Driehaus Event Driven Fund FAQ

Historically, event-driven investing has offered investors equity market exposure with less volatility and low correlations to major asset classes. But how should an event-driven strategy be benchmarked and where does it fall within a plan's overall allocations? In the following pages, we address these and other frequently asked questions about the Driehaus Event Driven Fund (DEVDX).

Q: Should the fund be viewed as an idiosyncratic product relative to the broader market?

A: While there are market exposures that may affect our results, most of the positions in DEVDX are catalyst-driven and are therefore implicitly idiosyncratic. Additionally, the fund has a concentrated set of holdings, so our results on these trades are what ultimately drive performance. Further, we almost always have a set of hedges in the portfolio to minimize the market risk embedded in some of our trades.

The idiosyncratic performance of the product also depends on positioning—namely, while we are currently weighted more toward equity than to bond exposure, in a different market environment the reverse could be true. Likewise, our level of net exposure, whether via equity or fixed income, will fluctuate based on the broader environment as well as our more specific opportunity set. For example, the fund could run net neutral or net short if the environment were to warrant it. If this were the case, exposure to market beta would be largely mitigated.

That being said, the fund's performance could still be affected by the performance of the broader market. A majority of the fund's gross exposure is currently in equities, and the fund has generally stayed between 30%-60% net long since inception. Even though our positions should be less reliant on the broader market due to their catalyst-driven nature, a more systemic move in the market could affect the underlying value of our equity or credit exposure. For example, if broader market multiples contract or expand, the downside/upside cases for our positions could be effected commensurately. This is true even for "merger arbitrage" spreads, as in the event of a systemic shock, numerous M&A transactions may fail to close, thereby hurting M&A trades.

Q: What is the best benchmark for Driehaus Event Driven Fund? How should performance be gauged on a relative basis?

A: For relative comparisons, the S&P 500 Index can be used to benchmark the Driehaus Event Driven Fund. Although our individual positions are catalyst-driven, and therefore should be driven by idiosyncratic factors rather than the broader market's performance, the cumulative portfolio will likely capture a portion of market beta in tandem with our long exposures.

In this vein, the fund's portfolio management team is compensated based on achieving a return of two-thirds or greater than the return of the S&P 500, while maintaining two-thirds or lower the volatility of, and correlation to, the index. Importantly, there is an absolute return component to our compensation—namely that we don't receive any performance-based compensation if the fund is down more than 10% in any given measurement period, regardless of our relative performance to the S&P 500.

Additionally, some clients also evaluate the fund's performance by comparing it to various event-driven hedge fund indices, such as the HFRX Event-Driven Index (HFRXED Index).

Q: How many positions will typically be in the fund? How big are its positions?

A: We aim to have roughly 20 to 50 positions in the fund. The precise number of positions will vary depending on the depth of the opportunity set. For example, in an environment with myriad attractive investment opportunities of comparable expected value, our position count could be higher.

With respect to sizing, a position will generally be between 2% and 5% of the portfolio. Sizing depends on a given position's expected liquidity, prospective downside, and expected behavior relative to other holdings within the portfolio, among other factors.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group. It is a market-weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value.

HFRX Event Driven Index is comprised of investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

Q: How should this fund be positioned in client portfolios?

A: The fund can be positioned in client portfolios in several ways. The most obvious allocation is within the event-driven or special situations category of a client's alternatives or hedged allocation. For clients with more granular merger arbitrage mandates, the fund can be used as a higher-upside alternative to more traditional merger arbitrage vehicles as the fund incorporates more catalyst-driven opportunities.

Many clients do not have a separate alternatives sleeve in their portfolio. For these clients, DEVDX is often used as a complementary equity strategy or equity alternative. Since inception, the fund has produced approximately half to two-thirds of the volatility of the S&P 500 with a correlation of 0.6. Consequently, we believe many clients may find that the addition of DEVDX to an equity allocation lowers volatility and correlation in their portfolios.

Q: In what types of markets will the fund perform well and when would you expect it to underperform?

A: The fund is likely to perform well—specifically, on a relative basis—in times of heightened volatility and dislocation. During such periods, catalyst-driven equities and bonds are often affected in a magnitude that is similar to the broader market, despite the implicitly idiosyncratic nature of such securities. There are a number of reasons for such price action, but primary among them is that often event-driven names are sold indiscriminately during periods of market stress. This may occur due to heightened risk controls or loss limits faced by funds that own event names but do not focus primarily on the event-driven space. DEVDX can take advantage of these dislocations.

The fund should also perform well in markets characterized by heightened M&A and strategic action, such as spinoffs, split-offs, and divestitures. Such an environment offers more catalysts to select from, providing a larger investment universe and more prospective dislocations. Such dislocations are exacerbated by large and complex capital structures, so it is not only the number of deals that provides opportunity with respect to M&A, but also the volume of the respective deals consummated. Likewise, the fund should perform well at the bottoming of a credit cycle. During these periods, there are a wealth of high-yielding and distressed credit opportunities that offer compelling risk-adjusted returns.

DEVDX is more likely to underperform on a relative basis during strong and near-uniform bull markets. Because of its lower volatility profile and catalyst-driven investment strategy, it is unlikely to capture all of the market beta. The fund may also underperform during periods when there is a dearth of event activity.

Disclosures

Investments in overseas markets can pose more risks than U.S. investments, and share prices are expected to be more volatile than that of a U.S.-only fund. The Driehaus Event Driven Fund invests in foreign securities, including small and mid cap stocks, which may be subject to greater volatility than other investments. In addition, returns of this Fund will fluctuate with changes in stock market conditions, currency values, interest rates, foreign government regulations, and economic and political conditions in countries in which this Fund invests. These risks are generally greater when investing in emerging markets. These and other risk considerations are discussed in the prospectus for this Fund. At times, a significant portion of the 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. Stocks of medium-sized companies tend to be more volatile in price than those of larger companies and may have underperformed the stocks of small and large companies during some periods. In addition, investments in medium-sized companies may be more susceptible to particular economic events or competitive factors than are larger, more broadly diversified companies. Growth stocks may involve special risks and their prices may be more volatile than the overall market. The Fund, in addition to investing in unrated and investment grade bonds, may also invest in junk bonds, which involve greater credit risk, including the risk of default. The prices of high yield bonds are more sensitive to changing economic conditions and can fall dramatically in response to negative news about the issuer or its industry, or the economy in general. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is a risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Further, the Fund may invest in derivatives for speculative purposes. Gains or losses from speculative positions in a derivative may be much greater than the derivative's original cost and potential losses may be substantial. The Fund may make short sales. Short sales expose the Fund to the risk of loss. No investment strategy, including an absolute return strategy, can ensure a profit or protect against loss. Additionally, investing in an absolute return strategy may lead to underperforming results during an upward moving market. When interest rates increase, bond prices decrease and bond funds become more volatile. 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. This is a nondiversified fund compared to other funds, the Fund may invest a greater percentage of assets in a particular issuer or a small number of issuers. As a consequence, the Fund may be subject to greater risks and larger losses than diversified funds.

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 (877) 779-0079. Please read the prospectus and summary prospectus carefully before investing.

Terms

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.

Merger arbitrage is a strategy in which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit. A merger arbitrageur looks at the risk that the merger deal will not close on time, or at all. Because of this slight uncertainty, the target company's stock will typically sell at a discount to the price that the combined company will have when the merger is closed. This discrepancy is the arbitrageur's profit.

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