

ROYCE FOCUS TRUST INC
Form N-CSRS
September 03, 2008

**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: 1414 Avenue of the Americas
New York, NY 10019

Name and address of agent for service:

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Date of fiscal year end: December 31

Date of reporting period: January 1, 2008 - June 30, 2008

Item 1. Reports to Stockholders

[Royce Value Trust](#)

[Royce Micro-Cap Trust](#)

[Royce Focus Trust](#)

SEMIANNUAL REVIEW AND REPORT TO STOCKHOLDERS

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.
- 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

A very important component of an investor's total return comes from the reinvestment of distributions. By reinvesting distributions, our investors can maintain an undiluted investment in a Fund. To get a fair idea of the impact of reinvested distributions, please see the charts on pages 13, 15 and 17. For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, please see page 19 or visit our website at www.roycefunds.com.

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For more than 30 years, we have used a value approach to invest in smaller-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. At times, we may also look at 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. 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 June 30, 2008

	Royce Value Trust	Royce Micro-Cap Trust	Royce Focus Trust	Russell 2000
Second Quarter 2008*	-1.12%	-1.21%	8.03%	0.58%
Year-to-Date 2008*	-11.67	-11.70	2.28	-9.37
One-Year	-15.53	-18.64	-1.01	-16.19
Three-Year	7.05	5.62	17.18	3.79
Five-Year	12.55	12.44	20.52	10.29
10-Year	9.49	9.70	12.83	5.53
15-Year	11.68	n/a	n/a	8.92
20-Year	12.06	n/a	n/a	9.48
Since Inception	11.65	12.08	13.73	□
Inception Date	11/26/86	12/14/93	11/1/96**	□

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. The Royce Funds invest primarily in securities of small-cap and/or micro-cap companies, which may involve considerably more risk than investments in securities of larger-cap companies.

The thoughts expressed in this *Review and Report to Stockholders* concerning recent market movements and future prospects for small-company stocks are solely the opinion of Royce at June 30, 2008, and, of course, historical market trends are not necessarily indicative of future market movements. Statements regarding the future prospects for particular securities held in the Funds' portfolios and Royce's investment intentions with respect to those securities reflect Royce's opinions as of June 30, 2008 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this *Review and Report to Stockholders* will be included in any Royce-managed portfolio in the future.

*Not annualized.

**Date Royce & Associates, LLC assumed investment management responsibility for the Fund.

Letter to Our Stockholders

Ballad of a Thin Market

The first six months of 2008 gave even the most serene investor cause for anxiety, if not outright panic. First, a long list of worries ushered in the new year: the credit crisis, housing bubble, subprime implosion, falling dollar, stumbling equity prices, and an economy in either a full-blown recession or merely stalled. By the end of June, one could add to this list rapidly rising oil prices and associated energy costs. And we would be remiss if we did not also mention that smaller-company stock prices, after rallying from mid-March through early June, spent most of that latter month swooning. Indeed, share price declines throughout the market were so severe that on July 1 several media outlets were trotting out comparisons to the 1930s, since June saw the worst respective one-month losses for both the Dow Jones Industrial Average and the S&P 500 since the Great Depression.

Each of the formidable problems besetting the economy and financial markets remained unsolved as the year crept nervously to its midpoint, with little in the way of solutions on the immediate horizon. For anyone expecting good news soon about these matters, we can offer only sympathy. **It will probably take some time before genuine improvement begins. We do not mean to imply that we like being where we are, only that a measured look at the current landscape suggests that most equities will need**

Both domestically and internationally, we have seen a large number of what we believe are superb values emerge in our asset class. As is often the case with value investing, patience and discipline will be critical as we wait for the markets to rebound.

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Letter to Our Stockholders

We are contrarians. To us, the term has always been synonymous with value investor. Our research screens include searches for well-run businesses whose stock prices have fallen, which typically leads us to companies, and often entire industries, that others have recently fled or are otherwise happy to ignore.

