

Driehaus Small Cap Growth Fund

Investor Class: **DVSMX** Institutional Class: **DNSMX**

Key Features

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

Inception Date

8/21/2017

The fund's predecessor limited partnership has a performance inception date of 1/1/2007.

Fund Assets Under Management

DVSMX: \$11 million // DNSMX: \$139 million

Firm Assets Under Management

\$7.8 billion

Investment Style

Growth equity

Available Investment Vehicles:

Mutual Fund

Separately managed account

Portfolio Managers

**Jeff James**

Portfolio Manager

29 years of industry experience

**Michael Buck**

Assistant Portfolio Manager

19 years of industry experience



MARKET OVERVIEW

In the September quarter, the large cap U.S. indices including the S&P 500 achieved small percentage gains while the average U.S. stock and the Russell 2000 experienced mid-single-digit losses. Market cap size mattered for the quarter as small caps trailed mid and large caps. Despite being more US centric in nature and non-U.S. economies showing more weakness than the U.S., small caps trailed as the market overall became increasingly defensive. Looking across all asset classes, US Treasuries, the dollar, large caps and defensive sectors like utilities, REITs and staples outperformed as both the global and US economies slowed and the general appetite for risk declined.

As a style, growth continued its outperformance over value in July and August. Then in early September value got its turn as an epic rotation away from growth and momentum (the best performing stocks year-to-date) towards cyclicals, value and laggard stocks occurred. The growth to value and leaders to laggards rotation lasted all month but the second week of September experienced the largest and fastest rotation in at least two to three decades when judged by several measures. That week was described as a “5 standard deviation event” by several Street quantitative analysts when comparing it to other sudden rotations historically.

As economic conditions slowed steadily and interest rates fell sharply, in textbook fashion investors increasingly paid a

premium for growth equities as growth became increasingly scarce. However, going into the month of September, the valuation spread between growth and value had become stretched. In some of the best performing areas of the market, valuations of some growth stocks and growth-oriented industries became elevated while the valuation of many economically sensitive cyclicals and other value-oriented industries became depressed. This dynamic, combined with investor sentiment that over the summer was increasingly discounting an economic recession, created a short-term imbalance by distorting the performance of growth and value. Oversold treasury yields, small positive developments in the trade war with China and some better economic data in early September were the sparks for the sharp rally in yields and in parallel a massive and sudden rotation in equities from growth to value.

In the short-term at least, was the economic slowdown overly discounted (e.g., priced into the market) by equity investors? Perhaps yes, given the performance spread between growth and value and crowded investor positioning by sector and style. Is the September rotation into economically sensitive stocks signaling better economic growth ahead? Possibly, although the economic data supporting such a rotation is limited and will likely become clearer over the next few months. Was the rotation just a short-term blip in market leadership as value became oversold and growth overbought? This too is possible as the secular drivers of growth (digitalization,

technology, globalization, demographics) which have been producing better revenue and earnings growth in many growth-oriented industries remain very much intact. Additionally, the secular and cyclical forces hurting value (slow to weak economic growth, lower interest rates and weak commodity prices) also remain largely intact.

For the rotation to value and laggard stocks to be sustained, we will need to see improved economic data and a recession will need to be avoided. Through early October, the economic data continues to be very mixed, but net positive. The most recent reports have shown a continued strong labor market with U.S. unemployment dropping to a cycle low of 3.5% and jobless claims remaining near 50-year lows. The ISM Non-Manufacturing Index¹ dropped more than expected but it remains in expansion territory, above 50. The health of services (much larger than manufacturing) and the labor market (which helps drive consumer spending) are critical as manufacturing continues to slow. Readings on the state of manufacturing are conflicting with the ISM Manufacturing Index² falling to 47.8 for September while the IHS Markit US Manufacturing PMI (Purchasing Manager's Index) improved to 51.1, a five-month high. Notably, the Markit survey includes more small companies where the impact of trade conflicts is less pronounced than those

felt by the medium and large companies the ISM survey covers. The yield curve, the trade war, economic weakness outside the U.S. and some U.S. manufacturing data are increasing the fears of a recession. However, looking at all the U.S. economic data together, including the healthier consumer and services sectors, along with many credit indicators, which importantly remain benign, it continues to suggest slow but positive economic growth, just above 1.5%, at least for near term.

