



# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND

October 2014 Summary

Ticker: DRESX

## Fund Objective:

Provide risk-adjusted returns and down-market capture ratios superior to the MSCI EM Small Cap Index over full market cycles

## Overview:

- An earnings growth momentum approach to EM small cap equities
- The fund seeks a lower risk profile through hedging
- Same portfolio management team since the fund's inception
- A long-bias fund with a net exposure generally 60-90%, ex-cash

## Investment universe:

Emerging markets small cap equity and derivatives

Fund AUM: \$443 million

Inception date: December 1, 2008\*

Ticker: DRESX

## Portfolio managers:

Chad Cleaver, CFA  
Lead Portfolio Manager  
11 years experience

Howard Schwab  
Co-Portfolio Manager  
13 years experience

Trent DeBruin, CFA  
Assistant Portfolio Manager  
7 years experience

*\*The Fund's predecessor limited partnership has an inception date of 12/1/2008.*



## Things That Go Bump in the Night

Halloween is a fun time of year, especially in Chicago. One cannot help but get in the spirit when coming to work in a late 1800s Romanesque mansion decked out with decorations such as these (Exhibit 1).

### Exhibit 1: The Driehaus Capital Management Headquarters' Courtyard



The month of October brought its fair share of frights for investors, as volatility broke to the upside, 10-year Treasury yields briefly breached 2%, asset allocators completely shifted their views from Fed tightening to more QE, and in plain English, the world experienced a growth scare.

It is only fitting that on the last day of the month, shortly before the clock struck midnight Chicago time, the Bank of Japan embarked on an increase in its quantitative easing program, adding fuel to the recent bouts of currency volatility, while pushing equity markets higher in another pain trade.

## Pep Talk Turned Into a Pep Rally

There are a few factors that could lead to a better near-term backdrop for emerging markets. We used the mid-October volatility spike as an opportunity to reduce our hedge position to the low end of its historical range, and it currently stands at 14% as of the close of October. While this remains fluid, there are a few underlying reasons along with some supportive data points that explain our relatively sanguine view.

First, the fact that a mere 9% pullback in the S&P 500 led two Fed officials to subtly (or not so subtly!) drop hints about further quantitative easing reinforces the notion that easy monetary policy will not go quietly into the night. This is no major surprise to us ([see last month's letter "95 Till Infinity"](#)) and the Bank of Japan's recent easing efforts serve as an important reminder that QE is still with us.

Second, there are some important implications resulting from the lower price of oil. The vast majority of the overall EM market capitalization is concentrated in oil importing countries. Most of EM, including our top weightings of China and India, stand to be net beneficiaries of the precipitous decline in crude oil prices. Digging further, one must also consider that the bright spot of U.S. capital expenditures has been in oil and gas companies participating in the shale revolution. If spending by the U.S. exploration and production industry slows as a result of lower oil prices, we may see a meager recovery in overall U.S. capex and that may delay a rate hiking cycle in the U.S.

Lower interest rates and lower commodity prices are generally positive for the countries that we favor within EM. However, the clear risk for EM equities is if the growth scare morphs into a full blown global recession, but this is not our base case.

In addition to the fundamental argument, seasonality is increasingly on the side of a bullish stance. According to Bank of America Merrill Lynch, emerging market equities, in aggregate, gain 22.5% on an annualized basis between Halloween and the Chinese New Year with a 62% probability, versus only a 2.6% annualized return for the remainder of the year. While there are no assurances that the current cycle will play out in an identical manner, it is indicative of an improved risk-reward scenario for EM equities heading into the last two months of the year.

### Performance and Portfolio Positioning

The Driehaus Emerging Markets Small Cap Growth Fund returned 1.26% in October compared to the MSCI Emerging Markets Small Cap Index return of -1.75% and the MSCI Emerging Markets Index return of 1.19%.<sup>1</sup>

Nimble positioning of our hedges helped mitigate volatility during the month, and positioning in China and India were the main drivers of outperformance. We continue to heavily overweight these two countries due to the benefits felt by lower commodity prices, the pro-growth reform agenda of India, and the theme of growth shifting in China from the capacity buildout and urbanization stories that characterized the prior decade into areas such as e-commerce, environmental and health care.

### Outlook

Going forward, the biggest issue we are watching on the policy front is potential European Central Bank action (note: this letter was written prior to the European Central Bank's November 6 meeting). Data continue to worsen in Europe, and the deflationary tone suggests that substantial policy easing is required. In light of the practical implementation challenges with quantitative easing measures as compared with the U.S. or Japan, this suggests that a more creative solution is needed, possibly combining fiscal and monetary stimulus.