Searching among the neglected and broken in the smaller-company world for new investment ideas not only helps us to find potential hidden gems, it also helps to lower portfolio risk. Companies whose stock prices have been beaten up by mass sell-offs often carry very low expectations (and price risk), especially once the smoke has cleared and former stockholders have moved on. Although there's always the risk of additional stock price erosion if a company's fortunes worsen or an industry's prospects grow dimmer, we try to use falling stock prices to our advantage; it is common for us to add to positions at such times

to log a few more miles of volatility and poor short-term performance prior to a sustained recovery. The fact that this is not surprising does not make the news any easier to bear. What it does mean for smaller-company bargain-hunters such as ourselves is opportunity. Both domestically and internationally, we have seen a large number of what we believe are superb values emerge in our asset class. As is often the case with value investing, patience and discipline will be critical as we wait for the markets to rebound.

While we wait, it is worth noting that many observers, including some for whom we have enormous respect, are arguing that the events of the past year—particularly the housing crisis, the credit crunch and the slowing economy—signal the end of the era of low interest rates and low-to-moderate inflation that began following the 1982 recession and ran, with some notable interruptions, through the stock market peaks in 2007. We agree in large part with this assessment. It seems plain to us that we have entered a period that will be characterized by higher inflation and rising interest rates. However, there is little agreement as to how pronounced an effect these changes will have on the U.S. economy and stock markets. So these recent travails put all of us in the position of Dylan's Mr. Jones: there is something happening here, but we don't know what it is. **Our take is that the short term will be challenging at best, but that solid recoveries for both the economy and equities will come in the next three to five years.** As is our habit, we first look at history for future direction. In a Royce Fund 1989 *Annual Report*, we recalled a full-blown recession that led to a robust economic expansion, an epic crash in 1987 and mini-crash in 1989, and a market that saw speculative binges in oil, precious metals and real estate as well as stocks. In other words, it seems to us that nothing about the '90s or the current decade is unprecedented.

Subterranean Small-Cap Blues

As might be expected in such a tumultuous period, the current market leadership question also looks unsettled. Domestic small-caps, as measured by the Russell 2000 index, finished the year-to-date period ended 6/30/08 with a loss of 9.4%, which was better than the large-cap S&P 500 index (-11.9%), the more tech-laden Nasdaq Composite (-13.6%) and the global MSCI EAFE (Europe, Australasia and Far East) index (-11.0%). Small-cap's performance advantage over large-cap stocks thus far in 2008 was primarily attributable to its advantage in the second quarter, in particular its strong relative showing in May, when the Russell 2000 gained 4.6% versus 1.3% for the S&P 500. (Smaller stocks finished the second quarter just barely in positive territory, up 0.6% versus -2.7% for their large-cap peers.) The strong rally from the current small-cap trough on 3/10/08 was followed by an almost equally strong decline in June that collapsed share prices across the globe. During the month, the Russell 2000 lost 7.7%, the S&P 500 fell 8.4%, the Nasdaq Composite was down 9.1% and the MSCI EAFE declined 8.2%.

The relative resilience of smaller companies during June was a welcome development. Although it did not decisively shift market leadership back to our chosen asset class, it certainly helped the Russell 2000 lose less during the highly volatile first half of 2008.

**(provided, of course, that
our
long-term outlook for the
company
remains positive).**

**While our hope is that
any subsequent
drops in share prices are
temporary,
it is also why we look for
companies**

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However, the S&P 500 was slightly ahead of its small-cap counterpart in the first quarter of 2008 (-9.5% versus -9.9%) and decidedly better in the second half of 2007. **These outperformance periods allowed the S&P 500 to stay ahead of the Russell 2000 for both the one-year (-13.1% versus -16.2%) and three-year (+4.4% versus +3.8%) periods ended 6/30/08, while over longer-term periods, smaller stocks held serve; the Russell 2000 beat the S&P 500 for the five-, 10- and 15-year periods ended 6/30/08.**

While large-cap stocks had to wait until early July to officially enter a bear market (traditionally defined as a price decline of 20% or more from a previous peak), the seeming inevitability of its arrival put the phrase "bear market" on the lips of most investors before the end of June. The Dow Jones Industrial Average finished the second quarter with a price 19.9% below its 10/9/07 all-time peak. After making a cyclical high in May, the S&P 500 fell more than 10% to close the quarter within a single percentage point of its cycle low on 3/10/08. The Russell 2000 rallied to a new cyclical high in early June before it fell 9.5% by the end of the quarter. **However, the small-cap index also managed to retain more of its gain, staying 7.6% above its current cycle low on 3/10/08.**