One positive and out of consensus view is that the Fed easing cycle and lapping easier growth comparisons into year end could yield an accelerating growth environment. This, coupled with negative investor sentiment may yield a better backdrop for equities with broader participation for both secular and cyclical growth industries. Meanwhile we will be monitoring macroeconomic readings and fundamental trends via earnings reports, company meetings and stock and industry price action to guide us in our stock selection and portfolio decision making.

PERFORMANCE REVIEW

For the September quarter, the Driehaus Small Cap Growth Fund underperformed its benchmark. The Fund returned -7.04%, net of fees, while the Russell 2000 Growth Index returned -4.17%.³

By sector, the Fund's relative underperformance was driven by health care and technology. Health care was the largest negative relative contributor and was also the largest negative contributor for the index. Weakness in the sector was prompted primarily by political fears as the extremely progressive candidate Elizabeth Warren surged ahead to lead the polls for the Democratic party. She is a strong proponent of the so-called Medicare For All legislation which would effectively nationalize healthcare and would have a radical impact on the sector. Given many political steps need to take place for such legislation to be implemented, including a presidential victory for her and the Republicans losing the Senate, we see the current bearish concerns as premature.

Within technology, the software industry was negatively impacted by the massive market rotation in early September away from the best performing stocks to the year's worst performing stocks as described earlier. Year-to-date, technology remains the largest positive contributor for the Fund as a sector and software remains one of the largest positive contributors as an industry. To reduce risk in the portfolio and due to the sizeable technical damage from the price declines within software we reduced our exposure in August as valuations rose and then more substantially during early September as technical deterioration accelerated.

¹The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index.

²The ISM Manufacturing Index is a widely-watched indicator of recent U.S. economic activity. The index is often referred to as the Purchasing Manager's Index (PMI).

³Performance 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. 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. 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.

Sources: Driehaus Capital Management LLC, Factset, Reuters and MSCI Indices

Consumer discretionary and industrials were the primary positive contributors to performance on a relative basis.

OUTLOOK & POSITIONING

As we discussed above, the economic and market environment has been very consumed by monetary policy and trade policy. Both have arguably been weighing on economic conditions, which have in turn been headwinds for earnings. However, equity performance has been buoyant as economic growth has remained positive and market participants are anticipating the benefit of additional rate cuts by the Fed and an eventual (but elusive) trade deal with the Chinese.

In terms of portfolio positioning, industrials is our largest absolute weight, followed by health care and consumer discretionary. During the quarter we increased the portfolio weights in industrials, real estate and financials while we meaningfully reduced our exposure to technology and health care. Versus the index, the Fund is overweight consumer discretionary, industrials and consumer staples. Health care, communication services, materials and financials are the largest underweights. While meaningfully underweight health care due to political uncertainty, we continue to see broad fundamental strength (biotech, med devices, life science tools and diagnostics) as many companies

with innovative products continue to gain market share. Despite the selloff in many leading technology stocks, we continue to have a constructive long-term view on software, IT services and ecommerce as the mega-trends of cloud adoption and digitalization are multi-year in nature. The decline in mortgage rates and a strong labor market are benefitting homebuilders, home furnishings and housing suppliers. For other cyclical sectors and industries we continue to look for evidence of improving macroeconomic conditions.

The upcoming earnings season will be a welcome opportunity to assess the fundamental progress of our portfolio companies. Even with the recent slowdown in manufacturing data and increasingly volatile market conditions, we continue to hold and discover an exciting number of companies across a wide number of industries that are hitting growth inflections and will likely exceed expectations and become larger companies over time.

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 16, 2019 and are subject to change at any time due to changes in market or economic conditions. The material has not been updated since October 16, 2019 and may not reflect recent market activity.

