



# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND

November 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:** \$534 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.*



## Mr. Modi Rising

*"TINA. There Is No Alternative"* – quote from broker email

*"God Is Indian"* – quote from broker email

*"Jonathan Moxon is only one man...I'm just one man"* – quote from *Varsity Blues*

"There is no alternative." This phrase captures the essence of many emerging market fund managers' feelings toward India throughout 2014. Not only has the Indian stock market benefited from the exuberance following the decisive election of Prime Minister Narendra Modi and the appointment of Reserve Bank of India (RBI) Governor Raghuram Rajan, but it has been extraordinarily well positioned in the current macro environment, with oil declining in price by 23%, year to date.

Moreover, with the Russian geopolitical situation and currency devaluation rendering Russian equities uninvestable for some fund managers, Brazil's economic growth grinding to a halt, and China's economy seeing its most serious downturn since the global financial crisis, it does seem that all paths lead to India. Maybe God really is Indian.

I spent a week in November meeting with policymakers and corporates in New Delhi and Mumbai, to gain a better understanding of whether the euphoria has actually translated into activity on the ground, and what key milestones, as well as risks, are relevant for 2015.

Starting off in New Delhi, the focus of the government officials I met with was clearly on infrastructure. The new administration is devoted to the removal of bottlenecks, easing land acquisition, and providing a regulatory backdrop that encourages investment. After meeting with officials from the central government and the Reserve Bank of India, I toured one of the factories of India's leading car manufacturer. This meeting drove home the importance of improved infrastructure, as management noted that China sold 18 million passenger vehicles last year, while India sold just over a tenth of that amount. Penetration of passenger vehicles remains depressed, at 18 passenger cars per 1,000 people. This is a common refrain when meeting with company managements in India. The structural growth opportunity is immense but the right systems and regulations must be in place to harness it.

After 25 meetings with Indian corporates in a variety of sectors, not a single one claimed that economic conditions had shown any meaningful improvement yet. I heard characterizations such as "things are less bad," and "inquiry levels are increasing," but

no tangible signs of acceleration. This is not terribly alarming given that Prime Minister Modi has only been in office six months, but it suggests that if conditions do not pick up soon, the white hot Indian equity market will ultimately succumb to a pause or a correction. The good news is that corporates want to invest in the domestic economy again. In seemingly every sector, from autos, to petrochemicals, to telecoms, to consumer, corporate India is in investment mode.

The main risks for India largely center around many of the legacy issues that have plagued the economy in recent years. While the structural growth opportunity in India is enormous, can policymakers devise a cohesive plan to fund and execute infrastructure projects? If the U.S. begins to raise rates, how will India's economy react? Will the country's demographic dividend turn into a demographic disaster? And could an exogenous shock to the price of oil hamper the RBI's ability to contain inflation and bring down interest rates?

Similar to the protagonist in the 1999 high school football film *Varsity Blues*, Prime Minister Modi is "only one man." Some investors might expect him to solve all of India's woes single-handedly, change the Indian constitution, and then part the Red Sea! But the reality is that the policy prescriptions needed are less a function of "big new ideas" and more related to breaking down barriers that have held back investment and stifled confidence and growth. If he is able to generate the political cohesion necessary to accomplish this, Mr. Modi can be very successful, even if his initial days in office are measured against overly ambitious expectations on the part of external observers.

Indeed, India has been by far the best performing market in EM throughout 2014. It is also one of the deepest markets as measured by the number of names, and the type of growth we see is representative of the business models and structural themes that we favor within EM. Despite the risks outlined above, we remain optimistic about its growth potential—both at the macro and the corporate levels—and remain substantially overweight India within the Driehaus emerging markets strategies.

### Performance Review and Outlook

The Driehaus Emerging Markets Small Cap Growth Fund returned -1.98% in November compared to the MSCI Emerging Markets Small Cap Index return of -1.53% and the MSCI Emerging Markets Index return of -1.05%.<sup>1</sup>

November brought the much anticipated Hong Kong-Shanghai Connect, which registered disappointing volumes in the first few days. The connecting of the two exchanges enables mainland Chinese to access Hong Kong-listed companies and investors in the Hong Kong exchange to gain access to the Shanghai A-share equity market.

This wobble was quickly offset by an interest rate cut in China, which reinforces our bullish stance on the Chinese equity market. In the face of weak growth and absent a major stimulus package, we continue to see monetary easing or possible weakening of the currency as the most likely factors to prop up near-term growth.

## 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)**

<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

More broadly, against narrowing breadth in the equity markets, we have sought to concentrate the portfolio in our highest conviction ideas. We continue to carry heavy overweights to China and India, emphasizing incremental growth acceleration and benefits from lower interest rates and commodity prices.

While central banks continue to do everything they can to keep the liquidity party going, we can't help but notice some meaningful divergences forming in the U.S. market. We don't claim that these will lead to an imminent crash, but if not resolved, we could see a repeat of last January's market weakness.

