

# DRIEHAUS ACTIVE INCOME FUND

Fund Summary — August 2011



DRIEHAUS CAPITAL MANAGEMENT LLC

# DRIEHAUS ACTIVE INCOME FUND

25 East Erie Street, Chicago, Illinois 60611 (877) 779-0079 [www.driehaus.com](http://www.driehaus.com)

## FUND OVERVIEW

The **Driehaus Active Income Fund** (the “Fund”) seeks to provide current income and capital appreciation by investing primarily in U.S. fixed income and floating rate securities, of both investment and non-investment grade credit quality, and by engaging in a variety of short-term trading strategies (involving both fixed income and equity securities). The Fund is actively managed by taking both long and short positions and the Fund may invest in derivatives as well as foreign securities.

## FUND INFORMATION

The Fund invests primarily in U.S. fixed income and floating rate securities, of both investment and non-investment grade credit quality, as well as equities and derivative instruments. The Fund intends to pursue its fundamental opportunistic “bottom-up” trading approach using the following investment strategies:

**Inception Date:** November 8, 2005\*

**Assets Under Management as of 8/31/2011:**  
\$3.4 Billion

**Portfolio Manager:**  
K.C. Nelson, 12 years experience

**Assistant Portfolio Managers:**  
Mirsada Durakovic, 11 years experience  
Elizabeth Cassidy, 11 years experience

**Ticker:** LCMAX

**Minimum Investment:** \$25,000

**IRA Minimum Investment:** \$2,000

**Liquidity:** Daily

**Assets:** Generally liquid bonds, derivatives and equities

**Capital Structure Arbitrage**, where the Fund attempts to exploit a pricing inefficiency between two securities of the same company. Often times, the Fund may buy a debt instrument that it believes is undervalued, while simultaneously shorting a subordinated debt instrument of the same issuer that is believed to be overvalued.

**Convertible Arbitrage**, where the Fund attempts to profit from changes in a company's equity volatility or credit quality by purchasing a convertible bond and simultaneously shorting the same issuer's common stock.

**Directional Trading**, where the Fund takes long or short positions in equity or corporate debt instruments in anticipation of profiting from movements in the prices of these assets.

**Event Driven**, where the Fund invests in positions intending to profit from the consummation of a given event, e.g. a takeover, merger, reorganization or conclusion of material litigation, or based upon the perceptions of a potential pending corporate event.

**Pairs Trading**, where the Fund seeks to exploit pricing inefficiencies between the securities of two similar companies by buying the security of one company and shorting the security of the other. In these trades, the Fund anticipates the relationship between these securities will diverge or converge to an expected level where it may profit from the long and short positions.

\*The Driehaus Active Income Fund commenced operations on June 1, 2009 following the receipt of the assets and liabilities of the Lotsoff Capital Management Active Income Fund (the “Predecessor Fund”) through a reorganization into the Driehaus Active Income Fund.

The Driehaus Active Income Fund (the “Fund”), in addition to investing in unrated and investment grade bonds, may also invest in junk bonds, which involve greater credit risk, including the risk of default. The prices of high yield bonds are more sensitive to changing economic conditions and can fall dramatically in response to negative news about the issuer or its industry, or the economy in general. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is a risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Further, the Fund may invest in derivatives for speculative purposes. Gains or losses from speculative positions in a derivative may be much greater than the derivative's original cost and potential losses may be substantial. The Fund may make short sales. Short sales expose the Fund to the risk of loss. It is anticipated that the Fund will experience high rates of portfolio turnover, which may result in payment by the Fund of above-average transaction costs. This is a nondiversified fund; compared to other funds, the Fund may invest a greater percentage of assets in a particular issuer or a small number of issuers. As a consequence, the Fund may be subject to greater risks and larger losses than diversified funds. No investment strategy, including an absolute return strategy, can ensure a profit or protect against loss. Additionally, investing in an absolute return strategy may lead to underperforming results during an upward moving market.

**Please consider the investment objectives, risks, fees and expenses of the Fund carefully prior to investing. The prospectus and summary prospectus contains this and other important information about the Fund. To obtain a copy of the prospectus and/or summary prospectus, please call us at (877) 779-0079. Please read the prospectus and summary prospectus carefully before investing.**

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## Fund Summary — August 2011

### Market Recap

The Driehaus Active Income Fund (the “Fund”) returned -3.81% for the month of August and underperformed its benchmark, the Citigroup 3-Month Treasury Bill Index (the “Benchmark”), which returned 0.00% for the same period. The Fund underperformed the Barclays Capital U.S. Aggregate Bond Index (the “Index”), which returned 1.46% for the same period. The Fund’s return year-to-date is -2.61%, during the same period the Benchmark’s return is 0.07% and the Index’s return is 5.88%.<sup>1</sup>

Our directional long segment<sup>2</sup> was the largest detractor from the portfolio at -1.59% as concerns about Europe, and the U.S. downgrade caused high yield spreads to widen approximately 172 basis points over the course of the month, and 181 basis points during the first 2 weeks of the month. Lower beta, higher quality names outperformed during the month, with BB rated bonds down -2.82%, B rated bonds down -3.72%, and CCC rated bonds down -6.72%. The widening was due to a fundamental re-pricing of risk and then was exacerbated by technical pressures. The event driven segment<sup>2</sup> detracted 92 basis points due to ambiguity around a FCC decision for a telecom infrastructure company, continued investor caution around the U.S. auto market, pressure on U.S. financial institutions, and a management buyout (MBO) announcement for an exploration and production company that was not viewed favorably by the market. The capital structure arbitrage segment<sup>2</sup> detracted 45 basis points, primarily due to continued pressure on certain large financial institutions and spread widening in positions for a large data processor and telecom infrastructure company. The Fund’s interest rate hedge detracted 77 basis points from the portfolio as Bernanke confirmed in his Jackson Hole speech that the Federal Reserve intended to keep interest rates at exceptionally low levels until mid-2013. The yield on 10 year treasuries declined 52 basis points in August. No other strategies contributed meaningfully to returns during the month.

### Market Outlook

#### On the lack of a bounce in credit...

- We know many of you have been scratching your head over the past month as the S&P 500 Index has posted daily gains of several percent, only to find your credit managers have finished the day flat or slightly down. Rest assured, your credit managers are not incompetent fools (we hope). In fact the credit markets have been telling a story quite different from equities for the past several weeks.

The graph below shows the path of the S&P 500 Index versus the spread to U.S. Treasuries of the JP Morgan High Yield Index and the Loan Credit Default Swap (LCDX) Index (a leveraged loan index).

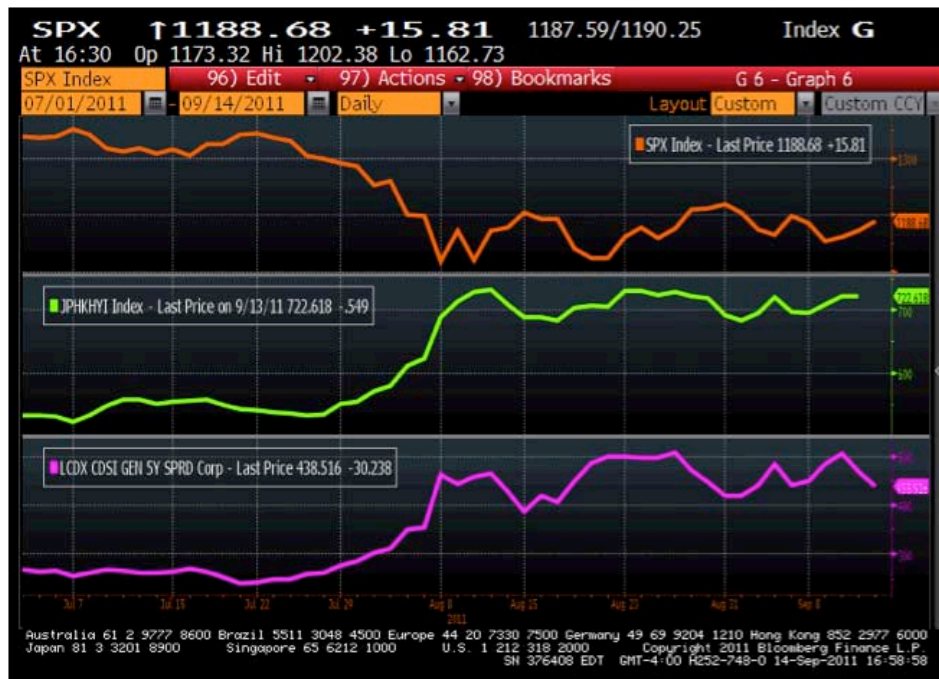
### <sup>1</sup>Performance Disclosure

The performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Principal value and investment returns will fluctuate so that investors’ shares, when redeemed, may be worth more or less than their original cost.

