

# Driehaus Micro Cap Growth Strategy Summary

1<sup>ST</sup> QUARTER 2024

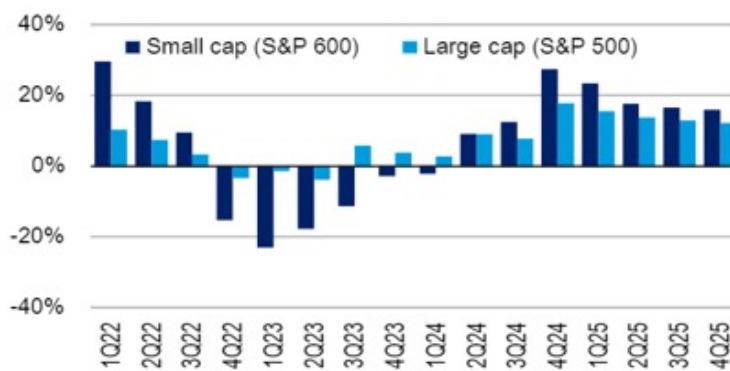
## Market Overview

The U.S. equity market experienced a strong opening quarter to start 2024. Large caps and growth as a style outperformed small caps and value, respectively. Still, it was a strong first quarter for smaller caps and U.S. equities overall as the Russell core and growth indices appreciated in the mid to high single digit percentage range. Most sectors saw gains for the quarter as market breadth and leadership improved during the quarter.

The macro environment is certainly far more benign at this stage of the year than it was at this time during each of the past two years. Those two years saw rising or elevated inflation, hawkish monetary policy by the Federal Reserve (the Fed) and widespread concerns about a recession and an earnings slowdown. These macro concerns drove negative sentiment which resulted in classic bear market action with most stocks seeing multiple compression due to the challenging macro environment. Positively, thus far in 2024, the macro environment has materially improved, and investors are rewarding equities with multiple expansion.

Despite some mixed inflation reports in January and February, most indicators of inflation still suggest a trend of disinflation ahead. This improving inflation outlook has prompted Fed Chair Jerome Powell and the Federal Open Market Committee (the FOMC) to move to a more neutral monetary policy stance with Powell signaling back in December that there may be rate cuts in 2024 (“the Dovish Pivot”). This was an important change in the Fed’s monetary policy positioning and a welcome departure from the Fed’s hawkish policy that included 500 basis points of rate hikes in 2022 and 2023. Also, U.S. economic growth remains positive and likely sustainable over the near-term at least. As the following bar chart shows, the outlook for small cap earnings growth in 2024 and 2025 is expected to improve and accelerate as are earnings overall, after a period of negative year-over-year earnings growth that began in the December quarter of 2022.

**Exhibit 1: Quarterly y/y bottom up EPS growth trajectory for S&P 600 vs S&P 500**  
(Consensus estimates 4Q23 onward; based on historical index constituents)



Source: FactSet, BofA US Equity & US Quant Strategy. Note: Based on historical Index constituents, e.g. bottom-up EPS of constituents as of each quarter compared to bottom-up EPS in the year-ago quarter of the year-ago constituents.

Treasury yields were up a bit in the first quarter, arguably due to sticky inflation data in January and February and continued strong economic growth. Still, equities were able to see broad gains despite the increase in yields. Importantly, high yield credit spreads narrowed meaningfully and remain at benign levels. Commodities are beginning to see broad increases due to a combination of supply issues and better global demand. While most U.S. economic variables remain positive as consumer spending and the labor markets remain strong, some indicators such as the consumer saving rate and bank loan growth have slowed. These variables deserve monitoring, but most indicators suggest continued positive economic growth.

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While the inverted yield curve still needs to be respected due to its history of consistently preceding recessions, there are multiple reasons why a recession has been avoided thus far and could be avoided all together. These reasons include: huge fiscal stimulus, the lack of a credit crunch or crisis, healthy consumer balance sheets, the strong labor market, the unique nature of the post-pandemic recovery, improving productivity, reshoring of manufacturing back to the U.S. and the dynamic that a number of key industries within the U.S. economy have already experienced rolling recessions at different intervals and are now seeing a series of rolling expansions.

