

ROYCE FOCUS TRUST INC
Form N-CSR
March 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT
OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-05379

Name of Registrant: Royce Focus Trust, Inc.

Address of Registrant: 745 Fifth Avenue
New York, NY 10151

Name and address of agent for
service:

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Date of fiscal year end: December 31

Date of reporting period: January 1, 2012 - December 31, 2012

Item 1. Reports to Shareholders.

ANNUAL REVIEW AND REPORT TO STOCKHOLDERS

Royce Value Trust

Royce Micro-Cap Trust

Royce Focus Trust

www.roycefunds.com

A Few Words on Closed-End Funds

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

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

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

Since a closed-end fund does not issue redeemable securities or offer its securities on a continuous basis, it does not need to liquidate securities or hold uninvested assets to meet investor demands for cash redemptions, as an open-end fund must.

In a closed-end fund, not having to meet investor redemption requests or invest at inopportune times is ideal for value managers who attempt to buy stocks when prices are depressed and sell securities when prices are high.

A closed-end fund may invest more freely in less liquid portfolio securities because it is not subject to potential stockholder redemption demands. This is particularly beneficial for Royce-managed closed-end funds, which invest in small- and micro-cap securities.

The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.

Unlike Royce's open-end funds, our closed-end funds are able to distribute capital gains on a quarterly basis. Each of the Funds has adopted a quarterly distribution policy for its common stock. Please see page 16-18 for more details.

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

Why Dividend Reinvestment Is Important

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A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages 11, 13, and 15. For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, please see page 18 or visit our website at www.roycefunds.com.

This page is not part of the 2012 Annual Report to Stockholders

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For 40 years, we have used a value approach to invest in small-cap securities. We focus primarily on the quality of a company's balance sheet, its ability to generate free cash flow, and other measures of profitability or sound financial condition. We then use these factors to assess the company's current worth, basing the assessment on either what we believe a knowledgeable buyer might pay to acquire the entire company or what we think the value of the company should be in the stock market.

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Performance Table

NAV Average Annual Total Returns Through December 31, 2012

	Royce Value Trust	Royce Micro-Cap Trust	Royce Focus Trust	Russell 2000 Index	Russell Microcap Index	Russell 2500 Index
One-Year	15.41%	17.34%	11.42%	16.35%	19.75%	17.88%
Five-Year	1.23	2.15	1.38	3.56	1.46	4.34
10-Year	9.48	10.45	12.19	9.72	8.42	10.49
15-Year	8.14	8.60	9.17	5.89	n.a.	7.43
20-Year	10.06	n.a.	n.a.	8.43	n.a.	9.89
25-Year	11.15	n.a.	n.a.	9.74	n.a.	11.14
Since Inception	10.33	10.42	10.04	n.a.	n.a.	n.a.

Important Performance and Risk Information

All performance information in this *Review and Report* reflects past performance, is presented on a total return basis, and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when sold. Current performance may be higher or lower than performance quoted. Current month-end performance may be obtained at www.roycefunds.com. Certain immaterial adjustments were made to the net assets of Royce Micro-Cap Trust at 12/31/12 for financial reporting purposes, and as a result the net asset value originally calculated on that date and the total return based on that net asset value differs from the adjusted net asset value and total return reported in the Financial Highlights. All indexes referenced are unmanaged and capitalization-weighted. Each indexes' returns include net reinvested dividends and/or interest income. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. The Russell 2000 Index is an index of domestic small-cap stocks that measures the performance of the 2,000 smallest publicly traded U.S. companies in the Russell 3000 Index. The Russell Microcap Index includes 1,000 of the smallest securities in the small-cap Russell 2000 Index, along with the next smallest eligible securities as determined by Russell. The Russell 2500 Index is an index of the 2,500 smallest publicly traded U.S. companies in the Russell 3000 Index.

