

# Driehaus Emerging Markets Small Cap Growth Fund Commentary

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We have been busy working to understand the implications of 5G, the newest generation of cellular networking technology. 5G promises to offer faster connection speeds, higher network capacity, and lower latency. Additionally, 5G will offer telecom operators the chance to differentiate their service quality based on individual customer needs.

Similar to the manner in which 4G connections enabled the app economy, we believe that 5G will create opportunities to develop new services and business models. For example, 5G will be a critical enabling factor of new technologies, such as autonomous driving, cloud gaming, augmented reality and virtual reality devices, robotics, and remote surgery.

While there is much to be excited about, the high investment required by telecommunication companies (telcos) and consumers serves to somewhat temper expectations. 5G will require significant upgrades to both network infrastructure and connected devices. More optical fiber needs to be installed, many base stations need to be deployed, and devices will require higher semiconductor content.

We think 5G is an interesting investment opportunity, and related technology hardware suppliers in Taiwan have contributed strongly to fund performance in recent months. However, expectations may have surpassed reality in certain cases, especially regarding short-term consumer adoption.

Simply put, 5G adoption is contingent upon customers spending more and telco operators increasing their capex. Consumers may be unwilling to spend \$50-100 more per device and pay higher data bills if the incremental benefit is not significant relative to 4G when using today's applications. Only a few months ago, analysts forecasted roughly 150 million 5G-enabled smartphone shipments in 2020. Now, many are forecasting between 200 million and 300 million units. This would amount to roughly 15% of all smartphones sold.

We think the most significant medium to long-term growth opportunity lies with enterprise customers. Companies will be able to have fleets of connected devices or vehicles, wirelessly connected automation components, and develop new business models that are not possible with today's networks.

More data will be generated and analyzed that will create opportunities to improve efficiency and optimize resource allocation. In turn, telecoms will be able to differentiate their service level and provide value beyond a simple data connection, which is essentially a commodity.

Amid the 5G enthusiasm, we have observed another trend that we think is still relatively less well understood by market participants: the localization of the technology supply chain. While low-value components and assembly have been dominated by Asian companies for a long-time, we are finding many companies starting to move up the value chain as they benefit from a virtuous circle of higher research and development and rising demand from Chinese customers.

While the trade war was a major catalyst for this trend to accelerate, we think this was already happening as Chinese entities have been intensively working to lessen their dependence on foreign entities to lower operational risk.

This shift has the potential to create long-term local winners if companies can close the technology gap with Western incumbents. We see this as a potentially powerful and underappreciated structural change, as behavioral biases and existing beliefs about the capabilities of the local supply chain could hold investors back from recognizing the new reality.

## Performance Review

The Driehaus Emerging Markets Small Cap Growth Fund, net of fees, returned 4.91% in October, compared to the MSCI Emerging Markets Small Cap Index, net dividend, return of 3.84%<sup>1</sup>. At the sector level, the most significant contributors to returns were industrials and financials. Real estate and health care detracted the most value. At the country level, China and Cambodia contributed most to performance for the month, while Brazil and South Korea were notable detractors from performance.

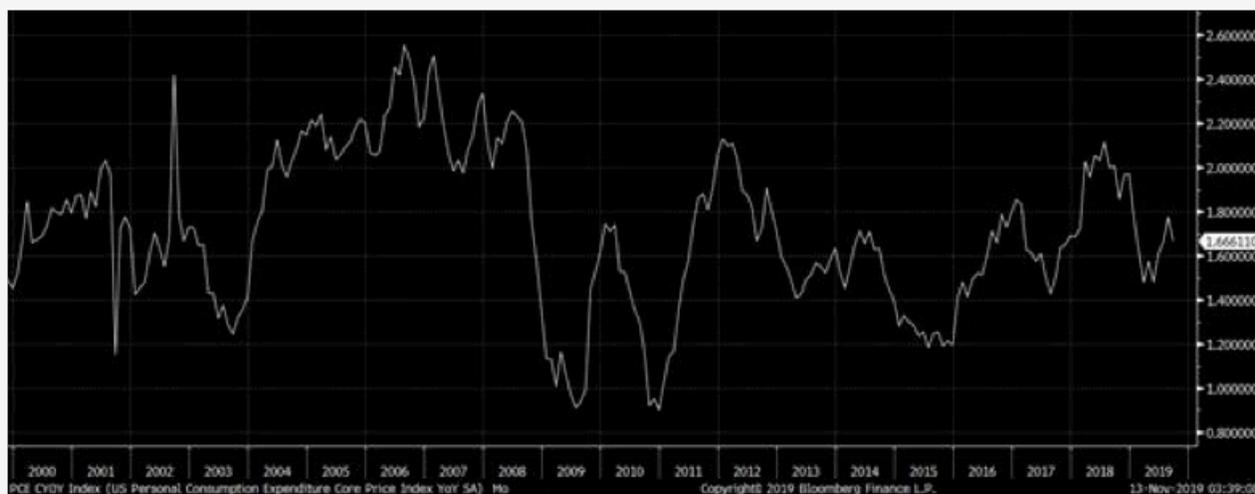
## Positioning and Outlook

Markets rallied sharply in October as tail risks related to the US-China trade war and Brexit began to recede, while the path of US monetary policy and selective improvements in China's economic data provided additional comfort in the forward outlook.

The Federal Reserve (the Fed) has acknowledged recent liquidity issues in the repo market and responded with permanent open market operations, resuming the growth of its balance sheet, despite Fed Chair Jerome Powell going out of his way to maintain that this is not quantitative easing. The combination of these factors has helped relieve the broad strength of the US dollar, which acted as a headwind to performance of EM equities in recent months.

Further, the October meeting of the Federal Open Market Committee brought not only the third consecutive interest rate cut by the Fed, but also an explicit statement that they "would need to see a really significant move up in inflation that's persistent" before considering future interest rate hikes. Considering the Fed's preferred measure of inflation has only probed the 2% level for two short periods post the Global Financial Crisis, one may infer that interest rates are likely to be held at low levels for a prolonged period of time. (Exhibit 1)

Exhibit 1:  
US Personal Consumption Expenditure Core Price Index (Year-Over-Year, Seasonally Adjusted)



Source: Bloomberg

### <sup>1</sup>Performance Disclosure

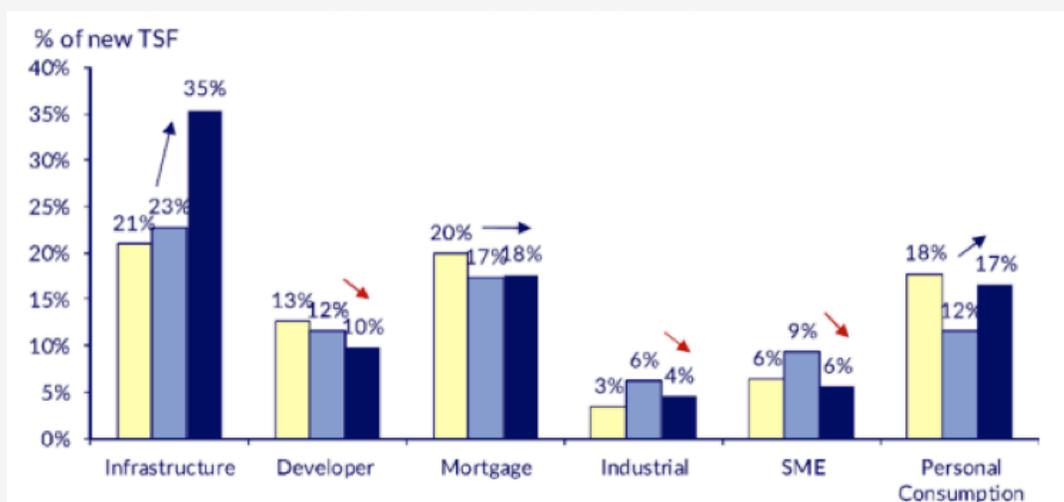
The performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Principal value and investment returns will fluctuate so that investors' shares, when redeemed, may be worth more or less than their 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](http://www.driehaus.com) for more current performance information.**

Elsewhere, while China's economy continues to slow, fears of a hard landing have come down, as fixed asset investment in infrastructure has improved from a 3% year-over-year run rate through August to 7% in September and October. Considering the sharp rise in credit extension to infrastructure projects, more growth seems likely in the months ahead. (Exhibit 2)

Amid this backdrop, the fund has increased allocations to cyclical areas, including machinery and cement stocks in China, a copper stock, and a logistics provider in South Africa. We observe an environment in which dynamic growth companies and cyclical growth companies are seeing improved prospects in tandem with one another, counter to the vicious swings between growth and value that have characterized much of the past four years in emerging markets.

Exhibit 2:  
China's New Credit Breakdown by Sector



Source: CLSA, People's Bank of China, WIND, China Banking and Insurance Regulatory Commission, Chinabond.com.cn

Until next month,

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

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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. Please read the prospectus and summary prospectus carefully before investing.