<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. The Fund will charge a redemption fee of 2.00% on shares held less than 60 days. Performance data represents the rate that an investor would have earned (or lost) on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change, while cumulative total return reflects aggregate change. **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.**

Sources: Driehaus Capital Management LLC, Factset, Reuters and MSCI Indices

## Driehaus Alternative Strategies

Please visit our website or click a fund below to download a monthly commentary:

- **Driehaus Active Income Fund (LCMAX)**
- **Driehaus Select Credit Fund (DRSLX)**
- **Driehaus Event Driven Fund (DEVDX)**
- **Driehaus Emerging Markets Small Cap Growth Fund (DRESX)**

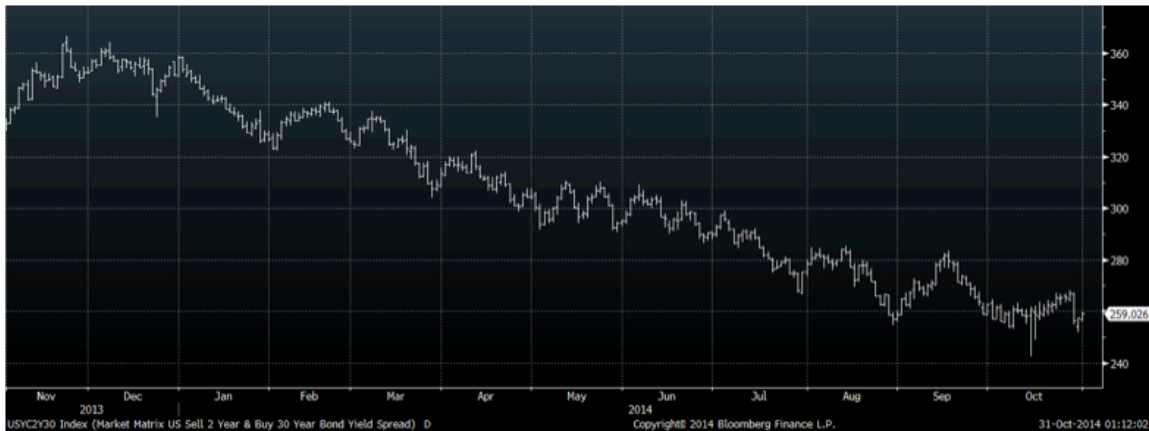
October brought about a continuation of a stronger U.S. dollar, flatter yield curve, and lower five-year breakeven inflation rates (Exhibits 2-4). Taken together, these three indicators suggest that the global economy is unlikely to break “stall speed” without further dramatic policy easing. The main reasons for this include worsening demographics in the developed world, a lengthy overhang in Europe resulting from the post-global financial crisis “hard adjustment,” and the slowing of the Chinese urbanization phase, as growth at all costs takes a back seat to reform.

**Exhibit 2: U.S. Dollar Index**



Source: Bloomberg

**Exhibit 3: U.S. 2s30s Yield Curve**



Source: Bloomberg

**Exhibit 4: U.S. 5-Year Breakeven Inflation Rate**



Source: Bloomberg

This view generally translates positively to the outlook for emerging markets, but is indicative of an environment where there will be distinct winners and losers. On balance, we believe it augurs well for our strategy of identifying company-specific growth catalysts or themes that can deliver premium growth rates despite a slowing macro backdrop.

A handwritten signature in black ink, appearing to read "Chad A. Cleaver". The signature is fluid and cursive, with the first name "Chad" being the most prominent.

**Chad Cleaver**

*Lead Portfolio Manager, Driehaus Emerging Markets Small Cap Growth Strategy*

# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND PERFORMANCE RECAP

## MONTH-END PERFORMANCE AS OF 10/31/14

Fund/Index	Average Annual Total Return						
	MTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception <sup>1</sup>
Driehaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	1.26%	9.29%	12.72%	12.95%	12.79%	n/a	19.46%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	-1.75%	5.90%	3.49%	6.00%	6.45%	n/a	20.14%
MSCI Emerging Markets Index <sup>4</sup>	1.19%	3.97%	0.98%	3.59%	4.97%	n/a	14.85%

## CALENDAR QUARTER-END PERFORMANCE AS OF 9/30/14

Fund/Index	Average Annual Total Return						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception <sup>1</sup>
Driehaus Emerging Markets Small Cap Growth Fund <sup>2</sup>	-0.37%	7.93%	14.82%	15.00%	12.74%	n/a	19.51%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	-1.21%	7.79%	9.16%	9.99%	6.97%	n/a	20.82%
MSCI Emerging Markets Index <sup>4</sup>	-3.36%	2.75%	4.66%	7.56%	4.75%	n/a	14.84%

