The Hedge Fund Apocalypse…Revisited

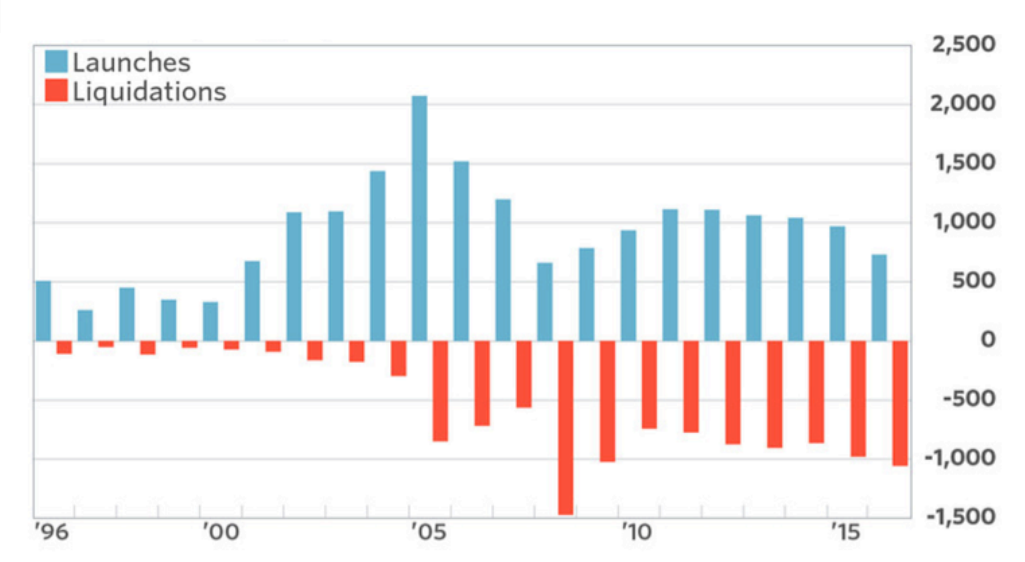
About a year ago, I wrote a piece like this entitled "The Hedge Fund Apocalypse". It created a bit more of a stir amongst our readership than I expected. Given that much has transpired over the past year, I thought that it would be appropriate to revisit the topic.

For those who didn't read the original piece, my primary thesis was that hedge funds, and almost all of alternatives for that matter, were in big trouble. Years of underperformance versus long only exposures, coupled with a greater variety and number of investable alternatives, would take its toll on the industry as it underwent a seismic change over the next several years. To be more specific, I made a few predictions (some look better than others).

1) The number of hedge funds will get cut in half over the next several years. Thus far, it looks like I'll be way off on this one. There are roughly 10,000 hedge funds worldwide, and there was a net decline of approximately 400 last year (~4%), the second highest number of closures on record, outside of 2008. (Exhibit 1)

For the universe to get halved, the pace of closures would have to dramatically accelerate. I do think the culling will continue, but I was likely a bit aggressive in my prediction.

EXHIBIT 1: 2016 had the most hedge fund closures since 2008

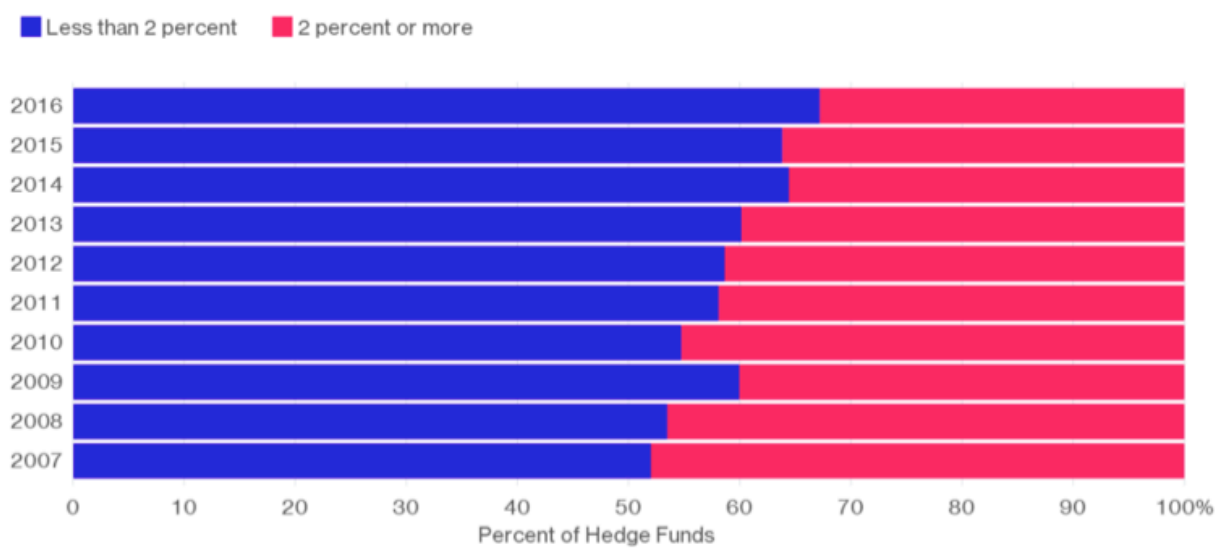


Source: HFR

2) Hedge fund fees will shrink, bigly. This prediction was not so bold. Hedge fund fees have been on the decline for years and the downward trajectory appears well established for years to come. (Exhibit 2)

According to Hedge Fund Research, hedge funds launched in 2015 charged an average management fee of 1.6% and a performance fee of 17.8%, on average. On the other hand, hedge funds launched in 2016 charged an average management fee of 1.3% and a performance fee of 17.7%. I'd say that a 30 basis point decrease in management fees and a 10 basis point decrease in performance fees in one year, qualifies as a fee shrinkage, bigly.

EXHIBIT 2: Hedge fund fee pressure mounts



Source: Preqin. 2016 data as of end of September.

