

# Driehaus Micro Cap Growth Strategy Summary

3<sup>RD</sup> QUARTER 2021

## Market Overview

The September quarter was a down period for the U.S. equity market as the number of headwinds and concerns expanded, causing economic growth to slow and equity multiples to contract slightly. While the largest capitalization stocks outperformed, helping the S&P 500 to eke out a tiny gain of .58%, the rest of the market struggled as size was an important driver of returns. Larger cap stocks outperformed mid caps, which outperformed small caps, which outperformed micro caps. Value also managed to outperform growth during the period.

The micro and small cap indices have now consolidated in a sideways fashion since the spring of this year and are off approximately ten percent from their highs earlier this year. The S&P 500, which reached new price highs throughout the quarter, has now declined about five percent from its recent early September high.

The equity market is typically weak during the August to October period, but multiple fundamental concerns have also pressured equities with the Delta variant the most prominent having caused another major wave of new COVID cases. As a result, many parts of the U.S. brought back mask policies and other social distancing restrictions. While most of new cases are among the unvaccinated population, especially in terms of severe disease, this wave certainly impacted the economic momentum that had been accelerating during the first half of 2021. Economic (GDP) growth slowed as consumer travel and leisure spending decelerated, supply chains continued to be severely impacted, labor markets remained extremely stressed and the return to office policies for many companies were delayed.

Inflation, interest rates and monetary policy were also a major focus for equity investors. Despite Fed Chair Jerome Powell's "transitory" description of inflation, the elevated price levels are proving to be stubborn as supply chains and labor markets continue to be impacted by COVID. The extreme, widespread shortages and extended lead times across most industries and the lack of visibility regarding a return to normal for most supply chains is something that has not been witnessed before. The same can be said of the labor markets. The number of open or unfilled jobs (over 11 million) is a record and far exceeds the number of job applicants seeking work (roughly 8 million). Nearly every industry is having a difficult time finding workers. Many believed that as the extended and generous unemployment benefits ended in early September and as schools reopened, workers would return but this process is also proving to be slower than most expected. This is putting additional upward pressure on wages and overall inflation. The supply chain and labor issues are holding back the potential for economic growth and have reduced consensus economic growth assumptions for the second half of this year. Supply chains and labor markets should normalize over time, especially if this Delta wave is the last significant one. As these supply side issues slowly normalize, their recovery will be a tailwind for economic growth. Interest rates, which appear to have bottomed in early August, are rising again and may continue to do so. Increasing rates, within reason, and upward sloping yield curves can be positive signs of economic growth but the pace of the increase in rates (and inflation) and the potential pressure on monetary policy are risks that will need to be monitored carefully.

There are numerous other risks. These include: the U.S. debt ceiling (it needs to be raised by October 18th), Fed tapering and eventual tightening, the re-appointment of Fed Chair Jerome Powell, the passage and the size of the infrastructure bill, rising crude oil prices, tension between China and Taiwan, Evergrande and the over-levered China real estate sector and future potential COVID variants.

## Driehaus Micro Cap Growth Strategy

Positively, the demand side of the economic equation remains robust. Pent up demand, low inventories, rising incomes, record net worth and the new economic cycle are all driving very strong demand. At the same time, the lack of product, rising prices and extended lead times could impact demand and overall economic potential. Still, we expect demand to remain strong enough as the supply chains and labor market slowly recover over the next several quarters.

Stock and sector leadership continues to be rotational. Cyclical led in the first half of 2021 fueled by the reopening of the economy. Then as yields fell and Delta cases rose in the September quarter, many WFH (work from home) stocks performed better and many cyclical stocks in the consumer discretionary and industrials sectors lagged. As Delta variant cases peaked in early September and are now steadily declining, many "reopening" cyclicals are beginning to benefit.

Our overall sanguine view is supported by our conviction that the economy is still early in its recovery. Given the COVID-induced recession ended last year, we are just entering the second year of this expansion and historically the last five U.S. economic cycles have lasted five to ten years. No two cycles are the same, but this expansion is off to a stronger start despite many of the unprecedented aspects of this one.

Corporate earnings remain robust and have made new highs, as equities have pulled back from their highs earlier this year. Together, higher earnings and lower stock prices have created more attractive valuations and have set up an attractive dynamic as the market looks ahead towards the year end and into 2022. As the market digests the current macro uncertainties, we are finding many appealing opportunities both among cyclicals as well as secular growth companies.

