

# Driehaus Emerging Markets Small Cap Growth Fund Summary

FEBRUARY 2020

Last month's commentary reflected on macroeconomic and market developments over the past decade, noting that the extraordinary monetary policy undertaken by the Federal Reserve (Fed) was largely unsuccessful in reviving economic growth, but provided a significant tailwind to equities. This was particularly apparent in the US, resulting in a wave of financialization that makes future policy decisions ever more complex. Given recent discussions of further unconventional policy considerations in response to the next economic downturn, such developments could hold meaningful implications for the distribution of asset returns in the years ahead.

This month, there were a couple of notable developments that dovetail with this discussion. First, Fed Governor Lael Brainard presented an argument for yield curve control, emphasizing the notion that caps on interest rates would bolster the Fed's credibility and help achieve the inflation target. "The lessons from the crisis would argue

for an approach that commits to maintain policy at the lower bound until full employment and target inflation are achieved," Brainard said. "This forward guidance could be reinforced by interest rate caps on short-term Treasury securities over the same horizon."

Second, the New York Fed issued a paper entitled "Managing the Treasury Yield Curve in the 1940s," a reflection on the Fed's historical experiences in attempting to manage the yield curve. In the aftermath of the Great Depression, the Fed's balance sheet had grown to a historical high of 23% of GDP. With the onset of World War II in 1939, it became critical for the US to be able to finance its participation in the war, but the fall of France and threat of British capitulation raised concerns about the ability of the US to access foreign funding. By mid-1942, the yield curve was fixed for the remainder of the war. Maintenance of the yield curve resulted in a resurgence of Fed balance sheet expansion, bringing it to 20.2% of GDP in 1945 (Exhibit 1).

## Exhibit 1. Historical View of the Federal Reserve Balance Sheet



Sources: Federal Reserve Board, Bureau of Economic Analysis, Historical Statistics of the United States/Haver Analytics

## Driehaus Emerging Markets Small Cap Growth Fund

Total US public debt relative to GDP peaked at 121% in 1946, whereas it stands at 106% today. Though the playbook for addressing the debt was different in the 1940s, as it involved capital controls, a steep yield curve, and rampant inflation post the war, the overarching aims of financial repression and generating inflation at all costs remain relevant today. While the US may not be able to inflate away its debt as easily this time, given the structural headwinds of demographics and technology, the central message from the Fed appears to be that it will not be for lack of trying.

What are the implications for investors? It is difficult to predict the exact trajectory of the policy path, but this month's developments suggest we are unlikely to see a repeat of 2018's Fed balance sheet reduction, and if anything, we could see a further intensification of efforts to generate inflation through additional unconventional Fed policy.

The containment of real interest rates, which began after the Fed's pivot to easier monetary policy in early 2019, continues to correlate with an improving backdrop for individual stock selection, particularly with a bias toward long duration growth stocks. These factors were beneficial to the fund's performance in 2019, and this backdrop has helped 2020's relative performance get off to a strong start.

### Performance Review

The Driehaus Emerging Markets Small Cap Growth Fund, net of fees, returned -3.56% in February<sup>1</sup>, compared to the MSCI Emerging Markets Small Cap Index, net dividend, return of -7.05%. At the sector level, the most significant contributors to returns were health care and information technology.

Financials and industrials detracted the most value. At the country level, China and Hong Kong contributed most to performance for the month, while Brazil and Russia were notable detractors from performance.

### Positioning and Outlook

As discussed above, the market backdrop has largely been favorable for the fund in the early months of 2020. The continued decline in global interest rates has supported stocks with idiosyncratic earnings drivers, a relatively low degree of sensitivity to global economic growth conditions, and long duration growth profiles.

That said, the ongoing concerns related to the coronavirus continue to threaten the near-term economic growth and earnings outlook. Below, we provide a brief update to our thoughts and positioning with respect to recent trends related to the coronavirus.

The good news is that new confirmed cases in China continue to decline, particularly outside of Hubei province, where a couple of days toward the end of February registered fewer than 10 new daily confirmed infections.

However, new overseas cases continue to rise, dealing a blow to the narrative of the virus being well-contained (Exhibit 2). A rapid spread to South Korea could threaten the production outlook for key parts of the technology supply chain, adding another layer of uncertainty to the already volatile situation. Moreover, the fear of a global pandemic has led to reductions in travel, and the hit to sentiment could lead to a deeper downturn in demand across a number of industries.