Driehaus Securities LLC, Distributor

# DRESX Performance Review

## Month-end Performance as of 10/31/19

Fund/Index	MTH	YTD	1 Year	Average Annual Total Return			
				3 Year	5 Year	10 Year	Since Inception <sup>1</sup>
DrieHaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	4.91%	24.63%	23.71%	4.51%	-0.25%	6.07%	9.99%
MSCI Emerging Markets Small Cap Index (ND) <sup>3</sup>	3.84%	5.72%	9.71%	3.12%	0.98%	3.53%	10.78%
MSCI Emerging Markets Small Cap Growth Index (ND) <sup>4</sup>	4.60%	6.83%	11.04%	1.79%	-0.51%	2.63%	9.73%

## Calendar Quarter-end Performance as of 9/30/19

Fund/Index	QTR	YTD	1 Year	Average Annual Total Return			
				3 Year	5 Year	10 Year	Since Inception <sup>1</sup>
DrieHaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	-1.08%	18.80%	6.65%	2.39%	-0.95%	5.67%	9.59%
MSCI Emerging Markets Small Cap Index (ND) <sup>3</sup>	-4.58%	1.81%	-5.49%	1.32%	-0.13%	3.21%	10.48%
MSCI Emerging Markets Small Cap Growth Index (ND) <sup>4</sup>	-3.46%	2.13%	-6.56%	-0.66%	-1.80%	2.24%	9.36%

## Annual Operating Expenses<sup>5</sup>

Gross Expenses	1.95%
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](http://www.drieHaus.com) for more current performance information.

<sup>1</sup>Inception Date: 12/1/2008. "Since Inception" is calculated to include performance from the Fund's predecessor limited partnership. <sup>2</sup>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. <sup>3</sup>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. <sup>4</sup>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. <sup>5</sup>Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2019. 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.

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SECTOR WEIGHTS (%)				COUNTRY WEIGHTS (%)					
	Fund	Benchmark	Active Weights (%)	Fund	Benchmark	Fund	Benchmark		
Communication Services	2.1	4.1	-1.9	Argentina	0.5	0.4	Mexico	1.9	2.9
Consumer Discretionary	17.0	14.0	3.0	Brazil	11.2	9.0	Panama	1.0	0.0
Consumer Staples	6.2	6.4	-0.2	Cambodia	1.2	0.0	Poland	1.6	0.8
Energy	4.1	2.2	1.9	Canada	2.0	0.0	Russia	1.5	1.0
Financials	14.1	9.5	4.6	China	15.1	6.6	Saudi Arabia	2.2	2.1
Health Care	5.7	8.2	-2.5	Cyprus	0.5	0.1	Singapore	1.3	0.1
Industrials	17.7	14.0	3.7	Czech Republic	1.0	0.0	South Africa	1.9	5.8
Information Technology	11.8	16.1	-4.2	Egypt	1.0	0.5	South Korea	2.2	15.2
Materials	7.0	12.3	-5.3	Greece	1.8	0.8	Taiwan	9.3	20.3
Real Estate	7.0	8.4	-1.4	Hong Kong	5.7	3.6	Thailand	3.0	4.5
Utilities	1.3	4.9	-3.6	India	12.7	13.8	Turkey	0.8	1.2
Cash	5.4	0.0	5.4	Indonesia	2.5	2.3	UAE	1.3	0.6
Unassigned	0.5	0.0	0.5	Jordan	1.0	0.0	United Kingdom	0.9	0.0
				Malaysia	3.6	3.0	Vietnam	5.7	0.0
							Cash	5.4	0.0

TOP 5 HOLDINGS <sup>1</sup> (as of 9/30/19)	
Company	% of Fund
Voltas Limited	2.1
Parade Technologies, Ltd.	2.0
B2Gold Corp.	1.9
GDS Holdings Ltd. Sponsored ADR Class A	1.9
Network International Holdings Plc	1.9

PORTFOLIO CHARACTERISTICS					
	Fund	Benchmark		Fund	Benchmark
Number of Holdings	98	1,627	<b>5-year period</b>		
Weighted Avg. Market Cap (M)	\$3,819	\$1,405	Annualized Alpha	-0.90	n/a
Median Market Cap (M)	\$3,320	\$668	Sharpe Ratio	-0.10	0.12
Est. 3-5 Year EPS Growth	19.2%	19.3%	Information Ratio	-0.15	n/a
Active Share	97.03	n/a	Beta	0.71	1.00
<b>Market Cap Breakout (%)</b>			Standard Deviation	12.42	14.45
< \$5 billion	77.2	98.8	Tracking Error	8.20	0.00
> \$5 billion	22.8	0.6	R-squared	0.68	1.00

Sources: DrieHaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance  
Data as of 10/31/19. Benchmark: MSCI EM Small Cap Index (ND)

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<sup>1</sup>Holdings subject to change.

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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.