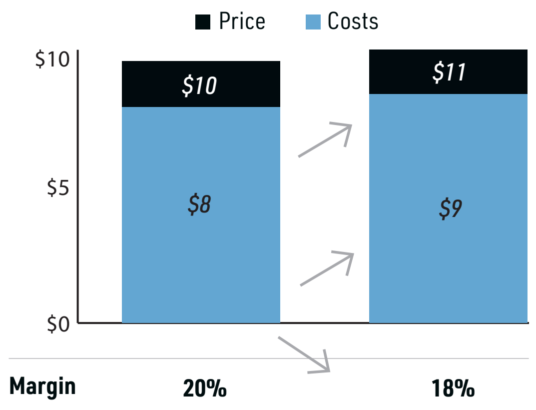
JUNE 2022

DRIEHAUS INTERNATIONAL SMALL CAP GROWTH STRATEGY

Inflation

Earlier this month, the US Government announced that the Consumer Price Index (CPI) gauge of inflation recorded an 8.6% increase over the last 12 months, the highest level in 40 years. Initial pandemic induced inflation due to supply chain disruption has now given way to broad based energy and commodity inflation exacerbated by the Russia/Ukraine conflict. As the specter of inflation moves to a duration beyond 'temporary', the Driehaus International Small Cap Growth strategy continues to focus our exposure to sectors best positioned to manage and potentially benefit from rising prices.

Inflation hurts margins as raising prices to match cost increases still results in a headwind to profit margins. However, some sectors can exhibit strong pricing power in this environment.



Energy and Mining Sectors

These companies have ownership of scarce commodities. Diversified producers with low costs can demonstrate improving margins. Energy prices are supported by constrained supply and electrification is driving demand for base metals.

Energy Services Sector

After years of disinvestment, energy spending is now responding to higher prices. Oil and Gas drilling rigs in North America have experienced 60% growth driving high utilization and margins. Economic incentives for offshore investment have also returned.

Mining Equipment/Services Sector

Global Mining exploration budgets peaked at $21B in 2012 and now stand at half those levels. However, current prices make investment economic again driving demand for equipment and services.

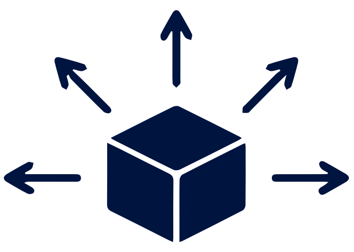
COMMODITIES

Raw Materials

MANUFACTURING

Power intensive manufacturing operations are burdened by rising raw materials and high internal energy and freight costs which are more difficult to pass on to end customers.

Components & Products



DISTRIBUTION

Finished Goods

Distribution Sector

Distributors benefit from inflationary environments. They purchase at scale and sell in lower volumes while maintaining pricing power. Margins are supported by their fixed cost structure.

Consumer Discretionary Sector

Inflation in rent, fuel and food hits consumers' real purchasing power. As the consumer weakens, retailers see higher inventories and weak margins.

The last time inflation in North America hit sustained readings above 5% was in the 1970's and today's commodity consumption to GDP is approaching comparable levels. While overall equities face challenges during inflationary periods; the seventies saw outperformance of real assets and basic commodities like nickel, copper, gold, silver, and oil. Accordingly, we continue to look for similar opportunities in sectors poised to capture higher prices and generate earnings strength from this environment.

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CAPITAL MANAGEMENT