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| PERFORMANCE as of 9/30/19 | Annualized Total Return | | | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|---------------|------------------------|
| | QTR | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception ¹ |
| Investor Class: DVSMX¹ | -7.04% | 24.61% | -4.82% | 18.20% | 15.59% | 16.37% | 11.42% |
| Institutional Class: DNSMX¹ | -7.00% | 24.87% | -4.61% | 18.41% | 15.72% | 16.43% | 11.47% |
| Russell 2000 [®] Growth Index ² | -4.17% | 15.34% | -9.63% | 9.79% | 9.08% | 12.25% | 8.09% |

ANNUAL FUND OPERATING EXPENSES³

| | Investor Class: DVSMX | Institutional Class: DNSMX |
|------------------|-----------------------|----------------------------|
| Gross | 2.57% | 1.04% |
| Net ⁴ | 1.20% | 0.95% |

SECTOR PERFORMANCE ATTRIBUTION 3rd Quarter — 6/30/19 to 9/30/19

| | Driehaus Small Cap Growth Fund (Port) (%) | | Russell 2000 Growth Index ² (Bench) (%) | | Attribution Analysis (%) | | |
|------------------------|---|------------------------|--|-------------------------|--------------------------------|-------------------------|--------------|
| | Port Avg. Weight | Port Contrib To Return | Bench Avg. Weight | Bench Contrib To Return | Allocation Effect ² | Selection + Interaction | Total Effect |
| GICS Sector | | | | | | | |
| Comm. Services | 1.11 | -0.18 | 2.60 | -0.29 | 0.11 | -0.06 | 0.05 |
| Consumer Discretionary | 18.75 | 0.18 | 12.46 | -0.50 | 0.02 | 0.87 | 0.88 |
| Consumer Staples | 2.66 | 0.21 | 3.33 | 0.11 | -0.08 | 0.17 | 0.09 |
| Energy | 0.42 | -0.22 | 0.70 | -0.16 | 0.04 | -0.09 | -0.05 |
| Financials | 3.38 | -0.40 | 5.90 | -0.16 | -0.02 | -0.31 | -0.33 |
| Health Care | 23.17 | -5.00 | 28.30 | -2.87 | 0.34 | -2.83 | -2.49 |
| Industrials | 16.00 | 0.23 | 19.01 | 0.00 | -0.12 | 0.34 | 0.22 |
| Information Technology | 28.81 | -1.50 | 18.27 | -0.44 | 0.34 | -1.03 | -0.65 |
| Materials | 1.06 | -0.30 | 3.11 | -0.19 | 0.08 | -0.27 | -0.19 |
| Other | 0.00 | -0.13 | 0.00 | 0.00 | -0.12 | 0.00 | -0.12 |
| Real Estate | 2.37 | 0.22 | 4.65 | 0.13 | -0.11 | 0.16 | 0.05 |
| Utilities | 0.00 | 0.00 | 1.68 | 0.14 | -0.19 | 0.00 | -0.19 |
| Cash | 2.29 | 0.00 | 0.00 | 0.00 | 0.05 | 0.00 | 0.05 |
| Total | 100.00 | -6.90 | 100.00 | -4.23 | 0.34 | -3.05 | -2.67 |

Data as of 9/30/19 Sources: Russell Investments, eVestment Alliance, LLC, SS&C Inc., Russell Investments and Standard & Poor's Global Industry Classification Standard and Driehaus Capital Management LLC. 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. 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), 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. **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.** ¹The average annual total returns and attribution of the Driehaus Small Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2007, before it commenced operations as a series of the Driehaus Mutual Funds on August 21, 2017 and succeeded to the assets of the Driehaus Institutional Small Cap, L.P. (the "Predecessor Partnership"), Driehaus Small Cap Investors, L.P., Driehaus Institutional Small Cap Recovery Fund, L.P. and Driehaus Small Cap Recovery Fund, L.P., (together, the "Limited Partnerships"). The Limited Partnerships were managed by the same investment team with substantially the same investment objective, policies and philosophies as the Fund. The investment portfolios of the Limited Partnerships were identical and therefore had similar performance. The performance of the Predecessor Partnership is shown here because it has been in operation the longest. The Predecessor 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 Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Accordingly, future Fund performance may be different than the Predecessor Partnership's past performance. After-tax performance returns are not included for the Predecessor Partnership. The Predecessor Partnership was not a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and therefore did not distribute current or accumulated earnings and profits and was not subject to the diversification and source of income requirements applicable to regulated investment companies. ²The Russell 2000[®] Growth Index measures the performance of those Russell 2000[®] companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index. ³Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated 4/30/19. 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. ⁴Driehaus Capital Management LLC, the Fund's investment adviser (the "Adviser"), has entered into a contractual agreement to cap the Fund's current ordinary annual operating expenses (excluding interest, taxes, brokerage commissions, other investment-related expenses, 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 ratios of 1.20% for the Investor Shares and 0.95% for the Institutional Shares until the earlier of the termination of the investment advisory agreement, by the Board of Trustees or the Fund's shareholders, or August 20, 2020. Pursuant to the agreement, and so long as the investment advisory agreement is in place, for a period of three years subsequent to the Fund's commencement of operations on August 21, 2017, the Adviser is entitled to reimbursement for 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 / expense reimbursement as well as the current operating expense cap.