We expect more volatility and lower, possibly negative returns for much of the market in the coming months. Although we once believed that large-cap would have an advantage, we now believe that quality-oriented companies, regardless of market cap, should outperform and that smaller companies may provide an edge during short-term market upswings. We also suspect that smaller stocks should lead when share prices eventually show some sustained recovery. This, however, is likely to take some time before materializing. Putting aside for a moment the challenges that must be worked through in the economy as well as in the credit and housing markets, the Russell 2000 also enjoyed a mostly uninterrupted run from its trough on 10/9/02 through its most recent peak on 7/13/07. **Nearly five years of primarily rising stock prices does not correct itself quickly or, unfortunately, without pain.** (For more on recent small-cap market cycles, see page 10).

Although we once believed that large-cap would have an advantage, we now believe that quality-oriented companies, regardless of market cap, should outperform and that smaller companies may provide an edge during short-term market upswings. We also suspect that smaller stocks should lead when share prices eventually show some sustained recovery.

Tangled up in Value

Small-cap value stocks, as measured by the Russell 2000 Value index, have felt more than their share of pain recently after dominating the Russell 2000 Growth index during the first seven years of the current decade. During the last full small-cap market cycle, which lasted from 3/9/00 until 7/13/07, the Russell 2000 Value index substantially outperformed the Russell 2000 Growth index (+189.5% versus -14.8%). The small-cap value index also outpaced the small-cap growth index from the small-cap market trough on 10/9/02 through 7/13/07, up 183.9% versus 169.7%. However, the small-cap growth index began to chip away at this lead during 2007, when it beat small-cap value in each of that year's four quarters.

Small-cap growth hung on to its advantage through the year-to-date period ended 6/30/08 (-8.9% versus -9.8% for the small-cap value index), as well as from the recent small-cap peak on 7/13/07. Results for both small-cap style indices were close from

that have the financial strength to survive difficult times for their industry or sector. This remains a cornerstone of our approach because, despite our best intelligence, trouble sometimes lasts longer than we anticipate. Just as we attempt to be opportunistic from a purchase-price standpoint, we like companies that view opportunity through a similar prism. Businesses with strong balance sheets will at times act in a similar fashion, using their financial position to acquire lesser competitors.

Our practice of purchasing low-expectation companies often involves going against the grain of Wall Street. Five years ago, for example, oil was trading at a then-high of \$30 per barrel. The Wall Street consensus was that the price of oil had reached a peak and would soon begin to decline. We began to look closely at energy services companies as well as oil and gas businesses because expectations were driving investors away to the point that share prices began to look more and more attractive to us. This, combined with many years of industry consolidation, gave us the conviction to start building positions within the sector.

We were not making a call on the prospects for oil prices or thinking that we knew better than the analysts who devote their careers to the study of energy—we simply saw an industry in which we had enjoyed success in the past once again looking

attractively undervalued to us.

Continued on page 8...

Letter to Our Stockholders

7/13/07 through the new small-cap trough on 3/10/08, a period in which the Russell 2000 Value index fell 25.4% and its small-cap growth sibling lost 23.0%, reversing small-cap value's usual edge during downturns. From the small-cap market peak on 7/13/07 through 6/30/08, the small-cap growth index enjoyed a larger performance edge, falling 13.8% versus a loss of 23.1% for the small-cap value index.