Annual Fund Operating Expenses <sup>5</sup>	
Management Fee	1.50%
Other Expenses	0.35%
<b>Total Annual Fund Operating Expenses</b>	<b>1.85%</b>

The performance data shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Principal value and investment returns will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. The Fund will charge a redemption fee of 2.00% on shares held less than 60 days. Performance data represents the rate that an investor would have earned (or lost) on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change, while cumulative total return reflects aggregate change. Since Fund performance is subject to change after the month-end, please call (800) 560-6111 or visit [www.driehaus.com](http://www.driehaus.com) for more current performance information.

<sup>1</sup>Inception Date: 12/1/2008. "Since Inception" is calculated to include performance from the Fund's predecessor limited partnership. <sup>2</sup>The average annual total returns of the Driehaus Emerging Markets Small Cap Growth Fund include the performance of the Fund's predecessor limited partnership, which is calculated from December 1, 2008 before the Fund commenced operations and succeeded to the assets of its predecessor on August 22, 2011. The predecessor limited partnership was not registered under the Investment Company Act of 1940, as amended ("1940 Act") and thus was not subject to certain investment and operational restrictions that are imposed by the 1940 Act. If the predecessor had been registered under the 1940 Act, its performance may have been adversely affected. The Fund's predecessor performance has been restated to reflect estimated expenses of the Fund. After-tax performance returns are not included for the predecessor limited partnership. The predecessor was not a regulated investment company and therefore did not distribute current or accumulated earnings. <sup>3</sup>The Morgan Stanley Capital International Emerging Markets Small Cap Index (MSCI Emerging Markets Small Cap Index) is a market capitalization-weighted index designed to measure equity market performance of small cap stocks in 22 global emerging markets. <sup>4</sup>The Morgan Stanley Capital International Emerging Markets Index (MSCI Emerging Markets Index) is a market capitalization-weighted index designed to measure equity market performance in 25 global emerging markets. <sup>5</sup>Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2014. 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 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](http://www.driehaus.com). Please read the prospectus carefully before investing.**

Sources: Morgan Stanley Capital International Inc., eVestment Alliance, LLC, SS&C Inc.

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Driehaus Securities LLC, Distributor

# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND

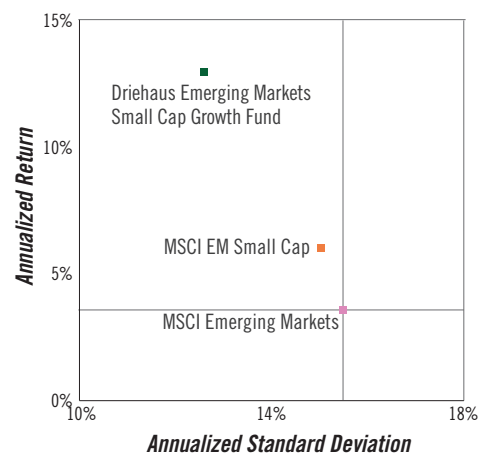
## PORTFOLIO CHARACTERISTICS

PORTFOLIO SNAPSHOT		
		ex-cash
AUM	\$419,870,057	
Cash/AUM	6.19%	
Long Exposure	\$419,099,047	\$393,129,360
Short Exposure	(\$60,408,844)	(\$60,408,844)
Net Exposure	\$358,690,203	\$332,720,515
Net Exposure/AUM	85.43%	79.24%
Gross Exposure	\$479,507,892	\$453,538,204
Gross Exposure/AUM	1.14x	1.08x