Performance data represents the rate that an investor would have earned (or lost), during the given month, on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change.

Since Fund performance is subject to change after the month-end, please call (877) 779-0079 or visit [www.driehaus.com](http://www.driehaus.com) for more current performance information.

## S&P 500 INDEX VERSUS THE SPREAD TO U.S. TREASURIES TO THE JP MORGAN HIGH YIELD INDEX AND THE LOAN CREDIT DEFAULT SWAP (LCDX) INDEX (7/1/2011 – 9/14/2011)



*S&P 500 Index has rebounded from its August lows while credit has remained at wider levels during that same time period.*

Source: Bloomberg

*The performance data included on this chart is not indicative of any specific fund and is for illustrative purposes only.*

One can see from the top line that the S&P 500 Index has rebounded from its August lows – in fact it’s up about 7% since then. As illustrated by the J.P. Morgan High Yield Index (middle line) and the LCDX Index (bottom line), credit meanwhile, has remained at wider levels during that same time period.

- That is a discouraging sign to us. Last month we wrote that we were active buyers during the week of panic in early August as redemptions forced selling at many credit related exchange traded funds (ETFs) and mutual funds. Since then, credit markets have yet to snap back. Trading volumes have dipped markedly, as has our activity as panicked selling has waned. Credit markets remain better for sale, but in contrast to last month, bonds now come for sale largely due to investor indifference, as compared to last month when that selling was forced by redemptions. That tells us that the market perceives the current risk/reward proposition to be fairly balanced.

### Elevating Risk Signals

- We have become increasingly uncomfortable with the situation in Europe and its contagion effects. As mentioned in our last several monthly fund summaries, this was a risk we recognized but thought global financial leaders would coordinate policy responses to assist the problematic countries for the next several years, thereby giving weaker countries an opportunity to refinance near term maturities. This may still be the ultimate outcome, but thus far, each new day seems to mirror past episodes of the Drew Carey Show. Financial leaders globally seem to read a card that tells them who their character is and what their motivation is that day. Lately the motivation has changed often and ranged from, “more austerity is needed, and good luck on your own with that” to “together we will stand in the European Union as one!” New characters are constantly being added, and the latest is China. We welcome them to the show.
- Similar to our comments above regarding credit versus equities, there have been significant signs of market deterioration in Europe recently that trouble us. Below we have graphed the year-to-date performance of the Crossover Index (the “XOVER” Index). For those familiar with credit derivative indices, the XOVER is the European equivalent of the U.S.’s investment grade and high yield credit derivative indices (CDX). For those not familiar with these indices, they are just like a bond index, except instead of the underlying securities being cash bonds, they are credit default swap (CDS) contracts. More specifically, the XOVER 2016 is an index made up of 40 CDS contracts (each with a 2.5% index weight) that mature in 5 years. It’s called the crossover index because it is comprised of a variety of BBB and BB rated credit (the line between investment grade and high yield). Importantly, this is arguably the most liquid and widely observed index for those looking for exposure to European corporate credits.

## PERFORMANCE OF THE CROSSOVER INDEX (9/14/2010 – 9/14/2011)



There has not been any stabilization in European credit over the past month to mirror what has occurred in U.S. equities. For the month, XOVER is roughly 100 basis points wider and seems to be gapping out much faster than it rallies in.

Source: Bloomberg

The performance data included on this chart is not indicative of any specific fund and is for illustrative purposes only.

As shown, there has not been any stabilization in European credit over the past month to mirror what has occurred in U.S. equities. For the month, XOVER is roughly 100 basis points wider and seems to be gapping out much faster than it rallies in.

- Another signal that worries us is the recent performance of large banks, particularly those in Europe. In fact, if you look at only one data point a day, we would argue this is the one you should look at.

## YTD CDS & STOCK PERFORMANCE OF GLOBAL BANKS

Issuer	5yr CDS			Stock Px	
	9/14/11	12/31/10	Δ YTD	Price	%YTD
Am. Express	120	79	41	48.64	13.3
BNP Paribas SA	302	115	187	26.9	-43.5
Bank of America	350	179	171	6.99	-47.6
Barclays	280	121	159	152	-41.9
Citigroup Inc.	245	146	99	27.09	-42.7
Commerzbank AG	311	148	163	1.62	-63.6
Credit Agricole	317	168	148	5.22	-45.1
Credit Suisse	208	100	107	20.5	-43.7
Deutsche Bank	215	105	110	23.56	-39.8
Goldman	250	123	128	104.36	-37.9
HSBC Bank PLC	134	89	45	501.5	-23
ING	219	145	74	4.78	-34.4
JPMorgan Chase & Co.	130	85	45	32.45	-23.5
Lloyds	371	207	165	33.5	-49
Mizuho Corporate Bank Ltd.	190	80	110	111	-27.5
Morgan Stanley	335	168	167	15.42	-43.3
Nomura	270	120	150	290	-43.7
RBS Plc	395	216	179	22.8	-41.6
Santander	341	250	91	5.63	-29
Societe Generale	431	161	270	17.39	-56.8
Standard Chartered PLC	172	93	79	1325.5	-23.2
UBS	220	100	120	10.93	-28.8
Wells Fargo	127	105	22	24.38	-21.2

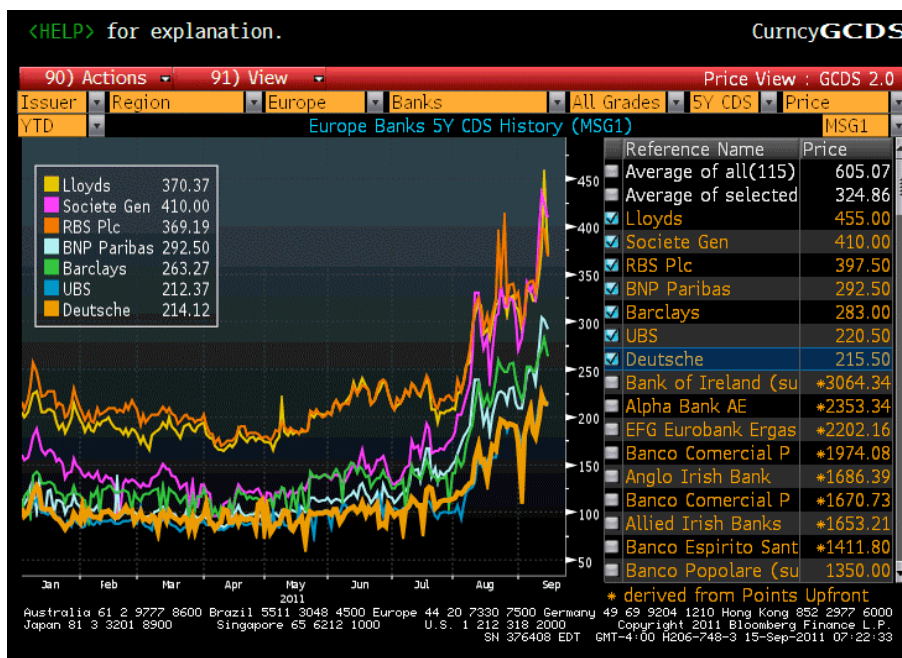
Source: Bloomberg

Note: As of September 19, 2011, the Driehaus Active Income Fund had a 2.66% (gross market value) position in JPMorgan Chase & Co., 0.83% (gross market value) position in Wells Fargo and a 1.71% (gross market value) position in Bank of America. The Driehaus Select Credit Fund had a 3.04% (gross market value) position in Wells Fargo and a 2.63% (gross market value) position in Bank of America.