### Performance Review

For the September quarter, the Driehaus Micro Cap Growth Strategy outperformed its benchmark. The Strategy declined -2.88%, net of fees, while the Russell Microcap Growth Index declined a sharp -9.09%.<sup>1</sup> The Strategy also outperformed the small cap indices, such as the Russell 2000 which declined -4.36% and the Russell 2000 Growth which pulled back -5.65%, but it did trail the S&P 500 which gained 0.58%.

The relative outperformance versus the Russell Micro Cap Growth Index was driven by the portfolio's relative outperformance in several sectors including healthcare, technology, and consumer staples.

The market's stock and sector leadership continue to be very rotational. While cyclical and reopening stocks performed best in the first half of the year, within the portfolio secular growth parts of technology and healthcare performed well as Delta cases rose and economic growth slowed in the September quarter.

The portfolio from a bottom-up basis continues to experience strong earnings reports with robust positive surprises, estimate revisions and bullish fundamental outlooks. It also benefitted from good balance and diversification across the various growth categories (secular, cyclical, consistent, recovery) which boosted outperformance.

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<sup>1</sup>The performance data represents the strategy's composite of micro cap growth accounts managed by Driehaus Capital Management LLC (DCM). These returns are estimated for the period as the underlying accounts' data is yet to be reconciled to the custodian bank. Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and custodian fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts and reflect the reinvestment of income and other earnings. The performance data shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

## Driehaus Micro Cap Growth Strategy

By sector, the following sectors saw positive absolute returns for the quarter (in order of magnitude): consumer staples, energy, technology, and financials. As the market declined, several sectors experienced negative absolute returns, including consumer discretionary, communication services, materials, industrials, and healthcare. The positive relative returns for the quarter were primarily from (in order of magnitude): healthcare, technology, and consumer staples, while consumer discretionary and communication services detracted on a relative basis.

### Healthcare

Healthcare outperformed as the sector contributed 282 basis points on a relative basis. The portfolio's holdings were down just 2% versus a decline of 11% for the index's healthcare holdings. Several biotech holdings performed well as there was increased optimism on their clinical pipelines and some holdings reported strong clinical trial data.

IPO activity within the group remains strong with many companies coming public during the quarter. The level of innovation we see in healthcare is exciting. Biotech/therapeutics, molecular diagnostics and med-tech all stand to benefit strongly looking forward as these companies improve the standard of care and provide better outcomes for patients.

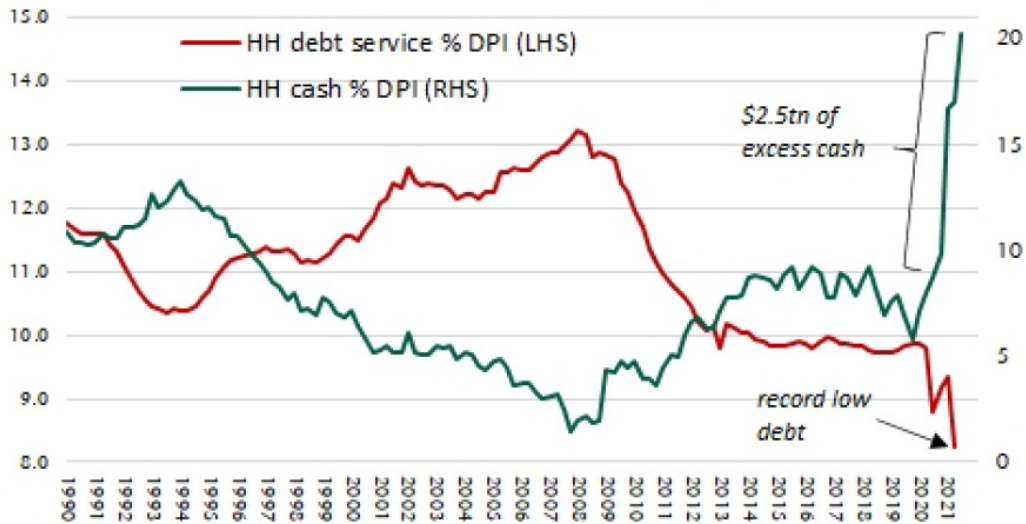
### Technology

Technology outperformed while contributing 198 basis points on a relative basis. It continues to see strong fundamental trends in most of its sub-industries. IT service stocks remain strong. Software recovered after a choppy first half. The performance of our semiconductor holdings was also strong while semi capital equipment holdings were mixed. Telco equipment holdings continue to perform well as the outlook for rural broadband spending is robust.

### Consumer Discretionary and Staples

The consumer discretionary sector holdings, which saw strength in the first half of the year, had broad weakness in the September quarter as the Delta-related cases soared. Supply chain, reduced stimulus benefits and labor issues were also sources of the sector's weakness. As a result, and as attractive opportunities developed in other sectors, we reduced our weighting in consumer discretionary from 21.2% to 16.7% during the quarter. As the Delta cases are now falling and most are vaccinated, we do expect the sector to recover. Supply chain issues will linger but they may be discounted in some situations. As the economy continues to grow and labor markets normalize, we expect the very high savings rates and massive pent-up demand to continue to drive solid consumer spending. We remain impressed with robust financial strength of the U.S. consumer as wages, net worth and overall household balance sheets are the strongest we have ever seen. As the consumer is such a core segment of the aggregate U.S. economy, we highlight the strength of the consumer's financial position in Exhibits 1-3.

Exhibit 1: Household Cash & Debt Service



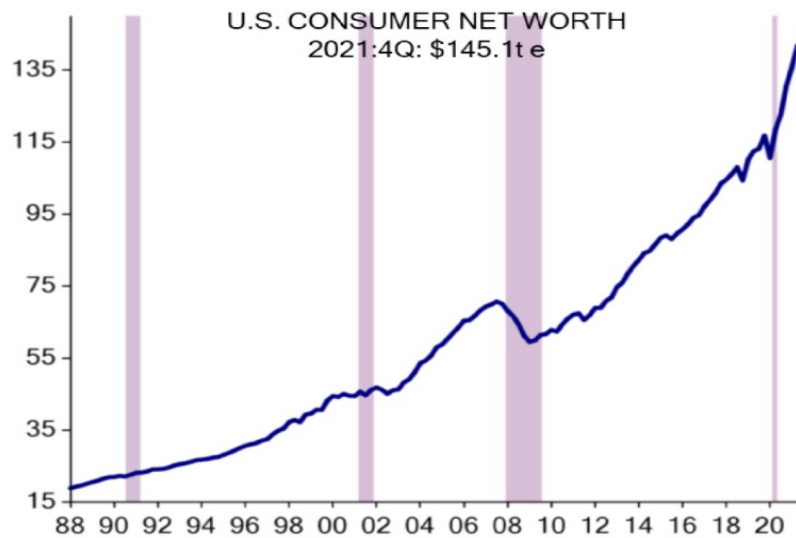
Source: Haver, JEF Economics

Exhibit 2: Household Cash & Checking Deposits (USD bln)



Source: Haver, JEF Economics

### Exhibit 3: US Consumer Net Worth



Source: Evercore ISI

Consumer staples also added nicely to outperformance as an energy drink producer and a skin products company performed strongly.

#### Outlook & Positioning

The outlook for the economy and earnings remains positive as there are multiple drivers supporting this economic expansion. We believe the level of earnings will continue to make new highs. The overall direction of equities will follow the path of earnings as the economic expansion continues. That said, multiple factors are causing stocks to churn sideways. The Delta variant has slowed economic growth over the past few months. The severe stress in supply chains and the labor market don't have recent precedent. Inflation remains elevated and is the highest in years and various political and geopolitical concerns are depressing investor sentiment. Overall, though as the supply side issues slowly improve and we potentially move to a post-pandemic period, the U.S. expansion could prove to be self-sustaining.

The mRNA based COVID-19 vaccines are working very well and appear to provide good protection especially against severe disease. The percentage of adult Americans who are vaccinated is over seventy percent. Delta cases are now in decline after peaking in September and the risk of an additional major COVID wave is low, but naturally unpredictable.

Smaller cap valuations are attractive on a relative basis versus large caps looking at the past four decades. Earnings growth rates for smaller companies are much stronger than large caps. Micro and small caps generally perform well for years from the beginning of a new economic expansion. For instance, post the Nasdaq Bubble and post the Great Financial Crisis, smaller caps outperformed large caps for five to six years.