Letter to Our Stockholders

Men can do nothing without the make-believe of a beginning.
George Eliot

See a Little Light

When seeing out one year and ushering in another, it is important to remember that the calendar, useful though it may be, provides only one way of tracking time. Some people, for example, choose to look to spring for a new beginning, while others, more habituated to the rhythms of the school year, prefer the arrival of fall. The stock market, in all its caprice and unpredictability, most often eschews 12-month spans in favor of its own irregularly paced seasons. So we find ourselves, as we look back on 2012 and peer ahead to 2013, at one of those curious, familiar junctures when the calendar compels a shift that the market seems to have anticipated months before. From our perspective as active small-cap managers, the recent market cycle change was something of a watershed. In fact, it seems very likely to us that the 2012 small-cap low on June 4 signaled the end of the closely correlated, range-bound cycle of the last few years, a cycle that created ample disappointments for those of us committed to high quality, risk management, and long-term absolute returns. **It is not yet clear that this June low will prove as auspicious as it looks to us at this writing. Suffice it to say that major market inflection points seldom do any of us the favor of announcing their arrival.**

From our perspective as active small-cap managers, the recent market cycle change was something of a watershed. In fact, it seems very likely to us that the 2012 small-cap low on June 4 signaled the end of the closely correlated, range-bound cycle of the last few years, a cycle that created ample disappointments for those of us committed to high quality, risk management, and long-term absolute returns.

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Charles M. Royce, President

Letter to Our Stockholders

One of the most interesting recent developments in the equity markets, particularly in the small-cap space, has been the persistent disparity in performance between high- and low-quality companies. Over longer periods of time, higher-quality companies have differentiated themselves from a performance standpoint, especially compared to the lower quality segments of the market. While the aftermath of the financial crisis altered this script, there are signs that the dynamic is changing.

Historically, lower-quality companies have tended to demonstrate their most robust outperformance when markets are in the initial recovery phase following a recession or bear market low. However, once economies and markets move from recovery to expansion, the rate of change in these inputs begins to slow while leadership tends to rotate back to higher-quality companies, whose business fundamentals are more compelling.

Continued on page 6...

It is equally important to emphasize that our new-found sanguine attitude is contingent on seeing in 2013 more of what we saw in the second half of 2012, particularly in last year's closing months. During this period, investors were looking more closely at companies that possess sustainable quality in the form of strong balance sheets, high returns on invested capital, steady earnings, and reasonable dividends while paying a bit less attention to high-yield instruments, copiously leveraged stocks, and explosive growth surprises. We want to stress the extremely cautious nature of our optimism. **The resurgence of quality off the June low was not decisive and has been thus far short lived. However, in our view, it did mark a subtle and significant shift that grew more pronounced in the fourth quarter, most notably in October and November when share prices went wobbly from the impact of Hurricane Sandy and the aftermath of the elections, which included periods of recurrent anxiety over the then-looming fiscal cliff.**

Quality shone through in this more uncertain period. Throughout most of our first 35 years of managing portfolios, this resilience would have been unexceptional, and hardly worth mentioning, because quality companies have historically defended well. However, since the spring of 2010 and even more dramatically since the April 2011 small-cap high little of what worked historically has enjoyed success. This has made the last five years the last three particularly among the most frustrating periods of our 40 years in business. With retrospective clarity, perhaps we should have suspected that something was amiss, or at least historically aberrant, when stocks rebounded so quickly and dynamically from the March 2009 bottom. Considering that the recession which began in 2007 was made far worse by the global financial crisis in the fall of 2008, the market's surge may have been too much too soon, welcome though it was.

In any event, investors soon became more than a little wary, shuffling in and out of stocks with little regard for business fundamentals and too much for macro headlines, nearly all of them negative. Unable to establish any clear direction, the market sputtered as it rose and wheezed as it stumbled. It often seemed as though many of the investors who were frantically shoving money in and pulling it out again weeks, days, or hours later were the same people decrying the mercurial nature of asset prices and questioning whether equities were any longer a viable investment option. Along the way, results for passive investment approaches began to outpace those of an ever-larger number of active managers. **So it is with a large measure of relief that we bid a tentative and hopeful good-bye to all that as we look ahead to better, more stable days.**

The Wall of Worry

An old adage has it that the market climbs a wall of worry during those times when stocks behave bullishly in the face of negative news or perceptions. It seems clear to us that in 2012, the market scaled just such a wall. Consider the following: For the most part, the bearish second quarter eroded, but did not undo, the gains achieved in the first. The year's final six months found many investors still behaving coolly toward equities and a host of large-scale economic and fiscal issues yet to be fully worked through. As the year closed, a fiscal cliff deal had yet to be reached, various European nations continued to flirt with financial peril, and China was still growing

at a slower pace than in previous boom years. In addition, there was a typically contentious presidential election preceded by a disastrous hurricane that swept through the world's financial capital. Yet the market ultimately shrugged off most of these concerns.

