

# Responsible Investment Policy

As fiduciaries of our clients' assets, Royce's ultimate goal in all of our activities is to deliver the best investment outcomes for our clients. Therefore, we have exacting standards around the principles of corporate governance and company durability in the evaluation of each company which we invest in, as we believe these factors have proven to have a material impact on business risk and financial performance. Incorporating environmental, social and governance (ESG) factors as an input to investment analysis offers crucial insights into the opportunities and risks for long-term, fundamental investors, such as us, and inherently provides for better informed decision making.

## Our Approach to ESG Integration

As active, fundamental investors, Royce's objective is to consistently deliver above-average, long-term results for our clients on both an absolute and risk-adjusted basis. We believe that evaluating ESG factors alongside financial metrics supports our investment decision making. Historically, ESG investing has focused on exclusionary or negative screening of securities in an effort to avoid issuers that fail to meet certain values-based standards. At Royce, we do not seek to exclude companies or sectors from our universe on the basis of third-party ratings, but rather aim to analyze and monitor the issues that we believe may have a material impact on the financial performance of our portfolio companies in the short- and long-term.

We define material ESG factors as those that we believe may impact a company's cash flows, balance sheet, reputation, and/or enterprise value. Royce's analysis of each issuer begins with an evaluation of corporate governance, as it establishes the framework for accountability and decision making that sets the tone for corporate culture. Subsequently, we examine the industries in which our holdings reside and consider relevant environmental and social factors using the Sustainability Accounting Standards Board (SASB) materiality framework and MSCI ESG Ratings. Materiality is the core principle of our approach to ESG integration, as different factors are meaningful to different business models, industries, and regions.

Evaluating ESG factors for small-cap companies comes with an additional challenge that we believe presents an opportunity; a lack of readily available information. Due to constrained resources and limited third-party research of small-cap companies relative to large-cap companies, we encounter a higher proportion of securities with less publicly available information. Royce therefore believes an informational advantage can be gained through our deep dive research process.

As pioneers in the small-cap space, we know risk management is critical. In our minds, ESG issues should be viewed as risk factors that contribute to the balance between potential risk and

expected return, and should be examined alongside traditional financial and operational risk factors. We also believe that the extent to which ESG factors can be effectively incorporated into an investment process will depend on the nature of the product strategy. Therefore, we have customized the evaluation and integration of ESG for each of our individual investment strategies. Royce will periodically review this Policy and each investment strategy to ensure they reflect the current ESG landscape and leverage the best resources available.

## A positive approach to engagement

While we have strong views about how individual businesses might be optimized and shareholder value enhanced, our preference is to invest alongside management teams that we respect and avoid those we disagree with in terms of business direction.

When our deep dive research process identifies ESG related issues that we believe need to be communicated to a company's management, we raise them just as we would other operational or financial issues. Our engagement process is customized based on considerations such as position size, concentration of a portfolio, and product strategy. Engagement opportunities provide an invaluable forum for Royce to address material ESG risk and encourage greater transparency. Ultimately, by engaging with management teams and encouraging them to address material ESG factors, we believe companies can enhance their competitive position, which will have a direct, positive impact on our clients' investments.

By integrating relevant governance and other ESG factors into our investment process, and effectively engaging with companies and their management teams around these principles, we aspire to better manage risk and enhance returns for our investors.

As a signatory to the Principles of Responsible Investment and a member of the IFRS Sustainability Alliance, Royce is committed to integrating an assessment of ESG risks and opportunities as an input to our investment process.