The performance data included on this chart is not indicative of any specific fund and is for illustrative purposes only.

Wider CDS levels and declining equity prices of banks spark fear in the eyes of investors and leads to lower prices in almost every asset class. This is exactly the type of price action that caused the global economy to swoon in early 2009 as virtually every bank lost a few percent in market value for weeks on end. Then investors are forced to consider what the fundamental and technical repercussions will be of a bank going bankrupt or nationalized. The problem recently is that the sell-off is intensifying in European financials, as shown in the chart below (note: we do not own any of the financial stocks in the below chart as of September 19, 2011).

## SELECT EUROPEAN BANK STOCKS 5 YEAR CDS HISTORY (1/1/2011 – 9-14/2011)



*The sell-off is intensifying in European financials.*

Source: Bloomberg

The performance data included on this chart is not indicative of any specific fund and is for illustrative purposes only.

### Our Assessment of These Risks

- However small the probability is of a large financial institution going under or the Euro region breaking apart over the next few weeks or months, it is rising at a decent rate. A month ago, we would have estimated the likelihood of such a scenario at 5% or less, and we would now estimate it is closer to 15 - 20%.
- Now we could write for days about why this is different than 2008 and the risks to asset prices is far less on the downside, even in the event that contagion hits the markets. However, we would assume that if the “disaster” scenario strikes, you would be able to buy virtually every risk asset considerably lower than where it is priced today. Further, we would argue that unforeseen events will add to the complexity and severity of the situation, as they almost inevitably do during times of crises.

### Our Response to These Rising Risks

- As we advocated in last month’s letter, there are some great buying opportunities currently presented to investors. We have not changed our view on that front. Consequently, we continue to have a higher than average long bias. Investors are getting paid well to take credit risk, particularly in the high yield segment of the market. While there will be volatility in these returns, corporations have been much better equipped to deal with the macro headwinds than governments or banks. We do not expect that to change anytime soon. Consequently, we believe realized defaults in high yield should average 3-4% over the next year, which is significantly lower than the 6-7% rate currently implied by market prices. Additionally, we have seen increased opportunities in our capital structure and pairs strategies<sup>1</sup>. This is largely the result of the abnormally high correlations that have plagued the market for the past two months (though we concede correlations have generally been higher than normal since 2007). These relative value strategies should offer a good risk/reward profile to investors once the market settles a bit.

- Further, we reiterate the argument we made last month that now is the time to allocate more capital to alternative strategies. History suggests that returns in hedge fund strategies are above average following a market dislocation.
- Given we love the current opportunity in our strategy, but are concerned with the increasing probability of a disaster scenario for the markets, we have started to purchase some disaster protection. We have to be honest, buying protection at current spread and volatility levels makes us nauseous. However, we believe the upside potential embedded in the funds in a “steady state” or “upside” scenario is high enough that it affords us the opportunity to spend money on downside protection. The primary reasons we made this decision relate to our funds’ function in many shareholder portfolios and our internal investment strategy. In terms of how we fit into many shareholder portfolios – we should provide a relatively stable source of absolute returns with a moderate level of volatility. Based on how the funds were positioned, we saw an increasing risk of burdening our investors with higher than expected volatility in the “disaster” scenario. Given performance and volatility thus far in the year, if we were to see a “disaster” scenario with our prior positioning, then we likely would not have had the risk budget from a volatility and drawdown perspective to get aggressive and fully take advantage of the wealth of dislocations that would most likely occur.
- Consequently, we spent roughly 60 basis points on some insurance this week in the form of a bear put spread\* on the S&P 500 Index. More specifically, we bought an 1150 strike put on the S&P 500 Index and sold a 1000 strike put, with both expiring in approximately two months. We did this on a one-to-one basis, so we have no downside to the hedge if the S&P 500 Index were to finish below 1000 at expiration. The package had a maximum payoff ratio of approximately 3.2x at trade execution, meaning that if we spent 60 basis points on the trade, the maximum profit the trade would contribute to the portfolio is roughly 200 basis points (and that would occur with the S&P 500 Index at 1000 or below at expiration).

We continue to evaluate a number of other hedging options as well. These generally revolve around shorting baskets of high yield credits, structuring trades that have a positive payoff in jump to default scenarios, and getting long volatility in oil and energy related issuers.

The macro environment, coupled with what we hear from our portfolio companies, will dictate the extent of these hedging activities over the next month. We would expect to spend somewhere between 60 – 200 basis points to purchase downside protection over the next several months. Obviously the world is quickly changing, and as our views change so may our hedges, but we plan to communicate those plans to you either way.

- We would like to discuss possible scenarios for what may occur in the Fund given these hedges over the next several quarters.

The Fund has a net yield of roughly 5.5% with spread duration of approximately 3.5 years.

Our base case expectation would be for spreads to tighten 100 – 150 basis points over the next year and for equity indices to finish within 10% of where they currently reside. In this scenario we assume a loss of 1% on hedging activities we may execute over the next few weeks or months.

Our downside scenario would be for spreads to widen 200 – 300 basis points from here coupled with a 15% drop in equity valuations. We assume we would profit 2-4% on hedging activities to offset losses on our core portfolio. Our upside scenario would be for spreads to tighten 150-250 basis points with a 15%+ rally in equities. In this scenario we also assume a loss of 1% on hedging activities.

*\* A type of options strategy used when an option trader expects a decline in the price of the underlying asset. Bear Put Spread is achieved by purchasing put options at a specific strike price while also selling the same number of puts at a lower strike price. The maximum profit to be gained using this strategy is equal to the difference between the two strike prices, minus the net cost of the options.*

- It's also important to recognize that we are buying hedges largely as disaster insurance. Therefore, if we continue to see a slow leak wider in credit spreads coupled with flat or rising (as seen recently) equity prices, then our hedges may not make any money. We are not implementing these hedges as a call on credit or equity volatility, but rather a way to provide some protection in the event the world goes “boom” in the night. Further, shareholders should expect our portfolio to lose money in the event of the “boom” scenario based on current positioning. However, the extent and pace of these losses should be substantially less as compared to our prior positioning and leave us well equipped to take advantage of opportunities left behind by the “boom.”

Thank you as always for your support of our funds. Your confidence in our funds does not go unnoticed and we hope to do well by your investment.

Best of luck with the rest of the month,



**K.C. Nelson**

*Portfolio Manager, Driehaus Credit Strategy*

<sup>2</sup>Definitions of key terms can be found on pages 2 and 17.

The JPMorgan High Yield Index is designed to mirror the investable universe of the U.S. dollar high yield corporate debt market, including domestic and international issues. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

The S&P 500 Index has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over US\$ 4.83 trillion benchmarked, with index assets comprising approximately US \$1.1 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

The Loan Credit Default Swap Index (LCDX) is a loan-only credit default swap index created by CDS Index Company (CDSIndexCo). The LCDX index is a tradeable index with 100 equally-weighted underlying single-name loan-only credit default swaps (LCDS). The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

The Crossover Index, often written XOVER, a credit index comprising a mixture of high yield and higher yielding investment grade names. Crossover indices exist in North America (CDX NA XO) and Europe (iTraxx Crossover). The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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August 2011

## Performance Disclosure

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Performance data represents the rate that an investor would have earned (or lost), during the given month, on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change.