### AI - Artificial intelligence

Thematically, we want to highlight the topic we have been most frequently asked about by our investors in recent months – AI (Artificial intelligence). Ever since the debut of ChatGPT on November 30, 2022, excitement around AI has grown massively.

#### What is the outlook for AI as a technology?

AI holds tremendous potential to enhance productivity for enterprises across various industries. AI technologies such as machine learning can automate routine and repetitive tasks, freeing employees to focus on more value-added activities. This automation can significantly increase operational efficiency and productivity, while reducing manual errors. AI-powered analytics can process vast amounts of data quickly and accurately, providing valuable insights into customer behavior, market trends, and operational performance. AI can improve the customer experience by analyzing customer data and interactions through language processing and machine learning. AI can also perform predictive maintenance, enhance decision-making, optimize supply chains, manage risk and fraud detection, and empower employees as a productivity tool.

The use of AI by enterprises is still nascent but growing rapidly. According to Gartner, as of late 2023, while 45% of enterprises are using AI in a piloting mode, only 10% are using AI in actual production. Enterprises intend to ramp up their investment and spending in AI. According to the investment firm Jefferies, 20% of enterprises say they have been using AI for “a long time”, but 45% say they are planning to adopt AI over the next 12-24 months.

CoreWeave, a next generation public cloud provider focused on AI applications recently told Bloomberg that the world is “grossly” underestimating how much the demand for AI is going to expand the global market for data centers over the next five years. The data center requests that CoreWeave (which is not yet publicly traded) is fielding on a daily basis “are absurd”<sup>1</sup>. As equity investors we love to find and invest in growing fields where demand materially exceeds supply, and where the outlook is durable and open-ended. We continue to view AI as fitting this mold based on countless company and industry anecdotes and the quarterly updates that companies are generating.

Market estimates for AI growth and its impact vary widely. This is similar to previous large transformational technologies such as the internet, the cloud, PCs, and smartphones. Like those technology waves, we believe the impact of AI on enterprises, the market and society overall should prove to be profound. AI will likely boost productivity across nearly every industry. Already the cost to query a generative AI model has fallen by 90% since 2021. This deflation accelerates the adoption of AI applications and will likely drive further technological change and will disrupt many aspects of our entire economy.

Some AI observers have labeled 2023 as a year of AI hype following the late 2022 launch of Chat GPT and that 2024 will be seen as a big investment year which will be followed by meaningful productivity improvements in 2025 and beyond.

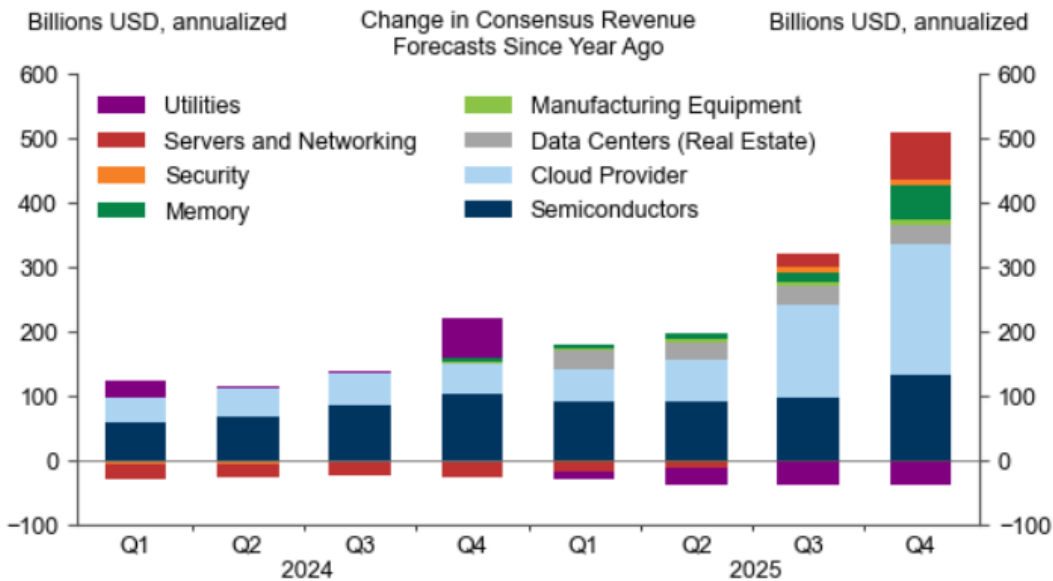
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<sup>1</sup><https://www.bloomberg.com/news/articles/2024-04-04/ai-demand-for-data-centers-vastly-underestimated-coreweave-says>