While neither index has been exempt from the market's troubles over the past year, investors may be wondering what became of small-cap value's typical performance edge in down-market periods. We think that the current reversal is not entirely a surprise when one considers just how thoroughly the Russell 2000 Value index prevailed over the Russell 2000 Growth index both from the previous small-cap market peak on 3/9/00 and from the small-cap market trough on 10/9/02 through the end of the last full market cycle in July 2007. That small-cap value has been struggling of late is therefore not unexpected, both in the context of reversion to the mean and in the context of an indiscriminate bear market. **Of course, just as we spent much of the first several years of the decade looking for high-quality bargains in areas usually populated by smaller-company growth managers, we have spent much of the last year scrutinizing those places where value managers are thought to roam.**

Our Back Pages

Performance during the first half of 2008 for our three closed-end portfolios was decidedly mixed on both an absolute and relative basis, with a particularly wide margin separating the terrific NAV (net asset value) results of Royce Focus Trust and the less inspiring showings for both Royce Value Trust and Royce Micro-Cap Trust (see the chart below). Each Fund looks at a slightly different area of the smaller-company universe: Royce Focus Trust typically holds fewer positions, most of which are selected from the upper tier of the smaller-company world, where market capitalizations run from \$500 million to \$2.5 billion. Royce Value Trust and Royce Micro-Cap Trust are more diversified and make most of their respective selections

from the micro- and small-cap area (market caps up to \$2.5 billion) and micro-cap area (market caps up to \$500 million). Thus, we view a certain divergence as a healthy

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development. Still, we were very disappointed in our two portfolios that struggled on a relative and absolute basis during both the six-month and one-year periods ended 6/30/08.

Much of the strength of Royce Focus Trust's first-half performance came from its greater exposure to both energy and steel companies. These areas did well in all three portfolios, but both Royce Value Trust and Royce Micro-Cap Trust were comparatively underweight in their respective exposure and thus paid the price. They also suffered from having relatively larger exposures to sectors that struggled, such as consumer, technology and financial stocks. Indeed, financials continued to be a drag across the entire equity market. On average, the financial components of the Dow declined 26.6% in the second quarter, versus a 7.4% decline for the index. Within the S&P 500, banking and related industries declined 24.9% on average, versus a 2.7% decline for the index. The Financial Services sector of the Russell 2000 was that index's worst performer, losing 13.4%, while the index gained 0.6%.

The Times They Are A-Changin'

As much as the current bearish period has convinced us that major changes are working their way through the market, it seems to us that there is a significant element to the story that has not received as much attention, namely, the shift in the status of the U.S. in the global economy. **The U.S. has gone from being by far the most dominant force, perhaps the only truly dominant force, to being first among a small group of leading players, which includes the European Union, China, Japan and India.** The first sign of this change can be traced back to late 2000, when the U.S. dollar first began to decline versus the Euro, a decline that has lasted more than seven years and counting. Other factors also contributed—the bursting Internet bubble, the events of 9/11, a war that has made the U.S. unpopular abroad, the surging economies of China and India, and our own recent struggles with housing, credit and an overall stalled economy. Each is a piece of a larger puzzle that shows the global economy undergoing major changes, and we believe that the shifting role of the U.S. within this system is the critical event.

We have sought to meet the challenges these changes present by exporting our investment approach over the past decade. Our initial forays into international smaller companies generally involved those with a strong domestic presence, while more recently we have been expanding our scope to include companies whose activities are more international or centered in a particular overseas region such as Western Europe. **Our evolution to international investing is rooted in the Royce tradition of attempting to capitalize on market inefficiencies to generate strong absolute returns, while always keeping a close eye on managing risk. We are focusing primarily on developed economies, where we see ample inefficiencies that could translate into opportunities to find attractively priced securities.** Interestingly, the degree of inefficiency that we are seeing today in many international smaller companies reminds us of the small-cap market in the United States 15 to 20 years ago. It is possible that we may be in the early phases of a long-term outperformance cycle for smaller companies on a global

Interestingly, the degree of inefficiency that we are seeing today in many international smaller companies reminds us of the small-cap market in the United States 15 to 20 years ago.

Our thinking was that the industry was both significant and robust enough to eventually recover, though we set no specific time table as to when.

More recently, certain industries in the consumer sectors appear to us to have been suffering from a similar dearth of positive expectations. The slowing economy, the credit crunch, the housing bubble and, somewhat ironically, rising energy costs have all convinced many observers that the American consumer is too financially challenged for consumer stocks to do anything more than languish at best. As was the case with energy earlier in the decade, we see a traditionally cyclical area at what looks to us like a potential low point in its business cycle.