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## MONTH-END PERFORMANCE AS OF 8/31/11

Fund/Index	August	YTD	1 Year	Average Annual Total Return			
				3 Year	5 Year	10 Year	Since Inception (11/8/05)
Driehaus Active Income Fund*	-3.81%	-2.61%	1.30%	7.37%	5.19%	----	5.11%
Citigroup 3-Month T-Bill Index <sup>1</sup>	0.00%	0.07%	0.12%	0.25%	1.70%	----	2.09%
Barclays Capital U.S. Aggregate Bond Index <sup>2</sup>	1.46%	5.88%	4.62%	7.23%	6.56%	----	6.33%

## CALENDAR QUARTER-END PERFORMANCE AS OF 6/30/11

Fund/Index	2nd QTR	YTD	1 Year	Average Annual Total Return			
				3 Year	5 Year	10 Year	Since Inception (11/8/05)
Driehaus Active Income Fund*	-0.25%	1.88%	6.96%	8.89%	6.29%	----	6.12%
Citigroup 3-Month T-Bill Index <sup>1</sup>	0.02%	0.06%	0.14%	0.35%	1.87%	----	2.16%
Barclays Capital U.S. Aggregate Bond Index <sup>2</sup>	2.29%	2.73%	3.92%	6.46%	6.53%	----	5.96%

\*The Driehaus Active Income Fund commenced operations on June 1, 2009 following the receipt of the assets and liabilities of the Lotsoff Capital Management Active Income Fund (the "Predecessor Fund") through a reorganization into the Driehaus Active Income Fund (the "Fund"). Lotsoff Capital Management was the investment adviser from inception through April 2, 2009. Driehaus Capital Management LLC (the "Adviser") became the interim investment adviser to the Predecessor Fund on April 3, 2009.

## ANNUAL FUND OPERATING EXPENSES\*\* (expenses that you pay each year as a percentage of the value of your investment)

Driehaus Active Income Fund	
Management Fee	0.55%
<b>Other Expenses</b>	
Other Expenses Excluding Dividends and Interest on Short Sales	0.37%
Dividends and Interest on Short Sales	0.87%
<b>Total Annual Fund Operating Expenses</b>	<b>1.79%</b>

\*\*Represents the Annual Fund Operating Expenses for the year ended December 31, 2010 as disclosed in the current prospectus dated April 30, 2011. It is important to understand that a decline in the Fund's average net assets due to unprecedented market volatility or other factors could cause the Fund's expense ratio for the current fiscal year to be higher than the expense information presented.

The Driehaus Active Income Fund (the "Fund"), in addition to investing in unrated and investment grade bonds, may also invest in junk bonds, which involve greater credit risk, including the risk of default. The prices of high yield bonds are more sensitive to changing economic conditions and can fall dramatically in response to negative news about the issuer or its industry, or the economy in general. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is a risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Further, the Fund may invest in derivatives for speculative purposes. Gains or losses from speculative positions in a derivative may be much greater than the derivative's original cost and potential losses may be substantial. The Fund may make short sales. Short sales expose the Fund to the risk of loss. It is anticipated that the Fund will experience high rates of portfolio turnover, which may result in payment by the Fund of above-average transaction costs. This is a nondiversified fund; compared to other funds, the Fund may invest a greater percentage of assets in a particular issuer or a small number of issuers. As a consequence, the Fund may be subject to greater risks and larger losses than diversified funds. No investment strategy, including an absolute return strategy, can ensure a profit or protect against loss. Additionally, investing in an absolute return strategy may lead to underperforming results during an upward moving market. When interest rates increase, bond prices decrease and bond funds become more volatile.

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<sup>1</sup> The Citigroup 3-Month T-Bill Index is designed to mirror the performance of the 3-Month U.S. Treasury Bill. The Citigroup 3-Month T-Bill Index is unmanaged and its returns include reinvested dividends.

<sup>2</sup> The Barclays Capital U.S. Aggregate Bond Index, an unmanaged index, represents securities that are SEC-registered, taxable and dollar denominated. This index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

# DRIEHAUS ACTIVE INCOME FUND

## Portfolio Characteristics — August 31, 2011

PORTFOLIO SNAPSHOT (as of 8/31/11)			RISK SUMMARY (as of 8/31/11)	
		<i>Excluding Cash</i>		
Assets Under Management (AUM)	3,355,337,362		Modified Duration	1.14Y
Long Market Value (LMV)	3,393,624,195	3,026,808,399	Spread Duration	3.57Y
Short Market Value (SMV)	(1,261,641,812)	(1,261,641,812)	Stock Vega/+1%	0.01%
Net Market Value	2,131,982,382	1,765,166,587	Average Coupon	5.19%
Net Exposure	63.54%	52.61%	Average Yield	5.65%
Gross Market Value (GMV)	4,655,266,007	4,288,450,212	Equity Beta	0.18%
GMV/AUM	1.39x	1.28x	Average % of Par-Longs	97.17%
			Average % of Par-Shorts	116.36%

TRADING STRATEGY TYPE (as of 8/31/11)				
	GMV	% of GMV	% Contrib. to Total Return	% of GMV Change vs. Previous Month End
Capital Structure Arbitrage <sup>1</sup>	562,724,103	12.09%	-0.45%	-1.36%
Cash Equivalent	366,815,795	7.88%	0.01%	-5.85%
Convertible Arbitrage <sup>1</sup>	493,018,877	10.59%	-0.07%	2.38%
Directional Long <sup>1</sup>	1,681,350,221	36.12%	-1.59%	1.44%
Directional Short <sup>1</sup>	182,074,954	3.91%	0.12%	0.02%
Event Driven <sup>1</sup>	428,503,215	9.20%	-0.92%	1.17%
Interest Rate Hedge	717,372,094	15.41%	-0.77%	0.79%
Pairs Trading <sup>1</sup>	223,406,749	4.80%	-0.14%	1.41%
Volatility Trading	---	0.00%	0.00%	0.00%
<b>Total</b>	<b>4,655,266,007</b>	<b>100.00%</b>	<b>-3.81%</b>	

MARKET CAPITALIZATION (as of 8/31/11)				
BILLION	LMV (\$)	% of LMV	SMV (\$)	% of SMV
\$0-500mm	168,989,735	4.98%	-	0.00%
\$500mm - 2bn	439,005,257	12.94%	(114,958,070)	9.11%
\$2bn - 10bn	567,513,190	16.72%	(205,714,168)	16.31%
\$10bn - 20bn	113,499,386	3.34%	(76,777,819)	6.09%
>\$20bn	543,111,396	16.00%	(103,064,499)	8.17%
<i>ABS/MBS (Excluded)<sup>2</sup></i>	<i>206,394,637</i>	<i>6.08%</i>	<i>-</i>	<i>0.00%</i>
<i>Private Companies (Excluded)<sup>3</sup></i>	<i>988,294,799</i>	<i>29.12%</i>	<i>(43,755,162)</i>	<i>3.47%</i>
<i>Treasuries (Excluded)<sup>4</sup></i>	<i>299,955,474</i>	<i>8.84%</i>	<i>(717,372,094)</i>	<i>56.86%</i>
<i>Cash (Excluded)</i>	<i>66,860,322</i>	<i>1.97%</i>		<i>0.00%</i>
<b>Total</b>	<b>3,393,624,195</b>	<b>100.00%</b>	<b>(1,261,641,812)</b>	<b>100.00%</b>

<sup>1</sup> A definition of this term can be found on page 2.

<sup>2</sup> Market capitalization information is unavailable for Asset Backed Securities (ABS)/ Mortgage Backed Securities (MBS).

<sup>3</sup> Market capitalization information is unavailable for Private Companies.

<sup>4</sup> Market capitalization information is unavailable for Treasuries.

Credit Ratings and market capitalization information for Credit Default Swaps (CDS) and Interest Rate Swaps are from underlying securities.