**Chart 1: S&P 500 vs. five-day moving average of net new 52-week highs**



Source: Bloomberg

**Chart 2: S&P 500 vs. SPDR Barclays High Yield Bond ETF**



Source: Bloomberg

Chart 1 shows a divergence opening up between the S&P 500, which continues to make nominal new highs, and the five-day moving average of net 52-week highs. In short, breadth is contracting, as fewer and fewer individual stocks are leading the market higher. Chart 2 shows a clear divergence between equity—which continues to make new highs—and high-yield credit, which has lagged the post-October rebound badly. Signs such as these portend a more selective equity market, and observing similarly narrowing breadth within EM, our positioning shift to become more concentrated is reflective of this backdrop.

These divergences are also likely driven by a “performance chase” into the end of the year, with investors increasingly opting to use synthetic positions on indices rather than take a view on individual stocks. This is illustrated by the dramatic V-shaped reversal in the cost of a call spread on the S&P 500 (Chart 3).

**Chart 3: Implied volatility of a 105%-100% call spread on the S&P 500**



Source: Bloomberg

The implied volatility of a 5% out-of-the-money call spread has gone from being as cheap as it has ever been to as expensive as it has ever been in a matter of 30 days, reflecting the timeless emotions of greed and fear. We remain cognizant of these factors and use them to help guide our portfolio positioning and hedging decisions.

**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 11/30/14

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>	-1.98%	7.13%	8.26%	13.84%	11.66%	n/a	18.77%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	-1.53%	4.27%	3.71%	8.54%	5.15%	n/a	19.54%
MSCI Emerging Markets Index <sup>4</sup>	-1.05%	2.88%	1.40%	5.63%	3.88%	n/a	14.43%

## 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

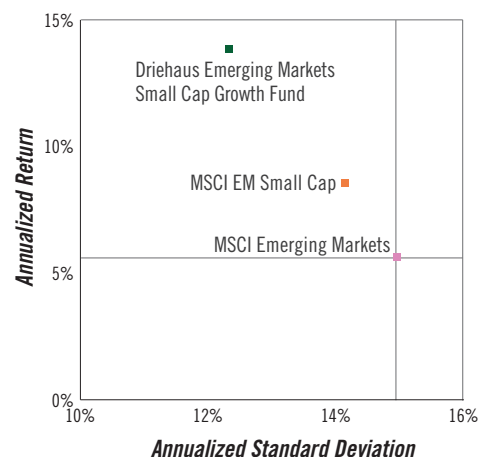
## PORTFOLIO CHARACTERISTICS

PORTFOLIO SNAPSHOT		
		ex-cash
AUM	\$533,863,124	
Cash/AUM	7.62%	
Long Exposure	\$550,243,354	\$509,588,723
Short Exposure	(\$146,740,009)	(\$146,740,009)
Net Exposure	\$403,503,345	\$362,848,714
Net Exposure/AUM	75.58%	67.97%
Gross Exposure	\$696,983,363	\$656,328,732
Gross Exposure/AUM	1.31x	1.23x

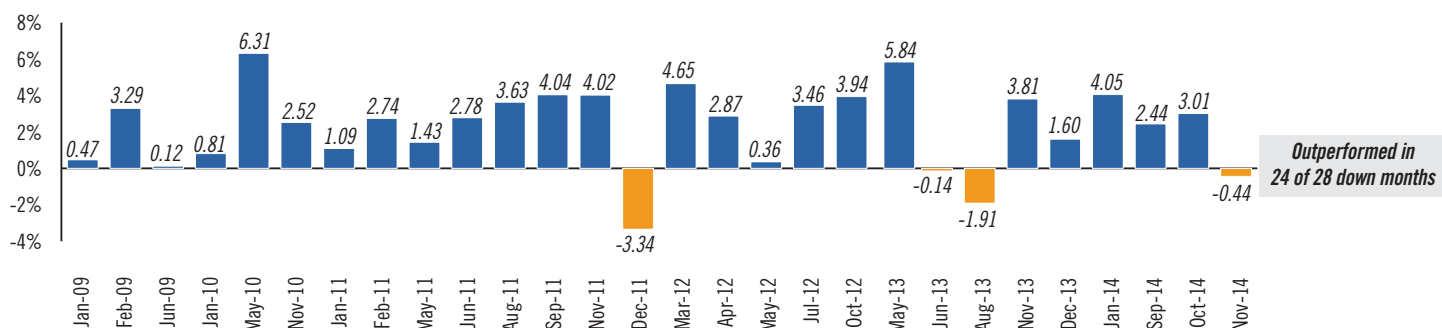
PORTFOLIO CHARACTERISTICS		
	Fund	Benchmark
Number of Holdings	120	1,808
Active Share (3-year avg.) <sup>1</sup>	96.08	n/a
Est. 3-5 Year EPS Growth	24.0%	16.3%
Weighted Avg. Market Cap (\$M)	\$2,148	\$1,035
Median Market Cap (\$M)	\$1,468	\$587
Mkt. Cap Breakout	< \$5 billion	94.1%
	> \$5 billion	5.9%