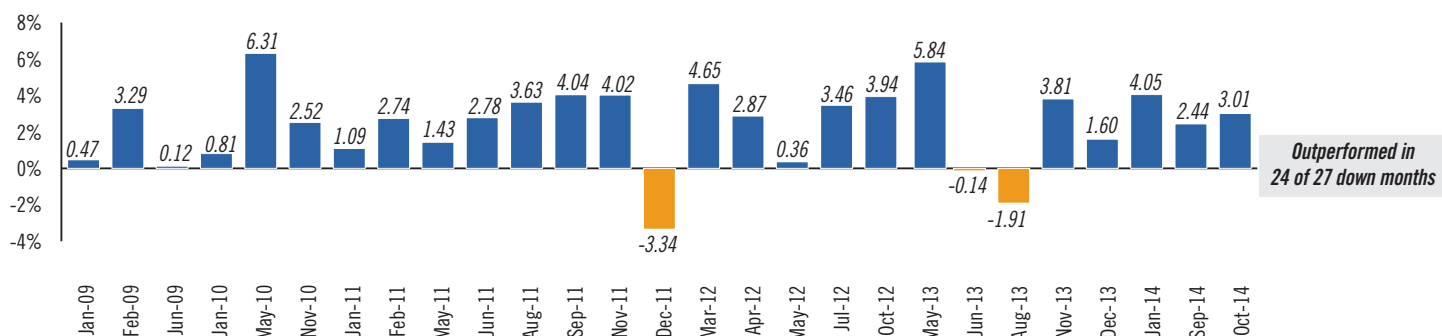
PORTFOLIO CHARACTERISTICS		
	Fund	Benchmark
Number of Holdings	115	1,799
Active Share (3-year avg.) <sup>1</sup>	96.11	n/a
Est. 3-5 Year EPS Growth	24.7%	19.1%
Weighted Avg. Market Cap (\$M)	\$2,146	\$1,062
Median Market Cap (\$M)	\$1,500	\$555
Mkt. Cap Breakout	< \$5 billion	91.4%
	> \$5 billion	8.2%

### RISK & RETURN CHARACTERISTICS (Trailing 3-years)

	Fund	vs. MSCI EM Small Cap	Fund	vs. MSCI Emerging Markets
Annualized Return	12.95	6.00	12.95	3.59
Standard Deviation	12.59	15.02	12.59	15.49
Upside Capture	73.36	100.00	74.62	100.00
Downside Capture	35.44	100.00	32.45	100.00
Beta	0.68	1.00	0.59	1.00
Alpha	8.62	n/a	10.75	n/a
Sharpe Ratio	1.02	0.40	1.02	0.23
R-Square	0.66	1.00	0.53	1.00
Tracking Error	8.75	0.00	10.77	0.00
Information Ratio	0.79	n/a	0.87	n/a
# Negative Monthly Returns	9	15	9	16
# Positive Monthly Returns	27	21	27	20



### FUND'S EXCESS RETURNS<sup>2</sup> (%pts) vs. MSCI EM Small Cap Index — Months with Negative Index Returns (Since Inception on 12/1/08)



Source: FactSet Research Systems LLC and Driehaus Capital Management. Data calculated with monthly returns.

Data as of 10/31/14.

<sup>1</sup>Data is calculated monthly.

<sup>2</sup>This chart depicts Driehaus Emerging Markets Small Cap Growth Fund's (DRESX) outperformance (or underperformance) versus the MSCI Emerging Markets Small Cap Index in all instances where the MSCI Emerging Markets Small Cap Index had a negative monthly return since DRESX's inception on 12/1/2008. Net of fee performance is used. MSCI Emerging Markets Small Cap Index. Data as of October 31, 2014. Performance for the Driehaus Emerging Markets Small Cap Growth Fund (DRESX) is used. The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 560-6111 or visiting our website at [www.driehaus.com](http://www.driehaus.com). Fund returns shown include the reinvestment of all dividends and capital gains. Contractual fee waivers are currently in effect. Without such fee waivers, performance numbers would be reduced. The total annual fund operating expense for DRESX is 1.85% as disclosed in the 4/30/14 prospectus.

Please see notes at end of presentation for more information on indices used. **A definition of key terms can be found on page 8.**



**COUNTRY EXPOSURES<sup>1</sup>**

	Equity Weights	Long Hedges <sup>3</sup>	Short Hedges <sup>3</sup>	Net Exposure	Benchmark Weight	Net Exposure Over-/Underweight
Brazil	5.14%			5.14%	5.02%	0.11%
Chile	--			--	1.32%	-1.32%
China/HK	27.40%		-2.19%	25.21%	20.06%	5.15%
Colombia	--			--	0.03%	-0.03%
Czech Republic	--			--	0.04%	-0.04%
Egypt	2.35%			2.35%	0.97%	1.38%
Greece	--			--	0.57%	-0.57%
Hungary	--			--	0.11%	-0.11%
India	18.43%			18.43%	7.12%	11.31%
Indonesia	1.82%			1.82%	3.36%	-1.55%
Kenya	0.47%			0.47%	--	0.47%
Malaysia	1.34%			1.34%	4.67%	-3.33%
Mexico	2.61%			2.61%	2.88%	-0.28%
Nigeria	0.54%			0.54%	--	0.54%
Pakistan	1.40%			1.40%	--	1.40%
Panama	--			--	0.11%	-0.11%
Peru	--			--	0.09%	-0.09%
Philippines	3.92%			3.92%	1.34%	2.57%
Poland	1.03%			1.03%	1.19%	-0.16%
Qatar	--			--	0.75%	-0.75%
Russia	--			--	0.61%	-0.61%
Saudi Arabia	5.32%			5.32%	--	5.32%
South Africa	3.46%			3.46%	7.35%	-3.90%
South Korea	3.99%			3.99%	16.48%	-12.49%
Sri Lanka	0.61%			0.61%	--	0.61%
Taiwan	5.80%			5.80%	18.39%	-12.59%
Thailand	3.27%			3.27%	4.59%	-1.32%
Turkey	1.82%			1.82%	1.80%	0.02%
United Arab Emirates	0.50%			0.50%	0.63%	-0.13%
Vietnam	0.89%			0.89%	--	0.89%
Other Countries <sup>2</sup>	1.38%			1.38%	0.52%	0.87%
EM Index Equity Hedges		--	-2.33%	-2.33%		-2.33%
U.S. Index Equity Hedges			--	--		--
Other - Sector/Currency Hedges			-9.71%	-9.71%		-9.71%
<b>Total Exposure (ex-cash)</b>	<b>93.47%</b>	<b>--</b>	<b>-14.23%</b>	<b>79.24%</b>	<b>100.00%</b>	<b>-20.76%</b>