Where are we seeing investment opportunities?

Shares in companies that enable AI, such as semiconductor companies and other hardware companies have been among the strongest market performers over the past 18 months. Nvidia (ticker: NVDA), the leading AI semiconductor supplier, has grown its earnings dramatically which has fueled a large rise in its market value, as it has grown to become the third largest weighting in the S&P 500. Super Micro Computer (ticker: SMCI), the leading AI server vendor, has become the largest weighting in the Russell 2000 and the 2000 Growth. Other key providers of semiconductors and semi cap equipment are also benefiting. We are increasingly discovering other networking and hardware companies benefitting from the AI buildout.

**Exhibit 2: The Upgrade to Hardware Investment is Primarily Driven by Increased Investment in Semiconductors and Cloud**



Source: FactSet, Goldman Sachs Global Investment Research

Numerous industrial companies are also seeing accelerating growth due to the need to supply data centers with energy efficiency tools and various liquid cooling technologies. Our portfolios have several industrial companies seeing tremendous growth tied to various products needed for data centers. Nvidia’s CEO Jensen Huang expects over \$250 billion to be spent on data center equipment annually, much of which will benefit numerous tech and industrial companies. Amazon, the largest public cloud provider, plans to spend over \$150 billion over the next decade plus to meet the expected boom in demand from AI tools. The exhibit above highlights the huge growth ahead in hardware spending across specific areas.

Software companies are also benefiting from the adoption of AI. Cyber security companies are huge winners as unfortunately AI accelerates the generation of cyberattacks. Consumer companies are using AI in a variety of ways including the ability to personalize online searches into customized recommendations thereby converting customer inquiries into final sales. The potential use cases are vast and over the next couple of years we will begin to see more and more applications, many of which we can’t currently imagine.

Within our portfolios, we hold a restaurant company that is using AI to automate telephone order handling. A fragrance company is using it for product development and testing and creation of marketing materials. A language learning software company is using AI to accelerate the creation of new lessons and apps. In each example, AI is enhancing productivity, creating product differentiation, boosting overall revenue growth, and expanding operating margins.

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Another big opportunity but also a key risk is energy consumption. Over the past twenty years, growth in the U.S. electricity power load has grown by just .4% per year as energy efficiencies have helped to offset growth from new technologies and overall economic expansion. The rapid growth of AI and data centers (as well as crypto currency mining and electric vehicles) is beginning to introduce a new era of energy demand and growth in the overall U.S. power load. Estimates vary widely but range from 2 to 5% growth in annual electricity power load growth per year. The implications are huge for natural gas and nuclear power demand, power generation, infrastructure, and all their respective supply chains. Energy companies, utilities and industrial companies all stand to benefit.

### Is it a bubble?

No, we do not believe it is a bubble. As a few of the growth figures and industry comments above suggest, we view this growth in AI infrastructure and application growth to be early and sustainable. Thus far, AI as an investment theme is vastly different compared to the Tech Bubble of 1999-2000. Earnings are far stronger now, the equity multiples are far lower, the number of companies benefiting is still growing and the outlook appears to be early by most indicators.