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

	Fund	vs. MSCI EM Small Cap	Fund	vs. MSCI Emerging Markets
Annualized Return	13.84	8.54	13.84	5.63
Standard Deviation	12.33	14.14	12.33	14.95
Upside Capture	73.36	100.00	74.62	100.00
Downside Capture	34.46	100.00	30.47	100.00
Beta	0.70	1.00	0.58	1.00
Alpha	7.62	n/a	10.43	n/a
Sharpe Ratio	1.12	0.60	1.12	0.37
R-Square	0.64	1.00	0.50	1.00
Tracking Error	8.52	0.00	10.76	0.00
Information Ratio	0.62	n/a	0.76	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 11/30/14.

<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 November 30, 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	4.61%			4.61%	4.97%	-0.36%
Chile	--			--	1.22%	-1.22%
China	26.17%			26.17%	20.82%	5.36%
Czech Republic	--			--	0.04%	-0.04%
Egypt	2.24%			2.24%	1.09%	1.15%
Greece	--			--	0.69%	-0.69%
Hungary	--			--	0.11%	-0.11%
India	16.48%		-0.98%	15.50%	9.15%	6.35%
Indonesia	3.75%			3.75%	3.47%	0.29%
Kenya	0.55%			0.55%	--	0.55%
Malaysia	1.50%			1.50%	4.31%	-2.81%
Mexico	1.91%			1.91%	2.79%	-0.88%
Nigeria	0.87%			0.87%	--	0.87%
Pakistan	1.55%			1.55%	--	1.55%
Panama	--			--	0.09%	-0.09%
Peru	--			--	0.09%	-0.09%
Philippines	5.33%			5.33%	1.62%	3.71%
Poland	0.61%			0.61%	1.34%	-0.73%
Qatar	--			--	0.53%	-0.53%
Russia	--			--	0.64%	-0.64%
Saudi Arabia	3.83%			3.83%	--	3.83%
South Africa	3.02%			3.02%	7.33%	-4.32%
South Korea	3.28%			3.28%	15.40%	-12.12%
Sri Lanka	0.91%			0.91%	--	0.91%
Taiwan	5.36%			5.36%	17.20%	-11.84%
Thailand	3.75%			3.75%	4.05%	-0.30%
Turkey	2.00%			2.00%	1.74%	0.27%
United Arab Emirates	0.46%			0.46%	0.79%	-0.33%
Vietnam	0.78%			0.78%	--	0.78%
Other Countries <sup>2</sup>	2.46%			2.46%	0.52%	1.93%
EM Index Equity Hedges		--	-13.02%	-13.02%		-13.02%
U.S. Index Equity Hedges		4.02%	-13.48%	-9.46%		-9.46%
Other - Sector/Currency Hedges				--		--
<b>Total Exposure (ex-cash)</b>	<b>91.43%</b>	<b>4.02%</b>	<b>-27.49%</b>	<b>67.97%</b>	<b>100.00%</b>	<b>-32.03%</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	13.36%			13.36%	15.91%	-2.56%
Consumer Staples	6.56%			6.56%	7.26%	-0.70%
Energy	1.11%		--	1.11%	2.07%	-0.96%
Financials	26.82%			26.82%	21.04%	5.77%
Health Care	4.19%			4.19%	5.98%	-1.80%
Industrials	15.73%			15.73%	15.95%	-0.22%
Information Technology	11.57%			11.57%	15.39%	-3.82%
Materials	5.47%			5.47%	11.98%	-6.52%
Telecom. Services	0.55%			0.55%	0.80%	-0.24%
Utilities	6.08%			6.08%	3.61%	2.47%
Other - Market/Currency Hedges	--	4.02%	-27.49%	-23.46%	--	-23.46%
<b>Total Exposure (ex-cash)</b>	<b>91.43%</b>	<b>4.02%</b>	<b>-27.49%</b>	<b>67.97%</b>	<b>100.00%</b>	<b>-32.03%</b>

**PORTFOLIO WEIGHTS (Net Exposure)**

Frontier Market: 8.49%

Emerging Market: 57.02%

Other Countries: 2.46%

<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 10/31/14)**

Company	Country	Description	% of Fund
SKS Microfinance Limited	India	A non-deposit accepting non-banking financial company	4.0
CT Environmental Group Ltd.	Hong Kong	A provider of customized wastewater treatment and industrial water supply services	3.1
Sunac China Holdings Ltd.	China	Property management services	2.2
Zhuzhou CSR Times Electric Co., Ltd. Class H	China	Manufacturer and distributor of nonferrous metal products and chemical products	1.7
China Singyes Solar Technologies Holdings Ltd.	China	Professional renewable energy system integrator and building contractor	1.6

\*Holdings subject to change.

## Notes

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**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.