



# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND

March 2015 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:

- A growth equity 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: \$580 million

Inception date: December 1, 2008\*

Ticker: DRESX

### Portfolio managers:

Chad Cleaver, CFA  
Lead Portfolio Manager  
13 years experience

Howard Schwab  
Co-Portfolio Manager  
14 years experience

Trent DeBruin, CFA  
Assistant Portfolio Manager  
9 years experience

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



## (Pushing on a) String Theory

*"Well, the Efficient Market Hypothesis is no more than that, a hypothesis.*

*Many a grand theory has died under the onslaught of real data."*

– Benoit Mandelbrot, "The Misbehavior of Markets"

*"In theory there is no difference between theory and practice. In practice there is."*

– Yogi Berra

*"That is a very good way to put it, one cannot push on a string. We are in the depths of a depression and...beyond creating an easy money situation through reduction of discount rates, there is very little, if anything, that the reserve organization can do to bring about recovery."*

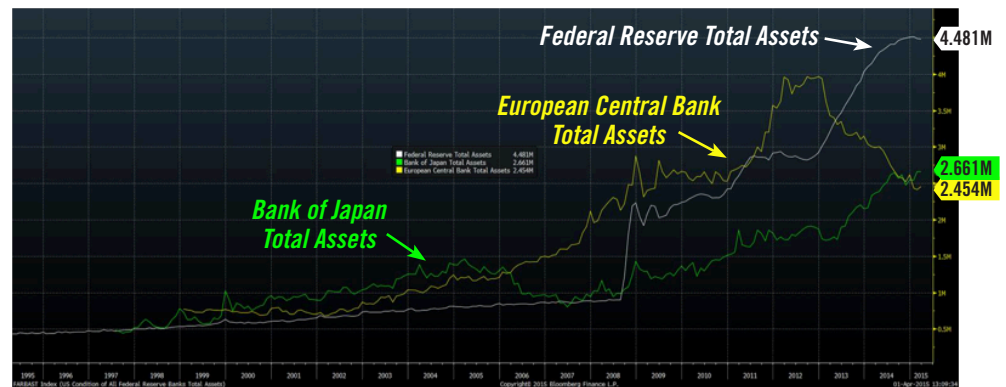
– Former Federal Reserve Chairman Marriner Eccles, 1935

*"'Relax,' said the night man, 'We are programmed to receive. You can check out any time you like, but you can never leave!'"*

– Eagles, "Hotel California"

Since the 2008 global financial crisis, the world has been subject to a grand experiment. Observe Figure 1, which shows the Federal Reserve total assets, the European Central Bank (ECB) total assets, and the Bank of Japan (BOJ) total assets, all in US dollar terms. The three major central banks of the developed world now hold, collectively, nearly \$10 trillion in assets on their balance sheets. Stop and think about that.

Figure 1: Total Assets of the Federal Reserve, ECB and BOJ



Source: Bloomberg

If you had been told in March of 2009 that in six years the major central banks of the world would have \$10 trillion in assets on their balance sheets, I bet you wouldn't have guessed that 10-year government bond yields would look like this...

**Figure 2: 10-year Yields of the US Treasury, German Bund and Japanese Government Bond**



Source: Bloomberg

...or that consumer price indices in the same countries would look like this...