**STANDARD & POOR'S CREDIT RATING\* (as of 8/31/11)**

	LMV (\$)	% of LMV	SMV (\$)	% of SMV	GMV (\$)	% of GMV	% of GMV Change vs. Previous Month End
AAA <sup>1</sup>	374,280,740	11.03%	(717,372,094)	56.86%	1,091,652,833	23.45%	-5.06%
AA	40,343,849	1.19%	(38,859,375)	3.08%	79,203,224	1.70%	0.09%
A <sup>2</sup>	226,230,515	6.67%	(40,288,357)	3.19%	266,518,872	5.73%	-1.81%
BBB	447,505,625	13.19%	(119,776,916)	9.49%	567,282,541	12.19%	1.46%
BB	351,162,959	10.35%	(172,748,395)	13.69%	523,911,353	11.25%	-0.25%
B	613,023,063	18.06%	(112,695,087)	8.93%	725,718,150	15.59%	1.76%
CCC	751,514,339	22.14%	(28,298,519)	2.24%	779,812,858	16.75%	0.77%
CC	20,597,500	0.61%	-	0.00%	20,597,500	0.44%	0.27%
C	-	0.00%	-	0.00%	-	0.00%	0.00%
Not Rated	568,965,606	16.77%	(31,603,070)	2.50%	600,568,675	12.90%	2.77%
<b>Total</b>	<b>3,393,624,195</b>	<b>100.00%</b>	<b>(1,261,641,812)</b>	<b>100.00%</b>	<b>4,655,266,007</b>	<b>100.00%</b>	

**PRODUCT TYPE (as of 8/31/11)**

	LMV (\$)	% of LMV	SMV (\$)	% of SMV	GMV (\$)	% of GMV	% of GMV Change vs. Previous Month End
ABS	27,930,306	0.82%	-	0.00%	27,930,306	0.60%	-0.04%
Agency MBS	174,693,096	5.15%	-	0.00%	174,693,096	3.75%	-0.01%
Bank Loan	275,465,099	8.12%	-	0.00%	275,465,099	5.92%	0.43%
CDS	25,956,604	0.76%	(340,015,741)	26.95%	365,972,345	7.86%	0.24%
Convertible Bonds	415,643,174	12.25%	(38,859,375)	3.08%	454,502,549	9.76%	0.62%
Convertible Preferred	349,860,754	10.31%	-	0.00%	349,860,754	7.52%	0.90%
Corp. Bonds	1,612,352,041	47.51%	(7,307,500)	0.58%	1,619,659,541	34.79%	3.29%
Equity	112,335,702	3.31%	(154,269,798)	12.23%	266,605,500	5.73%	-0.25%
Equity Option	28,800,390	0.85%	(3,817,304)	0.30%	32,617,694	0.70%	-0.11%
Govt Bonds	299,955,474	8.84%	-	0.00%	299,955,474	6.44%	-4.12%
MBS	3,771,234	0.11%	-	0.00%	3,771,234	0.08%	-0.01%
Money Market	66,860,322	1.97%	-	0.00%	66,860,322	1.44%	-1.73%
Treasury Futures	-	0.00%	(717,372,094)	56.86%	717,372,094	15.41%	0.79%
<b>Total</b>	<b>3,393,624,195</b>	<b>100.00%</b>	<b>(1,261,641,812)</b>	<b>100.00%</b>	<b>4,655,266,007</b>	<b>100.00%</b>	

\*Credit ratings listed are subject to change.

<sup>1</sup> All government bonds are rated AAA.

<sup>2</sup> All agency Mortgage Backed Securities (MBS) are rated A.

**Credit Ratings:**

AAA and AA:

A and BBB:

BB, B, CCC, CC, C:

Not Rated:

High credit-quality investment grade

Medium credit-quality investment grade

Low credit-quality (non-investment grade), or "junk bonds"