3) Institutional consultants and their investors will increasingly be pressured to reduce traditional hedge fund allocations to lower cost alternatives, which will primarily be passive indexed exposures. There's ample evidence showing that this prediction was more right than wrong:

- "Cambridge Associates, which invests for endowments and foundations, has negotiated lower fees and improved terms with about 80 hedge funds, according to Noel O'Neill, head of global investment research." (Gittelsohn, John and Lorin, Janet. 11/15/16. "Hedge-Fund Love Affair is Ending for U.S. Pensions, Endowments." Source: www.bloomberg.com)

- "The Illinois State Board of Investment has cut $1 billion of hedge funds from its portfolio. The New York State Common Retirement Fund has reduced its allocation to the strategy to 3%. One of the reasons? The fees are too high." (Lorin, Janet. 6/7/17. "New York, Illinois Pension Funds Say Hedge Funds Fees Too High." Source: www.bloomberg.com)

- "There isn't a manager out there who isn't thinking about lowering fees," David Saunders, Chief Executive Officer of K2 Advisors - which has about $10 billion invested with hedge funds on behalf of its clients - told Reuters on the sidelines of the Alpha Hedge West conference in San Francisco last week." (staff. 9/15/16. "Here's Why Hedge Funds Around the World Are Cutting Their Fees." Source: www.fortune.com)

- "The efforts of unions and activists have put divestment (of hedge funds) on the national agenda. Increasingly, both universities and public retirement funds are deciding to take their business elsewhere. (McAvoy, Spencer. 10/4/16. "Taking on the Real Power Players: How Workers are Taking Pension Control Back from Hedge Funds." Source: www.salon.com)

- "Dale Folwell, 58, became the state's first Republican treasurer in 140 years partly on the strength of a simple investment strategy he proposed: Instead of paying money managers big fees, the state should use a slim menu of cheap, mostly indexed investments and manage them in-house when possible." (Weinberg, Neil. 4/7/17. "The $90 Billion Investor Who's Out to Fire Wall Street." Source: www.bloomberg.com, referring to the state of North Carolina.)

So what are my updated predictions? I wouldn't make too many changes to my predictions of the past, and I'd actually add a few.

1) Fee shrinkage will continue, and in fact, accelerate. Here's my biggest jaw-dropping tidbit for those who work in the industry based on numerous conversations I've had with existing and prospective institutional investors this year. ***Three separate investors told me that they've had investment managers in their offices this year pitching product that charges a ZERO management fee.*** Here's a brief recap of the most insightful (and terrifying if you're an investment manager) conversation:

Investor: I had a manager in here yesterday pitching zero-fee product.

Me: Was it an S&P Index fund?

Investor: Yes, that was one of them, but they had 9 other different index products, including credit indices, all charging zero fee.

Me: (inadvertently chokes and spits water out of mouth) Seriously?! Ten funds?!

Investor: Yep. They had international equity index product too.

Me: So how on earth do they expect to make money?!

Investor: Well they don't on that business. Their CEO says he spends $2 million per year on conferences, tchotchkes, and other marketing stuff where he has no idea if it's doing any good. He says he's cutting that junk out. Now he's going to spend a couple million per year on zero fee product, except this time he'll have a big list of new client relationships directly attributable to his expense.

Me: Wow

Investor: He views it as giving away a gallon of milk in the back of the grocery store.

Me: I'm not so sure about that. When you're in the grocery store, you're in the store. This is more like giving away a gallon of milk on the side of the road.

Investor: Either way, he's doing it, and I think we're going to give them some money.

2) Performance remains a problem, even though many out there don't know it (or refuse to accept it).

Here are a few typical headlines:

> *"Hedge Fund Returns Reach Three Year High in 2016." (Preqin, 1/18/17)*
>
> *"Hedge Funds Extend Positive Streak to Six Months in April" (Opalesque, 5/25/17)*

This all sounds fine and dandy. And yes it's true that hedge funds have had more winning than losing months in recent history. Here's the problem though – while returns are positive, they are not keeping up with the most popular passive option – the S&P 500. Year to date, the HFRI Composite Index is up 3.3%. The S&P 500 is up 8.7% over the same time period. Until further notice, any performance number that fails to keep up with the S&P 500 will be criticized (rightly or wrongly, I'd argue wrongly). (Exhibit 3) Too much time has passed since the last major market cycle in which hedge funds proved to be a valuable holding for investors. At the same time, bonds have been a great source of high returns with low volatility as rates have trended lower. The standard 60/40 US stock/bond portfolio has trounced virtually all other investment allocations for years, including portfolios integrating alternatives. That trend continues this year. Investors love putting money into winners of years past, particularly when you can make that investment for virtually zero fee nowadays. Yes, there are small details that should accompany this chart. I'm not sure how often they're mentioned in your typical public plan investment committee meeting. I'll list a few of those details, just in case you want to be the one who rattles them off at your next board meeting.

- Bond yields have had an epic run lower in the past 30 years which has greatly aided all things fixed income, particularly the Bloomberg Barclays Aggregate Bond Index and its relatives.
- The Fed's quantitative easing effort absolutely squashed volatility since the Credit Crisis. The collapse in volatility of all types has served as a gale-force headwind for most hedging strategies.
- The Fed is no longer pursuing quantitative easing. In fact, they're trying to unwind it.
- The S&P 500 trades at roughly 18.5x forward earnings. The VIX trades at 10. The 10 year treasury yields 2.14%. Nothing is particularly cheap.
- Near dated volatility expectations are heavily skewed by the most recent realized volatility observations. In other words, the recent stretch of market calm is engendering more calm….until one day there is a volatility regime shift.
- Holding hedged strategies likely saved you some bacon during the Credit Crisis and Tech Bust, thereby enabling you to think more rationally and reposition your portfolio in a period of market chaos. It's quite likely they'll serve the same purpose the next time around.