## Driehaus Micro Cap Growth Strategy

In terms of portfolio positioning, we have an attractive mix of secular and cyclical growth holdings that should continue to benefit the Strategy as the market continues to be so rotational. By sector healthcare remains our largest absolute weight, followed by technology, consumer discretionary, industrials and financials. Relative to the benchmark, the Strategy is overweight technology, financials, consumer staples, consumer discretionary and energy. The Strategy is underweight health care, industrials, and real estate.

Overall, we see many dynamic investment opportunities in attractive and strong industries, which fit our investment philosophy of companies exhibiting growth inflections, differentiation, market share gains, strong revenues and expanding profitability.

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This update is not intended to provide investment advice. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. You should assess your own investment needs based on your individual financial circumstances and investment objectives.

This material is not intended to be relied upon as a forecast or research. The opinions expressed are those of Driehaus Capital Management LLC ("Driehaus") as of October 7, 2021 and are subject to change at any time due to changes in market or economic conditions. The material has not been updated since October 7, 2021 and may not reflect recent market activity.

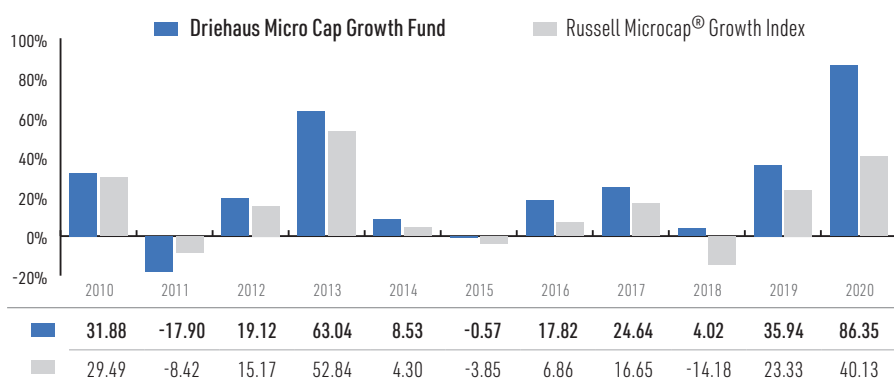
The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Driehaus to be reliable and are not necessarily all inclusive. Driehaus does not guarantee the accuracy or completeness of this information. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

# Driehaus Micro Cap Growth Strategy

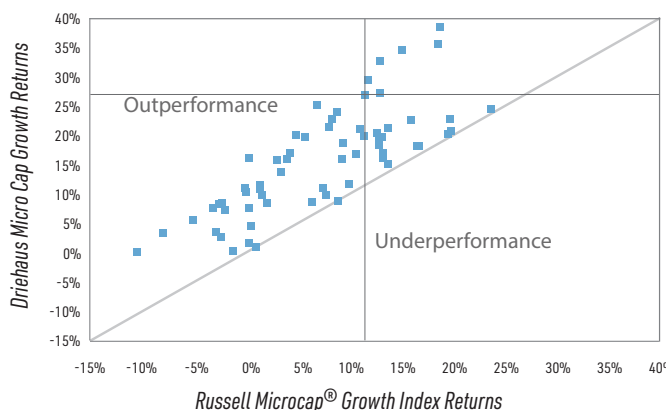
## % Month-End Performance (as of 9/30/21)

	Annualized							
	MTH	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>2</sup>
Driehaus Micro Cap Growth Composite (Gross)	-2.81	-3.45	17.43	64.99	32.31	32.40	28.12	23.77
Driehaus Micro Cap Growth Composite (Net)	-2.88	-3.64	16.72	63.64	31.16	31.13	26.73	22.82
Russell Microcap <sup>®</sup> Growth Index (Benchmark)	-4.91	-9.09	9.61	42.11	12.45	13.98	15.02	6.57

## % Calendar Year Return, Net of Fees (10-year period)



## Rolling Five-Year Returns, Net of Fees<sup>3</sup>



Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance Data as of 9/30/21.

The performance data represents the strategy's composite of micro cap growth accounts managed by Driehaus Capital Management LLC (DCM). These returns are estimated for the period as the underlying accounts' data is yet to be reconciled to the custodian bank. Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and custodian fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts and reflect the reinvestment of income and other earnings. The performance data shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

<sup>1</sup>Composite assets include those accounts that meet the composite objectives and eligibility requirements. Please see the notes at the end of this document for additional information. <sup>2</sup>1/1/1996. <sup>3</sup>Returns are calculated from monthly returns and shown for every quarter interval since the index's inception. <sup>4</sup>Portfolio characteristics represent the strategy's composite. Data as of September 30, 2021. <sup>5</sup>Data is calculated monthly.

\*The Index's performance is presented for all periods except "Since Inception" because the Index was not established until August 2000.

## Key Features

- Benchmark aware, not benchmark constrained
- Opportunistic investment approach
- High active share

## Facts

Inception Date	1/1/96
Composite Assets Under Management <sup>1</sup>	\$2,532M
Firm Assets Under Management	\$14.2B
Investment Style	Growth Equity
Investment Vehicles:	Separately Managed Account Mutual Fund

## Portfolio Characteristics<sup>4</sup>

5-year period	STRATEGY	BENCHMARK
Annualized Alpha	16.68	n/a
Sharpe Ratio	1.22	0.53
Information Ratio	2.24	n/a
Beta	1.00	1.00
Standard Deviation	25.65	24.23
Tracking Error	8.24	0.00
R-squared	0.90	1.00

Market Cap Breakout	STRATEGY	BENCHMARK
< \$1 billion	26.7%	69.6%
> \$1 billion	73.3%	30.4%

	STRATEGY	BENCHMARK
Number of Holdings	129	1,062
Weighted Avg. Market Cap (M)	\$2,242	\$876
Median Market Cap (M)	\$1,361	\$244
Active Share (3-year avg.) <sup>5</sup>	83.47	n/a

## Portfolio Management

**Jeff James**, Portfolio Manager  
31 years of industry experience

**Michael Buck**, Portfolio Manager  
21 years industry experience

**Prakash Vijayan**, Assistant Portfolio Manager  
16 years industry experience

## Driehaus Micro Cap Growth Strategy

### Top 5 Holdings<sup>1</sup> (as of 8/31/21)

Company	Sector	% of Strategy
Celsius Holdings, Inc.	Consumer Staples	2.3
Grid Dynamics Holdings, Inc. Class A	Information Technology	2.0
Boot Barn Holdings, Inc.	Consumer Discretionary	2.0
Calix, Inc.	Information Technology	1.7
Everi Holdings, Inc.	Consumer Discretionary	1.7

### Sector Weights (%)

#### Month-End Absolute Weights

	Comm. Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities	Cash
Strategy	1.3	16.6	7.7	5.9	8.5	30.4	9.5	18.5	0.7	0.0	0.0	0.8
Benchmark	2.0	14.5	2.4	4.3	2.4	43.6	11.0	15.0	2.2	2.0	0.6	0.0
Active Weights	-0.7	2.1	5.3	1.6	6.1	-13.2	-1.5	3.5	-1.5	-2.0	-0.6	0.8

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance

Data as of 9/30/21. Benchmark: Russell Microcap<sup>®</sup> Growth Index

<sup>1</sup>Holdings subject to change.



## Driehaus Micro Cap Growth Strategy

## Sector Performance Attribution 3rd Quarter – 6/30/21 to 9/30/21

GICS Sector	Driehaus Micro Cap Growth Strategy (Port) (%)		Russell Microcap Growth Index <sup>1</sup> (Bench) (%)		Attribution Analysis (%)		
	Port Avg. Weight	Port Contrib To Return	Bench Avg. Weight	Bench Contrib To Return	Allocation Effect	Selection + Interaction	Total Effect
Communication Services	2.38	-0.90	2.44	-0.26	0.06	-0.65	-0.59
Consumer Discretionary	18.29	-3.22	15.12	-2.34	-0.20	-0.20	-0.40
Consumer Staples	6.64	0.63	2.04	-0.14	0.05	1.09	1.15
Energy	5.29	0.02	4.00	-0.17	-0.22	0.63	0.41
Financials	7.51	0.19	2.35	0.09	0.70	-0.12	0.58
Health Care	28.93	-0.53	44.14	-4.70	0.20	2.53	2.72
Industrials	10.92	-0.31	10.58	-0.56	0.02	0.27	0.29
Information Technology	18.03	0.82	14.44	-0.87	0.10	1.85	1.95
Materials	0.90	-0.04	2.21	-0.06	-0.10	-0.04	-0.14
Real Estate	0.00	0.00	2.08	-0.09	-0.12	0.00	-0.12
Utilities	0.00	0.00	0.60	-0.01	-0.05	0.00	-0.05
Cash	1.12	0.00	0.00	0.00	-0.03	0.00	-0.03
Other <sup>2</sup>	0.00	-0.31	0.00	0.00	-0.33	0.00	-0.33
<b>Total</b>	<b>100.00</b>	<b>-3.66</b>	<b>100.00</b>	<b>-9.11</b>	<b>0.08</b>	<b>5.36</b>	<b>5.44</b>

