

# Driehaus Small Cap Growth Fund Summary

1<sup>ST</sup> QUARTER 2021

## **A Tribute To Richard,**

*Before we begin our regular quarterly discussion of the markets and the portfolio, we would like to take a moment to reflect and pay tribute to our Founder and Chairman Richard H. Driehaus, who unexpectedly and suddenly passed away on March 9. Richard was many things to those who knew him. He was a generous philanthropist who did enormous good for so many terrific causes and for so many in need. He was also a mentor and friend to many. He was a real-life Horatio Alger story who grew up from very humble beginnings to become a civic giant in Chicago.*

*To us, he was an investment legend who pioneered an investment philosophy that we incorporate across our strategies. He was a visionary who saw the big picture but was detailed enough to catch the critical nuances and subtleties. He founded a great investment firm (DCM) that reflects him, his style and his obsession for top investment performance. While he hasn't managed our external clients' investment portfolios in many years, his teachings and philosophy are reflected in our portfolios each-and-every day. He taught us how to select stocks; how to see trends; how to find the next big thing; and how to put it all together in a way that is intelligent, differentiated and well-constructed to succeed.*

*Personally, I am honored and forever thankful for the opportunity when he hired me as a new analyst. He then gave me a shot to manage portfolios. His countless funny one-liners and brilliant quotes will endure as daily reminders to all of us on the team. Those reminders, along with his philosophy and the pattern recognition of thousands of prior stock examples taught us how to analyze and select stocks and to interpret situations, trends and industries. He would often ask the simple yet critical questions that required difficult answers. He would ask, is a company sustainable; differentiated; open-ended; dynamic or it is just "dull"? He taught how and when to act quickly and decisively but also how to be patient and ignore the noise. He stressed the importance of how to observe situations open mindedly, to think differently, to see opportunity and to have constancy of purpose. While we will never forget his kindness, generosity and the loud cackle of his infectious laugh, we will always remember what he taught us as investment professionals. He was one-of-a kind, a true original, a legend and will be deeply missed.*

Sincerely,

**Jeff James | Portfolio Manager**



## Driehaus Small Cap Growth Fund

## Market Overview

In the first quarter, US equities had solid gains as the outlook for economic growth in 2021 strengthened throughout the quarter. Massive monetary and fiscal support are providing record setting liquidity and stimulus. The efficacy of the COVID-19 vaccines is setting up a great economic reopening. The Director of the CDC recently warned that a potential another wave of COVID cases was an “impending doom”, but the capital markets seem to be discounting an “impending boom”. While the warnings from our health officials may be losing their efficacy contributing to the recent plateau of new cases in the US, the efficacy of the vaccines is becoming more and more clear. This efficacy is leading to market leadership by cyclicals and other stocks that will likely benefit of the economy reopening and daily life trending towards normalcy.

## Vaccine Update

The manufacturing rollout and administration of the vaccines in the US has improved steadily and has outpaced most of the developed world (the UK and Israel have also had impressive rollouts). As of the first week of April, over 110 million Americans (40% of eligible adults) have received at least one dose and more than 60 million (nearly 20%) are fully vaccinated. The current pace of 3 to 4 million doses per day implies over 50% of the population will be fully vaccinated in May. Overall, the US is currently vaccinating at a rate of 50 people for every one new case and later this quarter the total supply of vaccines in the US will exceed the total US population. Additionally, we recently learned that Pfizer’s vaccine maintains effectiveness through 6 months (and perhaps longer), prevents severe disease, and is effective against the concerning South African variant. While new COVID variants remain a scary wild card, the mRNA approaches (Pfizer and Moderna) have the flexibility to specifically address current and future variants and trials have already begun. All of this is incredible news; however, risks remain as the variants are unpredictable, a large portion of the US population remains disinclined to take the vaccine and unvaccinated groups in the US are seeing rising new cases. Still add it all together and the promise of “normal” this summer and in the second half is palpable.

## 2021 is not 2020

This backdrop is bullish for the economy, earnings and equity prices. However, what is currently working in the market thus far in 2021 is nearly the exact opposite of what worked in 2020. In the March quarter, value has dominated versus growth. Energy, the worse performing group sector in 2020, was the best in the first quarter. Technology and healthcare, the best performing sectors in 2020, have been the worst performers thus far. Further, unlike in 2020, valuation was a key factor in the quarter. The Russell 2000 Value Index was up 21.2% while the Russell 2000 Growth up “just” 4.9%. That outperformance of 16.3% was value’s best quarterly outperformance since Q4 2000 and its second best ever. Cyclicals within MEI (materials, energy and industrials), consumer discretionary and banks drove value’s leadership and was driven by economic reopening optimism and higher interest rates. According to Jefferies, small cap cyclicals (those within the Russell 2000) were up 21.3% vs 6.8% for secular growth stocks. Breaking the Russell 2000 Growth into valuation quintiles, the cheapest valuation cohort was up 29.86% while the most expensive valuation cohort was down 3.23%. For the Russell 2000, its cheapest valuation cohort was up 29.75% while the most expensive valuation cohort was down 7.10%. Again, this is the mirror opposite of 2020, when secular and more expensive led.