Share prices did not skyrocket following the June 4 small-cap low. July, in fact, saw a downturn for most stocks. But August and September were highly rewarding months that enabled equities to rally decisively enough to post impressive third-quarter results. For the quarter, the small-cap Russell 2000 Index gained 5.3% while the large-cap S&P 500 and Russell 1000 Indexes were up 6.4% and 6.3%, respectively, and the more tech-oriented Nasdaq Composite climbed 6.2%. Following the strong third quarter, equities took a bit of breather in October, before rallying again in November and December, which repeated to some degree the third quarter's pattern, though with far more modest or slightly negative results. For the fourth quarter, the Russell 2000 was up 1.9%, the Russell 1000 rose 0.1%, the S&P 500 was off 0.4%, and the Nasdaq Composite fell 3.1%.

The end result was a strong calendar year, especially compared to 2011, with each major equity index posting double-digit returns. **In 2012, the Russell 2000 gained 16.3%, the S&P 500 rose 16.0%, the Russell 1000 was up 16.4%, and the Nasdaq Composite increased 15.9%. Three-year returns for the major indexes were also strong, with each again posting double-digit average annual total returns.** For the three-year period ended December 31, 2012, the Russell 2000 led with a gain of 12.2%. The Russell 2000, Russell 1000, and S&P 500 each finished the year within 2.5% of their respective highs established during 2012's third quarter, while the Nasdaq Composite remained 40.2% below its peak from March 10, 2000.

Non-U.S. equities also enjoyed a strong second half after starting the year with generally lower gains when stacked against their domestic cousins. The Russell Global ex-U.S. Small Cap Index climbed 8.3% in the third quarter, while the Russell Global ex-U.S. Large Cap Index rose 7.7%. In contrast to the domestic indexes, these strong third-quarter performances were followed by consistently positive results in the fourth quarter. The Russell Global ex-U.S. Small Cap Index was up 4.8% versus a gain of 5.8% for the Russell Global ex-U.S. Large Cap Index. For the full year small-caps were the leaders, with the Russell Global ex-U.S. Small Cap Index gaining 18.8% while the Russell Global ex-U.S. Large Cap Index was up 17.0%. **So while the perception persists that non-U.S. markets are a mess a perception based on the uncertain debt and currency situations in Europe and slower-than-desired growth in developing countries the reality is that stocks across the globe finished the year with highly attractive results.**

Shifting back stateside finds that micro-cap stocks enjoyed a very strong year. After finishing the first half with an enviable 13.0% return, the Russell Microcap Index climbed 5.9% in the third quarter and was essentially flat in the fourth, up 0.04%, which gave the index a 19.7% increase in 2012. Mid-cap stocks also experienced robust results for the calendar year the Russell Midcap Index was up 17.3% in 2012.

An old adage has it that the market climbs a wall of worry during those times when stocks behave bullishly in the face of negative news or perceptions. It seems clear to us that in 2012 the market scaled just such a wall.

However, the four rounds of QE have created an extended tailwind for low-quality companies. Highly levered businesses a low-quality attribute from our standpoint have benefited from the sharp drop in the cost of capital that has accompanied the Fed's bond buying programs. Access to capital has simultaneously improved, allowing weaker companies to stave off potential financing challenges. This is particularly relevant in the smaller company space where financing is often tenuous. Interestingly, companies with large net cash positions have also lagged as that cash has been viewed as an unproductive asset that generates little or no return, even though it provides a healthy margin of safety and is often the result of profitability. Even allowing for strong second-half results, high-quality small-caps look highly attractive to us relative to both their lower-quality counterparts and their high-quality peers in the large-cap space.