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#### <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.**

**Driehaus Emerging Markets Small Cap Growth Fund**

These developments do not meaningfully alter our bigger picture thinking surrounding the coronavirus, and as investor panic subsides, we expect recovery opportunities to continue to emerge in the weeks ahead.

Further, we continue to expect a policy response aimed at counteracting the near-term downgrades to global growth. In the coming weeks, we may get a glimpse into China’s medium-term growth targets as the onset of the 14th five-year plan (2021-2025) approaches, as well as more details on a near-term fiscal stimulus.

With global manufacturers already running at lean inventories in many cases, as a result of uncertainty related to trade tensions over the past few years, the scope for inventory restocking exists alongside pent-up demand as the virus ultimately abates.

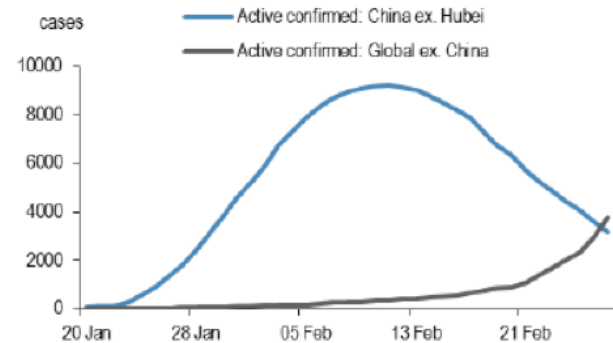
Again, we underscore that the coronavirus remains a fluid situation, and we believe the fund’s flexibility in growth characteristics, as well as its nimble investment approach, will help us navigate a rapidly changing market backdrop.

Until next month,



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

**Exhibit 2. Active Coronavirus Cases**



Sources: NHC, J.P. Morgan. Note: Active Confirmed = total confirmed- total deceased – cured; China refers to Greater China

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 March 9, 2020 and are subject to change at any time due to changes in market or economic conditions. The commentary has not been updated since March 9, 2020 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.

**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.**

Forside Financial Services, LLC, Distributor

# Driehaus Emerging Markets Small Cap Growth Fund

## % Month-End Performance (as of 2/29/20)

	Annualized						
	MTH	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>1</sup>
Driehaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	-3.56	-4.03	18.44	7.01	0.69	5.80	9.96
MSCI Emerging Markets Small Cap Index (ND) <sup>3</sup> (Benchmark)	-7.05	-10.76	-6.79	-0.52	-0.08	2.14	9.85
MSCI Emerging Markets Small Cap Growth Index (ND) <sup>4</sup> (Index)	-6.63	-9.47	-4.79	-0.49	-1.56	1.33	8.93

## % Quarter-End Performance (as of 12/31/19)

	Annualized						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>1</sup>
Driehaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	12.55	33.71	33.71	10.65	1.83	6.10	10.53
MSCI Emerging Markets Small Cap Index (ND) <sup>3</sup> (Benchmark)	9.52	11.50	11.50	6.70	2.97	2.95	11.14
MSCI Emerging Markets Small Cap Growth Index (ND) <sup>4</sup> (Index)	9.68	12.02	12.02	5.59	1.38	1.94	10.05

## % Calendar Year Performance<sup>1</sup> (as of 12/31/19)

	Annualized											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
DRESX <sup>2</sup>	60.95	26.09	-14.29	28.83	12.11	5.76	-10.22	-9.97	33.30	-24.00	33.71	
Benchmark <sup>3</sup>	113.79	27.17	-27.18	22.22	1.04	1.01	-6.85	2.28	33.84	-18.59	11.50	
Index <sup>4</sup>	112.93	23.50	-27.76	21.94	2.63	1.32	-4.76	-4.48	31.30	-19.97	12.02	

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance Data as of 2/29/20.

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. 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>The Fund's predecessor limited partnership has an inception date of 12/1/2008. <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. An investor cannot invest directly in an index. <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. <sup>6</sup>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. A definition of key terms can be found on the following page.