Size was also a strong factor as the smaller the capitalization the better the performance. Stocks within the Russell 2000 Growth below \$500m were up 17.1% versus up 3.8% above \$1b. For the core Russell 2000, stocks below \$500m were up 25.5%, while stocks above \$1B were up 10.9%.

Looking intra-quarter, as the 10-year treasury yield broke higher during the second week of February, value began to outpace growth and individual industries diverged. Biotech and software, last year’s leaders, made their intra-quarter highs in mid-February and then declined. Banks and other cyclicals followed rates steadily higher for the second half of the quarter.

## Driehaus Small Cap Growth Fund

### Outlook Supports the Economy Reopening

Looking forward, several variables are supporting a strong outlook. Consumer confidence is increasing, and we believe it will continue to rise. After over a year of quarantining and social distancing, we see the pent-up demand as massive. Leisure related activities are on the verge of a huge inflection in demand. Advanced bookings for leisure travel are already growing sharply. Surveys suggest there is tremendous demand to “get out”, to travel and to return to what people used to do. Additionally, from a supply perspective, inventories are at low levels across much of the economy. Numerous major industries have inventories at multi-year, multi-decade or even all-time lows, including residential homes, autos and semiconductors and many others. As demand continues to rise, many companies are reporting that it will take well into 2022 to replenish inventories and their supply chains.

The upcoming reopening plus the stimulus, pent up demand, low inventories and easy year over year comparisons are likely to drive GDP growth up in the high digit percentage range in 2021. The concern for the market is when will such robust growth force upward pressure on inflation and interest rates, thereby pressuring the Federal Reserve to shift its monetary policy stance before its wants to. The Fed is willing to let inflation run hot as it focused on bringing down the level of unemployment. A key and unanswerable question for now is whether the inflation pressures are just cyclical or will they endure and become structural. Secular force such as, technology, demographics and globalization, have resulted in disinflation for the past few decades and those forces remain very much in place. However, the current cyclical forces are the strongest we have seen in several cycles. In the short-term, higher rates from here would continue to drive the value “reflation” trade. The recent rate of change in yields was extreme looking at past moves historically. As the expansion continues the key is when does it begin to tighten financial and negatively impact credit availability. For now, yields remain quite low and credit conditions has continued to be very favorable. As a result, the cycle part of this economic cycle will likely be positive for smaller stocks and for both cyclical and secular ones.

### Performance Review

For the March quarter, the Driehaus Small Cap Growth Fund outperformed its benchmark. The Fund had a 9.09% return, net of fees, while the Russell 2000 Growth Index experienced a gain of 4.88% and the S&P 500 which grew 6.17%.<sup>1</sup>

The portfolio's relative outperformance versus the Russell 2000 Growth Index occurred despite the market's leadership being completely different than in 2020. Value and cyclicals outperformed growth and secular. Healthcare and technology trailed sharply while energy, banks and other cyclicals were very strong. These drastic differences required us to adjust the portfolio's exposures away from secular growth in favor of cyclical growth and lower valuation companies. Positively, this was a process that we started in the fourth quarter as we witnessed several changes in the market around the time when the strong vaccine data came out. The flexibility and discipline of our approach across our four major growth categories (dynamic, cyclical, recovery and consistent) was rewarded and our ability to adjust industry weightings and take advantage of new opportunities helped drive the outperformance.

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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 Small Cap Growth Fund

Many secular growth companies were clear COVID ("WFH") beneficiaries and saw fundamental acceleration last year but now face potential deceleration this year largely due to tough year-over-year comparisons. Conversely, many cyclical "reopening" beneficiaries experienced fundamental deceleration last year and are likely to have accelerating growth in 2021 as the economy reopens. After the large gains in many secular growth holdings in 2020, we lowered the portfolio's exposure to such companies and have maintained a relative underweight for most of the March quarter. These underweights include software, specialty insurance, biotech and e-commerce. On the other hand, the portfolio has been overweight cyclical industries and we increased those exposures throughout the quarter. This positioning boosted the portfolio's performance on an absolute basis. We also lowered the level of valuation across the portfolio by reducing exposure to more expensive stocks and rotated to fresher opportunities with lower valuations.