**SECTOR EXPOSURES<sup>1</sup>**

	Equity Weights	Long Hedges <sup>3</sup>	Short Hedges <sup>3</sup>	Net Exposure	Benchmark Weight	Net Exposure Over-/Underweight
Consumer Discretionary	11.83%			11.83%	15.67%	-3.84%
Consumer Staples	7.26%			7.26%	6.95%	0.32%
Energy	1.19%		--	1.19%	2.30%	-1.11%
Financials	27.69%		--	27.69%	20.40%	7.29%
Health Care	4.48%			4.48%	6.24%	-1.77%
Industrials	14.99%			14.99%	15.49%	-0.50%
Information Technology	11.69%			11.69%	16.88%	-5.19%
Materials	7.56%			7.56%	11.50%	-3.94%
Telecom. Services	0.47%			0.47%	1.05%	-0.57%
Utilities	6.31%			6.31%	3.53%	2.79%
Other - Market/Currency Hedges	--	--	-14.23%	-14.23%	--	-14.23%
<b>Total Exposure (ex-cash)</b>	<b>93.47%</b>	<b>--</b>	<b>-14.23%</b>	<b>79.24%</b>	<b>100.00%</b>	<b>-20.76%</b>

**PORTFOLIO WEIGHTS (Net Exposure)**

Frontier Market: 9.23%

Emerging Market: 89.39%

Other Countries: 1.38%

<sup>1</sup>Data is on a trade date basis and has not been reconciled. Exposures reflect hedged positions. <sup>2</sup>Other represents companies with significant emerging markets related exposures that are not domiciled within an emerging market. <sup>3</sup>Delta-adjusted and underlying exposures include ETFs that may be domiciled in the U.S. but provide specific sector, country or market related exposure.

**TOP 5 HOLDINGS\* (as of 9/30/14)**

Company	Country	Description	% of Fund
SKS Microfinance Limited	India	A non-deposit accepting non-banking financial company	3.7
CT Environmental Group Ltd.	Hong Kong	A provider of customized wastewater treatment and industrial water supply services	2.5
Zhuzhou CSR Times Electric Co., Ltd. Class H	China	Manufacturer and distributor of nonferrous metal products and chemical products	1.5
Al Tayyar Travel Group	Saudi Arabia	Engaged in the travel, tourism and transportation sector	1.5
Yes Bank Limited	India	Operates as a private bank	1.4

\*Holdings subject to change.

## Notes

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](http://www.driehaus.com). Please read the 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. **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. **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. **Sharpe ratio** is calculated by finding the portfolio's excess return and then dividing by the portfolio's standard deviation. **Downside/Upward capture** is a measure of performance in up markets (upside) and down markets (downside) relative to the Index. **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. **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. **Information ratio** is a measure of the value added per unit of active risk by a manager over the index. A positive ratio indicates "efficient" use of risk by the manager. **R-Squared** is a statistical measure that represents the percentage of a fund's movements that can be explained by movements in a benchmark index. **At-the-money** is a term used to describe a situation where an option's strike price is identical to the price of the underlying security. **Out-of-the-money** is a term used to describe an option that has no intrinsic value, such as when a call option has a strike price that is higher than the market price of the underlying asset, or a put option with a strike price that is lower than the market price of the underlying asset. **Moneyness** is a description of a derivative relating its strike price to the price of its underlying asset. It describes the intrinsic value of an option in its current state.