The drop in market volatility back to pre-crisis levels, as measured by the VIX, has contributed to the relative strength of low-quality companies. Investors' appetite for riskier assets tends to correlate with sharp moves both up and down in volatility. As the more violent swings in the market dissipated, investors were increasingly willing to embrace the added risk associated with

lower quality enterprises.

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Letter to Our Stockholders

Good-Bye to All That (We Hope)

Calendar-year results for our closed-end funds fell a bit short of our expectations on a relative basis, even as all three of the portfolios finished the year with both solid second-half performances and more-than-respectable absolute returns. Certainly some holdings drew a benefit from the market's suddenly renewed affection for quality characteristics. Results as a whole therefore left us frustrated yet hopeful, for the reasons outlined above.

We have previously discussed the reasons for recent performance disappointments, but they are worth recapping for what we would like to think will be the last time, at least for a while. Beginning with 2007's recession and moving through the global financial crisis into the early days of June 2012, the markets were highly volatile, closely correlated, and frequently disappointing. This pattern could first be seen emerging in the spring of 2010 and was cast in harder material by the small-cap high on April 29, 2011. **So while the one- and three-year numbers for the major domestic indexes were strong through the end of 2012, investors continue to be leery of the market, most probably owing to its lack of a sustainable course, bullish or bearish, especially in the roughly 13-month period between the April 2011 high and the 2012 low in early June. More importantly, this cycle of high correlation often proved difficult for our closed-end portfolios.**

2012 NAV TOTAL RETURNS FOR THE ROYCE FUNDS VS. RUSSELL 2000, RUSSELL MICROCAP AND THE RUSSELL 2500 as of 12/31/12

¹ Certain immaterial adjustments were made to the net assets of Royce Micro-Cap Trust at 12/31/12 for financial reporting purposes, and as a result the net asset value originally calculated on that date and the total return based on that net asset value differs from the adjusted net asset value and total return reported in the Financial Highlights.

Throughout this time, we remained patient and disciplined, resolutely searching for companies that met our standards for quality and attractive valuation while investors grew more interested in other matters. On the one hand, they sought safety in fixed income instruments, utilities, or high-yielding vehicles such as REITs and MLPs; on the other hand they looked

for fast, dramatic growth, which most often came from highly leveraged companies in which we take no interest. For our part, we continued to see many companies across several sector and industry groups that answered to our preferred combination of quality and value. However, many of the largest company, industry and/or sector weightings in some portfolios have fared poorest, including those in the Energy, Materials, and Information Technology sectors. While all of this has been frustrating, none of it has changed the way in which we invest or construct portfolios. **As we said in our Semiannual Review and Report, patience and discipline are not virtues to which we pay lip service. Our investment horizon will remain squarely focused on the long term, as it has for 40 years.**

New Cycle, New Balance

The recent era of low rates and ample liquidity has not changed our view of the importance of strong balance sheets, high returns on invested capital, cash flow, or dividends. Many small-cap companies that possess any number of these characteristics underperformed the Russell 2000 in 2010, 2011, and the first half of 2012, which definitely hampered the effectiveness of our disciplined approach. This can be seen in the Funds' three-, five-year, and in the case of Royce Value Trust, even 10-year, results. We did not enjoy watching certain portfolio favorites languish. But not once did we consider changing our core principles. We knew that we were in a highly anomalous market, one that we may not see again for more than a generation. So we stayed patient and consistent while we waited for the cycle to shift.

Our contention is that quality stocks underperformed through much of the recent cycle of correlation owing to both the zero-interest-rate policies that the Fed has implemented over the last few years and the related rounds of quantitative easing.

With interest rates so low, companies were finding it very easy to restructure debt or take on more of it. The price companies were paying to do so was miniscule, so investors acted accordingly by rewarding a number of fast-growing, highly leveraged businesses while often ignoring those with strong balance sheets. In an environment where the cost of debt has been virtually nil, low-debt companies lost their traditional advantage. (Our *Sidebar*, piece provides some more details.) **However, we also suspect that we have reached a stage where this advantage is diminishing because rates have been historically low for a few years now and monetary stimulus no longer has the same dramatic impact it had with the first two or three rounds of quantitative easing. In addition to their stalwart second-half returns, we think this is a good sign for high-quality small-cap stocks.**

We did not enjoy watching certain portfolio favorites languish. But not once did we consider changing our core principles. We knew that we were in a highly anomalous market, one that we may not see again for more than a generation. So we stayed patient and consistent while we waited for the cycle to shift.