Our practice in the past several months has been to root around various consumer industries looking for smaller-cap businesses that boast sterling

Letter to Our Stockholders

scale, as international smaller companies follow their U.S. peers and potentially evolve into a professional asset class.

The number of opportunities in international investing is vast. There are more companies from which to choose and greater total market capitalization. Our research indicates that there are three times as many micro-cap companies those with market capitalizations up to \$500 million in the developed international universe, with roughly twice the total market capitalization of the U.S. micro-cap universe. Similarly, in the upper tier of the international small-cap world market caps of \$500 million to \$2.5 billion there are more total companies (2,091 versus 1,119) and greater total market capitalization (\$2.4 trillion versus \$1.3 trillion domestically). However, average market caps tend to be smaller in the international market. For example, according to Reuters the international micro-cap market has a weighted average market cap of \$219, compared to \$257 domestically. Liquidity issues, therefore, tend to increase as we move down the market-cap scale, which contributes to greater pricing inefficiencies. Independent research is difficult to come by (when it is available at all). We believe that these differences give us the opportunity to find quality businesses that are not properly priced. In addition, a counter-weight to the liquidity challenges is a marketplace with generally higher yields. As of 6/30/08, the

financial characteristics in the form of strong balance sheets, established records of earnings and the ability to generate free cash flow.

The contrarian habit of scouring beaten-down industries that others are avoiding or ignoring is a hallmark of our time-tested value approach. By closely examining industries for which expectations are at a minimum, we stay true to our goal of trying to lower risk, which is a critical part of building strong, long-term returns for The Royce Funds.

DEVELOPED UNIVERSE BY MARKET CAPITALIZATION (EXCLUDING USA) June 30, 2008				
Market Cap Range (Millions)	Number of Companies	Total Market Cap (Billions)	Percent of Companies	Percent of Total Market Cap
\$0 - \$500	14,148	1,235	81%	6%
\$500 - \$1,000	1,106	798	6	4
\$1,000 - \$2,000	753	1,078	4	5
\$2,000 - \$2,500	232	518	1	2
\$2,500 - \$5,000	507	1,810	3	8
\$5,000 and over	755	16,844	4	76
Total	17,501	22,283	100	100

Source: Reuters



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weighted average yield of the international small-cap universe was more than a percentage point higher than its domestic equivalent, 3.5% versus 2.1%.

Most importantly, we have found that quality is a truly international concept, an idea that recognizes no borders. **The same attributes that attract us to domestic companies strong balance sheets, an established record of earnings, the ability to generate free cash flow and excellent growth prospects are readily found in international businesses.** It really is a small world after all.

Bringing It all Back Home

However promising the future for global opportunities in smaller companies, we think that far too much uncertainty currently exists here at home for the equity markets to settle down and establish a consistent, forward-looking direction. Although there have been plenty of pleasant surprises, we do not think the profit picture is strong enough to outweigh the anxiety that so many investors are feeling, especially about inflation. **We see the next year or so being a very volatile period as the market continues to sort out the effects of the housing and credit bubbles and adjusts to a more inflationary environment.**

It seems plain to us that investors will therefore be looking for lower risk in the form of company quality, especially if the bond markets begin to struggle, as many seem to expect. We see the next year or two as a time to prepare and position our portfolios for a market and economic rebound that looks at least a year or two away. We think that three to five years from now, investors will be mostly pleased with returns because we expect the economy to recover and think that the market will see it coming first. So while smaller companies should be all right in the short term, we suspect that the real action lies further ahead. In any case, we keep doing what we have always done—buying what we think are high-quality smaller companies trading at attractive prices. A volatile stock market has historically been a boon to value investors, and the current period will hopefully be no exception. Certain areas continue to offer what look to us like compelling bargains, both here and abroad. In addition, some industries have been doing very well, so we have been taking gains in some cases, holding in others and even building positions in companies that are managing their growth most effectively. Wide divergence in sector performance is something that we anticipate will be with us for a while, so we see ample opportunity out there on a global scale.

We see the next year or two as a time to prepare and position our portfolios for a market and economic rebound that looks at least a year or two away. We think that three to five years from now, investors will be mostly pleased with returns because we expect the economy to recover and think that the market will see it coming first.