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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.

SECTOR WEIGHTS

Month-End Absolute Weights

| | Comm. Services | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Information Technology | Materials | Real Estate | Utilities | Cash |
|----------------|----------------|------------------------|------------------|--------|------------|-------------|-------------|------------------------|-----------|-------------|-----------|------|
| DVSMX | 0.7 | 19.0 | 3.9 | 0.8 | 5.1 | 20.5 | 21.2 | 17.9 | 1.6 | 4.6 | 0.0 | 4.7 |
| Benchmark | 2.5 | 12.3 | 3.5 | 0.7 | 6.0 | 27.5 | 19.6 | 18.1 | 3.2 | 4.9 | 1.8 | 0.0 |
| Active Weights | -1.7 | 6.7 | 0.4 | 0.1 | -0.9 | -7.0 | 1.6 | -0.2 | -1.6 | -0.2 | -1.8 | 4.7 |

PORTFOLIO CHARACTERISTICS

| | DVSMX | Benchmark | 5-year period ¹ | DVSMX | Benchmark |
|--------------------------------|---------|-----------|----------------------------|-------|-----------|
| Number of Holdings | 111 | 1,164 | Annualized Alpha | 6.14 | n/a |
| Weighted Avg. Market Cap (M) | \$3,039 | \$2,459 | Sharpe Ratio | 0.78 | 0.48 |
| Median Market Cap (M) | \$2,710 | \$856 | Information Ratio | 0.87 | n/a |
| Active Share | 85.04 | n/a | Beta | 1.02 | 1.00 |
| Market Cap Breakout (%) | | | Standard Deviation | 18.83 | 16.91 |
| < \$2.5 billion | 47.2 | 55.2 | Tracking Error | 7.50 | 0.00 |
| \$2.5 - \$15 billion | 52.8 | 44.8 | R-squared | 0.84 | 1.00 |
| > \$15 billion | n/a | n/a | | | |

TOP 5 HOLDINGS² (as of 8/31/19)

| Company | % of Fund |
|-------------------------------|-----------|
| Alteryx, Inc. Class A | 2.7 |
| Roku, Inc. Class A | 2.3 |
| Inspire Medical Systems, Inc. | 2.0 |
| Everbridge, Inc. | 2.0 |
| Zscaler, Inc. | 1.9 |

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 9/30/19. Benchmark: Russell 2000[®] Growth Index

¹The 5-year period characteristics of the Driehaus Small Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2007, before it commenced operations as a series of the Driehaus Mutual Funds on August 21, 2017 and succeeded to the assets of the Driehaus Institutional Small Cap, L.P. (the "Predecessor Partnership"), Driehaus Small Cap Investors, L.P., Driehaus Institutional Small Cap Recovery Fund, L.P. and Driehaus Small Cap Recovery Fund, L.P., (together, the "Limited Partnerships"). The Limited Partnerships were managed by the same investment team with substantially the same investment objective, policies and philosophies as the Fund. The investment portfolios of the Limited Partnerships were identical and therefore had similar performance. The performance of the Predecessor Partnership is shown here because it has been in operation the longest. The Predecessor 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 Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Accordingly, future Fund performance may be different than the Predecessor Partnership's past performance. After-tax performance returns are not included for the Predecessor Partnership. The Predecessor Partnership was not a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and therefore did not distribute current or accumulated earnings and profits and was not subject to the diversification and source of income requirements applicable to regulated investment companies. ²Data is calculated monthly.

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 this Fund may not experience similar performance results as its assets grow. The securities of small and 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 Fund will experience high rates of portfolio turnover, which may result in payment by the Fund of above-average transaction costs. 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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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.

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