A Quality Cycle?

As correlation continues to abate, we expect to see more opportunities for quality stocks to flourish. This is ultimately why we were not surprised by the market's strength in the second half, even with ample ongoing uncertainty. We feel confident that the market has entered a cycle

The current preference for passive strategies and ETFs at the expense of active management has also played a role. Within small-cap, active managers, especially those with a long-term orientation, tend to have a quality bias in their portfolios, while passive index vehicles, especially those meant to replicate the Russell 2000, have no bias other than market cap and therefore have a higher weighting in lower-quality companies. Persistent redemptions of actively managed funds combined with modest inflows to ETFs have further distorted the low quality/high performance differential.

The key question, then, is when will this change? It is our view that it may already have begun. Interest rates, while at historic lows, cannot fall much lower. In fact, each successive round of quantitative easing is exerting less and less pressure on rates while at the same time raising the specter of increased inflation down the road. While liquidity should remain abundant, the rate of change in the cost of capital has clearly peaked. By the same token, the rate of decline in market volatility has significantly slowed with the VIX now back to its long-run averages. And while the global economy continues to grow, GDP statistics are anything but

*robust. Low-quality companies
have
had an extended moment in the
sun,
but it is our strong belief that we
are
entering a new era for quality.*

Letter to Our Stockholders

in which stock picking matters. Our optimism, cautious as it is, is bolstered by the fact that in the years ahead earnings growth can accelerate for small caps and should be robust as the economy continues to improve. While many companies are hesitant about capital expenditures, those issues have more to do with timing. **That is, businesses were not willing to start spending until the President and Congress struck a deal. Yet our meetings with management teams have convinced us that there is no question about their willingness to invest.**

In this context, it is worth mentioning that the tax and stimulus deal that was struck early in January still left important matters such as infrastructure spending, entitlements, and the next debt ceiling increase unresolved. So there will be opportunities for political intransigence to potentially affect the markets in 2013, and it will be interesting to see how investors respond to additional rounds of fiscal gridlock. **Our thought is that greater levels of attention to business fundamentals will remain high. We believe that equities will continue their positive performance into 2013, that quality-oriented companies and active management approaches, especially within the small-cap universe, will continue their resurgence, and that non-U.S. small-caps will continue to surprise on the upside.** We are very happy to say that it looks like a new, more historically typical cycle has begun.

Sincerely

Charles M. Royce
President

W. Whitney George
Vice President

Jack E. Fockler, Jr.
Vice President

January 31, 2013

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Royce Value Trust

AVERAGE ANNUAL NAV TOTAL RETURNS

Through 12/31/12

July-December 2012 ¹	10.87%
One-Year	15.41
Three-Year	10.58
Five-Year	1.23
10-Year	9.48
15-Year	8.14
20-Year	10.06
25-Year	11.15
Since Inception (11/26/86)	10.33

¹ Not annualized

CALENDAR YEAR NAV TOTAL RETURNS

Year	RVT	Year	RVT
2012	15.4%	2004	21.4%
2011	-10.1	2003	40.8
2010	30.3	2002	-15.6
2009	44.6	2001	15.2
2008	-45.6	2000	16.6
2007	5.0	1999	11.7
2006	19.5	1998	3.3
2005	8.4	1997	27.5

TOP 10 POSITIONS % of Net Assets

HEICO Corporation	1.1%
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Carter s	1.0
Mohawk Industries	1.0
Coherent	1.0
Lincoln Electric Holdings	1.0
Advisory Board (The)	1.0
Nordson Corporation	1.0
Reliance Steel & Aluminum	0.9
PAREXEL International	0.9
E-L Financial	0.8

