

ROYCE FOCUS TRUST INC  
Form N-CSR  
March 08, 2005

**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:

John E. Denneen, Esquire  
1414 Avenue of the Americas  
New York, NY 10019

Registrant's telephone number, including area code: (212) 486-1445

Date of fiscal year end: December 31

Date of reporting period: July 1, 2004  December 31, 2004

**Item 1: Reports to Shareholders**

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**A N N U A L R E P**  
**O R T**  
**2004**

**Royce Value Trust**

**Royce Micro-Cap Trust**

**Royce Focus Trust**

**www.roycefunds.com**



# TheRoyceFund

VALUE INVESTING IN SMALL COMPANIES FOR MORE THAN 30 YEARS

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## 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 primarily in a limited number of small-cap companies.***

A closed-end fund is an investment company whose shares are listed on a stock exchange or are traded in the over-the-counter market. 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 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 or the Nasdaq market, 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 microcap securities.
- The fixed capital structure allows permanent leverage to be employed as a means to enhance capital appreciation potential.
- Unlike 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. For additional information on the Funds' Distribution Reinvestment and Cash Purchase Options and the benefits for stockholders, see page 46.

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## PERFORMANCE TABLE

NAV AVERAGE ANNUAL TOTAL RETURNS Through December 31, 2004				
	Royce Value Trust	Royce Micro-Cap Trust	Royce Focus Trust	Russell 2000
&#160; &#160; <b>Fourth Quarter 2004*</b>	13.18%	12.90%	12.65%	14.09%
&#160; &#160; <b>July-December 2004*</b>	10.81	9.53	16.83	10.83
&#160; &#160; <b>1-Year</b>	21.42	18.69	29.21	18.33
&#160; &#160; <b>3-Year</b>	12.99	16.75	20.39	11.48
&#160; &#160; <b>5-Year</b>	14.15	16.84	18.35	6.61
&#160; &#160; <b>10-Year</b>	14.84	15.67	n/a	11.54
&#160; &#160; <b>Since Inception</b>	12.85	14.61	14.22	
&#160; &#160; <b>Inception Date</b>	11/26/86	12/14/93	11/1/96**	

\* Not annualized.

\*\* Date Royce & Associates, LLC assumed investment management responsibility.

Royce Value Trust's 15-year NAV average annual total return for the period ended 12/31/04 was 13.47%.

### IMPORTANT PERFORMANCE, RISK AND OTHER INFORMATION

All performance information in this 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. Performance information does not reflect the deduction of taxes that a shareholder would pay on distributions or on the sale of Fund shares. 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](http://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 Report concerning recent market movements and future prospects for small company stocks are solely the opinion of Royce at December 31, 2004, 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 December 31, 2004 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this Report will be included in any Royce-managed portfolio in the future. The Funds invest primarily in securities of small and micro-cap companies that may involve considerably more risk than investments of larger-cap companies. All publicly released material information is always disclosed by the Funds on the website at [www.roycefunds.com](http://www.roycefunds.com).

The Russell 2000, Russell 2000 Value, Russell 2000 Growth, Nasdaq Composite, S&P 500 and S&P 600 are unmanaged indices of domestic common stocks. Returns for the market indices used in this report were based on information supplied to Royce by Frank Russell and Morningstar. Royce has not independently verified the above described information. The Royce Funds is a service mark of The Royce Funds.

## LETTER TO OUR STOCKHOLDERS

### Dear Stockholder,

We have redesigned and reformatted our Annual Report for 2004 to focus on the information required by SEC regulations. It now includes Managers' Discussions of Fund Performance and Financial Statements for all three of our closed-end mutual funds. We have also created a new publication, the *Annual Review*, which features more wide-ranging commentary on the stock market as

***For more than 30 years, we have used various value approaches to invest in smaller-cap securities. We focus***

a whole and the Funds' portfolios. We hope that you find the material in each book useful and informative.

2004 was generally a positive one for the stock market as a whole, with small-cap securities enjoying a performance advantage over their large-cap counterparts. The small-cap oriented Russell 2000 index rose 18.3% in 2004, compared to respective gains of 10.9% and 8.6% for the S&P 500 and the Nasdaq Composite. For the sixth consecutive year, the Russell 2000 index outperformed the S&P 500. This past year also marked the fourth out of the last five calendar years in which the Russell 2000 outpaced the Nasdaq Composite. Small-cap value stocks also enjoyed a strong year in 2004, which can be seen in the calendar-year performances of our Funds. In contrast to 2003, a year in which micro-cap and Technology companies reigned supreme, 2004 was in general kinder to the upper tier of small-cap, as well as to individual companies in diverse sectors such as Natural Resources, Finance and Industrial Products (to name just a few strong-performing areas). The trend toward larger, arguably higher-quality, small-cap stocks dominating performance within the asset class was established early in the year, an unsurprising development given the red-hot performance of many micro-cap and Tech stocks in 2003.

We believe that *The Royce Funds*' performances generally were strong on an absolute basis in 2004 as well as over market cycles and long-term periods. While we would love to beat each Fund's respective benchmark during any particular performance period, we want to be clear that it remains our goal to achieve strong absolute returns over full market cycle and other long-term performance periods.

We appreciate your continued support.

Sincerely,

Charles M. Royce  
President

January 31, 2005

***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.***

## ROYCE VALUE TRUST

NAV AVERAGE ANNUAL TOTAL RETURNS Through 12/31/04	
Fourth Quarter 2004*	13.18%
July-December 2004*	10.81
1-Year	21.42
3-Year	12.99
5-Year	14.15

### Manager's Discussion

Royce Value Trust's (RVT) broadly diversified portfolio of small- and micro-cap stocks reaped the benefits of a strong year for small-cap value stocks. **In 2004, the Fund was up 21.4% on a net asset value (NAV) basis and 29.6% on a market price basis. RVT's calendar-year NAV performance was ahead of the small-cap oriented Russell 2000, which gained 18.3%, but trailed the small-cap S&P 600 index, which was up 22.7% for the same period.** The Fund's strong absolute results were achieved in spite of slightly lagging one of its benchmarks on an NAV basis (+13.2%) in

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10-Year	14.84
15-Year	13.47
Since Inception (11/26/86)	12.85

\*Not annualized.

**CALENDAR YEAR NAV TOTAL RETURNS**

Year	RVT	Year	RVT
2004	21.4%	1996	15.5%
2003	40.8	1995	21.1
2002	-15.6	1994	0.1
2001	15.2	1993	17.3
2000	16.6	1992	19.3
1999	11.7	1991	38.4
1998	3.3	1990	-13.8
1997	27.5	1989	18.3

**TOP 10 POSITIONS**  
% of Net Assets Applicable to Common Stockholders

Apollo Investment	1.2%
Ritchie Bros. Auctioneers	1.0
Arrow International	0.9
Lincoln Electric Holdings	0.9
Simpson Manufacturing	0.9
Sotheby's Holdings Cl. A	0.9
MacDermid	0.9
SEACOR Holdings	0.9
Gabelli Asset Management Cl. A	0.8
MPS Group	0.8

**PORTFOLIO SECTOR BREAKDOWN**  
% of Net Assets Applicable to Common Stockholders

Technology	21.5%
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the robust fourth-quarter rally. For this period, the Fund was up 16.6% on a market price basis, while the Russell 2000 was up 14.1% and the S&P 600 gained 13.0%. RVT's NAV performances over market cycle and long-term periods were similarly strong on an absolute and a relative basis. The Fund was up 78.6% from the previous small-cap market peak on 3/9/00 through 12/31/04 versus respective gains of 14.5% and 53.2% for the Russell 2000 and S&P 600. RVT gained 103.4% from the small-cap market trough on 10/9/02 through 12/31/04 versus respective gains of 104.8% and 96.5% for the Russell 2000 and the S&P 600. On an NAV basis, RVT outpaced the S&P 600 for the five-, 10-, 15-year and since inception (11/26/86) periods ended 12/31/04, while the Fund was ahead of the Russell 2000 for each of these periods as well as for the one-year and three-year periods. On a market price basis, RVT outperformed both benchmarks for the one-, three-, five-, 10-, 15-year and since inception (11/26/86) periods ended 12/31/04. **The Fund's average annual NAV total return since inception was 12.9%.**

The Fund enjoyed net gains on a dollar basis in virtually all of its sectors, particularly in Industrial Products, Natural Resources and Industrial Services. Several industrial companies had slumping prices in 2003, which gave us the opportunity to build existing positions. Although these businesses did not post the same heady gains as energy and financial stocks in 2004, they generally enjoyed strong returns. After hitting lows in their business cycle around the spring of 2003, many industrial companies began to recover, benefitting from increases in capital spending, the ability to pass on higher costs that came from increased raw materials prices and a robust rise in international economic growth. This led to earnings acceleration and correspondingly higher stock prices beginning late in 2003 and in general lasting through 2004.

***All performance information in this 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. Performance information does not***

Industrial Products	18.4
Industrial Services	14.4
Financial Intermediaries	10.0
Natural Resources	9.2
Consumer Products	9.1
Health	9.0
Financial Services	8.7
Consumer Services	6.2
Utilities	0.2
Miscellaneous	5.0
Bonds & Preferred Stock	0.2
Treasuries, Cash and Cash Equivalents	10.3

*reflect the deduction of taxes that a stockholder would pay on distributions or on the sale of shares. 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](http://www.roycefunds.com).*

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## ROYCE MICRO-CAP TRUST

### Managers Discussion

The performance of micro-cap stocks may have cooled down a bit in 2004 following their red-hot 2003, but that did little to dampen the performance of Royce Micro-Cap Trust (RMT). **For the calendar year, the Fund gained 18.7% on a net asset value (NAV) basis and an impressive 33.4% on a market value basis, both results ahead of its small-cap benchmark, the Russell 2000, which was up 18.3% for the same period.** The Fund accomplished this in spite

### NAV AVERAGE ANNUAL TOTAL RETURNS

Through 12/31/04

Fourth Quarter 2004*	12.90%
July-December 2004*	9.53
1-Year	18.69
3-Year	16.75
5-Year	16.84
10-Year	15.67
Since Inception (12/14/93)	14.61

\* Not annualized.



of underperforming the small-cap index on an NAV basis in the dynamic fourth-quarter rally (+12.9% versus +14.1%). Over market cycle and long-term performance periods, RMT also posted strong absolute and relative returns. On both an NAV and market price basis for the periods ended 12/31/04, RMT dramatically outperformed the Russell 2000 from both the previous small-cap market peak on 3/9/00 (+89.1% and +141.0% versus +14.5%) and the small-cap market trough on 10/9/02 (+118.9% and +156.2% versus +104.8%). The Fund also outperformed its benchmark for the three-, five-, 10-year and since inception (12/14/93) periods ended 12/31/04 on an NAV and market price basis. **RMT's average annual NAV total return since inception was 14.6%.**

Each of the Fund's 10 sectors posted net gains in 2004, with companies from several industries contributing to the year's terrific results. Losses came at the individual stock level, with specialty retailer The Wet Seal and IT consultant iGATE Corporation posting the largest losses on a dollar basis. Holdings in the Natural Resources sector led in terms of overall net dollar gains in the portfolio, which was consistent with the impressive performance of stocks in the energy industry within small-cap as a whole. A supply squeeze first drove commodity prices higher which in turn helped to boost stock prices. The energy services and oil and gas industry groups posted the largest net gains in the

CALENDAR YEAR NAV TOTAL RETURNS			
Year	RMT	Year	RMT
2004	18.7%	1998	-4.1%
2003	55.6	1997	27.1
2002	-13.8	1996	16.6
2001	23.4	1995	22.9
2000	10.9	1994	5.0
1999	12.7		
TOP 10 POSITIONS			
% of Net Assets Applicable to Common Stockholders			
Sapient Corporation			1.4%
Juno Lighting			1.3
Stein Mart			1.3
Delta Apparel			1.2
Convansys Corporation			1.2
HomeFed Corporation			1.2
Aceto			1.2
ASA Bermuda			1.1
Seneca Foods			1.1
PICO Holdings			1.0
PORTFOLIO SECTOR BREAKDOWN			
% of Net Assets Applicable to Common Stockholders			
Technology			26.5%
Industrial Products			15.0
Industrial Services			13.5
Health			11.9
Natural Resources			10.9
Financial Intermediaries			5.7
Consumer Products			5.4

sector, with the share prices of oil and gas exploration and production company Treador Resources, geophysical data services business Veritas DGC and energy-related construction and engineering firm Willbros Group all posting large net gains on a dollar basis. Holdings in the Industrial Products sector generally enjoyed strong returns in 2004. The prices of many industrial companies began to slowly recover in 2003, benefiting from increases in capital spending, the ability to pass on higher costs that came from increased raw materials prices and a robust rise in international economic growth. This led to earnings acceleration and correspondingly higher stock prices that in general lasted through 2004.

Consumer Services	5.2
Diversified Investment Companies	1.6
Financial Services	1.5
Miscellaneous	5.0
Preferred Stocks	

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*performance may be higher or lower than performance quoted. Current month-end performance may be obtained at [www.roycefunds.com](http://www.roycefunds.com).*

