DRIEHAUS
CAPITAL MANAGEMENT

Driehaus Global Equity Strategy Summary

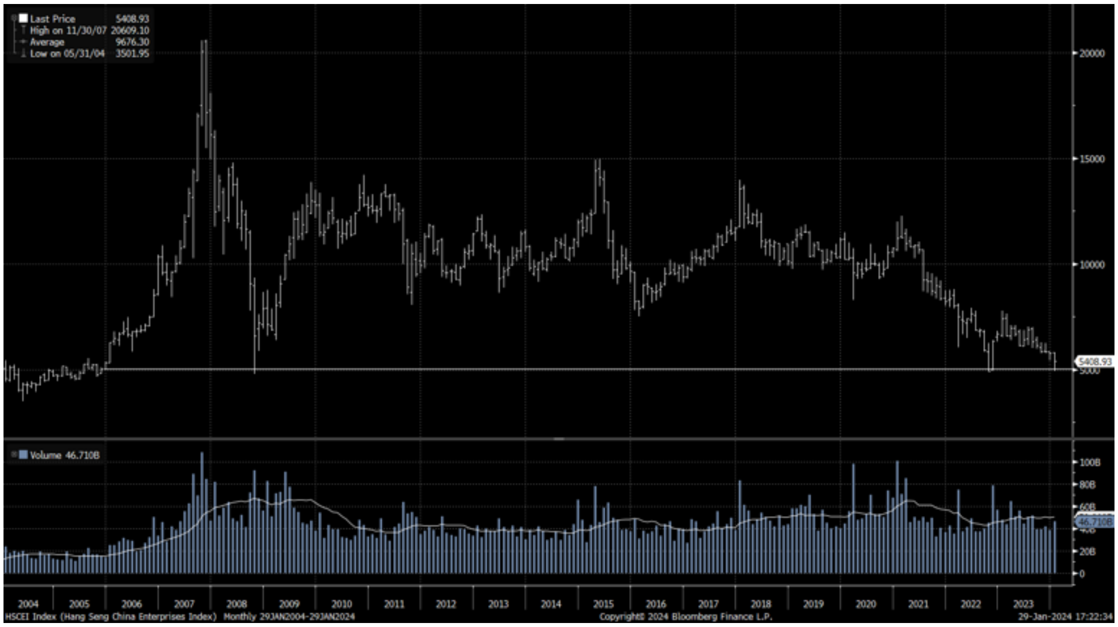
4TH QUARTER 2023

Does China Matter?

In our first commentary of the year, we've promised ourselves not to spend too much time on the most well-trodden territory. We realize manager commentaries are easy to find and it's harder to add any value on a subject when everyone is discussing it, though many of those subjects are on our minds as well. Those well-discussed areas currently would be the speed at which inflation is likely to continue coming down (we see goods inflation seeing a temporary bottom in coming months which could scare investors), how aggressive the US easing cycle will ultimately be (we think too much is priced-in but it doesn't matter much as long as rates end up going down) and whether AI is real (it is) or just the latest winner of the hype cycle.

The subject that we feel is under-discussed by global investors is what's currently happening in China. We have the feeling that it's on a lot of people's minds in a broad sense, but the fact that the second-largest economy in the world is seeing a very orderly collapse in its asset markets doesn't seem to get the fanfare it deserves. The collapse of Greek stocks and real assets seemed to get 100x the coverage. In the first three weeks of the year, the Hong Kong China Enterprise Index only closed green three times, falling 13% during that time, reaching levels last seen in 2005 (Exhibit 1). The S&P500 was up roughly 2% during that time. One of the world's powerhouse economies has given back nearly 20 years of gains and it doesn't seem like the market really pays it much attention. Should it?