PORTFOLIO SECTOR BREAKDOWN % of Net Assets

Industrials	27.8%
Information Technology	19.6
Financials	17.8
Consumer Discretionary	13.9
Materials	8.1
Health Care	6.5
Energy	5.1
Consumer Staples	2.1
Telecommunication Services	0.7
Diversified Investment Companies	0.4
Miscellaneous	3.8
Preferred Stock	0.1
Borrowings Under Revolving Credit Agreement Less Cash and Cash Equivalents	-5.9

Manager's Discussion

Strong results in the final six months of 2012 helped Royce Value Trust (RVT) to enjoy a strong year on an absolute basis even as it came up a bit short on a relative scale. **RVT gained 15.4% on an NAV (net asset value) basis and 16.2% on a market price basis in 2012 compared to gains of 16.3% for both of its unleveraged small-cap benchmarks, the Russell 2000 and S&P SmallCap 600 Indexes.**

The Fund enjoyed full participation in the rally that enlivened the year's first quarter, up 13.9% on an NAV basis and 14.7% on a market price basis versus 12.4% for the Russell 2000 and 12.0% for the S&P SmallCap 600. This relative advantage was lost, however, once stock prices began to decline following a small-cap high on March 26. Investors once again shifted from bullish to bearish based on a now-familiar set of macro headlines concerning European debt and the pace of global economic growth, particularly in the U.S. and China. RVT fell hard in the second quarter, down 8.6% on an NAV basis and 8.9% on a market price basis versus respective declines of 3.5% and 3.6% for the Russell 2000 and S&P SmallCap 600.

Small-cap stocks reached their low for the year on June 4, 2012, though it would not be until July and August that the presence of a rally began to be felt. Though not as dynamic as the first quarter's bull run, the third quarter was the year's second shift into an up phase. The Fund once more did well as share prices climbed, gaining 5.1% on an NAV basis and 6.3% based on market price while the Russell 2000 was up 5.3% and the S&P SmallCap 600 rose 5.4%. For stocks as a whole, the fourth quarter was a more mixed period. Investors did their best to make sense of the effects of Hurricane Sandy, the elections, the looming fiscal cliff, and another round of quantitative easing announced by the Fed in mid-December. This muted the performance of RVT's benchmarks—the Russell 2000 was up 1.9% in the fourth quarter while the S&P SmallCap 600 rose 2.2%. The Fund handily outpaced each benchmark for the same period, up 5.5% on an NAV basis and 4.6% on a market price basis. This gave the Fund an NAV advantage for the second half and from the 2012 small-cap low on June 4 through the end of December. For this period, RVT gained 17.4% on an NAV basis (+15.6% based on market price) versus respective gains of 16.3% and 15.8% for the Russell 2000 and S&P SmallCap 600.

Longer-term relative results were mixed, with some key pockets of strength. From the small-cap trough on March 9, 2009 through December 31, 2012, RVT was up 187.2% on an NAV basis and 207.0% on a market price basis versus a gain of 160.9% for the Russell 2000 and 174.6% for the S&P SmallCap 600. On an NAV basis, the Fund

outperformed both benchmarks for

GOOD IDEAS THAT WORKED

Top Contributors to 2012 Performance¹

Nordson Corporation	0.45%
Mohawk Industries	0.44
MAXIMUS	0.36
Carter s	0.34
PAREXEL International	0.31

¹ Includes dividends

Important Performance and Risk Information

All performance information reflects past performance, is presented on a total return basis, and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Current performance may be higher or lower than performance quoted. Returns as of the most recent month-end may be obtained at www.roycefunds.com. The market price of the Fund s shares will fluctuate, so that shares may be worth more or less than their original cost when sold. The Fund invests primarily in securities of small-and micro-cap companies, which may involve considerably more risk than investing in a more diversified portfolio of larger-cap companies. Regarding the two Good Ideas tables shown above, the sum of all contributors to, and all detractors from, performance for all securities in the portfolio would approximate the Fund s performance for 2012.