Ticker

**DRESX**

## Facts

Firm Assets Under Management	\$8.4 billion
	DRESX
Inception Date	8/22/11
Assets Under Management	\$60M
<b>Annual Operating Expenses<sup>5</sup></b>	
Gross Expenses	1.95%
Net Expenses <sup>6</sup>	1.45%

## Portfolio Characteristics

5-year period	DRESX	BENCHMARK
Annualized Alpha	0.78	n/a
Sharpe Ratio	-0.03	-0.08
Information Ratio	0.09	n/a
Beta	0.71	1.00
Standard Deviation	12.85	15.05
Tracking Error	8.45	0.00
R-squared	0.69	1.00

Market Cap Breakout	DRESX	BENCHMARK
< \$5 billion	75.3%	99.6%
> \$5 billion	24.7%	0.4%

	DRESX	BENCHMARK
Number of Holdings	103	1,654
Weighted Avg. Market Cap (M)	\$4,112	\$1,299
Median Market Cap (M)	\$3,276	\$637
Est. 3-5 Year EPS Growth	19.2	19.0
Active Share	97.36	n/a

## Portfolio Management

**Chad Cleaver, CFA**, Lead Portfolio Manager  
18 years industry experience

**Howard Schwab**, Portfolio Manager  
19 years of industry experience

**Richard Thies**, Portfolio Manager  
13 years of industry experience

Driehaus Emerging Markets Small Cap Growth Fund

Key Features

- Emerging markets small cap exposure
- Benchmark aware, not benchmark constrained
- Opportunistic investment approach
- High active share

Sector Weights (%)

	DRESX	Benchmark	Active Weights
Comm. Services	3.5	4.0	-0.5
Consumer Discretionary	11.9	14.3	-2.5
Consumer Staples	7.7	6.1	1.6
Energy	3.0	2.1	0.8
Financials	13.5	9.7	3.8
Health Care	6.8	9.3	-2.5
Industrials	17.8	13.3	4.5
Information Tech.	17.9	16.8	1.1
Materials	7.4	11.1	-3.7
Real Estate	4.6	8.3	-3.7
Utilities	2.1	5.0	-2.8
Cash	3.9	0.0	3.9

Country Weights (%)

	DRESX	Benchmark	Active Weights
Argentina	1.0	0.6	0.4
Brazil	8.4	10.0	-1.6
Cambodia	0.7	0.0	0.7
Canada	1.5	0.0	1.5
China	20.1	7.0	13.1
Cyprus	0.9	0.0	0.9
Czech Republic	0.4	0.0	0.4
Egypt	1.0	0.4	0.6
Greece	0.9	0.7	0.2
Hong Kong	5.8	4.1	1.7
India	16.7	14.5	2.1
Indonesia	2.0	1.8	0.2
Malaysia	2.5	3.3	-0.8
Mexico	2.9	2.9	0.0
Pakistan	0.5	0.6	-0.1
Poland	2.1	0.8	1.3
Russia	3.5	1.2	2.4
Saudi Arabia	2.6	2.4	0.1
Singapore	1.5	0.1	1.4
South Africa	1.0	4.0	-3.0
South Korea	1.0	14.4	-13.4
Taiwan	10.4	21.0	-10.6
Thailand	2.0	3.6	-1.5
Turkey	0.8	1.3	-0.5
United Arab Emirates	1.6	0.6	0.9
United Kingdom	1.0	0.0	1.0
Vietnam	3.2	0.0	3.2
Cash	3.9	0.0	3.9

Top 5 Holdings<sup>1</sup> (as of 1/31/20)

Company	Sector	Country	% of Fund
Parade Technologies, Ltd.	Information Technology	Taiwan	3.2
Ping An Healthcare and Technology Company Limited	Health Care	Hong Kong	2.8
Yantai Jereh Oilfield Services Group Co., Ltd. Class A	Energy	China	1.7
B2Gold Corp.	Materials	Canada	1.7
PT Bank Tabungan Pensiunan Nasional Syariah Tbk	Financials	Indonesia	1.6

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance  
 Foreside Financial Services, LLC, Distributor  
 Data as of 2/29/20. Benchmark: MSCI Emerging Markets Index (ND)  
<sup>1</sup>Holdings subject to change.

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.**

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. 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. Source: eVestment Alliance.