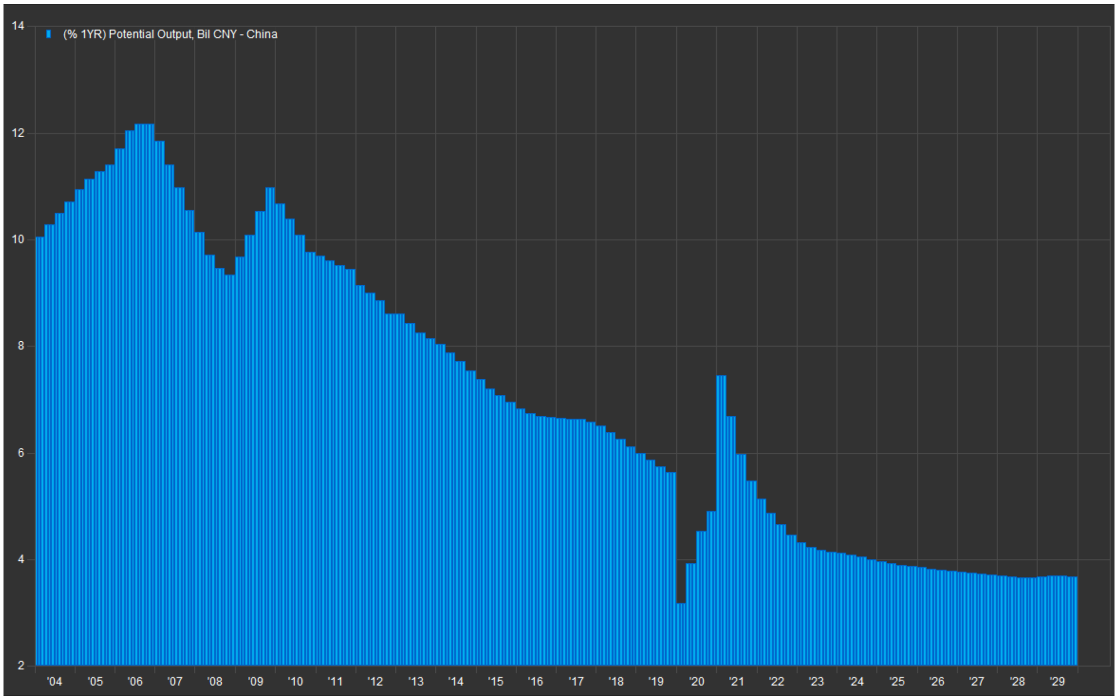
Exhibit 1:Hong Kong China Enterprise Index at Levels Last Seen in 2005



Source: Bloomberg

Around ten years ago, we were reviewing an economic forecasting chart pack and were struck by a chart, which is reproduced here (Exhibit 2). It was an obvious chart, in a sense. Everyone knew at the time that Chinese growth would slow but the chart made clear just how much of a change it was going to be. After seeing nominal growth in excess of 10% every year, potential growth was likely to slow to mid-single digit levels. Arguably the dominant feature of the global economy was going to be a slower-growing China and it was both obvious, unavoidable, and seldom discussed in these terms. Looking back, those forecasts were too positive and now we would expect closer to 3% potential growth, or just more than nothing in real terms. We strongly believe that a slower China was a major factor in many of the equity market trends then, just as the current sharp slowdown is impacting things now.

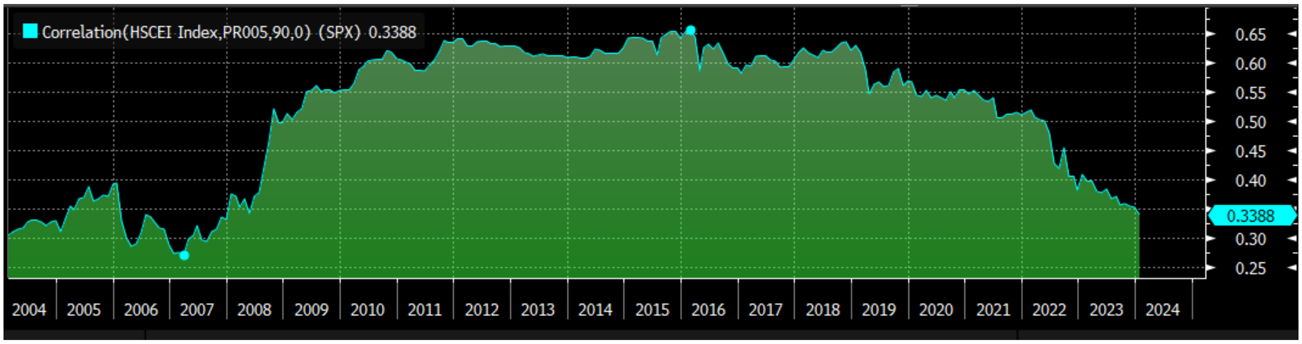
Exhibit 2: Forecasts for Potential GDP Growth in China Continue to Move Lower, a Stark Change for the Global Economy



Source: Bloomberg

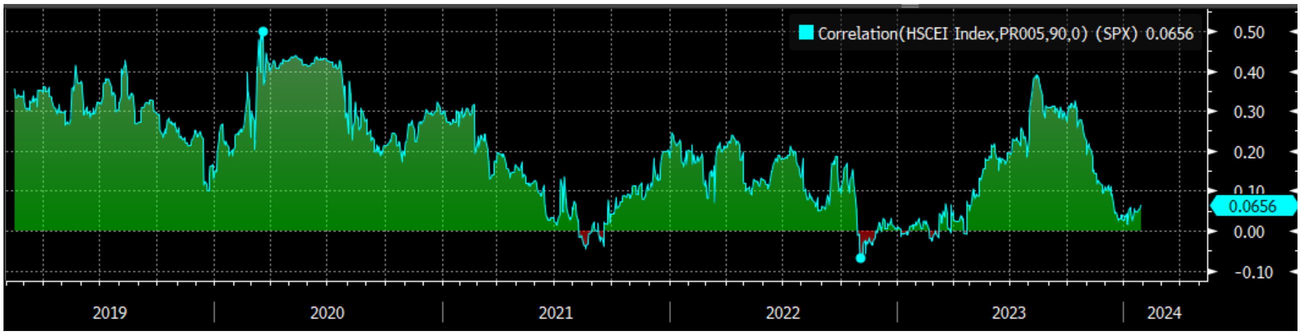
To answer our earlier question, we do think you should care but maybe not for the reasons you think. One of the interesting parts about the recent declines in Chinese equities has been just how little spillover there has been. In previous eras, risk sentiment was at least loosely related with major declines in either the US or Chinese indices have affected the other (Exhibit 3). In the last few years, there's been almost no relationship at all and in fact, over the past 90-days there has been no statistical relationship whatsoever (Exhibit 4). We think there is sound logic to why the relationship has changed over the past decade (declining foreign flows, declining economic linkages, etc.) but we question whether there really should be no impact on US equities from China currently.

Exhibit 3: Weekly Correlation Between Chinese and US Equities is Seeing a Structural Change



Source: Bloomberg

Exhibit 4: On a Shorter-Term Basis, There is no Statistical Relationship Between the Two Asset Classes



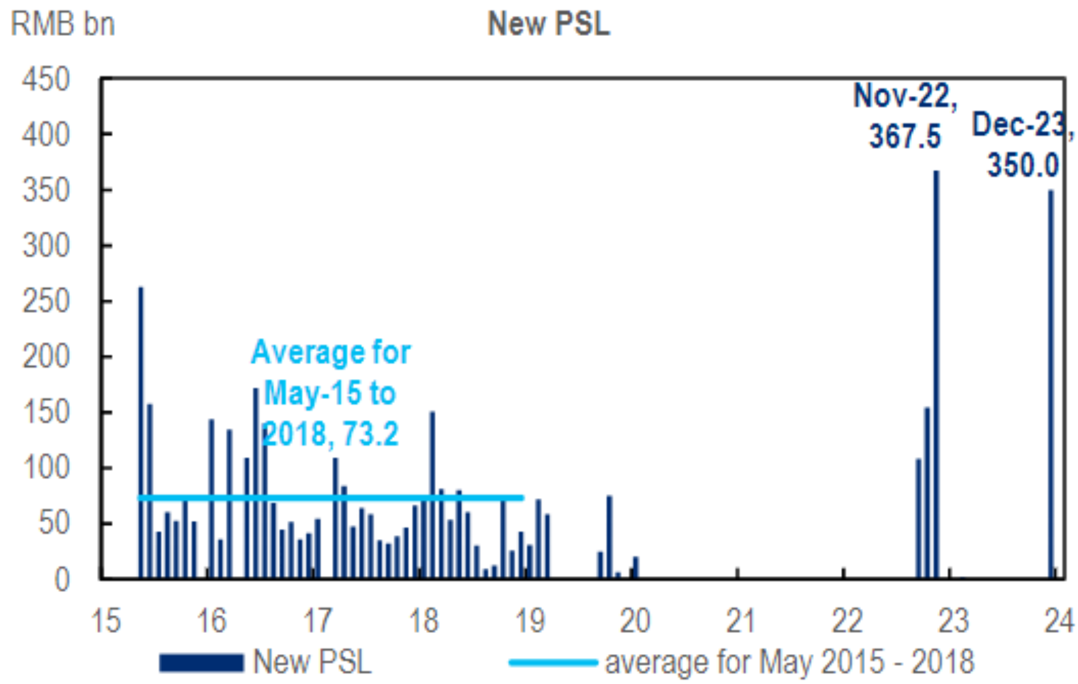
Source: Bloomberg

Our suspicion is that the relationship actually runs in reverse now, where weakness in China is a support to US equities. With outflows at the end of last year running over $3bn a month from China, there is necessarily more money going to other assets. This is true globally, but also domestically on the mainland. Chinese investors are putting billions into QDII eligible ETFs, driving significant ETF premiums to NAV as local investors are willing to pay a premium to own stocks outside China. This will inevitably draw the anger of local regulators and will be curtailed eventually. It is impossible to say how meaningful this flow has been for US (and Japanese) equities, but it's definitely been supportive at the margin.

