FEBRUARY 2021

DRIEHAUS EMERGING MARKETS OPPORTUNITIES FUND

The Portfolio Value of Chinese Government Bonds

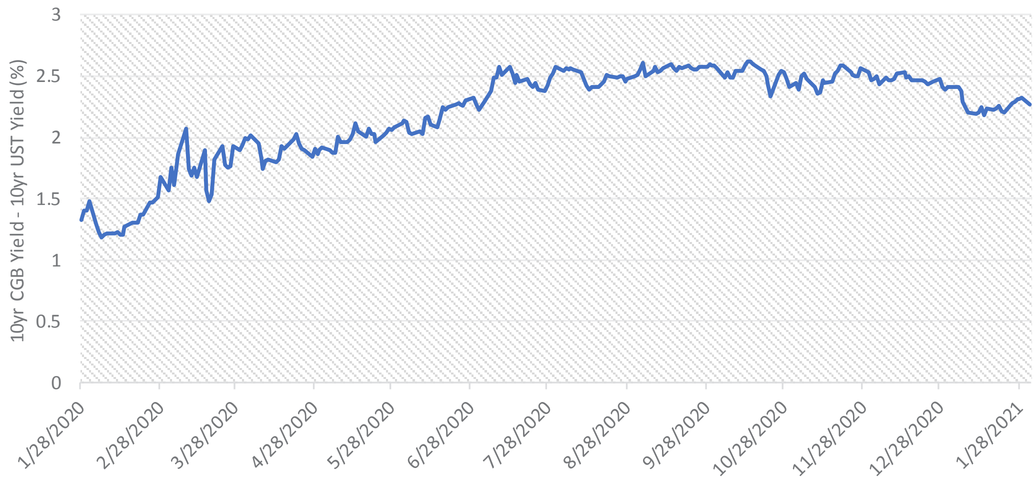
We have written in the past about our belief that Chinese Government Bonds (CGBs) are an essential holding for the Driehaus Emerging Markets Opportunities Fund and that they serve a valuable diversifying addition to most asset allocation frameworks more broadly. When we initially made this argument a few years ago, it was met with some skepticism, but given the incredible inflows the market has seen of late, that view is becoming more widely appreciated. In short, the CGB market offers real yield, a rarity in major sovereigns currently, and exposure to a strong currency. Most importantly, it's an effective hedge to other market risks.

The Outright Attractiveness of the Chinese Government Bond Market

While 2020 was a year characterized by coordinated central bank easing, 2021 promises more variation in monetary policy as central banks now consider vaccines, reopening, and the progressing global economic recovery as they conduct monetary policy. China is in a very different place than the rest of the world from a monetary policy perspective. While central bank balance sheets have exploded in most countries, China's monetary growth has only increased in line with nominal GDP. China has no major monetary accommodation to withdraw and equally important, has a massive and growing balance of payments surplus.

From a real yield perspective, we consider the positive nominal yield spread of CGBs over USTs shown in exhibit 1 below alongside lower 2021 inflation forecasts, 1.60% in China relative to 2.20% in the US. This dynamic illustrates the ex-ante real yield advantage.

Exhibit 1. Historical Yield Spread of Chinese Government Bonds Vs. US Treasuries



Source: Bloomberg

The Chinese yuan is clearly a large piece of this puzzle as well, and here we reiterate our view that the CGB denomination in yuan is an attractive feature. 2020 saw a series of structural shifts that put the yuan in a particularly attractive position. Specifically, China's trade surplus has increased dramatically alongside a shrinking balance sheet while the US faces record trade deficits and an exponentially growing balance sheet. These dynamics drove the yuan to a 6.68% appreciation against the US dollar in 2020, among the strongest in emerging markets (EM). The aforementioned real yield differential will also act as a support to the currency.

Chinese Bonds as Part of a Portfolio

We think the case for CGBs outright is compelling but we see the value the asset has in a diversified portfolio of greater importance now. Globally, we have policy rates at effective lower bounds in many economies and non-conventional easing measures still providing extraordinary levels of monetary accommodation. This naturally leads the market to consider the notion of tapering, conjuring memories of the "taper tantrum" the market endured in 2013. A disruptive move higher in US rates is one of the key risks this year, as such a move would likely simultaneously put pressure on emerging market equities, currencies, and yields. A move toward normalization could also finally put a floor under the dollar which would be disruptive to all EM currencies and would likely stop appreciation in the yuan, but the weakness of the yuan would likely be quite limited relative to EM peers.

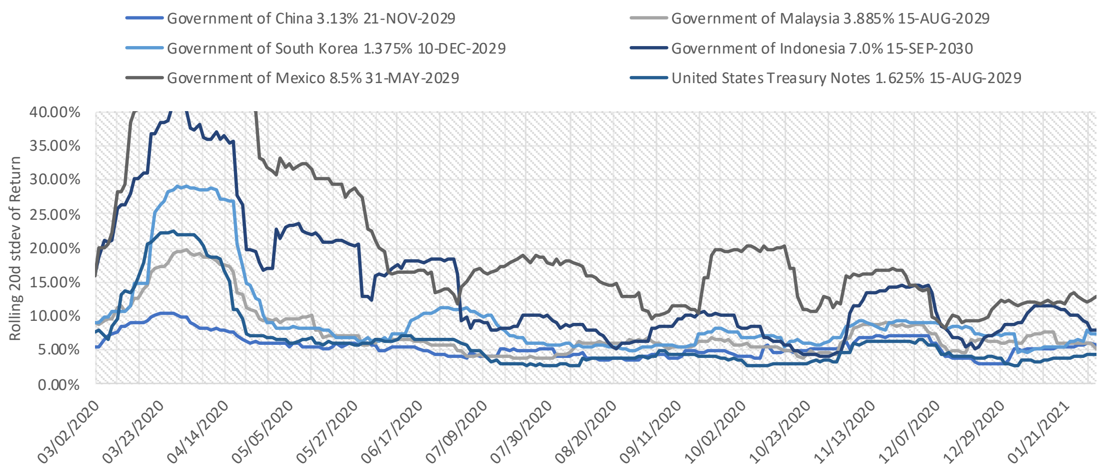
Within the fund, our current relatively low allocation to non-equities is reflective of our belief that the diversifying benefit of non-equity exposure is generally diminished by the fact that equity weakness would likely coincide with, and potentially be caused by, increases in US rates. Diversifying or hedging instruments should be selected very carefully in the current environment. Given this atomosphere, an attractive hedging instrument should exhibit relatively low volatility and relatively low correlation with US rates and equity volatility. These are precisely the characteristics we find in CGBs.

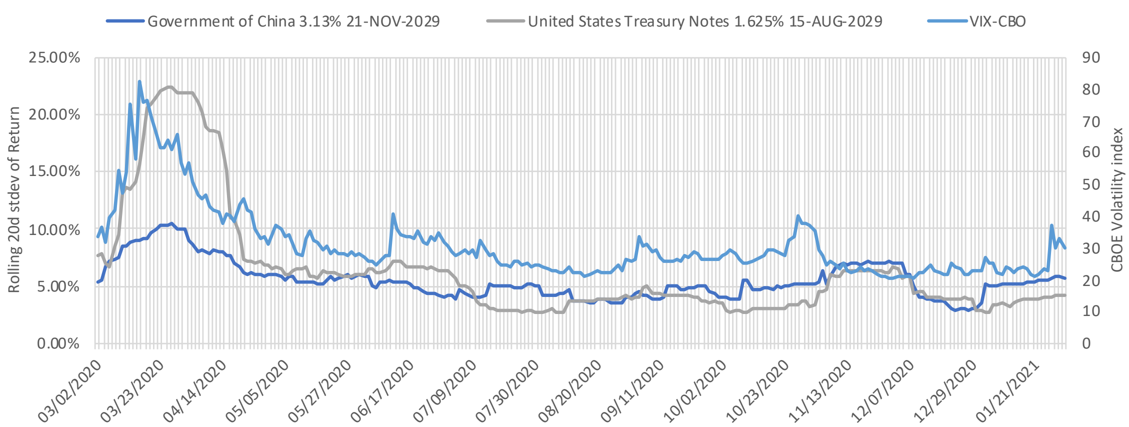
We consider both the absolute volatility* and the relative volatility* of a series of government bonds, highlighting that CGBs historically have exhibited lower return volatility than many government bonds.

*Terms defined on page 5.

Exhibit 2. Historically, Chinese Government Bonds have exhibited lower return volatility than many government bonds

Sovereign Bond Volatility





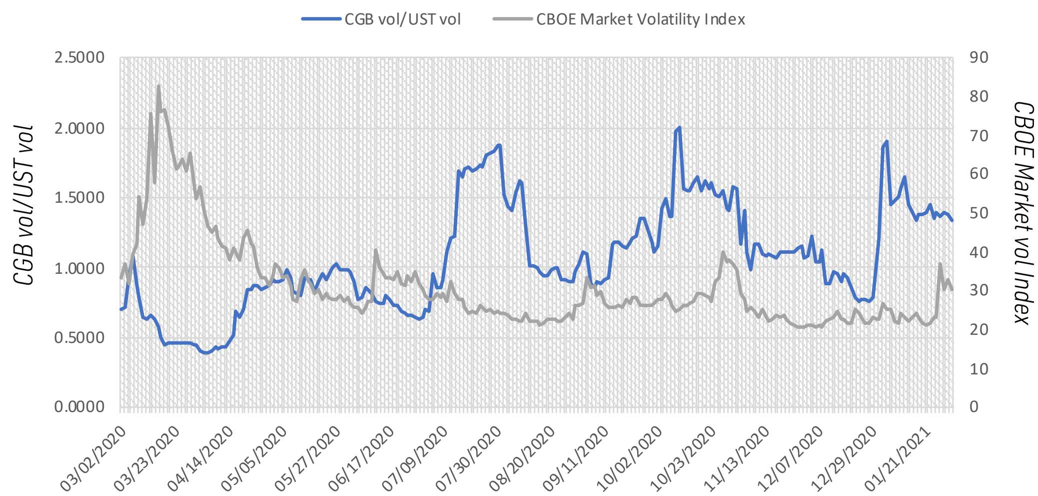
Source: FactSet

In addition, we consider the notion of conditional volatility. This is a particularly relevant consideration, as the volatility of a hedging instrument is most relevant when the volatility of the base portfolio increases. If we consider CGBs relative to USTs, one of the most widely used hedging instruments, we see that CGBs have offered a yield in excess of UST (by more than 2.50% for much of the latter half of 2020) and often with only a fraction of the price volatility. Crucially, we see that the periods where CGB volatility increases relative to UST volatility are not coincident with spikes in equity volatility (as proxied by the VIX Index*). In fact, we observe several periods of increasing volatility where relative volatility is decreasing. We then consider the correlation of CGB returns (in USD) with UST returns which further illustrates the value of CGBs in the portfolio context. The return correlation is often negative, and this correlation remains relatively low even when market volatility (again proxied by the VIX) spikes. In this way, CGBs combine the attractive volatility and diversification characteristics of lower yielding sovereign bonds* but offer a significant yield premium.

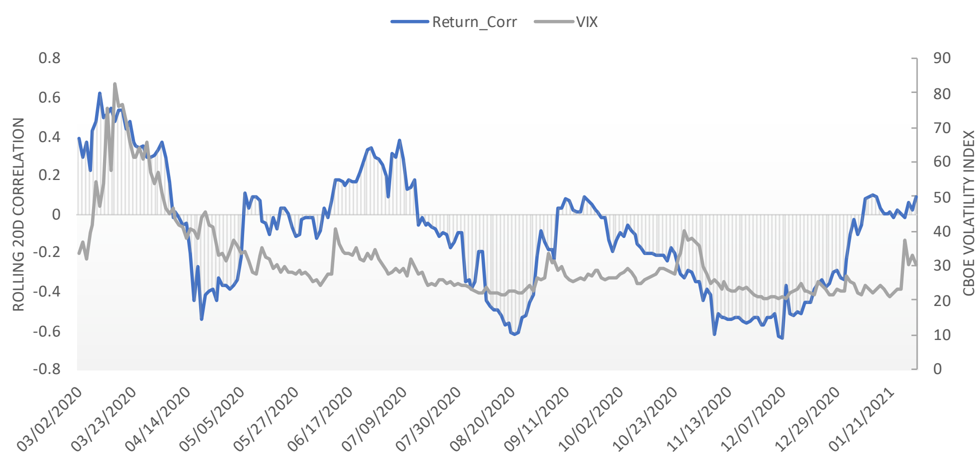
*Terms defined on page 5.

Exhibit 3: Chinese Government Bonds offer attractive volatility and diversification characteristics

CGB Relative Volatility



Correlation of Returns

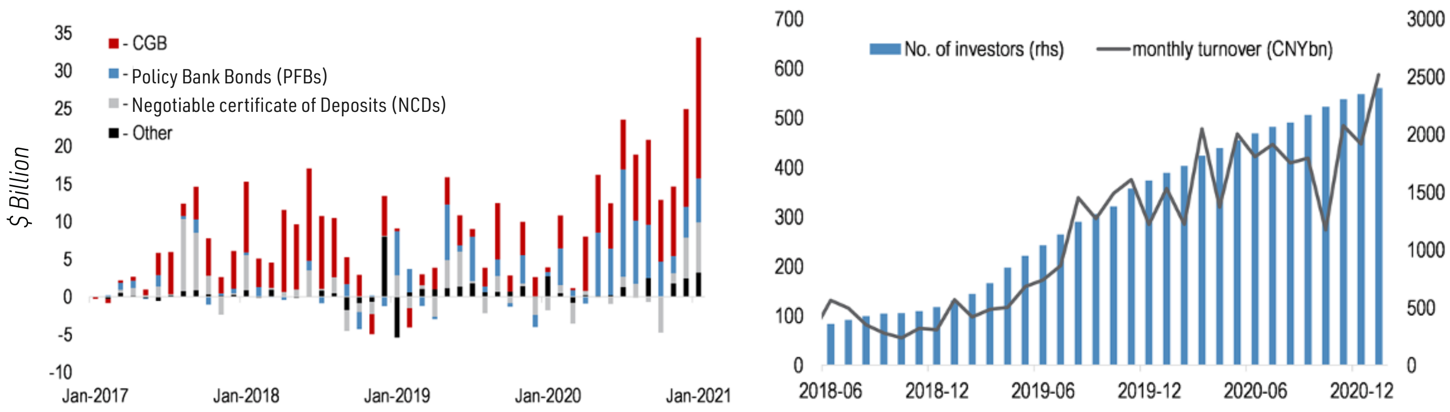


Source: FactSet

In addition to the fundamental demand that we believe CGB will attract given the above characteristics, there is also a technical tailwind that is supportive of CGB valuations. Reiterating a point we made in our 3rd Quarter 2020 commentary, we observe that CGB are experiencing foreign demand as they never have before, in a very literal sense. There are two reasons for this, and they both continue to be relevant. Firstly, policy is supporting the opening of the bond market to foreign investors through Bond Connect. Secondly, index inclusions are driving passive flows into CGB, most recently as a function of the FTSE Russell World Government Bond Index (WGBI) inclusion which should begin in October. We believe that most investors remain very underexposed to the Chinese bond market given its growing importance in a global diversified portfolio. We believe that the allocation to this market is one of the key differentiating strengths provided by the Driehaus Emerging Markets Opportunities Fund.

*Terms defined on page 5.

Exhibit 4. Inflows into Chinese bonds are growing



Source: Chinabond, J.P. Morgan

Sincerely,

The Driehaus Emerging Markets Team

Risks
All investments, including those in mutual funds, have risks. No investment is suitable for all investors. The Fund is intended for investors who seek to maximize total return. Of course, there can be no assurance that the Fund will achieve its objective. As with any investment, you may lose money by investing in the Fund.

Foreign Securities and Currencies Risk:
The Fund invests in foreign securities. Investing outside the U.S. involves different risks than domestic investments. The following risks may be associated with foreign investments: less liquidity; greater volatility; political instability; restrictions on foreign investment and repatriation of capital; less complete and reliable information about foreign companies; reduced government supervision of some foreign securities markets; lower responsiveness of foreign management to shareholder concerns; economic issues or developments in foreign countries; fluctuation in exchange rates of foreign currencies and risks of devaluation; imposition of foreign withholding and other taxes; dependence of emerging market companies upon commodities which may be subject to economic cycles; and emerging market risk such as limited trading volume, illiquidity, expropriation, devaluation or other adverse political or social developments. To the extent portfolio securities are issued by foreign issuers or denominated in foreign currencies, the Fund's investment performance is affected by the strength or weakness of the U.S. dollar against these currencies. Generally, an increase in the value of the U.S. dollar against a foreign currency will reduce the value of a security denominated in that foreign currency, thereby decreasing the Fund's overall net asset value. Currency rates in foreign countries may fluctuate significantly over short or long periods of time for a number of reasons, including changes in interest rates, imposition of currency controls and economic or political developments in the U.S. or abroad.

Sovereign Debt Obligation Risk:
Investments in overseas markets can pose more risks than U.S. investments, and the Fund's share prices are expected to be more volatile than that of a U.S.-only fund. In addition, the Fund's returns will fluctuate with changes in stock market conditions, currency values, interest rates, foreign govern ment regulations, and economic and political conditions in countries in which the Fund invests. These risks are generally greater when investing in emerging markets. No established market may exist for many sovereign debt obligations. Re duced secondary market liquidity may have an adverse effect on the market price and the Fund's ability to dispose of particular instruments when necessary to meet its liquidity requirements or in response to specific economic events such as a deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for certain sovereign debt obligations may also make it more difficult for the Fund to obtain accurate market quotations for the purpose of valu ing its portfolio. Market quotations are generally available on many sovereign debt obligations only from a limited number of dealers and may not necessarily represent firm bids of those dealers or prices for actual sales. By investing in sover eign debt obligations, the Fund will be exposed to the direct or indirect consequences of political, social, and economic changes in various countries. Political changes in a country may affect the willingness of a foreign government to make or provide for timely payments of its obligations. The coun try's economic status, as reflected in, among other things, its inflation rate, the amount of external debt and its gross domestic product, will also affect the government's ability to honor its obligations.

These and other risk considerations are discussed in the Fund's prospectus.

TERMS

Absolute volatility: metrics are independent of benchmarks as they focus solely on the underlying investment.

Relative Volatility: is the volatility of an investment versus an index.

VIX Index: the Cboe Volatility Index, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days. Investors use the VIX to measure the level of risk, fear, or stress in the market when making investment decisions.

Sovereign Bond: is a debt security issued by a national government within a given country and denominated in a foreign currency.

Please consider the investment objectives, risks, fees and expenses of the Fund carefully prior to investing. The prospectus and summary prospectus contain this and other important information about the Fund. To obtain a copy of the prospectus and/or summary prospectus, please call us at (800) 560-6111. Please read the prospectus and summary prospectus carefully before investing.

Foreside Financial Services, LLC, Distributor