EXHIBIT 3: Annual Index Returns

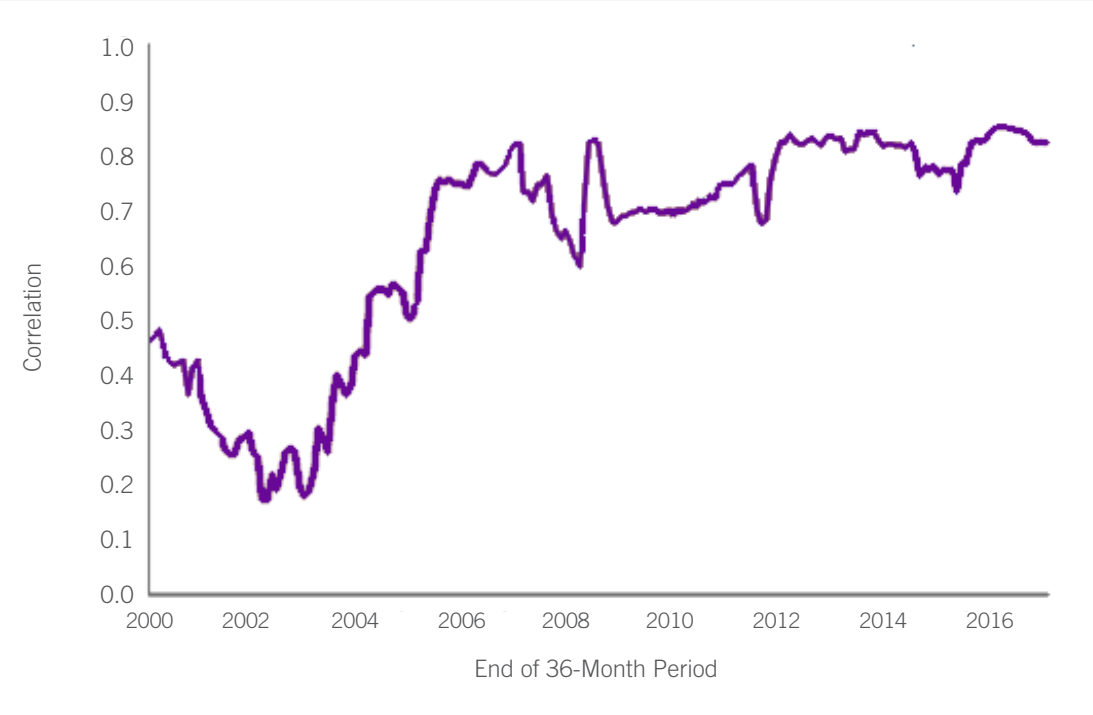
	1998–2016		1998–2003		2004–2016		2007–2009	
	Annual Return	Volatility	Annual Return	Volatility	Annual Return	Volatility	Annual Return	Volatility
HFRX Global Hedge*	4.5%	3.9%	16.1%	3.8%	0.6%	3.9%	-3.2%	5.5%
S&P 500 Index	6.4%	20.0%	4.5%	21.4%	7.7%	19.3%	-7.7%	30.4%
Bloomberg BC Aggregate Bond Index	5.1%	3.8%	8.4%	4.0%	4.2%	3.7%	6.0%	4.8%
60/40 Portfolio	6.4%	11.2%	6.9%	13.5%	6.7%	10.0%	-2.1%	15.3%
MSCI ACWI Ex-US Index	5.1%	17.6%	4.3%	16.4%	5.8%	18.2%	-6.0%	26.8%

Source: Driehaus Capital Management
*HFRX Global Hedge Fund Index did not report daily data until 3/31/2003.

3) The hedge fund industry increasingly goes one of two ways.

Have you noticed anything odd when reading the profiles in the Wall Street Journal or Bloomberg of what some of the most successful hedge funds have been up to over the past year or two? It appears to me like they're going one of two ways. First, you see firms pursuing esoteric investments in the private markets, such as buying interests in movie rights, litigation claims, and commercial jets and trucks. Second, you see funds pouring tens of millions of dollars into artificial intelligence, computing power and algorithmic trading. So, some funds are going to less liquid investments where they believe alpha exists. As an added bonus, these investments have exhibited little to no correlation to the broader markets over the past few years (funny how that works in bull markets), which is an issue that the industry continues to wrestle with….. (Exhibit 4)

EXHIBIT 4: Correlation of HFRX Global Hedge Fund Index with the S&P 500 (Rolling 36 months: 1998-2016)

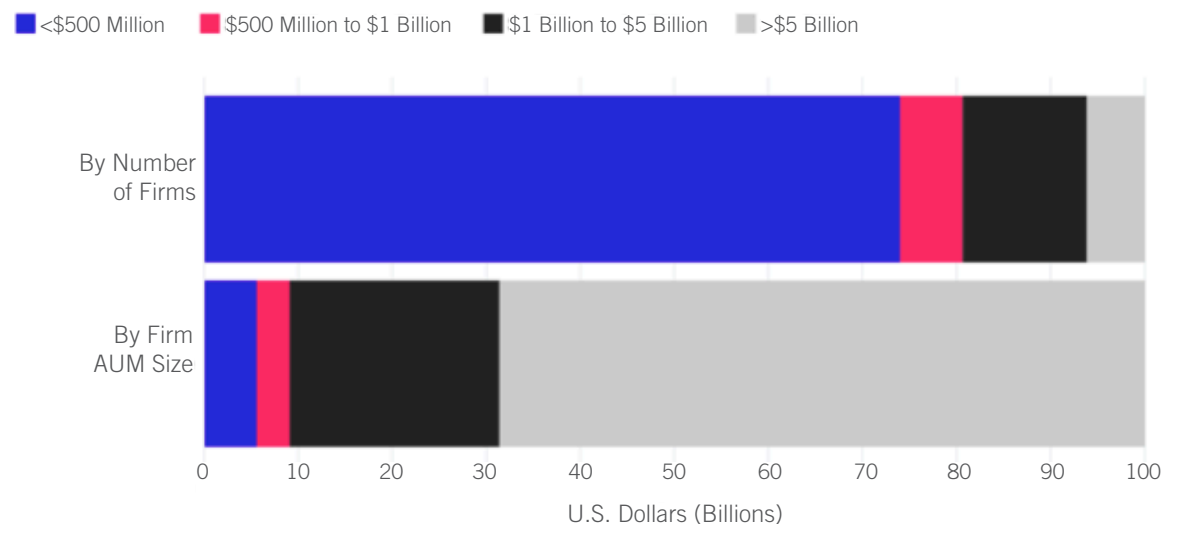


Source: CFA Institute

Another interpretation is that if you're going to be investing in the public markets, many funds are choosing to go with computing power and machines over humans and investing experience.

There are many problems with these trends. For those funds going the non-traditional, private market route, when the next market downturn occurs, you can bet virtually all of these bets are going one way, and in a less liquid market, that can mean severe markdowns (should you be required to mark them to market). For funds going the automated route, you're commoditizing your investment process. My computer can do anything that your computer can do, so we end up in a game of computer expenditure wars (the end result of which may be investment styles that are now very similar, since both of our computers are looking for similar signals). The outcomes will be that commoditization forces more downward pressure on fees, and assets under management (AUM) will flow to the several firms with the most computing power, and you can make a good guess as to who that will be. (Exhibit 5)

EXHIBIT 5: Six percent of hedge fund firms manage nearly 70% of industry assets



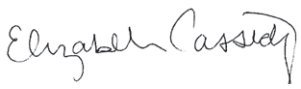
Source: HFR

On the whole, my outlook is similar to what it was last year at this time. The continued bull-run in the US markets, coupled with fee compression and an arms race in computing power sets a difficult back-drop for the industry. More negative headlines in the way of AUM losses and fee cuts are sure to come. These trends are most significant in the hedge fund industry, but you can bet they apply to virtually all segments of investment management. The best paths, if you operate in the alternatives industry, are to:

- Attempt to continue producing positive, uncorrelated returns, irrespective of the performance of long only indices. You can't control the S&P and AGG and they've been near impossible to keep up with over the past 10 years. As with all trends in investing, that one will surely turn the other way at some point, which will be problematic for many based on the pattern of fund flows in recent history.
- Continue pursuing idiosyncratic investment opportunities coupled with hedging strategies that should benefit a portfolio when the market stumbles.
- Closely monitor the boom towards indexation and the potential for extraordinary mispricing opportunities to arise. That development would greatly aid good old-fashioned analysis and hedge fund strategies, possibly setting up a multi-year bonanza of returns;
- Anticipate the impact that the continued growth of algorithmic trading will have on the market and adjust accordingly.
- Regularly communicate with your investors to avoid the temptation to engage in rearview mirror investing in equity and bond market beta in hopes that one day, diversification actually pays off…again.
- Try to hide your schadenfreude if/when the boom in index and algorithmic trading creates a major market meltdown.