By sector, the Fund's absolute performance was broad based as all major sectors contributed with positive absolute returns, except healthcare. The positive absolute returns for the quarter came from (in order of magnitude) industrials, consumer discretionary, technology, energy, materials and financials.

### Consumer Discretionary

The consumer discretionary sector holdings experienced strong gains and as the portfolio's largest sector overweight vs the benchmark. As the economy begins to reopen and the labor market recovers, the benefits of stimulus, very high savings rates and massive pent-up demand is driving consumer spending above expectations. Notable outperformers during the quarter include several specialty retailers, online gaming/casino companies and leisure product companies.

### Industrials

The industrial sector also performed well. Outperformance came from alternative energy, such as solar, wind, liquefied natural gas (LNG) and hydrogen companies. Machinery, building material companies and other cyclical related stocks performed well. Transportation and leisure focused airlines also boosted performance. The opportunity for airlines and their profitability is particularly appealing as leisure demand is roaring back, pricing power is evident and expenses have been cut.

### Technology

Technology benefitted across the whole sector from the pandemic as it accelerated the digitalization transformation of the economy. In the first quarter, however the sector's sub-industries diverged. Cloud software, outsourced IT services and ecommerce lagged as cyclicals bounced back and higher valuations held back these secular tech 2020 beneficiaries. Attractive situations remain abundant, however. Semiconductors and semi capital equipment are incredibly robust. Semiconductors is one of many industries seeing shortages as inventories are at very low levels. These shortages have been well publicized as auto original equipment manufacturer (OEMs) around the world have had to halt production due to the lack of critical chips. Demand is very strong and a chronic lack of semiconductor capital expenditures at all, but the leading geometries has led to shortages that the industry has never seen before. We are hearing similar commentary across many different industries. Telco equipment is also strong as rural broadband spending is robust due to government stimulus to catch up and upgrade the rural sections of the country. Also robust are advertising technology providers as well as streaming TV providers who are benefiting from both households cutting their relatively expensive cable TV service.

### Healthcare

Healthcare, while it took a breather for the quarter, remains our largest sector weighting on an absolute basis. Other industries outperformed for cyclical and reopening reasons, but the amount of innovation we see in healthcare is exciting. Biotech/therapeutics, molecular diagnostics and med-tech all stand has the potential to benefit strongly looking forward.

**Driehaus Small Cap Growth Fund****Outlook & Positioning**

The outlook for the economy, earnings and equities is positive as there are multiple drivers supporting the reopening outlook. The vaccines are working and the percentage of Americans who have received at least one dose is expanding rapidly and most adults will be vaccinating over the next couple months and the supply of vaccines will exceed the eligible U.S. population by the end of May.

We believe the US economy likely will have its highest growth in many decades this year due to many positives, including: the vaccines, the economy reopening, pent-up demand, high savings rates, multi-decade low inventories, easy monetary policy, large fiscal policy stimulus. Additionally, smaller cap valuations are favorable compared to large caps and small caps earnings growth rates are much stronger than large caps.

The many positives need to be measured and framed by the risks that exist. These include: virus variants, the sizable segment of the population that is hesitant or refuses to take the vaccines (this will potentially delay or stunt the reopening), rising inflation pressures, its possible impact on monetary policy, the rate of change of interest rates, higher taxes, additional regulation, a stronger dollar, labor shortages, rising wages and premium valuations. All these risks are nuanced and may end up helping the market climb the wall of worry, but we are monitoring each one carefully.

We are confident that the US has entered a new economic expansion with many powerful drivers. This should result in a sustained new economic cycle and we anticipate broad participation from most sector and industries, including both secular ones and cyclical companies. In terms of portfolio positioning, healthcare remains our largest absolute weight, followed by technology, consumer discretionary, industrials and financials. Versus the index, the Fund is overweight consumer discretionary, industrials, energy, materials and technology and is underweight health care, financials, real estate and consumer staples.

Overall, we see many dynamic investment opportunities in improving or sustainable industries, many of which fit our investment philosophy of companies exhibiting positive growth inflections, differentiation, market share gains, growing revenues and expanding margins which will likely lead to expectations being exceeded over time.

# Driehaus Small Cap Growth Fund

## % Month-End Performance (as of 3/31/21)

	Annualized						
	MTH	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>1</sup>
Investor Class: DVSMX <sup>1</sup>	-3.63	9.10	132.93	34.63	32.37	19.26	15.70
Institutional Class: DNSMX <sup>1</sup>	-3.63	9.09	133.52	34.99	32.62	19.37	15.78
Russell 2000 <sup>®</sup> Growth Index <sup>2</sup>	-3.15	4.88	90.20	17.16	18.61	13.02	10.68

## % Quarter-End Performance (as of 3/31/21)

	Annualized						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Inception <sup>1</sup>
Investor Class: DVSMX <sup>1</sup>	9.10	9.10	132.93	34.63	32.37	19.26	15.70
Institutional Class: DNSMX <sup>1</sup>	9.09	9.09	133.52	34.99	32.62	19.37	15.78
Russell 2000 <sup>®</sup> Growth Index <sup>2</sup>	4.88	4.88	90.20	17.16	18.61	13.02	10.68

## Top 5 Holdings<sup>3</sup> (as of 2/28/21)

Company	% of Fund
Natera, Inc.	2.2
Springworks Therapeutics, Inc.	2.0
Synaptics Incorporated	2.0
Invitae Corp.	1.9
Inspire Medical Systems, Inc.	1.7

## Annual Operating Expenses<sup>4</sup>

	DVSMX	DNSMX
Gross Expenses	1.59%	0.89%
Net Expenses <sup>5</sup>	1.20%	0.95%

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance Data as of 3/31/21.

**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.**

<sup>1</sup>The average annual total returns 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.<sup>2</sup>The Russell 2000<sup>®</sup> Growth Index measures the performance of those Russell 2000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell 2000<sup>®</sup> Index measures the performance of the 2,000 smallest companies in the Russell 3000<sup>®</sup> Index. An investor cannot invest directly in an index.<sup>3</sup>Holdings subject to change.<sup>4</sup>Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2020. 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>5</sup>Driehaus 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 April 30, 2021. Pursuant to this 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 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 as well as the existing operating expense cap. Because of this agreement, the Fund may pay the Adviser less than the contractual management fee.

## Driehaus Small Cap Growth Fund

## Sector Performance Attribution 1st Quarter – 12/31/20 to 3/31/21

GICS Sector	Driehaus Small Cap Growth Fund (Port) (%)		Russell 2000 Growth Index <sup>1</sup> (Bench) (%)		Attribution Analysis (%)		
	Port Avg. Weight	Port Contrib To Return	Bench Avg. Weight	Bench Contrib To Return	Allocation Effect <sup>2</sup>	Selection + Interaction <sup>2</sup>	Total Effect <sup>2</sup>
Communication Services	3.07	-0.37	2.24	0.03	-0.02	-0.44	-0.45
Consumer Discretionary	19.87	3.19	14.15	2.28	0.71	-0.22	0.49
Consumer Staples	1.62	0.11	2.97	0.30	-0.06	-0.05	-0.11
Energy	3.58	1.08	0.19	0.06	0.87	0.05	0.92
Financials	5.90	0.57	3.80	0.11	-0.23	0.37	0.14
Health Care	23.81	-1.33	33.99	-0.58	0.76	-1.15	-0.40
Industrials	17.04	3.73	14.46	1.69	0.21	1.70	1.91
Information Technology	19.99	1.74	20.82	0.48	0.02	1.41	1.44
Materials	3.05	0.59	2.42	0.32	0.24	0.22	0.46
Real Estate	0.50	0.05	3.47	0.12	0.04	0.02	0.05
Utilities	1.04	-0.02	1.50	0.02	-0.02	-0.03	-0.05
Cash	0.54	0.00	0.00	0.00	0.13	0.00	0.13
Other <sup>3</sup>	0.00	-0.15	0.00	0.00	-0.14	0.00	-0.14
Total	100.00	9.19	100.00	4.82	2.50	1.87	4.38

Data as of 3/31/21

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance

Per FactSet Research Systems Inc., the attribution report provides an in-depth analysis of relative performance. With this report one can research whether or not a portfolio outperformed a benchmark, and how each group contributed to performance. The performance data shown above is estimated and represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The information presented is intended for informational purposes only.

<sup>1</sup>The definition of this index can be found on page 6. <sup>2</sup>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. <sup>3</sup>Other refers to securities not recognized by Factset.



**Driehaus Small Cap Growth Fund**

This material is not intended to be relied upon as a forecast or research. The opinions expressed are those of Driehaus Capital Management LLC (“Driehaus”) as of April 8, 2021 and are subject to change at any time due to changes in market or economic conditions. The commentary has not been updated since April 8, 2021 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.

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 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.

Market Turbulence Resulting from COVID-19. The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

**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