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Performance and Portfolio Review

the 15-, 25-year, and since inception (11/26/86) periods ended December 31, 2012. (The Fund also beat the Russell 2000 on both an NAV and market price basis for the 15-, 20-, 25-year, and since inception periods.) **RVT's NAV average annual total return since inception was 10.3%.**

Nordson Corporation, part of the machinery group in the top-performing Industrials sector, was the Fund's top contributor in 2012. The company has what we think is a highly attractive niche business making customized systems that apply adhesives, sealants, and coatings to consumer and industrial products during the manufacturing process. The company announced a 20% increase in its fiscal fourth quarter dividend in July, which not only excited investors, but also marked the 49th consecutive year in which it increased its dividend. We trimmed our position in August. The recovery in the housing industry spurred the rapidly rising stock price of Mohawk Industries in 2012, which in turn led us to take gains in February, May, November, and December. This conservatively capitalized company produces floor coverings for the residential and commercial markets. In addition to its robust earnings growth, investors seemed to like its aggressive attempts to capture market share by acquiring smaller competitors.

Shares of PMFG, a business we have owned since 1990, fell nearly 80% between its early February high and its 2012 low in late November, driven in large part by issuing a secondary offering priced at a sizable discount to its stock. As a manufacturer of custom products primarily for the natural gas industry, the company was also adversely affected by declining gas prices, increased expenses, and project delays, all of which hurt earnings. Fond of its growing business and attractive valuation, we increased our stake between February and September. Major Drilling Group International provides contract drilling services for the metals industry. Although the firm continued to operate profitably, revenue and earnings were hurt as precious metals miners pared back development projects. This in turn seemed to spark fears of a possible decrease in demand for its services. We added to our stake in 2012 before reducing it somewhat in early January 2013.

GOOD IDEAS AT THE TIME

Top Detractors from 2012 Performance¹

PMFG	-0.31%
Major Drilling Group International	-0.19
GrafTech International	-0.15
ADTRAN	-0.14
Sapient Corporation	-0.13

¹ Net of dividends

MARKET PRICE PERFORMANCE HISTORY SINCE INCEPTION (11/26/86) through 12/31/12

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¹ Reflects the cumulative total return of an investment made by a stockholder who purchased one share at inception (\$10.00 IPO), reinvested all annual distributions and fully participated in primary subscriptions of the Fund's rights offerings.

² Reflects the actual market price of one share as it traded on the NYSE.

FUND INFORMATION AND PORTFOLIO DIAGNOSTICS

Fund Total Net Assets	\$1,082 million
Number of Holdings	478
Turnover Rate	25%
Symbol	
Market Price	RVT
NAV	XRVTX
Net Leverage ¹	6%
Average Market Capitalization ²	\$1,430 million
Weighted Average P/E Ratio ^{3,4}	15.2x
Weighted Average P/B Ratio ³	1.6x
U.S. Investments (% of Net Assets)	79.6%
Non-U.S. Investments (% of Net Assets)	26.3%

¹ Net leverage is the percentage, in excess of 100%, of the total value of equity type investments, divided by net assets.

² **Geometric Average.** This weighted calculation uses each portfolio holding's market cap in a way designed to not skew the effect of very large or small holdings; instead, it aims to better identify the portfolio's center, which Royce believes offers a more accurate measure of average market cap than a simple mean or median.

³ **Harmonic Average.** This weighted calculation evaluates a portfolio as if it were a single stock and measures it overall. It compares the total market value of the portfolio to the portfolio's share in the earnings or book value, as the case may be, of its underlying stocks.

⁴ The Fund's P/E ratio calculation excludes companies with **zero or negative earnings (10% of portfolio holdings as of 12/31/12).**

DOWN MARKET PERFORMANCE COMPARISON

All Down Periods of 7.5% or Greater

Over the Last 7 Years, in Percentages (%)

Royce Micro-Cap Trust

AVERAGE ANNUAL NAV TOTAL RETURNS

Through 12/31/12

July-December 2012 ¹	10.20%
One-Year	17.34
Three-Year	11.65
Five-Year	2.15
10-Year	10.45
15-Year	8.60
Since Inception (12/14/93)	10.42

¹ Not annualized

CALENDAR YEAR NAV TOTAL RETURNS

Year	RMT	Year	RMT
2012	17.3%	2004	18.7%

2011