Until next month,
K.C. & Cass

K.C. Nelson
Lead Portfolio Manager



Elizabeth Cassidy
Portfolio Manager

LCMAX Performance Review

Features:

- Multi-strategy credit approach
- Absolute return focused, long/short credit strategy
- Volatility managed, low correlation return objectives
- Hedging of interest rate exposure
- Liquid, transparent "hedged" mutual fund vehicle

Inception Date: November 8, 2005*

Fund Assets Under Management: $2.1 billion

Firm Assets Under Management: $8.7 billion

Portfolio Concentration: Flexible, best ideas approach, generally 80-100 trades

Duration Target: +/- 1 year

Volatility Target: Less than the Bloomberg Barclays Aggregate Index (about 5%, annually)

Distributions: Quarterly dividends; annual capital gains

Portfolio Managers:

K.C. Nelson, Lead Portfolio Manager
18 years experience

Elizabeth Cassidy, Portfolio Manager
17 years experience

**The Driehaus Active Income Fund commenced operations on June 1, 2009 following the receipt of the assets and liabilities of the Lotsoff Capital Management Active Income Fund (the "Predecessor Fund") through a reorganization into the Driehaus Active Income Fund.*

*[1]**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 (877) 779-0079 or visit www.driehaus.com for more current performance information.

May

The fund declined 1.22% in May.[1] Corporate credit spreads continued to grind tighter, albeit at a slower pace than earlier in the year, with high yield (HY) credit spreads decreasing 7 basis points to 374 basis points (5.54% yield) and investment grade (IG) spreads decreasing 5 basis points to 118 basis points (3.18% yield). High yield returned 0.89% during the month, the lowest monthly return year-to-date, excluding March. Conversely, IG credit generated its strongest monthly performance year-to-date of 1.16%, largely driven by the decrease in interest rates.

The event driven strategy had the largest impact on performance detracting 1.22%. Despite posting better than expected first quarter earnings, a position in an international cinema company detracted 0.73% due to investor concerns about acquisition integration costs and future cash flow expectations. Five other positions in an entertainment technology, title insurance, and three gaming companies detracted approximately 0.75%. These losses were partially offset by gains of 0.25% in a regional gaming REIT and in two risk arbitrage positions where spreads tightened during the month.

The directional long strategy contributed 0.26% to performance. The top six positions contributed approximately 0.25% and rallied due to positive earnings or general market tightening. The capital structure arbitrage strategy contributed 0.07% to performance. Two long-leaning positions in a domestic financial company and a telecom and cable operator contributed approximately 0.03% each.

Both hedging strategies detracted from performance. Volatility positions focused on the Nasdaq and S&P detracted 0.10%. The interest rate hedge detracted 0.17% as the US 10 year Treasury declined from a mid-month high of 2.4% to 2.2%.

No other strategy contributed meaningfully to performance this month.

LCMAX Performance Review

Month-end Performance as of 5/31/17

				Average Annual Total Return			
Fund/Index	**MTH**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception[1]**
Driehaus Active Income Fund[2]	**-1.28%**	**-0.28%**	**3.98%**	**0.88%**	**2.05%**	**3.51%**	**3.61%**
Citigroup 3-Month T-Bill Index[3]	0.06%	0.23%	0.40%	0.18%	0.13%	0.54%	1.11%
Bloomberg Barclays Aggregate Index[4]	0.77%	2.38%	1.58%	2.53%	2.24%	4.46%	4.50%

Calendar Quarter-end Performance as of 3/31/17

				Average Annual Total Return			
Fund/Index	**QTR**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception[1]**
Driehaus Active Income Fund[2]	**0.12%**	**0.12%**	**5.56%**	**1.07%**	**1.84%**	**3.58%**	**3.70%**
Citigroup 3-Month T-Bill Index[3]	0.12%	0.12%	0.34%	0.15%	0.11%	0.61%	1.11%
Bloomberg Barclays Aggregate Index[4]	0.82%	0.82%	0.44%	2.68%	2.34%	4.27%	4.43%

Annual Fund Operating Expenses[5]

Management Fee	0.55%
Other Expenses Excluding Dividends and Interest on Short Sales	0.25%
Dividends and Interest on Short Sales	0.58%
Total Annual Fund Operating Expenses	**1.38%**

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 (877) 779-0079 or visit www.driehaus.com for more current performance information.

[1]Inception Date: 11/8/2005. [2]The Driehaus Active Income Fund commenced operations on June 1, 2009 following the receipt of the assets and liabilities of the Lotsoff Capital Management Active Income Fund (the "Predecessor Fund") through a reorganization into the Driehaus Active Income Fund (the "Fund"). Lotsoff Capital Management was the investment adviser from inception through April 2, 2009. Driehaus Capital Management LLC (the "Adviser") became the interim investment adviser to the Predecessor Fund on April 3, 2009. [3]The Citigroup 3-Month T-Bill Index is designed to mirror the performance of the 3-Month U.S. Treasury Bill. The Citigroup 3-Month T-Bill Index is unmanaged and its returns include reinvested dividends. [4]The Bloomberg Barclays Aggregate Index, an unmanaged index, represents securities that are SEC-registered, taxable and dollar denominated. This index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. [5]Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2017. 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.

The Driehaus Active Income Fund (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. 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. 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.

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.

Driehaus Securities LLC, Distributor

LCMAX Portfolio Characteristics*

Executive Summary

		excluding cash
Assets Under Management (AUM)	$2,073,105,657	
Long Exposure	$2,154,209,084	$2,041,032,863
Short Exposure	$(1,025,917,112)	$(1,025,917,112)
Net Exposure	$1,128,291,972	$1,015,115,751
Net Exposure/AUM	54.43%	48.97%
Gross Exposure	$3,162,090,163	$3,066,949,975
Gross Exposure/AUM	1.53x	1.48x

Risk Summary

Effective Duration	-0.29 Years
Spread Duration	2.50 Years
30-day SEC Yield	3.11%
Portfolio Yield-To-Worst[1]	3.31%
Average % of Par Longs	103.00%
Average % of Par Shorts	102.97%
Beta vs. S&P 500	0.22
100-Day Volatility	2.98%

Trading Strategy Type

	Gross Exposure	% of Gross Exposure	% Contrib. to Total Return
Capital Structure Arbitrage[2]	336,389,289	10.6%	0.07%
Convertible Arbitrage[2]	199,879,270	6.3%	0.02%
Directional Long[2]	1,122,167,786	35.5%	0.26%
Directional Short[2]	64,912,728	2.1%	-0.02%
Event Driven[2]	716,014,342	22.6%	-1.22%
Interest Rate Hedge[2]	475,299,691	15.0%	-0.17%
Pairs Trading[2]	4,646	0.0%	0.00%
Volatility Trading[2]	134,246,190	4.2%	-0.10%
Cash**	113,176,222	3.6%	0.00%
Expenses***			-0.07%
Total	**3,162,090,163**	**100.0%**	**-1.22%**

Preliminary data. May differ from data shown by third-party providers because of rounding or for other reasons.

Source: Bloomberg, Factset

[1] Refers to credit only
[2] A definition of this term can be found on page 17.

*Exposure: please note exposure may be different than market value. For equities, bonds, and interest rate swap products, exposure is the same as market value. For options and foreign exchange forwards exposure represents greek-adjusted underlying exposure. For credit default swap and credit default swap indices, exposure represents bond-equivalent exposure.

**This figure represents the fund's operating cash plus receivables for investments sold and minus payables for investments purchased, and includes USD and FX cash.

***Estimated expenses for the month (not annualized) as a percentage of the fund's net assets for the month.

Note: *A definition of key terms can be found on page 17*

Credit Rating*

	Long Exposure ($)	% of Long Exposure	Short Exposure ($)	% of Short Exposure	Gross Exposure ($)	% of Gross Exposure
AAA[1]	0	0.0%	0	0.0%	0	0.0%
AA	0	0.0%	0	0.0%	0	0.0%
A[2]	16,552,979	1.1%	0	0.0%	0	0.0%
BBB	161,617,868	10.9%	(147,750,478)	69.7%	309,368,346	18.4%
BB	229,569,351	15.4%	(16,965,667)	8.0%	246,535,018	14.7%
B	827,310,733	55.7%	(10,766,780)	5.1%	838,077,513	49.8%
CCC	196,651,725	13.2%	0	0.0%	196,651,725	11.7%
CC	0	0.0%	0	0.0%	0	0.0%
C	0	0.0%	0	0.0%	0	0.0%
D	0	0.0%	0	0.0%	0	0.0%
Not Rated	54,488,976	3.7%	(36,496,008)	17.2%	90,984,984	5.4%
Total	**1,486,191,632**	**100.0%**	**(211,978,933)**	**100.0%**	**1,681,617,586**	**100.0%**

Credit rating data is shown only for the following asset classes: Bank Loan, Corporate CDS, Corporate Credit, Convertible Bonds and Preferred Stocks.

Industry Sector

	Long Exposure ($)	% of Long Exposure	Short Exposure ($)	% of Short Exposure	Gross Exposure ($)	% of Gross Exposure
GICS[3]						
Consumer Discretionary	400,938,144	18.6%	(84,032,312)	8.2%	484,970,456	15.3%
Consumer Staples	116,590,648	5.4%	0	0.0%	116,590,648	3.7%
Energy	94,018,764	4.4%	(59,362,791)	5.8%	153,381,555	4.9%
Financials	562,415,303	26.1%	(113,879,460)	11.1%	676,294,762	21.4%
Health Care	111,661,203	5.2%	(5,790,438)	0.6%	117,451,641	3.7%
Industrials	97,574,350	4.5%	0	0.0%	97,574,350	3.1%
Information Technology	316,180,022	14.7%	(40,976,804)	4.0%	357,156,826	11.3%
Materials	39,363,602	1.8%	(11,851,902)	1.2%	51,215,504	1.6%
Real Estate	0	0.0%	0	0.0%	0	0.0%
Telecommunication Services	149,880,532	7.0%	0	0.0%	149,880,532	4.7%
Utilities	121,777,264	5.7%	0	0.0%	121,777,264	3.9%
Other[4]	*143,809,254*	*6.7%*	*(710,023,405)*	*69.2%*	*835,796,625*	*26.4%*
Total	**2,154,209,084**	**100.0%**	**(1,025,917,112)**	**100.0%**	**3,162,090,163**	**100.0%**

Source: Bloomberg, Factset Moody's, Standard & Poor's, Global Industry Classification Standard

*Credit ratings listed are subject to change. Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). "NR" is used to classify securities for which a rating is not available. The Adviser receives credit quality ratings on underlying securities of the portfolio from the three major ratings agencies - Moody's Investors Service (Moody's), Fitch Ratings (Fitch), and Standard & Poor's (S&P). When calculating the credit quality breakdown, the Adviser utilizes Moody's and if Moody's is not available the manager selects the lower rating of S&P and Fitch.

***Note:** A definition of key terms can be found on page 17*

Credit Ratings:

AAA and AA: High credit-quality investment grade
A and BBB: Medium credit-quality investment grade
BB, B, CCC, CC, C: Low credit-quality (non-investment grade), or "junk bonds"
Not Rated: Bonds currently not rated

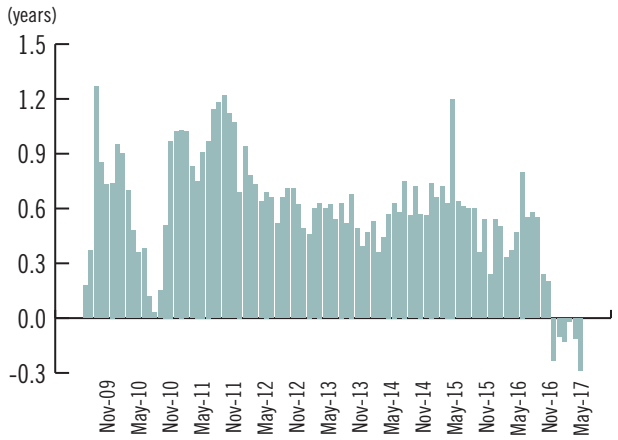
[1] All government bonds are rated AAA.
[2] All agency Mortgage Backed Securities (MBS) are rated A.
[3] The Global Industry Classification Standard (GICS), a collaboration between Standard & Poor's and Morgan Stanley Capital International, is a system of classification that identifies a company according to its business activity.
[4] The Other Industry Sector data is not categorized within the GICS classification system.