Bonds currently not rated

Source: Bloomberg, Moody's, Standard & Poor's

**Note:** A definition of key terms can be found on page 17

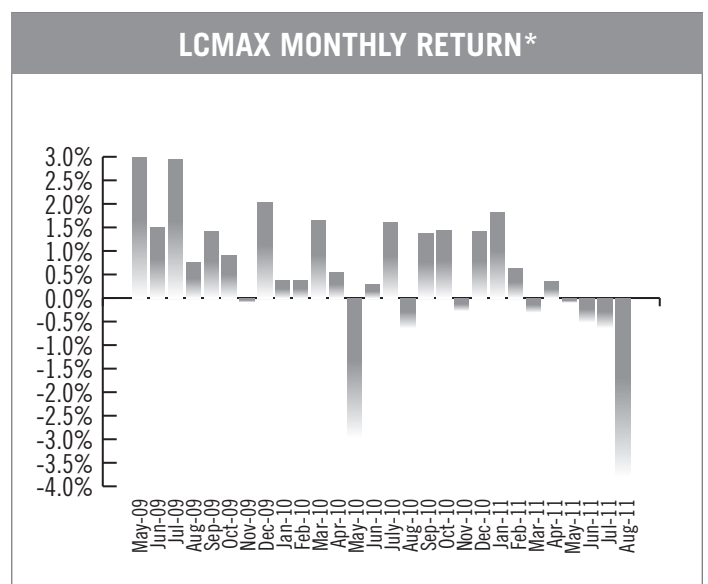
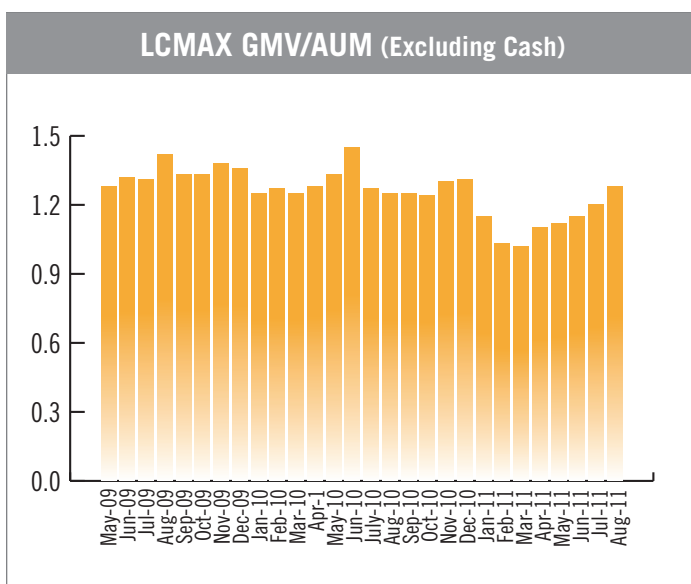
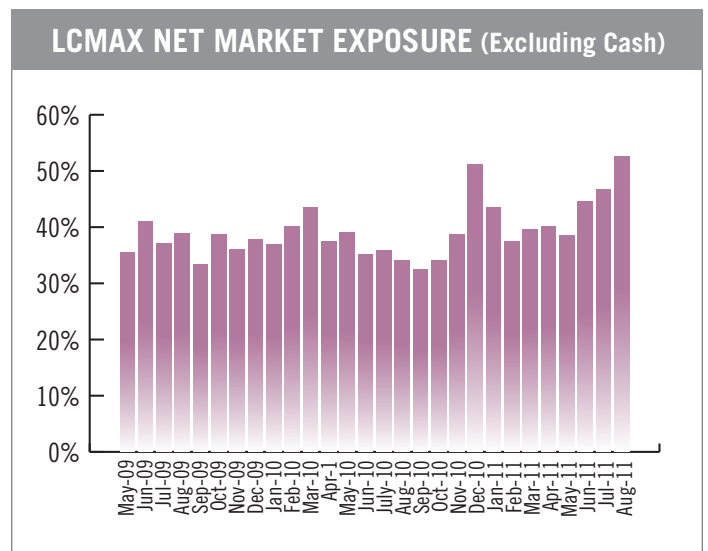
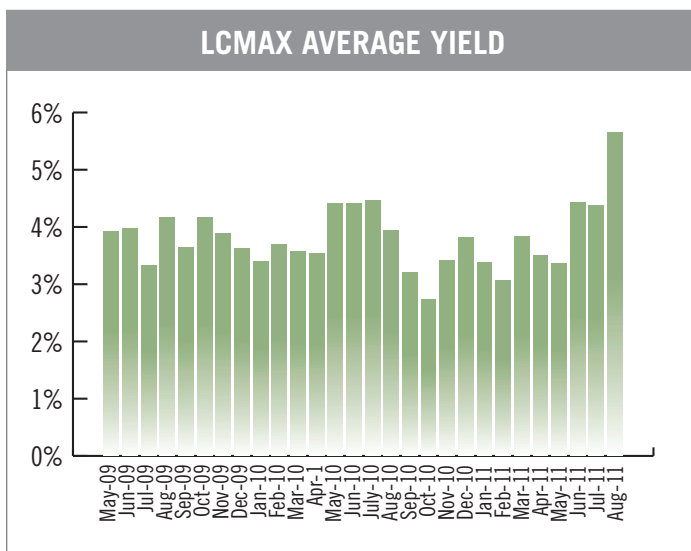
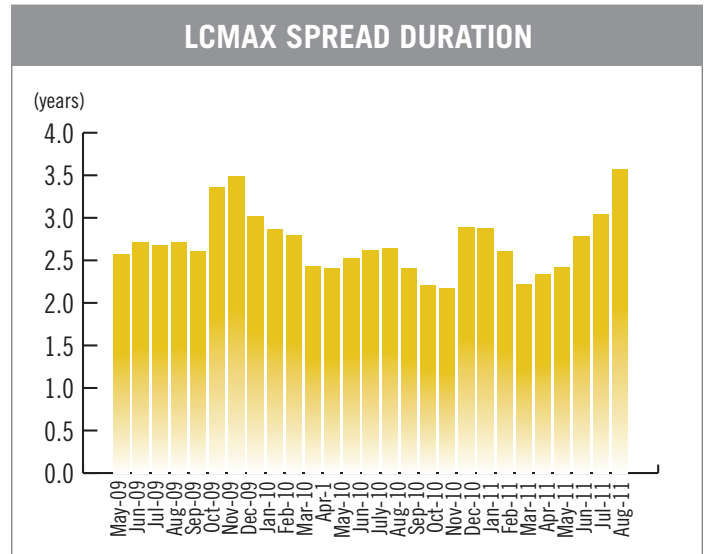
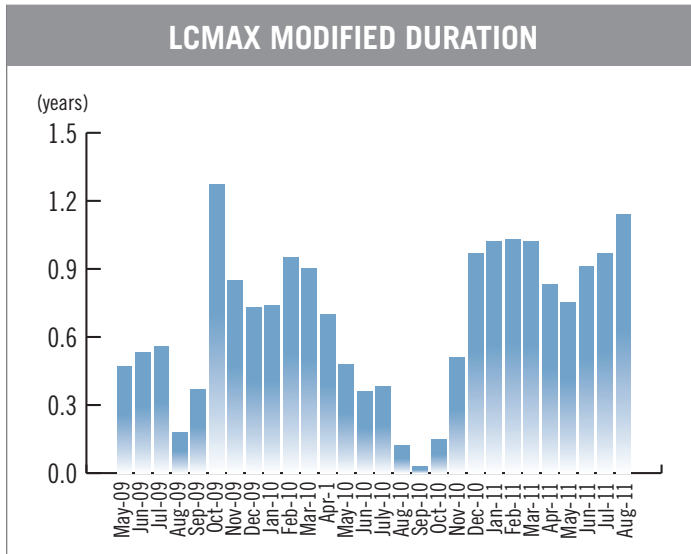
SPREAD DISTRIBUTION* (\$M) (as of 8/31/11)													
		0-100	100-200	200-300	300-400	400-500	500-600	600-700	700-800	800-900	900-1000	>1000	Total
Money Market	LMV	66,860,322	-	-	-	-	-	-	-	-	-	-	66,860,322
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	66,860,322	-	-	-	-	-	-	-	-	-	-	66,860,322
Govt Bonds	LMV	299,955,474	-	-	-	-	-	-	-	-	-	-	299,955,474
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	299,955,474	-	-	-	-	-	-	-	-	-	-	299,955,474
Treasury Futures	LMV	-	-	-	-	-	-	-	-	-	-	-	-
	SMV	(717,372,094)	-	-	-	-	-	-	-	-	-	-	(717,372,094)
	Total	(717,372,094)	-	-	-	-	-	-	-	-	-	-	(717,372,094)
Corp. Credit	LMV	-	6,992,020	21,750,846	325,486,777	218,339,561	106,352,240	119,812,993	143,491,315	169,147,659	103,750,586	397,228,045	1,612,352,041
	SMV	-	-	-	-	-	-	-	-	(7,307,500)	-	-	(7,307,500)
	Total	-	6,992,020	21,750,846	325,486,777	218,339,561	106,352,240	119,812,993	143,491,315	161,840,159	103,750,586	397,228,045	1,605,044,541
Convertible Bond	LMV	-	16,791,250	-	-	-	80,230,175	56,380,063	60,160,250	-	-	202,081,436	415,643,174
	SMV	(38,859,375)	-	-	-	-	-	-	-	-	-	-	(38,859,375)
	Total	(38,859,375)	16,791,250	-	-	-	80,230,175	56,380,063	60,160,250	-	-	202,081,436	376,783,799
Preferred	LMV	-	2,330,474	66,145,669	4,163,880	30,539,531	106,664,164	49,973,357	-	-	-	90,043,680	349,860,754
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	-	2,330,474	66,145,669	4,163,880	30,539,531	106,664,164	49,973,357	-	-	-	90,043,680	349,860,754
Equity	LMV	22,339,159	32,934,004	-	20,224,361	26,343,981	8,298,272	-	-	-	-	2,195,925	112,335,702
	SMV	(694,238)	-	-	-	-	(27,222,503)	(16,968,138)	(43,855,721)	-	-	(65,529,198)	(154,269,798)
	Total	21,644,920	32,934,004	-	20,224,361	26,343,981	(18,924,231)	(16,968,138)	(43,855,721)	-	-	(63,333,273)	(41,934,097)
Equity Option	LMV	-	28,800,390	-	-	-	-	-	-	-	-	-	28,800,390
	SMV	(1,181,664)	-	-	-	(804,760)	(1,494,880)	-	-	-	-	(336,000)	(3,817,304)
	Total	(1,181,664)	28,800,390	-	-	(804,760)	(1,494,880)	-	-	-	-	(336,000)	24,983,086
Bank Loan	LMV	-	2,368,750	74,868,992	-	-	33,445,696	35,280,000	79,291,748	-	46,313,220	3,896,692	275,465,099
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	-	2,368,750	74,868,992	-	-	33,445,696	35,280,000	79,291,748	-	46,313,220	3,896,692	275,465,099
Agency MBS	LMV	174,693,096	-	-	-	-	-	-	-	-	-	-	174,693,096
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	174,693,096	-	-	-	-	-	-	-	-	-	-	174,693,096
ABS	LMV	21,820,283	1,460,435	-	-	94,858	-	-	-	-	-	4,554,730	27,930,306
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	21,820,283	1,460,435	-	-	94,858	-	-	-	-	-	4,554,730	27,930,306
MBS	LMV	-	-	-	-	-	-	-	-	-	-	3,771,234	3,771,234
	SMV	-	-	-	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	-	-	-	3,771,234	3,771,234
CDS	LMV	2,408,836	-	-	-	-	4,123,653	-	5,101,322	1,894,188	-	12,428,605	25,956,604
	SMV	(82,425,383)	(54,116,174)	(41,884,719)	(54,983,857)	(40,515,022)	-	-	(27,788,411)	-	-	(38,302,175)	(340,015,741)
	Total	(80,016,547)	(54,116,174)	(41,884,719)	(54,983,857)	(40,515,022)	4,123,653	-	(22,687,090)	1,894,188	-	(25,873,570)	(314,059,138)
Combined	LMV	588,077,169	91,677,322	162,765,507	349,875,018	275,317,931	339,114,199	261,446,412	288,044,635	171,041,847	150,063,806	716,200,348	3,393,624,195
	SMV	(840,532,754)	(54,116,174)	(41,884,719)	(54,983,857)	(40,515,022)	(28,027,263)	(18,463,018)	(71,644,133)	(7,307,500)	-	(104,167,373)	(1,261,641,812)
	Total	(252,455,585)	37,561,148	120,880,788	294,891,161	234,802,909	311,086,937	242,983,394	216,400,503	163,734,347	150,063,806	612,032,976	2,131,982,382
	%	-11.84%	1.76%	5.67%	13.83%	11.01%	14.59%	11.40%	10.15%	7.68%	7.04%	28.71%	100.00%

\*Spread differential between the underlying securities and Treasury bonds in basis points

The chart above measures the excess yield (in basis points) that these securities provide over the yield offered by U.S. treasuries of comparable maturities according to market prices at the end of the month. We then define the security type, as well as the Fund's long and short exposure, and plot these exposures based on current market values to show a more accurate view of where the Fund's capital is allocated than can be depicted by simply defining exposures by credit rating or security type.