Data as of 9/30/21

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance

<sup>1</sup>The Russell Microcap® Growth Index measures the performance of those Russell Microcap® companies with higher price-to-book ratios and higher forecasted growth values. The Russell Microcap® Index is represented by the smallest 1,000 securities in the small cap Russell 2000® Index plus the next 1,000 securities. An investor cannot invest directly in an index. <sup>2</sup>Other refers to securities not recognized by FactSet.

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Per FactSet Research Systems Inc., the attribution report provides an in-depth analysis of relative performance. With this report one can research whether or not a portfolio outperformed a benchmark, and how each group contributed to performance. The performance data shown above is estimated and represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The information presented is intended for informational purposes only.

#### ATTRIBUTION ANALYSIS CATEGORIES ARE DEFINED AS:

**Allocation Effect** - Measures the impact of the decision to allocate assets differently than those in the benchmark.

**Security Selection Effect** - Measures the effect of choosing securities, which may or may not outperform those of the benchmark.

**Interaction Effect** - Jointly measures the effect of allocation and selection decisions.

**Total Effect** - The Total Effect for each MSCI/GICS Sector is equal to the sum of the individual Attribution Effects for that MSCI/GICS Sector.

## Notes // Driehaus Micro Cap Growth Strategy

### FIRM DEFINITION

Driehaus Capital Management LLC (DCM) is a registered investment adviser with the United States Securities and Exchange Commission (SEC). DCM provides investment advisory services using growth equity and credit strategies to individuals, organizations, and institutions. The firm consists of all accounts managed by DCM (the Company).

DCM claims compliance with the Global Investment Performance Standards (GIPS®).

### COMPOSITE DESCRIPTION

The Micro Cap Growth Composite was created in January 1996. An account is considered to be a micro cap growth account if it primarily invests in U.S. equity securities of growth companies with market capitalization ranges of generally followed micro cap indices at the time of purchase. However, there is no requirement to be exclusively invested in micro cap stocks, and the accounts have invested, to a lesser extent, in stocks with a larger capitalization from time to time.

### PERFORMANCE RESULTS

Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and custodian fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts and reflect the reinvestment of income and other earnings.

Valuations and returns are computed and stated in U.S. dollars. Returns are presented on a pretax basis.

Past performance is not indicative of future results. All investments have risks and you could lose money.

Additional information regarding policies for valuing investments, calculating performance and preparing GIPS Reports are available upon request. A list of composite descriptions and a list of broad distribution pooled funds are available upon request. Please contact our sales, marketing and relationship management department at 312-932-8621.

### INDICES

The Russell Microcap Growth® Index measures the performance of the microcap growth segment of the U.S. equity universe. It includes those Russell Microcap® companies that are considered more growth oriented relative to the overall market as defined by FTSE Russell's leading style methodology.

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### TERMS

**Active share** represents the share of portfolio holdings that differ from the benchmark index holdings. **Alpha** is the measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha. **Beta** is a measure of a portfolio's volatility. A beta of 1.00 implies perfect historical correlation of movement with the market. A higher beta manager will rise and fall more rapidly than the market, whereas a lower beta manager will rise and fall slower.

**Information Ratio (IR)** measures a portfolio manager's ability to generate excess returns relative to a benchmark, but also attempts to identify the consistency of the investor. This ratio will identify if a manager has beaten the benchmark by a lot in a few months or a little every month. The higher the IR the more consistent a manager is and consistency is an ideal trait. **R-Squared** is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. For fixed-income securities, the benchmark is the T-bill. For equities, the benchmark is the S&P 500. **Sharpe Ratio** is calculated by finding the portfolio's excess return and then dividing by the portfolio's standard deviation. **Standard Deviation** is a measure of the average deviations of a return series from its mean; often used as a measure of portfolio volatility. A large standard deviation implies that there have been large swings or volatility in the manager's return series. **Tracking Error** is a divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead.

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