Product Type

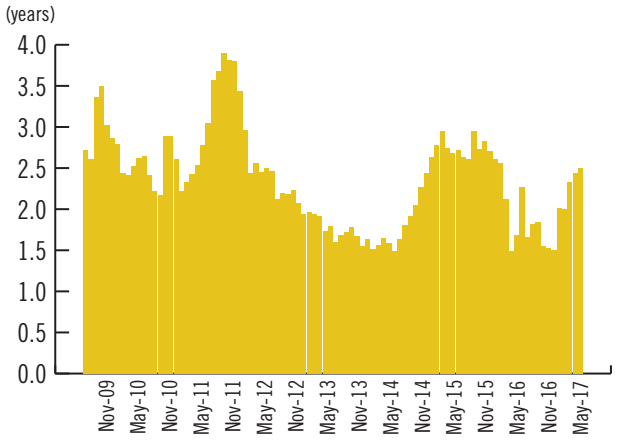
	Long Exposure ($)	% of Long Exposure	Short Exposure ($)	% of Short Exposure	Gross Exposure ($)	% of Gross Exposure
Bank Loan	441,202,202	20.5%	0	0.0%	441,202,202	14.0%
Convertible Bond	80,795,268	3.8%	0	0.0%	80,795,268	2.6%
Convertible Preferred	26,494,775	1.2%	0	0.0%	26,494,775	0.8%
Corporate	800,911,322	37.2%	(35,874,696)	3.5%	836,786,018	26.5%
Preferred	46,087,401	2.1%	0	0.0%	46,087,401	1.5%
Sovereign	7,018,899	0.3%	(34,662,392)	3.4%	41,681,291	1.3%
Fixed Income	***1,402,509,867***	***65.1%***	***(70,537,089)***	***6.9%***	***1,473,046,956***	***46.6%***
ADR/GDR	0	0.0%	(36,190,185)	3.5%	36,190,185	1.1%
Equity Common	524,208,198	24.3%	(104,220,597)	10.2%	628,428,796	19.9%
Exchange Traded Fund	0	0.0%	(137,009,000)	13.4%	137,009,000	4.3%
Equity	***524,208,198***	***24.3%***	***(277,419,782)***	***27.0%***	***801,627,980***	***25.4%***
Credit Default Swap	90,700,664	4.2%	(176,104,236)	17.2%	266,804,900	8.4%
Currency Forward	8,770,640	0.4%	(9,018,017)	0.9%	(247,377)	0.0%
Index Future	0	0.0%	(53,044,200)	5.2%	53,044,200	1.7%
Index Options	0	0.0%	0	0.0%	0	0.0%
Interest Rate Future	0	0.0%	(439,793,788)	42.9%	439,793,788	13.9%
Residential Mortgage Backed	0	0.0%	0	0.0%	0	0.0%
Securitized / Covered	0	0.0%	0	0.0%	0	0.0%
Swaptions	370,850	0.0%	0	0.0%	370,850	0.0%
Total Return Swap	14,472,643	0.7%	0	0.0%	14,472,643	0.5%
Derivatives	***114,314,797***	***5.3%***	***(677,960,241)***	***66.1%***	***774,239,004***	***24.5%***
Cash & Other	***113,176,222***	***5.3%***	***0***	***0.0%***	***113,176,222***	***3.6%***
Total	**2,154,209,084**	**100.0%**	**(1,025,917,112)**	**100.0%**	**3,162,090,163**	**100.0%**

Note: *A definition of key terms can be found on page 17*

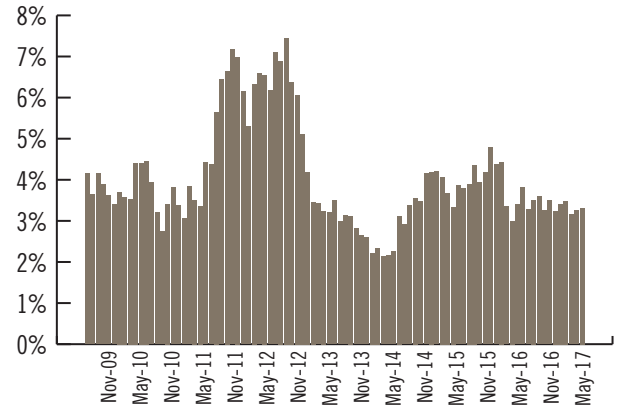
LCMAX Effective Duration



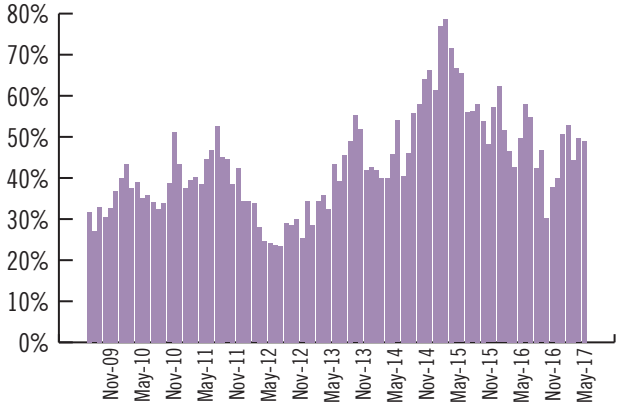
LCMAX Spread Duration



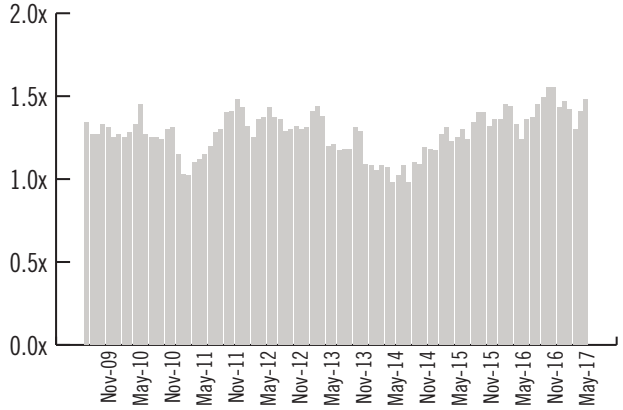
LCMAX Average Yield-to-Worst



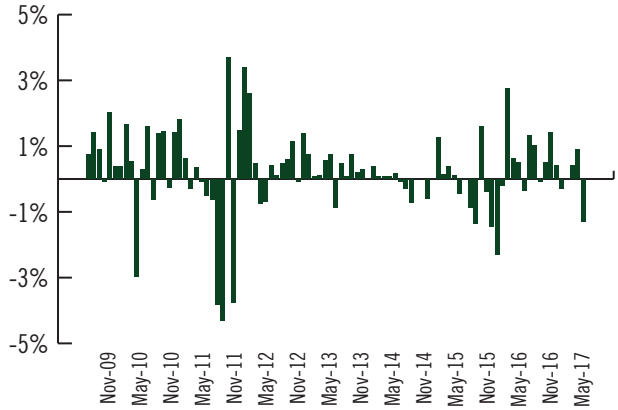
LCMAX Net Exposure / AUM (Excluding Cash)



LCMAX Gross Exposure / AUM (Excluding Cash)



LCMAX Monthly Return*



Sources: Driehaus Capital Management LLC, Bloomberg, Factset

Note: *A definition of key terms can be found on page 17*

*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.