Source: Bloomberg

Note: A definition of key terms can be found on page 17



Sources: Driehaus Capital Management LLC, Bloomberg

\*The performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Principal value and investment returns will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost.

Note: A definition of key terms can be found on page 17

**INDUSTRY GROUP (as of 8/31/11)**
**GICS<sup>1</sup>**

	LMV (\$)	% of LMV	SMV (\$)	% of SMV	GMV (\$)	% of GMV
Automobiles & Components	204,483,459	6.03%	(52,328,036)	4.15%	256,811,496	5.52%
Banks	38,585,130	1.14%	-	0.00%	38,585,130	0.83%
Capital Goods	180,741,318	5.33%	(17,325,264)	1.37%	198,066,582	4.25%
Commercial & Professional Services	-	0.00%	(28,835,665)	2.29%	28,835,665	0.62%
Consumer Durables & Apparel	38,175,595	1.12%	(104,490,302)	8.28%	142,665,897	3.06%
Consumer Services	197,924,984	5.83%	(10,671,575)	0.85%	208,596,559	4.48%
Diversified Financials	302,402,565	8.91%	(4,739,841)	0.38%	307,142,405	6.60%
Energy	79,840,122	2.35%	(9,898,812)	0.78%	89,738,933	1.93%
Food & Staples Retailing	111,144,315	3.28%	(10,155,432)	0.80%	121,299,747	2.61%
Food Beverage & Tobacco	79,403,131	2.34%	(23,763,590)	1.88%	103,166,721	2.22%
Health Care Equipment & Services	71,262,250	2.10%	-	0.00%	71,262,250	1.53%
Household & Personal Products	39,986,000	1.18%	-	0.00%	39,986,000	0.86%
Insurance	33,370,000	0.98%	(20,543,206)	1.63%	53,913,206	1.16%
Materials	116,158,308	3.42%	-	0.00%	116,158,308	2.50%
Media	182,718,250	5.38%	(36,149,945)	2.87%	218,868,194	4.70%
Pharmaceuticals, Biotechnology	57,946,060	1.71%	-	0.00%	57,946,060	1.24%
Real Estate	52,051,715	1.53%	(54,749,819)	4.34%	106,801,534	2.29%
Retailing	95,643,469	2.82%	(32,415,253)	2.57%	128,058,721	2.75%
Semiconductors & Semiconductor Equip.	110,477,983	3.26%	(6,555,611)	0.52%	117,033,593	2.51%
Software & Services	122,989,217	3.62%	(57,528,977)	4.56%	180,518,193	3.88%
Technology Hardware & Equipment	142,116,856	4.19%	(36,247,052)	2.87%	178,363,908	3.83%
Telecomm. Services	525,358,827	15.48%	(28,562,966)	2.26%	553,921,793	11.90%
Transportation	4,580,629	0.13%	(1,317,566)	0.10%	5,898,196	0.13%
Utilities	30,644,745	0.90%	-	0.00%	30,644,745	0.66%
<b>Other<sup>2</sup></b>						
Agency Collateral CMO*	68,245,151	2.01%	-	0.00%	68,245,151	1.47%
Automobile ABS	8,267,458	0.24%	-	0.00%	8,267,458	0.18%
CDS FI Index**	2,408,836	0.07%	(7,990,806)	0.63%	10,399,642	0.22%
Commercial MBS	3,575,249	0.11%	-	0.00%	3,575,249	0.08%
Credit Card ABS	15,013,260	0.44%	-	0.00%	15,013,260	0.32%
FHLMC Collateral	9,145,090	0.27%	-	0.00%	9,145,090	0.20%
Home Equity ABS	97,785,062	2.88%	-	0.00%	97,785,062	2.10%
Money Market	66,860,322	1.97%	-	0.00%	66,860,322	1.44%
Other ABS	4,363,367	0.13%	-	0.00%	4,363,367	0.09%
Sovereign	299,955,474	8.84%	(717,372,094)	56.86%	1,017,327,567	21.85%
<b>Total</b>	<b>3,393,624,195</b>	<b>100.00%</b>	<b>(1,261,641,812)</b>	<b>100.00%</b>	<b>4,655,266,007</b>	<b>100.00%</b>

Sources: Bloomberg, Global Industry Classification Standard

<sup>1</sup>The Global Industry Classification Standard (GICS), a collaboration between Standard & Poor's and Morgan Stanley Capital International, is a system of classification that identifies a company according to its business activity.

<sup>2</sup>The Other Industry Group data is not categorized within the GICS classification system.

\*Agency Collateral Collateralized Mortgage Obligation

\*\*Credit Default Swaps Fixed Income Index

\*\*\*Federal Home Loan Mortgage Corporation Collateral

Industry group information for Credit Default Swaps and Interest Rate Swaps is from underlying securities.