While excitement is extremely high, the valuation of many AI beneficiaries is still reasonable. For instance, the biggest AI beneficiary Nvidia has a P/E of 29x (based on fiscal year (FY) 1/26 earnings per share (EPS)), which is below its P/E of over 40x a year ago. Nvidia's earnings growth has been tremendous. Nvidia's consensus EPS estimate was \$7.82 a year ago and has since increased to over \$30. Based on current growth trends, these estimates are likely still conservative.

Similarly, Super Micro Computer, which has been the biggest AI beneficiary in the small cap index, has experienced an earnings growth trajectory that is remarkably similar to that of Nvidia. This makes sense fundamentally as the two companies are close partners, both are highly differentiated, and both have been taking impressive market share tied to the AI build out. SMCI's EPS for its next fiscal year was \$7.33 in the fall of 2022 and the current consensus estimate is \$30.21 for its FY 6/25. SMCI has also seen multiple compression versus one year ago and we believe consensus estimates are materially too low.

Further, the number of ways "to play" AI is still relatively limited but certainly growing. As mentioned earlier, we have discovered and are invested in numerous hardware companies within the technology and the industrial sectors. There are also software companies that are benefitting from AI, as well as several consumer related companies. These products are exciting and will expand growth rates and margins.

As this wave develops, just like with past technology cycles, negatives such as supply chain bottlenecks, excess inventory, execution missteps and other disappointments will eventually appear. Valuations may grow to become unreasonable, and estimates may become too optimistic. However, for now, we opportunistically believe it is still relatively early in terms of the company and product life cycles for this AI build out and for many AI related products.

### Performance Review

For the March quarter, the Driehaus Micro Cap Growth strategy outperformed its benchmark. The Strategy gained 14.48%, net of fees, while the Russell Micro Growth Index was up 6.60%, the Russell Micro index appreciated 4.68%, the Russell 2000 rose 5.18%, and the S&P 500 grew 10.56%.<sup>2</sup>

<sup>2</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

The quarterly outperformance was broad based with every sector in the strategy outperforming its counterpart in the index. Individual company earnings were strong for our holdings and fundamental outlooks appear to be robust. Additionally, these bottom-up results are supported by multiple themes and industry trends that we view as sustainable.

By sector, the March quarter performance is summarized as follows (in order of relative outperformance):

### Healthcare

Healthcare added 565 basis points in absolute returns and outperformed by 198 basis points as our holdings gained over 18% versus 10% for the holdings in the index. Biotech/Pharma was the big mover driving sector returns. It added 415 basis points to absolute performance and outperformed by 291 basis points. A handful of biotech/pharma holdings performed well with several announcing successful clinical trial data.

Within biotech/pharma we remain encouraged fundamentally as we believe our holdings have very promising and innovative clinical stage therapies demonstrating superior efficacy and safety in important disease indications, such as obesity, epilepsy, endocrinology, diabetes, neurology, autoimmune diseases, and oncology. We anticipate promising results from additional upcoming clinical trials.

Elsewhere within healthcare, the strategy has a slight underweight in medical devices but outperformed as our med tech companies were up 11% versus 4% for the index. The strategy is underweight the sector's other sub-industries.

### Consumer Discretionary

Consumer discretionary contributed 265 basis points in absolute terms and outperformed by 163 basis points in relative terms. We saw strength in several areas including restaurants, specialty retail, building materials, and e-commerce. Our holdings were up 17.7% versus 7.2% for those in the index. The strategy maintains an overweight to the sector exposure at 13.7%, versus 9.9% for the index.

### Financials

Financials contributed 112 basis points in absolute terms and outperformed by 125 basis points in relative terms. All of the absolute and relative performance came from specialty insurance as several positions posted robust growth with positive outlooks. We remain bullish on the industry and company growth drivers within specialty insurance. Our insurance sub-industry exposure is just over 600 basis points, an overweight position of about 480 basis points.

### Energy

The energy sector contributed 51 basis points in absolute returns and 72 basis points in relative returns. Strength came from a uranium producer which continued to perform well, and within oil and gas, we saw impressive performance oil service and exploration and production companies. We increased our overweight sector exposure from 3.1% to 4.2% (versus 3.2% for the index) as the group strengthened while crude oil rebounded.