Spread Distribution* ($M)

		0-300	300-600	600-1000	>1000	Total
Bank Loan	Long Exposure	6,536,216	296,537,309	121,991,397	16,137,280	441,202,202
	Short Exposure	0	0	0	0	0
	Net Exposure	6,536,216	296,537,309	121,991,397	16,137,280	441,202,202
	Gross Exposure	6,536,216	296,537,309	121,991,397	16,137,280	441,202,202
Convertible Bond	Long Exposure	80,795,268	0	0	0	80,795,268
	Short Exposure	0	0	0	0	0
	Net Exposure	80,795,268	0	0	0	80,795,268
	Gross Exposure	80,795,268	0	0	0	80,795,268
Convertible Preferred	Long Exposure	26,494,775	0	0	0	26,494,775
	Short Exposure	0	0	0	0	0
	Net Exposure	26,494,775	0	0	0	26,494,775
	Gross Exposure	26,494,775	0	0	0	26,494,775
Corporate	Long Exposure	296,047,991	434,624,363	58,036,181	12,202,787	800,911,322
	Short Exposure	(35,874,696)	0	0	0	(35,874,696)
	Net Exposure	260,173,295	434,624,363	58,036,181	12,202,787	765,036,625
	Gross Exposure	331,922,688	434,624,363	58,036,181	12,202,787	836,786,018
Credit Default Swap	Long Exposure	90,700,664	0	0	0	90,700,664
	Short Exposure	(176,104,236)	0	0	0	(176,104,236)
	Net Exposure	(85,403,573)	0	0	0	(85,403,573)
	Gross Exposure	266,804,900	0	0	0	266,804,900
Preferred	Long Exposure	9,631,800	36,455,601	0	0	46,087,401
	Short Exposure	0	0	0	0	0
	Net Exposure	9,631,800	36,455,601	0	0	46,087,401
	Gross Exposure	9,631,800	36,455,601	0	0	46,087,401
Total	Long Exposure	510,206,715	767,617,273	180,027,578	28,340,066	1,486,191,632
	Short Exposure	(211,978,933)	0	0	0	(211,978,933)
	Net Exposure	298,227,782	767,617,273	180,027,578	28,340,066	1,274,212,699
	Gross Exposure	722,185,648	767,617,273	180,027,578	28,340,066	1,698,170,565
	Net Exposure %	**23.4%**	**60.2%**	**14.1%**	**2.2%**	**100.0%**
	Gross Exposure %	**42.5%**	**45.2%**	**10.6%**	**1.7%**	**100.0%**

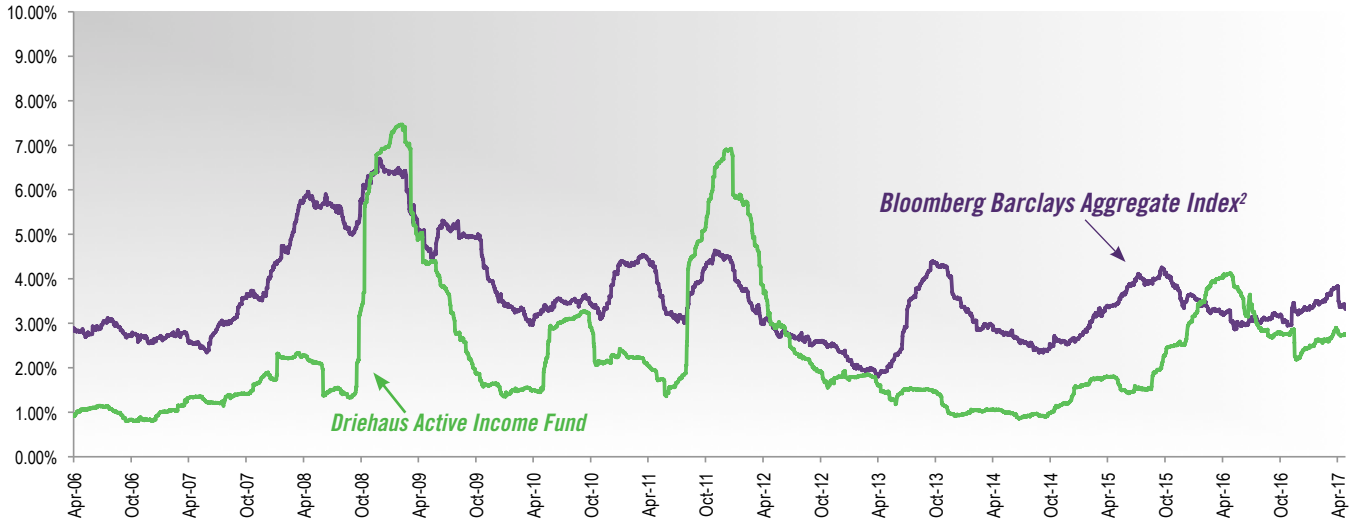
Regional Allocation

	Long Exposure ($)	% of Long Exposure	Short Exposure ($)	% of Short Exposure	Gross Exposure ($)	% of Gross Exposure
Developed	289,223,634	13.4%	(97,405,704)	9.5%	368,593,305	11.7%
Emerging	119,921,190	5.6%	(79,232,431)	7.7%	199,153,622	6.3%
United States	1,745,064,259	81.0%	(849,278,977)	82.8%	2,594,343,236	82.0%
Total	**2,154,209,084**	**100.0%**	**(1,025,917,112)**	**100.0%**	**3,162,090,163**	**100.0%**