Aside from flows, the economic weakness in China is a support to the rest of the world's equities, including those in the US. China has returned to supply-chain normality and resumed its role as the exporter of deflation. We see this at a broad macro level but also at the company level- it is primarily cheap Chinese exporters like Temu and Shein driving the explosion in ad revenue at companies like META. These companies are acting as the conduit to export China's overcapacity to the rest of the world in the face of weak domestic demand. In this way, there's been a direct company benefit to China's weakness to major US companies. There is also a growing likelihood that this source of revenue could be at risk if US politicians get more aggressive on Chinese tariffs. This may sound like a win for the US but would be a big negative for US equities given the sensitivity many large US companies have to selling cheap Chinese goods.

The economic weight that China has exerted on the rest of the world also has acted as a helpful force for growth stocks as a factor. The persistent drag has meant that global cyclicals, including in areas like oil and gas, struggle to see momentum lasting beyond a few months here or there. If China were to have more success on its stimulus efforts, the rotation within indices in the US and beyond would likely be significant. We are still dubious that the Chinese authorities will imminently succeed in stimulating a demand recovery but we must acknowledge that the efforts have gotten more aggressive lately on monetary policy. At this stage we believe that the additional liquidity the PBOC is creating has a low multiplier on economic activity given we think it is being used to reduce credit risk more than it is being used as direct demand-supportive transfers (Exhibit 5).

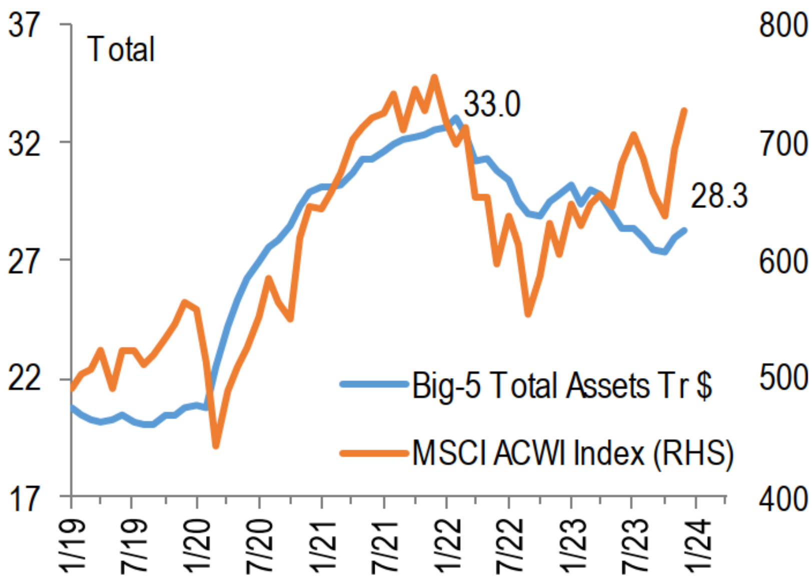
Exhibit 5: The People's Bank of China has Restarted its Most Aggressive Quantitative Monetary Policy Tool



