



**CHARLES M.
ROYCE**
USA



Investor profile at InvestingByTheBooks: The book *The World's 99 Greatest Investors: The Secret of Success* provides a unique opportunity to learn from the most prominent investors globally. In the book they generously share their experiences, advice and insights and we are proud to present these excerpts. Magnus Angenfelt, previously a top ranked sell side analyst and hedge fund manager, will be presenting one investor per month. For those who cannot wait for the monthly columns, we strongly recommend you to buy the book. The

investor himself writes the first section below and then Angenfelt describes the background of the investor and comments on his investment philosophy. Enjoy.

- We are risk managers first and foremost.
- You cannot eat from the table of relative returns.
- Bad business models can't be cured by valuations.

BORN Washington DC, USA 1939.

EDUCATION He received a BA in Economics from Brown University and an MBA from Columbia University.

CAREER Prior to founding Royce & Associates in 1972 at the age of 32, Royce was director of research at Scheinman, Hochstin, Trotta, a brokerage firm. He was also a security analyst at Blair & Co. for a spell. Royce remains president and CEO of Royce & Associates, and is still portfolio manager for several funds in the group.

INVESTMENT PHILOSOPHY Royce is a disciplined small cap long-term value stock investor. His is a bottom-up investment approach looking for high quality companies with the potential for a successful future that have the following characteristics: strong balance sheets; high internal rates of return; and the ability to generate free cash flow and dividends.

He bases his assessment of a company's value on either what he believes a knowledgeable buyer might pay to acquire the company or what he thinks the value of the company should be in the stock market. Mid-2012 the average position was valued at 1.8 times book value, and had a trailing price earnings multiple of 14.7, as opposed to 15.3 for the Russell 2000 Index.

Unlike most other small-cap investors, Royce is not focused on growth companies. The typical target is a high quality smaller company that is cheap because of cyclical or temporary company-specific issues, often an obscure small cap in a mundane market with a good track record. Further, he prefers to buy into companies whose management has been in place five years or more. The average holding horizon of a position is three to five years.

Royce's is a very demanding strategy in both time and effort. A great deal of time is spent interviewing senior management as well as customers, suppliers, and competitors. Royce tries to reduce the risk by owning a wide variety of stocks, across many sectors and industries.

OTHER Despite the long period in question – fully 40 years – the fund has far outperformed the benchmark (Russell 2000) in every single short- and long-term time frame, an impressive achievement considering assets under management now amount to roughly \$40 billion. Royce made recently a \$5.5 million gift to his alma mater, Brown University, to fund six professorships. He is engaged in several philanthropic projects as well as the restoration and preservation of landmark buildings. He belongs to the Episcopal Church and always wears a bow tie.

Sources: Charles M. Royce; Royce Pennsylvania Mutual Fund; The Royce Funds; Forbes.