### Industrials

Industrials added 285 basis points in absolute terms and 115 basis points of relative outperformance as our holdings appreciated nearly 15% versus 10.2% for the industrial sector in the index. We remain overweight the sector by roughly 650 basis points, and we increased our absolute weight to the sector by 100 basis points. We continue to be positive on the sector as reshoring remains a strong theme and we see many individual holdings with robust fundamental trends. We also hold positions benefiting from attractive trends within commercial aerospace, infrastructure, transportation, building materials and data centers where AI is driving demand for various technologies and equipment.

## Driehaus Micro Cap Growth Strategy

### Consumer Staples

Consumer staples contributed 53 basis points in absolute terms and outperformed by 47 basis points in relative terms. The outperformance was driven by a cosmetic manufacturer, an energy drink company, and a specialty food producer. Each of which continue to grow rapidly, gain market share, and expand its earnings well above expectations. We have a slight underweight to the sector versus for the index.

### Technology

Technology added 49 basis points in absolute performance and outperformed by a slim 7 basis points versus the index, as our holdings returned 3% versus a gain of 2.5% for the index. By sub-industry, our holdings outperformed in semiconductors and in hardware, somewhat offset by relative underperformance in communication equipment. Semiconductors and hardware have several AI related beneficiaries. We reduced tech sector exposure by 100 basis points, moving from overweight to underweight during the quarter.

### Outlook & Positioning

Equities performed well in the March quarter as the macro environment is constructive given inflation trends, neutral Fed monetary policy, the prospect of rate cuts later in the year, strong economic growth and improving earnings. Small caps continue to trade at an appealing discount to large caps. The market's breadth and overall technical picture are attractive also. It is very possible the market consolidates near-term given the strong advance since the end of October last year. Worries that the Israeli-Hamas war grows into a broader regional conflict have increased and related potential risk of higher crude oil prices would increase market fears and volatility.

The odds and timing of rate cuts this year keep getting pushed out, but still consensus calls for some rates cuts in the second half as inflation continues to trend closer towards to the Fed's 2% target. If inflation proves stagnant like it did in January and February that will continue to push out the chances of rate cuts. While the market's expectations on inflation vary, most indicators continue to suggest disinflation for the rate of CPI and PCE.

A key risk to the market is the upward direction of treasury yields, as they have continued to grind higher since the start of the year. Thus far equities have been acting well despite this, as market participants may believe the higher yields are being driven by durable economic growth rather than inflation. We expect overall earnings to improve and the economy to remain sustainably strong, absent some external shock. We do need to respect the impeccable record of the sharply inverted yield curve in predicting recessions given the long and variable of monetary policy, however there are multiple reasons why the economy should continue to grow nicely.

In terms of portfolio positioning, we have an attractive mix of secular and cyclical growth holdings. By sector, healthcare is our largest absolute weight, followed by industrials, technology, consumer discretionary, financial and energy. On a relative basis, the strategy is overweight industrials, financials, energy, and consumer discretionary. The strategy is underweight healthcare, technology, consumer staples and materials.

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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 April 9, 2024 and are subject to change at any time due to changes in market or economic conditions. The material has not been updated since April 9, 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.

# Driehaus Micro Cap Growth Strategy

## % Month-End Performance (as of 3/31/24)

				Annualized				
	MTH	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>2</sup>
Driehaus Micro Cap Growth Composite (Gross)	4.32	14.70	14.70	27.18	-0.66	18.61	16.75	21.21
Driehaus Micro Cap Growth Composite (Net)	4.25	14.48	14.48	26.19	-1.44	17.64	15.61	20.27
Russell Microcap <sup>®</sup> Growth Index (Benchmark)	1.26	6.60	6.60	15.43	-10.99	4.19	3.84	*

## Top 5 Holdings<sup>5</sup> (as of 2/29/24)

Company	Sector	% of Strategy
Modine Manufacturing Company	Consumer Discretionary	3.1
Crinetics Pharmaceuticals Inc	Health Care	2.7
Camtek Ltd	Information Technology	2.4
Xenon Pharmaceuticals Inc.	Health Care	2.2
FTAI Aviation Ltd.	Industrials	1.9

## Sector Weights (%)

	Strategy	Benchmark	Active Weights
Communication Services	3.2	2.7	0.5
Consumer Discretionary	13.7	9.9	3.8
Consumer Staples	2.0	2.9	-0.9
Energy	4.2	3.2	1.0
Financials	9.5	7.2	2.3
Health Care	29.3	36.7	-7.4
Industrials	21.8	15.3	6.5
Information Technology	13.8	16.6	-2.8
Materials	2.2	3.2	-1.0
Real Estate	0.0	1.1	-1.1
Utilities	0.0	1.2	-1.2
Cash	0.2	0.0	0.2

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance  
Data as of 3/31/24.

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>Portfolio characteristics represent the strategy's composite. <sup>4</sup>Data is calculated monthly. <sup>5</sup>Holdings subject to change.

\*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>	\$2.0B
Firm Assets Under Management	\$17.3B
Investment Style	Growth Equity
Investment Vehicles:	Separately Managed Account Mutual Fund

## Portfolio Characteristics<sup>3</sup>

5-year period	STRATEGY	BENCHMARK
Information Ratio	1.43	n/a
Beta	0.97	1.00
Standard Deviation	28.20	27.37
Tracking Error	9.39	n/a
R-squared	0.89	1.00

Market Cap Breakout	STRATEGY	BENCHMARK
< \$1 billion	15.0%	61.7%
> \$1 billion	85.0%	38.3%

	STRATEGY	BENCHMARK
Number of Holdings	120	809
Weighted Avg. Market Cap (M)	\$2,586	\$986
Median Market Cap (M)	\$1,679	\$185
Active Share (3-year avg.) <sup>4</sup>	82.79	n/a

## Portfolio Management

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

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

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

## Driehaus Micro Cap Growth Strategy

## Sector Performance Attribution 1st Quarter – 12/31/23 to 3/31/24

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	Security Selection + Interaction Effect	Total Effect
Communication Services	2.29	0.53	2.65	0.26	-0.02	0.30	0.28
Consumer Discretionary	14.99	2.65	9.74	0.70	0.05	1.54	1.59
Consumer Staples	2.22	0.53	2.60	0.16	0.02	0.45	0.47
Energy	3.11	0.51	3.13	-0.23	0.19	0.53	0.72
Financials	9.85	1.12	7.76	-0.15	-0.13	1.42	1.29
Health Care	29.65	5.65	38.42	3.98	-0.31	2.30	1.99
Industrials	20.30	2.85	14.31	1.46	0.25	0.91	1.16
Information Technology	14.95	0.49	16.10	0.40	0.06	0.01	0.07
Materials	2.06	0.11	2.89	0.26	-0.04	0.01	-0.03
Real Estate	0.00	0.00	1.13	-0.10	0.18	0.00	0.18
Utilities	0.00	0.00	1.27	-0.19	0.27	0.00	0.27
Cash	0.58	0.00	0.00	0.00	-0.10	0.00	-0.10
Other <sup>2</sup>	0.00	-0.32	0.00	0.00	-0.26	-0.07	-0.32
<b>Total</b>	<b>100.00</b>	<b>14.11</b>	<b>100.00</b>	<b>6.55</b>	<b>0.15</b>	<b>7.41</b>	<b>7.56</b>

Data as of 3/31/24

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 operating expenses and securities not recognized by Factset.

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#### 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.

**RISKS**

All investments have risks. 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. The securities of micro-cap companies may be more volatile in price, have wider spreads between their bid and ask prices, and have significantly lower trading volumes than the securities of larger capitalization companies. As a result, the purchase and sale of more than a limited number of shares of the securities of a smaller company may affect its market price. Growth stocks may involve special risks and their prices may be more volatile than the overall market. It is anticipated that the strategy will experience high rates of portfolio turnover.

**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. **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. **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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