Source: Citi, PBOC

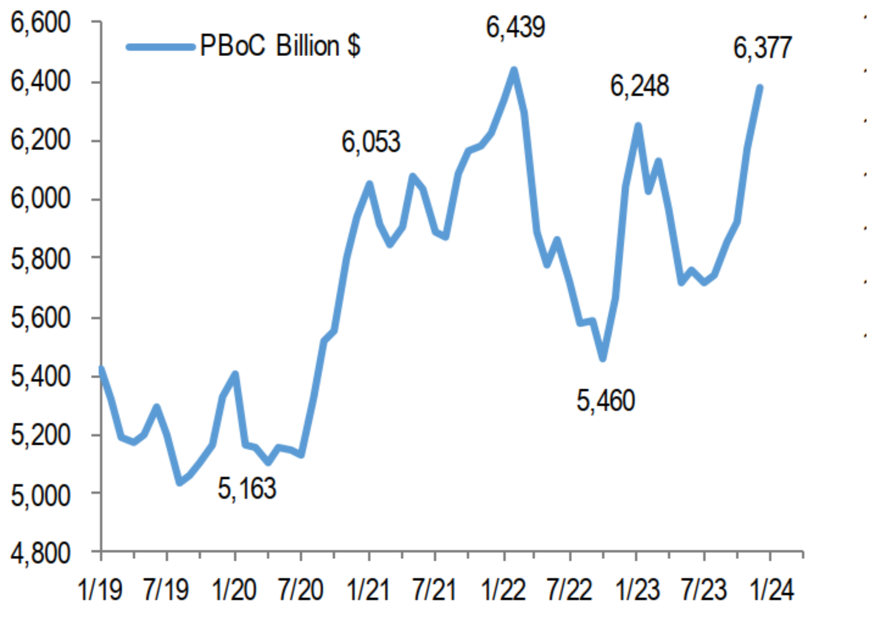
The final point may end up being the most important one. China's weakness has started to become a larger driver of positive global liquidity. In contrast to expectations, the global liquidity impulse last year turned positive in the third quarter and helped global equities at the margin (Exhibit 6). We do not think all sources of central bank liquidity are created equal (the Fed obviously has a more direct link to higher US equities than does the PBOC), but at the margin, more global liquidity helps stocks. While it is always fun to talk about all the fundamental drivers we see at the company and index level, we think liquidity frequently ends up mattering just as much. This is a helpful rubric for understanding markets, in our view, but it's also a hard one to forecast which makes it only useful in real-time and in hindsight. We can say, however, that the PBOC's role is very likely to be quite positive in terms of incremental liquidity generation and will act as a support for global asset prices as well. In this way, China matters for all, and as long as things remain weak and requiring liquidity support, this tap will remain on (Exhibit 7).

Exhibit 6: Global Central Bank Liquidity Shifted to a Positive Impulse in Q3



Source: JPMorgan

Exhibit 7: PBOC Liquidity Impulse is Only Likely to Grow



Source: JPMorgan

Driehaus Global Equity Strategy

The Driehaus Global Equity strategy returned 10.1%, net of fees, in the fourth quarter, 97bps behind the 11.0% return of MSCI All Country World. Inception to date, the Strategy has returned 12.7%, 80 bps behind the 13.5% return of the MSCI All Country World Index.[1] During the quarter, the Strategy's best contributors came in the industrials, consumer discretionary and tech sectors. Industrials has been a key overweight since inception and one aerospace holding in the UK was responsible for much of the outperformance. Within consumer, the best performing stock was a restaurant chain in the US. The Strategy also saw benefit from not owning Tesla, which declined during the period. Within tech, the Strategy has several holdings which will benefit from the ongoing positive secular and cyclical trends within the industry, new chip manufacturing techniques and new demand drivers, including artificial intelligence.

[1]The performance data represents the strategy's composite of global equity accounts managed by Driehaus Capital Management LLC (DCM) (the composite). 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.

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 January 31, 2024 and are subject to change at any time due to changes in market or economic conditions. The material has not been updated since January 31, 2024 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. A basis point equals 0.01.

Driehaus Global Equity Strategy

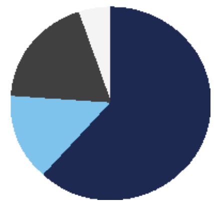
% Month-End Performance (as of 12/31/23)

			Annualized				
	MTH	YTD	YTD	1 Year	3 Year	5 Year	Inception[1]
Driehaus Global Equity Compsite - Gross	3.65	10.37	13.35	--	--	--	13.35
Driehaus Global Equity Compsite - Net	3.57	10.08	12.67	--	--	--	12.67
MSCI ACWI Index (ND)[2]	4.80	11.03	13.48	--	--	--	13.48

Region Allocation (%)

Region	% of Strategy
Americas	61.9
Emerging Markets	14.4
Europe	18.6
Asia	5.0

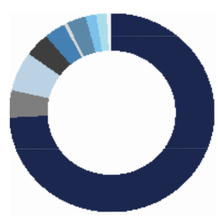
Strategy



Top 10 Country Weights (%)

Country	Strategy	Benchmark
United States	54.8	60.9
United Kingdom	6.4	3.7
Japan	4.8	5.4
Canada	3.8	3.0
France	3.6	2.8
Mexico	3.5	0.4
China	2.2	2.6
South Korea	2.0	1.4
Netherlands	1.7	1.3
Spain	1.6	0.6

Benchmark



Strategy

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance Data as of 12/31/23.