**Note:** A definition of key terms can be found on page 17

**INDUSTRY SECTOR (as of 8/31/11)**

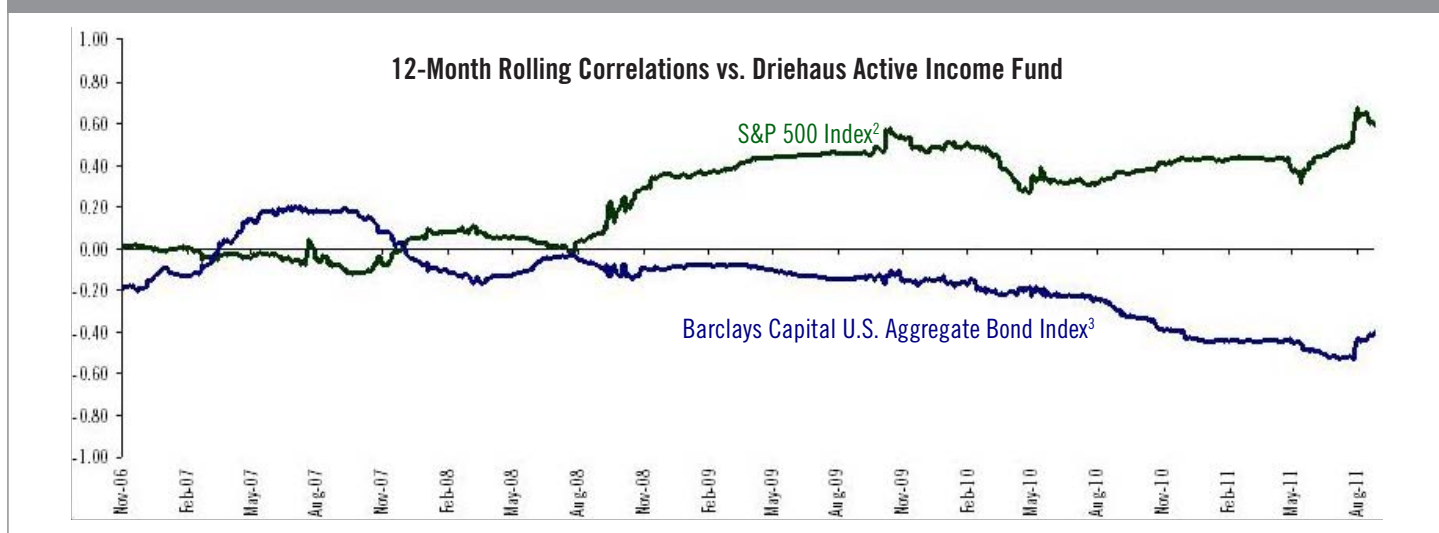
	LMV (\$)	% of LMV	SMV (\$)	% of SMV	GMV (\$)	% of GMV
<b>GICS<sup>1</sup></b>						
Consumer Discretionary	718,945,756	21.19%	(236,055,111)	18.71%	955,000,868	20.51%
Consumer Staples	230,533,446	6.79%	(33,919,022)	2.69%	264,452,468	5.68%
Energy	79,840,122	2.35%	(9,898,812)	0.78%	89,738,933	1.93%
Financials	426,409,409	12.57%	(80,032,866)	6.34%	506,442,275	10.88%
Health Care	129,208,310	3.81%	-	0.00%	129,208,310	2.78%
Industrials	185,321,948	5.46%	(47,478,495)	3.76%	232,800,443	5.00%
Information Technology	375,584,055	11.07%	(100,331,639)	7.95%	475,915,695	10.22%
Materials	116,158,308	3.42%	-	0.00%	116,158,308	2.50%
Telecommunication Services	525,358,827	15.48%	(28,562,966)	2.26%	553,921,793	11.90%
Utilities	30,644,745	0.90%	-	0.00%	30,644,745	0.66%
<b>Other<sup>2</sup></b>						
Asset Backed Securities	125,429,147	3.70%	-	0.00%	125,429,147	2.69%
CDS FI Index	2,408,836	0.07%	(7,990,806)	0.63%	10,399,642	0.22%
Government	299,955,474	8.84%	(717,372,094)	56.86%	1,017,327,567	21.85%
Money Market	66,860,322	1.97%	-	0.00%	66,860,322	1.44%
Mortgage Securities	80,965,490	2.39%	-	0.00%	80,965,490	1.74%
<b>Total</b>	<b>3,393,624,195</b>	<b>100.00%</b>	<b>(1,261,641,812)</b>	<b>100.00%</b>	<b>4,655,266,007</b>	<b>100.00%</b>

Sources: Bloomberg, Global Industry Classification Standard  
 Industry sector information for CDS and Interest Rate Swaps is from underlying securities.

<sup>1</sup>The Global Industry Classification Standard (GICS), a collaboration between Standard & Poor's and Morgan Stanley Capital International, is system of classification that identifies a company according to its business activity.

<sup>2</sup>The Other Industry Group data is not categorized within the GICS classification system.

## CORRELATION<sup>1</sup> COMPARISON (as of 8/31/11)



Source: Standards & Poor's ("S&P") 500 Index total return data from Bloomberg. Barclays Capital U.S. Aggregate Bond Index data from Barclays Capital

The benchmarks for the Driehaus Active Income Fund are the Citigroup 3-Month T-Bill and the Barclays Capital U.S. Aggregate Bond Index. The S&P 500 Index is shown for illustrative purposes only.

<sup>1</sup> Correlation is a statistical measure of how return sets move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation coefficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move by an equal amount in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random. The S&P 500 Index and the Barclays Capital U.S. Aggregate Bond Index are recognized proxies for the U.S. fixed income market.

<sup>2</sup> The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group. It is a market-weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value.

<sup>3</sup> The Barclays Capital U.S. Aggregate Bond Index is a broad base index, maintained by Barclays Capital, used to represent investment grade bonds being traded in the United States.

The Driehaus Active Income Fund (the "Fund"), in addition to investing in unrated and investment grade bonds, may also invest in junk bonds, which involve greater credit risk, including the risk of default. The prices of high yield bonds are more sensitive to changing economic conditions and can fall dramatically in response to negative news about the issuer or its industry, or the economy in general. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is a risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Further, the Fund may invest in derivatives for speculative purposes. Gains or losses from speculative positions in a derivative may be much greater than the derivative's original cost and potential losses may be substantial. The Fund may make short sales. Short sales expose the Fund to the risk of loss. It is anticipated that the Fund will experience high rates of portfolio turnover, which may result in payment by the Fund of above-average transaction costs. This is a nondiversified fund; compared to other funds, the Fund may invest a greater percentage of assets in a particular issuer or a small number of issuers. As a consequence, the Fund may be subject to greater risks and larger losses than diversified funds. No investment strategy, including an absolute return strategy, can ensure a profit or protect against loss. Additionally, investing in an absolute return strategy may lead to underperforming results during an upward moving market. When interest rates increase, bond prices decrease and bond funds become more volatile.

**Please consider the investment objectives, risks, fees and expenses of the Fund carefully prior to investing. The prospectus and summary prospectus contains this and other important information about the Fund. To obtain a copy of the prospectus and/or summary prospectus, please call us at (877) 779-0079. Please read the prospectus and summary prospectus carefully before investing.**

This snapshot is not intended to provide investment advice. Nothing herein should be construed as a solicitation or a recommendation to buy or sell securities or other investments. You should assess your own investment needs based on your individual financial circumstances and investment objectives. Driehaus does not guarantee the accuracy or completeness of this information. This data was prepared on September 13, 2011 and has not been updated since then. It may not reflect recent market activity. Driehaus assumes no obligation to update or supplement this information to reflect subsequent changes. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Driehaus to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

## DEFINITIONS OF KEY TERMS

### **AGENCY MORTGAGE-BACKED SECURITY**

A mortgage-backed security issued and guaranteed by a government agency such as the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or Government National Mortgage Association.

### **ASSET-BACKED SECURITY (ABS)**

A security whose value and income payments are derived from and collateralized (or “backed”) by a specified pool of underlying assets.

### **AVERAGE % OF PAR-LONGS**

The average dollar price of a bond the Fund is long as a percentage of par.

### **AVERAGE % OF PAR-SHORTS**

The average dollar price of a bond the Fund is short as a percentage of par.

### **AVERAGE COUPON**

The weighted-average gross interest rates of the pool of mortgages that underlie a mortgage-backed security (MBS) at the time the securities were issued.

### **AVERAGE YIELD**

The average yield on an investment or a portfolio that results from adding all interest, dividends or other income generated from the investment, divided by the average of the investments for the year.

### **CREDIT DEFAULT SWAP (CDS)**

A contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) goes into default. In its simplest form, a credit default swap is a bilateral contract between the buyer and seller of protection.

### **EQUITY BETA**

A measure describing the relation of a portfolio's returns with that of the financial market as a whole. A portfolio with a beta of 0 means that its price is not at all correlated with the market. A positive beta means that the portfolio generally follows the market. A negative beta shows that the portfolio inversely follows the market; the portfolio generally decreases in value if the market goes up and vice versa.

### **MODIFIED DURATION**

A formula that expresses the measurable change in the value of a security in response to a change in interest rates.

### **MORTGAGE-BACKED SECURITY (MBS)**

An asset-backed security or debt obligation that represents a claim on the cash flows from mortgage loans, most commonly on residential property.

### **NET EXPOSURE**

Calculated by subtracting the percentage of the Fund's capital invested in short sales from the percentage of its capital used for long positions. It measures the Fund's exposure to the market value of the positions.

### **SPREAD DURATION**

The sensitivity of the price of a bond to a 100 basis point change to its option-adjusted spread. As the rate of the Treasury security in the option-adjusted spread increases, the rate of the option-adjusted spread also increases.

### **STOCK VEGA**

The change in the price of an option that results from a 1% change in volatility. Vega changes when there are large price movements in the underlying asset and Vega falls as the option gets closer to maturity. Vega can change even if there is no change in the price of the underlying asset (e.g., if there is a change in expected volatility).

### **SWAP**

A derivative in which two counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument.