Driehaus Emerging Markets Small Cap Growth Fund Commentary

Emerging markets ("EM") have started the year on strong footing as some of the factors contributing to last year's poor performance, such as tightening monetary policy and rising trade tensions, have begun to abate. Despite this rebound in performance, India has been left behind, lagging the broad benchmark by nearly fifteen percentage points over the last two months. A member of the Driehaus EM team was recently in India to survey conditions on the ground and we share insights from the visit below.

First, we examine the drivers of India's year-to-date underperformance. As we outlined in our October 2018 commentary, non-banking financial companies ("NBFCs") in India have come under considerable pressure over the past several months. These companies are largely reliant on wholesale funding conditions and tend to perform well during periods of abundant liquidity and low interest rates. Due to the persistently high oil prices of the first nine months of 2018, along with tightening monetary policy across much of the world, the cost and availability of funding gradually deteriorated for NBFCs over the course of 2018, up to the point at which defaults occurred, sending a further ripple effect through the system. As NBFCs accounted for approximately 40% of incremental system-wide credit growth in recent years, this development served as a constraint to India's economy.

Additionally, Prime Minister Narendra Modi, who was elected to fanfare in 2014, has seen his popularity diminish over the past few years, in large part due to difficult decisions he has undertaken on the policy front to reduce corruption and increase transparency. Modi's most controversial policy was the November 2016 demonetization, an attempt to clamp down on corruption by removing Rs500 and Rs1000 bills from the system. This ground economic activity to a temporary halt and caused an extreme amount of discord in the country. While India staged a swift recovery behind a flood of liquidity into the banking sector, lasting damage was done. In mid-2017, the long-awaited Goods and Services Tax ("GST") was introduced, bringing complexities to the layers of dealers and distributors common across India's supply chains and further disrupting economic activity.

Though Modi was not directly responsible for the travails of the NBFCs in 2018, a heightened regulatory backdrop did not help matters, and thus nearly half of Modi's term has been accompanied by challenges for key constituents within the country. Consequently, Modi's popularity has fallen from 66% to 46%, and the optimism surrounding a pickup in the investment cycle and realization of a demographic dividend has been replaced with concerns about growth and financial stability.

We recently visited India and, once again, experienced its vibrant and dynamic economy. The consultants we met with on our visit emphasized the point that India, in contrast to China, remains structurally driven by ethnicities, traditions and languages. China maintains a more homogenous group of 400 million Millennials (they all study for the same college entrance exam, speak the same language, use the same social media and payment systems). India's Millennials, however, remain fractured by language and regionalism. As a result, a one-product-fits-all strategy has proven to be untenable in India. In order to capture the local flavor (and sales), companies have invested broadly in new product introductions, new distribution channels and regional marketing campaigns.

Regardless of the industry - from fast moving consumer goods ("FMCG") companies to spirits, jewelry, paints, electrical and appliances, and autos/motorcycles - one overarching theme continues to be innovation. India is still in the early stages of its journey towards premiumization, but aspirations are high, in both rural and urban markets. Furthermore, demand is gradually improving. India reached a per capita GDP of $2,000, which many analysts see as a milestone towards consumption upgrades. Staples tend to be the initial beneficiaries of improving disposable incomes - confirmed by strong volume growth reported in this sector. We remain excited about the growth within rural markets, as they continue to grow faster than urban markets, fostered by government schemes and income growth.

Although India has made tremendous improvements over the past decade – in terms of sanitation, access to water, bank account penetration, and access to phones and data – there are many areas that still need improvement.

Unemployment among youth and women remain high at 18% and 27% respectively. This is particularly troubling when considering that five to six million people enter the workforce every year. Wage growth has been stagnant, especially at the lower end. Urbanization is occurring but has not been properly managed. Land and labor policies need to be revised and new trade policies signed. Finally, India needs to address water usage in agriculture. One troubling statistic finds that India is the largest user of ground water in the world - two times that of China and the US. As one consultant said, "India is running out of water faster than air."

While Indian equities are off to a rocky start to 2019, we see some incremental cause for optimism. We tend to avoid big sweeping predictions on political events such as elections. However, should local sentiment continue to coalesce around Modi, as it recently has, a more visible policy outlook is likely to emerge following the May elections. The ruling Bharatiya Janata Party (BJP) party's lead in the polls, the lack of a powerful opposition, and the realization that Modi's tough decisions have contributed to a more sustainable long-term path for the economy, all point to a growing likelihood that Modi wins a second term as Prime Minister.

Additionally, our analysis continues to suggest an environment in which oil price upside is capped by the continued growth of new supply, primarily from US shale. As earnings season is mostly behind us, we have gotten a glimpse into the ongoing productivity gains achieved by the US producers, as aggregate capex guidance for 2019 is -6% year-over-year, but production guidance implies 14% growth. With new pipeline capacity set to ramp up in the second half of 2019 and weak physical market indicators, we do not expect the recent recovery in the oil price to turn into the constraint on India's economy that it was for the majority of 2018.

As inflation is already decelerating in India, with food inflation tracking in negative territory on a year-over-year basis, the Reserve Bank of India would be well justified to stay on a course of monetary easing. Further, better policy visibility would likely lead to an improvement in consumer confidence, following the challenging backdrop that has persisted over the past year.

Performance Review

The Driehaus Emerging Markets Small Cap Growth Fund, net of fees, returned 1.19% in February, compared to the MSCI Emerging Markets Small Cap Index, net dividend, return of 1.30%.[1] At the sector level, the most significant contributors to returns were Information Technology and Consumer Discretionary. Consumer staples and financials detracted the most value. At the country level, China and Taiwan contributed most to performance for the month, while India and Brazil were notable detractors from performance.

Positioning and Outlook

The first two months of 2019 have recovered the majority of the losses realized in the fourth quarter of 2018 amid the height of the economic concerns surrounding trade and monetary tightening. While equity markets have started the year with renewed optimism, market movements have largely been disconnected from the weak economic data and limited pickup in earnings. So where do we go from here?

In our view, the keys to the forward outlook continue to revolve around China and the US dollar. Our recent research trip to China following Lunar New Year revealed continued growth in fixed asset investment and scope for property market easing in the months ahead. When combined with a potential stabilization in export data, which has been weakening for the past four months, we continue to see an incrementally improved outlook for China.

The anticipation of economic stimulus, an increasingly conciliatory stance by the Chinese government toward private sector companies, and a pause in the deleveraging campaign have contributed to the outperformance of Chinese equities, particularly mainland listed companies. The 10% increase in the Shanghai Composite Index in the second half of February has invited comparisons to the melt-up observed in 2015. However, we expect that rising infrastructure spending and improving consumer and business sentiment will yield an earnings recovery in areas including rail equipment, consumer discretionary stocks in verticals such as apparel and gaming, and pockets of the technology sector such as datacenters, even if the recent rally pauses in the near-term.

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[1]**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 (800) 560-6111 or visit www.driehaus.com for more current performance information.**

We see scope for similar improvement following the recent pause in Brazil's equity market rally. Optimism surrounding Brazil's reform agenda propelled the market higher in the early days of 2019, only to be followed by a slight delay in the timing of the critical pension reform initiative, with key measures expected in the third quarter of the year. The combination of a growth recovery and a structural improvement in the cost of equity remain the pillars of the macro story in Brazil.

Elsewhere in EM, we continue to see low inflation readings bolstering the case for supportive monetary policy, and in an environment of high carry and supportive growth differentials, we expect this to drive capital inflows to emerging markets. We retain overweight positions in beneficiaries such as Indonesia and Philippines. As articulated above, we also see India as well-positioned for this trend.

With several of the major economies within emerging markets exhibiting positive turning points following a period of depressed relative performance, we see growing potential for emerging market small caps to break the multi-year relative performance downtrend against global small cap equities. Should we see a more pronounced period of weakness in the US dollar alongside these improving fundamental trends, we would expect further relative upside for emerging markets. Last month, we presented the case for US dollar weakness over the medium-term, as widening fiscal deficits and richly valued real effective exchange rates point to a potential topping out of the period of strength we have observed in the US dollar over the past several years. While we acknowledge that many other G7 economies face similar challenges with respect to the growth outlook and fiscal situation, we see a healthier picture among several EM economies, emblematic of the rising dispersion across global markets that we have begun to see in the early months of 2019. (Exhibit 1)

Exhibit 1:
MSCI Emerging Markets Small Cap Index Relative to MSCI All Country World Small Cap Index

Source: Bloomberg

Until next month,

Chad A Cleaver

Chad Cleaver, Lead Portfolio Manager
Driehaus Emerging Markets Small Cap Growth Fund

DRESX Performance Review

Month-end Performance as of 2/28/19

				Average Annual Total Return			
Fund/Index	**MTH**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception[1]**
Driehaus Emerging Markets Small Cap Growth Fund[2]	1.21%	8.33%	-18.01%	2.13%	-2.40%	9.65%	9.17%
MSCI Emerging Markets Small Cap Index (ND)[3]	1.30%	6.75%	-14.34%	9.03%	2.00%	11.74%	11.63%
MSCI Emerging Markets Small Cap Growth Index (ND)[4]	1.44%	6.51%	-16.07%	5.62%	0.12%	10.39%	10.37%

Calendar Quarter-end Performance as of 12/31/18

				Average Annual Total Return			
Fund/Index	**QTR**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception[1]**
Driehaus Emerging Markets Small Cap Growth Fund[2]	-10.22%	-24.00%	-24.00%	-3.02%	-2.83%	8.08%	8.46%
MSCI Emerging Markets Small Cap Index (ND)[3]	-7.18%	-18.59%	-18.59%	3.68%	0.95%	9.87%	11.11%
MSCI Emerging Markets Small Cap Growth Index (ND)[4]	-8.52%	-19.97%	-19.97%	0.12%	-0.64%	8.70%	9.86%

Annual Operating Expenses[5]

Gross Expenses	1.47%
Net Expenses	1.45%

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. Principal value and investment returns will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. The Fund will charge a redemption fee of 2.00% on shares held less than 60 days. Performance data represents the rate that an investor would have earned (or lost) on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change, while cumulative total return reflects aggregate change. Contractual fee waivers were in effect from inception to 8/21/2014. Without such fee waivers, performance numbers would have been reduced. Since Fund performance is subject to change after the month-end, please call (800) 560-6111 or visit www.driehaus.com for more current performance information.

[1]Inception Date: 12/1/2008. "Since Inception" is calculated to include performance from the Fund's predecessor limited partnership. [2]The average annual total returns of the Driehaus Emerging Markets Small Cap Growth Fund include the performance of the Fund's predecessor limited partnership, which is calculated from December 1, 2008 before the Fund commenced operations and succeeded to the assets of its predecessor on August 22, 2011. The predecessor limited partnership was not registered under the Investment Company Act of 1940, as amended ("1940 Act") and thus was not subject to certain investment and operational restrictions that are imposed by the 1940 Act. If the predecessor had been registered under the 1940 Act, its performance may have been adversely affected. The Fund's predecessor performance has been restated to reflect estimated expenses of the Fund. After-tax performance returns are not included for the predecessor limited partnership. The predecessor was not a regulated investment company and therefore did not distribute current or accumulated earnings. [3]The Morgan Stanley Capital International Emerging Markets Small Cap Index (MSCI Emerging Markets Small Cap Index) is a market capitalization-weighted index designed to measure equity market performance of small cap stocks in global emerging markets. Data is in US dollars. The net dividend (ND) index is calculated with net dividend reinvestment. [4]The Morgan Stanley Capital International Emerging Markets Small Cap Growth Index (MSCI Emerging Markets Small Cap Growth Index) is a subset of the MSCI Emerging Markets Small Cap Index and includes only the MSCI Emerging Markets Small Cap Index stocks which are categorized as growth stocks. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment. [5]Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2018 as supplemented on September 17, 2018. 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. A shareholder may be required to pay a commission to their financial intermediary. Driehaus Capital Management LLC, the Fund's investment adviser, has entered into a contractual agreement to waive a portion of its management fee and to reimburse operating expenses to the extent necessary to cap the Driehaus Emerging Markets Small Cap Growth Fund's ordinary annual operating expenses (excluding interest, taxes, brokerage commissions, dividends and interest on short sales and other investment-related costs, acquired fund fees and expenses and extraordinary expenses, such as litigation and other expenses not incurred in the ordinary course of the Fund's business), resulting in the current net expense ratio of 1.45% until the earlier of the termination of the investment advisory agreement, by the Board of Trustees or the Fund's shareholders, or October 31, 2021. Pursuant to the agreement, and so long as the investment advisory agreement is in place, for a period not to exceed three years from the date on which the waiver or reimbursement was made, the investment adviser is entitled to reimbursement or previously waived fees and reimbursed expenses to the extent that the Fund's expense ratio remains below the operating expense cap that was in place at the time of the waiver as well as the existing operating expense cap.

The Fund invests in foreign securities, including small and mid cap stocks, which may be subject to greater volatility than other investments. During certain periods, the Fund has benefited from unusually strong market conditions. At times, a significant portion of a Fund'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 Fund with a smaller asset base, and the Fund may not experience similar performance results as its assets grow. **Investments in overseas markets can pose more risks than U.S. investments, and the Fund's share prices are expected to be more volatile than that of a U.S.-only fund.** In addition, the Fund'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 Fund invests. These risks are generally greater when investing in emerging markets. These and other risk considerations are discussed in the Fund's prospectus.

Please consider the investment objectives, risks, fees and expenses of the Fund carefully prior to investing. The prospectus and summary prospectus contain this and other important information about the Fund. To obtain a copy of the prospectus and/or summary prospectus, please call us at (800) 560-6111 or visit www.driehaus.com. Please read the prospectus carefully before investing.

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SECTOR WEIGHTS (%)

	Fund	Benchmark	*Active Weights (%)*
Communication Services	4.5	4.3	*0.2*
Consumer Discretionary	19.8	14.4	*5.4*
Consumer Staples	13.0	6.9	*6.1*
Energy	0.8	1.9	*-1.1*
Financials	12.4	10.7	*1.6*
Health Care	3.3	8.6	*-5.3*
Industrials	16.7	14.2	*2.5*
Information Technology	10.8	14.7	*-3.9*
Materials	7.5	11.9	*-4.4*
Real Estate	4.2	7.7	*-3.6*
Utilities	0.3	4.8	*-4.4*
Cash	6.7	0.0	*6.7*

COUNTRY WEIGHTS (%)

	Fund	Benchmark		Fund	Benchmark
Argentina	1.7	0.0	Kazakhstan	0.6	0.0
Bangladesh	0.9	0.0	Mexico	1.5	3.0
Brazil	8.7	6.8	Philippines	3.9	1.0
Cambodia	3.2	0.0	Poland	3.5	1.1
Canada	0.6	0.0	Russia	1.3	0.8
China	17.5	7.1	South Africa	5.0	5.4
Cyprus	0.9	0.1	South Korea	3.9	18.2
Egypt	1.2	0.5	Taiwan	8.2	18.9
Hong Kong	7.2	4.7	Turkey	0.5	1.3
India	17.6	14.5	Cash	6.7	0.0
Indonesia	5.5	2.6			

TOP 5 HOLDINGS[1] (as of 1/31/19)

Company	Sector	Country	% of Fund
India Grid Trust Units Series - IV	Financials	India	3.7
NagaCorp Ltd.	Consumer Discretionary	Hong Kong	2.8
Li Ning Company Limited	Consumer Discretionary	Hong Kong	2.5
Clicks Group Limited	Consumer Staples	South Africa	2.1
Megaworld Corp.	Real Estate	Philippines	1.9

PORTFOLIO CHARACTERISTICS

	Fund	Benchmark
Number of Holdings	83	1,585
Weighted Avg. Market Cap (M)	$3,369	$1,194
Median Market Cap (M)	$2,705	$694
Est. 3-5 Year EPS Growth	20.6%	17.2%
Active Share[2]	95.45	n/a
Market Cap Breakout (%)		
< $5 billion	82.8	99.9
> $5 billion	17.2	0.0

5-year period	Fund	Benchmark
Annualized Alpha	-3.72	n/a
Sharpe Ratio	-0.26	0.09
Information Ratio	-0.56	n/a
Beta	0.68	1.00
Standard Deviation	11.64	14.14
Tracking Error	7.85	0.00
R-squared	0.69	1.00

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 1/31/19. Benchmark: MSCI EM Small Cap Index (ND)
[1]Holdings subject to change. [2]Data is calculated monthly.

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TERMS: Active share represents the share of portfolio holdings that differ from the benchmark index holdings. Average drawdown is the arithmetic average of declines in value during a given period of time. Downside risk is a measure of the average deviations of a negative return series. A large downside risk implies that there have been large swings or volatility in the manager's return series. **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. **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** measures of the amount of active risk that is being taken by a manager. Tracking error accounts for the deviation away from the benchmark and does not indicate in which direction it occurred, either positive or negative. Source: eVestment Alliance. **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. **Sharpe ratio** is calculated by finding the portfolio's excess return and then dividing by the portfolio's standard deviation. **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.