Sincerely,

Charles M. Royce
President

W. Whitney George
Vice President

Jack E. Fockler, Jr.
Vice President

July 31, 2008

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Small-Cap Market Cycle Performance

We believe strongly in the idea that a long-term investment perspective is crucial for determining the success of a particular investment approach. Flourishing in an up market is wonderful. Surviving a bear market by losing less (or not at all) is at least as good. However, the true test of a portfolio's mettle is performance over full market cycle periods, which include both up and down market periods. We believe that providing full market cycle results is more appropriate even than showing three- to five-year standardized returns because the latter periods may not include the up and down phases that constitute a full market cycle.

Since the Russell 2000's inception on 12/31/78, value as measured by the Russell 2000 Value Index outperformed growth as measured by the Russell 2000 Growth Index in six of the small-cap index's eight full market cycles. The most recently concluded cycle, which ran from 3/9/00 through 7/13/07, was the longest in the index's history, and represented what we believe was a return to more historically typical performance in that value provided a significant advantage during its downturn (3/9/00-10/9/02) and for the full cycle. In contrast, the new market cycle that began on 7/13/07 has so far favored growth over value, an unsurprising development when one considers how thoroughly value dominated growth in the previous full cycle.

Peak-to-Peak

For the full cycle, value provided a sizeable margin over growth, which finished the period with a loss. Each of our closed-end funds held a sizeable performance advantage over the Russell 2000 on both an NAV (net asset value) and market price basis. On an NAV basis, Royce Focus Trust (+264.2%) was our best performer by a wide margin, followed by Royce Micro-Cap Trust (+175.9%) and Royce Value Trust (+161.3%).

Peak-to-Trough

In the new cycle's somewhat brief peak-to-trough period, growth was ahead of value, though its advantage was slight and neither style index managed to provide positive performance during the downdraft. All of our closed-end funds outperformed the Russell 2000 in this period, with Royce Focus Trust again providing the best (albeit negative) performance for the period, followed by Royce Value Trust.

Trough-to-Current

We would caution against reading too much into a period that has lasted only slightly longer than a calendar quarter, but it is still worth noting that growth's return more than tripled that of the value index. Only Royce Focus Trust outpaced the Russell 2000 during this period, with Royce Value Trust and Royce Micro-Cap Trust both underperforming.

Peak-to-Current

During this nearly year-long period, both value and growth posted negative returns, though growth lost less by a comfortable margin. Once again, Royce Focus Trust distinguished itself. Both it and Royce Value Trust outperformed the Russell 2000, while Royce Micro-Cap Trust lagged the small-cap index.

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

	Peak-to-Peak	Peak-to-Trough	Current	Current
	3/9/00-7/13/07	7/13/07-3/10/08	3/10/08-6/30/08	7/13/07-6/30/08
Russell 2000	54.9%	-24.1%	7.6%	-18.4%
Russell 2000 Value	189.5	-25.4	3.0	-23.1
Russell 2000 Growth	-14.8	-23.0	11.9	-13.8
Royce Value Trust	161.3	-20.9	3.9	-17.8
Royce Micro-Cap Trust	175.9	-22.6	2.8	-20.4
Royce Focus Trust	264.2	-15.3	11.8	-5.3

The thoughts concerning recent market movements and future prospects for smaller-company stocks are solely those of Royce & Associates and, of course, there can be no assurance with regard to future market movements. Smaller-company stocks may involve considerably more risk than larger-cap stocks. Past performance is no guarantee of future results. See page 2 for important performance information for all of the above funds.

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AVERAGE ANNUAL NAV TOTAL RETURNS

Through 6/30/08

Second Quarter 2008*	-1.12%
Year-to-Date 2008*	-11.67
One-Year	-15.53
Three-Year	7.05
Five-Year	12.55
10-Year	9.49
15-Year	11.68
20-Year	12.06
Since Inception (11/26/86)	11.65

* Not annualized

CALENDAR YEAR NAV TOTAL RETURNS

Year	RVT	Year	RVT
2007	5.0%	1998	3.3%
2006	19.5	1997	27.5
2005	8.4	1996	15.5
2004	21.4	1995	21.6
2003	40.8		