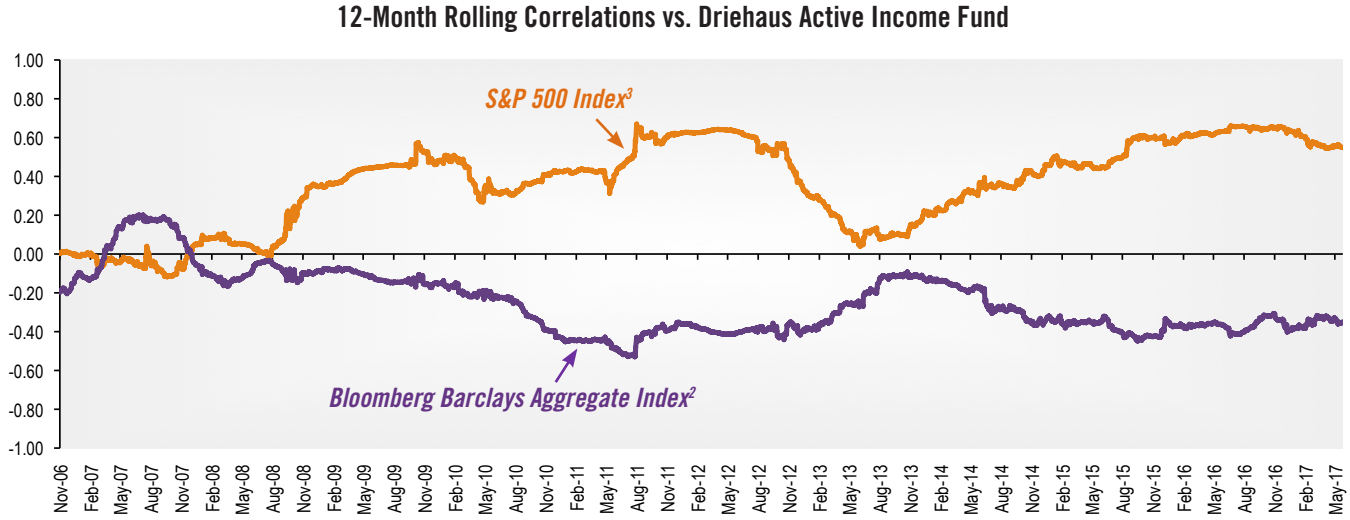
Source: Bloomberg, Factset *Spread Distributions are shown only for the following asset classes: Bank Loan, Corporate CDS, Corporate Credit, Convertible Bonds and Preferred Stocks. Spread differential between the underlying securities and Treasury bonds in basis points. The chart above measures the excess yield (in basis points) that these securities provide over the yield offered by U.S. treasuries of comparable maturities according to market prices at the end of the month. We then define the security type, as well as the Fund's long and short exposure, and plot these exposures based on current market values to show a more accurate view of where the Fund's capital is allocated than can be depicted by simply defining exposures by credit rating or security type.

Note: *A definition of key terms can be found on page 17*

100-Day Volatility



Correlation[1] Comparison



Sources: Driehaus Capital Management, Bloomberg, Factset Standards & Poor's ("S&P") 500 Index total return data from Bloomberg. Bloomberg Barclays Aggregate Index data from Barclays

The benchmarks for the Driehaus Active Income Fund are the Citigroup 3-Month T-Bill and the Bloomberg Barclays Aggregate Index. The S&P 500 Index is shown for illustrative purposes only.

[1] Correlation is a statistical measure of how return sets move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move by an equal amount in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random. The S&P 500 Index and the Bloomberg Barclays Aggregate Index are recognized proxies for the U.S. fixed income market.

[2] The Bloomberg Barclays Aggregate Index is a broad base index, maintained by Barclays, used to represent investment grade bonds being traded in the United States.

[3] The 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.

The Driehaus Active Income Fund (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. 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. 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.

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

Driehaus Securities LLC, Distributor

FUND INFORMATION

The Fund invests primarily in U.S. fixed income and floating rate securities, of both investment and non-investment grade credit quality, as well as equities and derivative instruments. The Fund intends to pursue its fundamental opportunistic "bottom-up" trading approach using the following investment strategies:

Capital Structure Arbitrage – attempt to exploit pricing inefficiencies between two securities of the same company. Example: buying a debt instrument that is believed to be undervalued while simultaneously shorting a subordinated debt instrument of the same issuer that is believed to be overvalued.

Convertible Arbitrage – attempt to profit from changes in a company's equity volatility or credit quality by purchasing a convertible bond and simultaneously shorting the same issuer's common stock.

Directional Trading – taking long or short positions in equity or corporate debt instruments in anticipation of profiting from movements in the prices of these assets.

Event Driven – attempt to profit from the consummation of a given event, e.g. a takeover, merger, reorganization or conclusion of material litigation, or based upon the perceptions of a potential pending corporate event.

Pairs Trading – attempt to exploit pricing inefficiencies between the securities of two similar companies by buying the security of one company and shorting the security of the other.

Interest Rate Hedging – attempt to reduce the performance impact of rising or falling interest rates.

Volatility Hedging – attempt to profit from extreme market volatility.

DEFINITIONS OF KEY TERMS

Agency Mortgage-Backed Security - A mortgage-backed security issued and guaranteed by a government agency such as the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or Government National Mortgage Association.

Asset-Backed Security (ABS) - A security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets.

Average % of Par-Longs - The average dollar price of a bond the Fund is long as a percentage of par.

Average % of Par-Shorts - The average dollar price of a bond the Fund is short as a percentage of par.

Credit Default Swap (CDS) - A contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) goes into default. In its simplest form, a credit default swap is a bilateral contract between the buyer and seller of protection.

Equity Beta - A measure describing the relation of a portfolio's returns with that of the financial market as a whole. A portfolio with a beta of 0 means that its price is not at all correlated with the market. A positive beta means that the portfolio generally follows the market. A negative beta shows that the portfolio inversely follows the market; the portfolio generally decreases in value if the market goes up and vice versa.

Effective Duration - A duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

Spread Duration - The sensitivity of the price of a bond to a 100 basis point change to its option-adjusted spread. As the rate of the Treasury security in the option-adjusted spread increases, the rate of the option-adjusted spread also increases.

Mortgage-Backed Security (MBS) - An asset-backed security or debt obligation that represents a claim on the cash flows from mortgage loans, most commonly on residential property.

Portfolio Coupon - The annualized interest earned for the portfolio.

Portfolio Current Yield - The annual income (interest or dividends) divided by the current price of the security, aggregated to the portfolio level.

Portfolio Yield-to-Worst - The lowest potential yield that can be received on a bond without the issuer actually defaulting, aggregated to the portfolio level. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

Sharpe ratio - A measure of return per unit of risk, it is calculated by finding the portfolio's excess return and then dividing by the portfolio's standard deviation.

Stock Vega - The change in the price of an option that results from a 1% change in volatility. Vega changes when there are large price movements in the underlying asset and Vega falls as the option gets closer to maturity. Vega can change even if there is no change in the price of the underlying asset (e.g., if there is a change in expected volatility).

Swap - A derivative in which two counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument.