financial advisor and the client). Likewise, although SMA program clients can impose reasonable restrictions, the implementing firm (such as LMPPG or the SMA program sponsor or its designee), and not Royce, is responsible for complying with such restrictions. Royce is responsible only for supplying a model portfolio that is consistent with the designated Royce investment strategy for implementation by another firm and does not tailor model portfolios to individual client needs.

Where Royce provides non-discretionary model portfolio services in connection with an SMA program, some combination of the SMA program sponsor or its designee (and not Royce) will: (i) be responsible for determining whether and to what extent to follow Royce’s recommendations; (ii) generally retain trading and brokerage discretion with respect to any resulting transactions; and (iii) generally be responsible for ensuring compliance with applicable laws, rules, regulations, and client guidelines in connection therewith.

Unless Royce has investment discretion, Royce does not consider itself to have an investment advisory relationship with clients of the SMA program sponsor or its designee. To the extent that this Form ADV Part 2A is delivered to SMA clients with whom Royce has no investment advisory relationship, or under circumstances where it is not legally required to be delivered, it is provided for informational purposes only.

SMA program clients should carefully review the terms of their agreement with the applicable SMA program sponsor to understand the terms, services, minimum account size and any additional fees that may be associated with their account and participation in such program.

### **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. Christopher D. Clark serves as Chief Executive Officer, President, and Co-Chief Investment Officer, 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 portfolio managers and assistant portfolio managers: Charles M. Royce, Charles R. Dreifus, James A. Skinner, III, Jay S. Kaplan, Lauren A. Romeo, James J. Harvey, George Necakov, Steven G. McBoyle, James P. Stoeffel, Brendan J. Hartman, Mark Rayner, Andrew S. Palen, Miles Lewis, Mark Fischer, and Kavitha Venkatraman.

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

### **Item 14. Client Referrals and Other Compensation**

Royce compensates one solicitor for a prospect introduced by the solicitor to Royce that became an institutional separate account client of Royce.

### **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 investment adviser and/or managing member for a client that is a pooled investment vehicle. Royce's limited liability accounts are audited at least annually or upon liquidation 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 their respective fiscal year end or upon completion of a liquidation audit, as applicable. 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 SEC'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 generally has discretionary authority over client accounts pursuant to its investment advisory agreements with such clients. At the time an investment advisory agreement is negotiated with a client, the investment guidelines that will govern the investment 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 advisory agreement that contains related investment guidelines. Royce does not have discretionary authority over SMAs for which it provides model portfolio recommendations to an SMA program sponsor or its designee when such entity may, but is not required to, follow such model portfolio recommendations. In such cases, the SMA program sponsor or its designee (and not Royce) is responsible for investment decisions and implementing trades in these types of client accounts in accordance with applicable investment guidelines.

## **Item 17. Voting Client Securities**

Royce has adopted written proxy voting policies and procedures (the "Proxy Voting Procedures") for itself and client 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. When a client has authorized Royce to vote proxies on its behalf, Royce will generally not accept instructions from the client regarding how to vote proxies.

Royce's personnel are responsible for monitoring receipt of all proxies and seeking to ensure that proxies are received for all securities for which Royce has proxy voting authority. Royce is not responsible for voting proxies it does not receive. 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. Royce's personnel are responsible for developing and maintaining a list of matters Royce treats as "regularly recurring" and for ensuring that instructions from a Royce Co-Chief Investment Officer are followed when voting those matters on behalf of Royce clients. 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. Certain Royce portfolio managers may provide instructions that they do not want regularly recurring matters to be voted in accordance with the standing instructions for their accounts and individual voting instructions on all matters, both regularly recurring and non-regularly recurring, will be obtained from such portfolio managers.

Notwithstanding the above, all matters identified by an independent third-party research firm as being "ESG" proposals are brought to the attention of the portfolio manager(s) for the account(s) involved by Royce personnel. After giving consideration to the recommendation from the independent third-party research firm, the portfolio manager will direct that such matters be voted in a way he or she believes appropriately takes into account



environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk, and return potential of an investment. When Royce portfolio managers cast votes on “ESG” proposals, they take into account the risk that companies may face significant financial, legal, and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues.

Under certain circumstances, Royce may also vote against a proposal from the issuer's board of directors or management. These would include, among others, excessive compensation, unusual management stock options, preferential voting, and poison pills. Royce's portfolio managers decide these issues on a case-by-case basis. In addition, a Royce portfolio manager 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. From time to time, it is also possible that one Royce portfolio manager will decide: (i) to vote shares held in client accounts he or she manages differently from the vote of another Royce portfolio manager whose client accounts hold the same security or (ii) to abstain from voting on behalf of client accounts he or she manages when another Royce portfolio manager is casting votes on behalf of other Royce client accounts.

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. In addition, certain securities that are held in portfolios that are managed using a quantitative strategy are 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.royceinvest.com](http://www.royceinvest.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**

Royce is not subject to any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients. Royce has not been the subject of a bankruptcy petition at any time during the past ten years.

## **About this Brochure**

This Brochure: (i) is designed to respond to the specific requirements of Form ADV under the Advisers Act, (ii) is qualified by reference to the more complete information found in the relevant client offering documents and agreements, and (iii) does not constitute an offering of any kind.