The performance data represents the strategy's composite of global equity 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 admin-istrative and custodian fees while the gross of fee returns do not. Both are net of brokerage com-missions charged to the accounts and reflect the reinvestment of income and other earnings. The perfor-mance data shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

[1]Inception Date: 6/1/2023. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment. [2]The Morgan Stanley Capital International All Country World Index (MSCI ACWI Index) is a market-cap-weighted global equity index that tracks emerging and developed mar-kets. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment.

Key Features

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

Facts

Inception Date[1]	6/1/23
Strategy AUM	$53M
Firm AUM	$15.1B
Investment Style	Core Equity
Investment Vehicles:	Separately Managed Account Mutual Fund

Market Cap Breakout

	Strategy	Benchmark
< $5 billion	3.4	1.1
$5 - $15 billion	6.4	9.1
> $15 billion	90.2	89.8

Portfolio Management

Richard Thies, Lead Portfolio Manager
Tenure with firm: 12 years

Howie Schwab, Portfolio Manager
Tenure with firm: 22 years

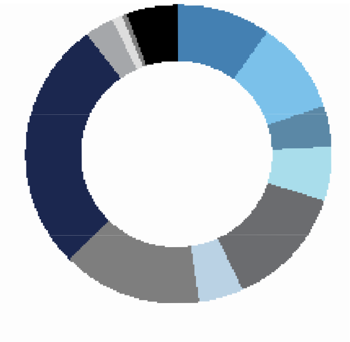
Dan Burr, Portfolio Manager
Tenure with firm: 10 years

Tom Ansen-Wilson, Assistant Portfolio Manager
Tenure with firm: 9 years

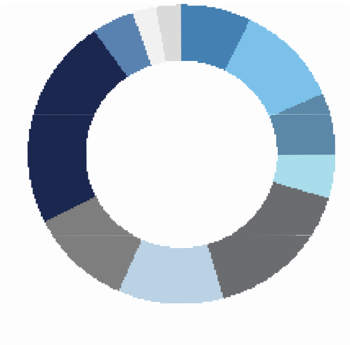
Sector Weights (%)

	Strategy	Benchmark
Communication Services	9.8	7.3
Consumer Discretionary	10.1	11.1
Consumer Staples	4.4	6.8
Energy	5.8	4.5
Financials	13.1	15.9
Health Care	4.6	11.2
Industrials	14.7	10.7
Information Technology	27.3	22.9
Materials	3.0	4.5
Real Estate	1.2	2.4
Utilities	0.6	2.6
Cash	5.4	0.0

Strategy



Benchmark



Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 12/31/23.

Driehaus Global Equity 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 Driehaus Global Equity Composite represents all accounts that seek to maximize capital appreciation through active investment in equity securities in both developed and emerging markets across the globe. The strategy will invest in securities across all market capitalizations and is not constrained by country or region and may at times be concentrated in a particular country, segment of the economy, region, or issuer. The composite was created on June 1, 2023.

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.

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

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

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.

RISKS

All investments have risks. The strategy invests in foreign securities, including small and mid cap stocks, which may be subject to greater volatility than other investments. During certain periods, the strategy has benefited from unusually strong market conditions. At times, a significant portion of an account's return may be attributable to investments in initial public offerings (IPOs) or concentrations in certain strong performing sectors, such as technology. Returns from IPOs or sector concentrations may not be repeated or consistently achieved in the future. In addition, participating in IPOs and other investments during favorable market conditions may enhance the performance of a strategy with a smaller asset base, and the strategy may not experience similar performance results as its assets grow. Investments in overseas markets can pose more risks than U.S. investments. In addition, the strategy's returns will fluctuate with changes in stock market conditions, currency values, interest rates, foreign government regulations, and economic and political conditions in countries in which the strategy invests. These risks are generally greater when investing in emerging markets.

TAX EFFECT

Income tax may be withheld on income depending on the tax laws of each country and its treaty, if any, with the U.S. Such withholding taxes are reflected in the performance of accounts.

INDICES

The Morgan Stanley Capital International All Country World Index (MSCI ACWI Index) is a market-cap-weighted global equity index that tracks emerging and developed markets. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment.

For more information about Driehaus Capital Management LLC, please contact us at 312.932.8621.