**Figure 3: Consumer Price Indices, Year-over-Year Change**



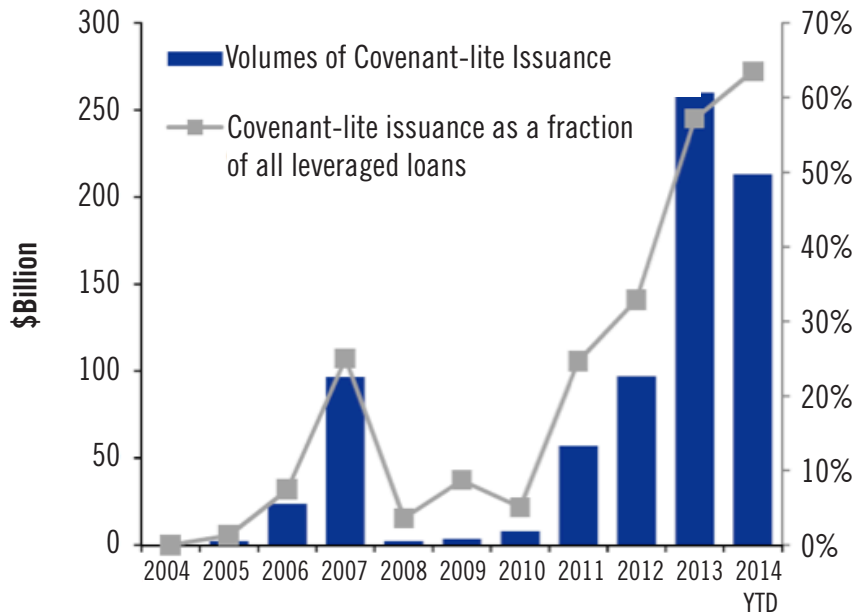
Source: Bloomberg

...so what gives? Isn't inflation always and everywhere a monetary phenomenon, as Milton Friedman taught us? Or are the forces of "secular stagnation" outrunning the printing presses of Mrs. Yellen and Messrs. Kuroda and Draghi?

To answer this question, we turn not to economists, policy wonks, or central bankers, but rather to 1970s rock band The Eagles, for it seems that QE is likely to be akin to "Hotel California." Orthodox economic policy as described in popular college textbooks simply does not prepare us for a world in which German unemployment is at 20-year lows, but perversely the 10-year bund yields a paltry 20 basis points.

This grand experiment has distorted asset markets in such a way that capital has been directed into less productive areas of the global economy at the expense of productive uses. With the (re-)explosion of “covenant-lite” loans, along with the boom in share buybacks, one can argue that asset prices have been driven more by financial engineering than fundamentals (Figure 4).

**Figure 4: US Covenant-Lite Loan Issuance**



Source: S&P Capital IQ LCD, Goldman Sachs Global Investment Research

This begs the question, how exactly can central banks retreat from these policies? While QE has clearly been great for asset prices, the lack of follow-through to the real economy leaves the world on the precipice of deflation, a full six years after the first round of QE. In addition to the financial engineering, QE has incentivized rapid increases in credit in several emerging economies, which may be unwound if central bank liquidity contracts.

With growth in China continuing to slow, and demographic forces and high debt levels serving as additional overhangs on global growth, we see a low likelihood of the global economy returning to pre-2008 growth rates anytime soon. Thus, absent the massive central bank stimulus we have seen over the past six years, the world remains prone to potential debt-deflation conditions, and attempts to “check out” from the ultra-easy policy will be met with the realization that “you can never leave.”

## Performance Review and Positioning

The Driehaus Emerging Markets Small Cap Growth Fund returned 2.68% in March, compared to the MSCI Emerging Markets Small Cap Index return of -0.12% and MSCI Emerging Markets Index return of -1.40%<sup>1</sup>.

Hedging against a stronger US dollar and another round of weakness in the price of oil in the first half of March contributed to returns. An overweight position in India struggled from an allocation perspective over the course of the month due to political noise leading up to the parliamentary vote for a land acquisition bill, and we have reduced the overweight with an index hedge.

Positions in China contributed to performance, including those geared to increasing investment prospects in rail and power infrastructure, as well as environmental protection. Notably, a documentary entitled “Under the Dome,” highlighting the continued increase in pollution in China, was reportedly viewed over 200 million times before being removed from major Chinese websites in advance of the annual National People’s Congress (NPC). This supports the idea that the government will continue to spend heavily on environmental protection, and indeed one of the key initiatives announced after the NPC was a marked increase in solar energy installation targets.

## Outlook

We remain optimistic on areas of emerging markets that can generate growth despite a challenging broader macro environment, yet are wary of the risks of tightening US dollar liquidity in an increasingly strained backdrop for countries with high amounts of debt and high dependency on commodities.

In this context, we favor India, as lower interest rates and increasing infrastructure spending should translate into a better growth outlook into the second half of 2015. Additionally, the slowdown in China has led to increased calls for fiscal and monetary stimulus, and we have positioned the portfolio in areas we see as the main beneficiaries of targeted policy easing. While we are cognizant of the potential for a short-covering rally in higher yielding currencies that may be temporarily overshooting, we maintain a cautious bias toward countries like Brazil that are suffering from contracting growth, declining consumer confidence, and deteriorating terms of trade.

Until next month,



**Chad Cleaver**

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

## 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

# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND PERFORMANCE RECAP

## MONTH-END PERFORMANCE AS OF 3/31/15

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>	2.68%	4.24%	3.30%	11.79%	10.34%	n/a	18.24%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	-0.12%	3.62%	1.37%	3.80%	2.93%	n/a	18.74%
MSCI Emerging Markets Index <sup>4</sup>	-1.40%	2.28%	0.79%	0.67%	2.08%	n/a	13.66%

## CALENDAR QUARTER-END PERFORMANCE AS OF 3/31/15

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>	4.24%	4.24%	3.30%	11.79%	10.34%	n/a	18.24%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	3.62%	3.62%	1.37%	3.80%	2.93%	n/a	18.74%
MSCI Emerging Markets Index <sup>4</sup>	2.28%	2.28%	0.79%	0.67%	2.08%	n/a	13.66%

Annual Fund Operating Expenses <sup>5</sup>	
Management Fee	1.50%
Other Expenses	0.23%
<b>Total Annual Fund Operating Expenses</b>	<b>1.73%</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, 2015. 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

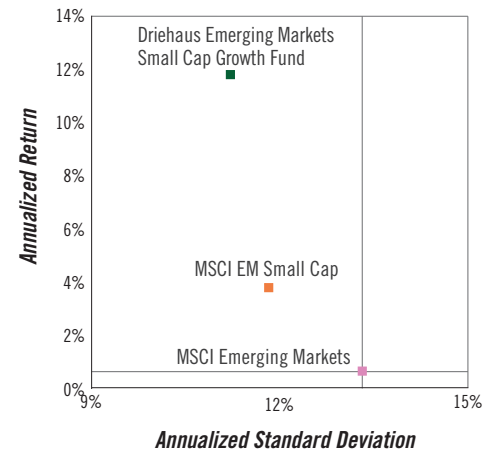
## PORTFOLIO CHARACTERISTICS

PORTFOLIO SNAPSHOT		
		ex-cash
AUM	\$580,097,528	
Cash/AUM	3.96%	
Long Exposure	\$577,476,166	\$554,503,409
Short Exposure	(\$85,531,678)	(\$85,531,678)
Net Exposure	\$491,944,488	\$468,971,731
Net Exposure/AUM	84.80%	80.84%
Gross Exposure	\$663,007,844	\$640,035,087
Gross Exposure/AUM	1.14x	1.10x

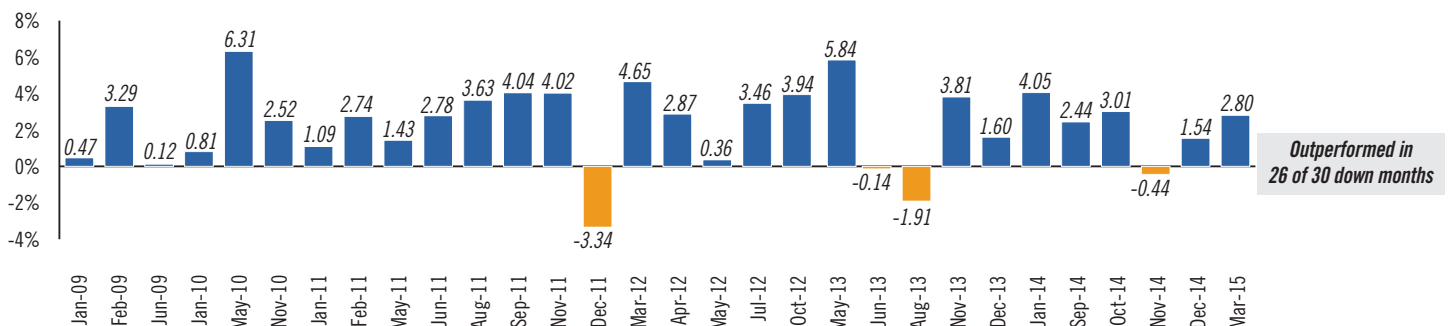
PORTFOLIO CHARACTERISTICS		
	Fund	Benchmark
Number of Holdings	134	1,790
Active Share (3-year avg.) <sup>1</sup>	95.94	n/a
Est. 3-5 Year EPS Growth	28.4%	13.7%
Weighted Avg. Market Cap (\$M)	\$2,358	\$1,100
Median Market Cap (\$M)	\$1,582	\$580
Mkt. Cap Breakout	< \$5 billion	90.8%
	> \$5 billion	8.4%

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

	Fund	vs. MSCI EM Small Cap	Fund	vs. MSCI Emerging Markets
Annualized Return	11.80	3.80	11.80	0.67
Standard Deviation	11.21	11.82	11.21	13.31
Upside Capture	77.05	100.00	75.22	100.00
Downside Capture	23.33	100.00	19.65	100.00
Beta	0.76	1.00	0.56	1.00
Alpha	8.81	n/a	11.54	n/a
Sharpe Ratio	1.05	0.32	1.05	0.05
R-Square	0.64	1.00	0.44	1.00
Tracking Error	7.30	0.00	10.28	0.00
Information Ratio	1.10	n/a	1.08	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 3/31/15.

<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 March 31, 2015. 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
Argentina	0.42%	--	--	0.42%	0.00%	0.42%
Brazil	3.24%	--	--	3.24%	3.25%	-0.01%
Cambodia	0.40%	--	--	0.40%	0.00%	0.40%
Chile	0.00%	--	--	0.00%	1.06%	-1.06%
China	20.03%	--	--	20.03%	20.95%	-0.92%
Czech Republic	0.00%	--	--	0.00%	0.03%	-0.03%
Egypt	0.00%	--	--	0.00%	0.89%	-0.89%
Greece	0.00%	--	--	0.00%	0.53%	-0.53%
Hungary	0.00%	--	--	0.00%	0.12%	-0.12%
India	20.81%	--	-3.41%	17.40%	9.67%	7.73%
Indonesia	3.59%	--	--	3.59%	3.28%	0.31%
Kenya	0.79%	--	--	0.79%	0.00%	0.79%
Malaysia	2.06%	--	--	2.06%	3.89%	-1.83%
Mexico	1.63%	--	--	1.63%	2.59%	-0.96%
Nigeria	0.29%	--	--	0.29%	0.00%	0.29%
Pakistan	0.49%	--	--	0.49%	0.00%	0.49%
Panama	0.00%	--	--	0.00%	0.08%	-0.08%
Peru	0.00%	--	--	0.00%	0.07%	-0.07%
Philippines	4.78%	--	--	4.78%	1.69%	3.09%
Poland	1.03%	--	--	1.03%	1.18%	-0.15%
Qatar	0.00%	--	--	0.00%	0.48%	-0.48%
Russia	2.25%	--	--	2.25%	0.55%	1.70%
Saudi Arabia	3.08%	--	--	3.08%	0.00%	3.08%
South Africa	1.58%	--	--	1.58%	7.00%	-5.42%
South Korea	9.85%	--	--	9.85%	17.38%	-7.53%
Taiwan	9.19%	--	--	9.19%	18.59%	-9.40%
Thailand	4.46%	--	--	4.46%	3.91%	0.56%
Turkey	2.69%	--	--	2.69%	1.51%	1.17%
United Arab Emirates	0.00%	--	--	0.00%	0.75%	-0.75%
Vietnam	0.54%	--	--	0.54%	0.00%	0.54%
Other Countries <sup>2</sup>	2.38%	--	--	2.38%	0.54%	1.84%
EM Index Equity Hedges	--	--	-11.33%	-11.33%	--	-11.33%
U.S. Index Equity Hedges	--	--	0.00%	--	--	--
Other - Sector/Currency Hedges	--	--	0.00%	--	--	--
<b>Total Exposure (ex-cash)</b>	<b>95.59%</b>	<b>0.00%</b>	<b>-14.74%</b>	<b>80.84%</b>	<b>100.00</b>	<b>-19.16%</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	17.22%	--	--	17.22%	15.44%	1.78%
Consumer Staples	6.14%	--	--	6.14%	7.50%	-1.37%
Energy	1.13%	--	--	1.13%	1.88%	-0.75%
Financials	27.03%	--	--	27.03%	20.74%	6.29%
Health Care	6.52%	--	--	6.52%	6.07%	0.45%
Industrials	18.56%	--	--	18.56%	15.72%	2.83%
Information Technology	11.76%	--	--	11.76%	16.17%	-4.42%
Materials	4.28%	--	--	4.28%	12.25%	-7.96%
Telecom. Services	0.78%	--	--	0.78%	0.79%	-0.02%
Utilities	2.18%	--	--	2.18%	3.43%	-1.25%
Other - Market/Currency Hedges	--	--	-14.74%	-14.74%	0.00%	-14.74%
<b>Total Exposure (ex-cash)</b>	<b>95.59%</b>	<b>--</b>	<b>-14.74%</b>	<b>80.84%</b>	<b>100.00%</b>	<b>-19.16%</b>

PORTFOLIO WEIGHTS (Net Exposure)		
Frontier Market: 6.01%	Emerging Market: 72.45%	Other Countries: 2.38%

<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 2/28/15)**

Company	Country	Description	% of Fund
SKS Microfinance Limited	India	An India-based financing company	3.6
Mail.ru Group Ltd. Sponsored GDR RegS	Russia	Operates e-mail services and online social networking sites	2.3
Iguatemi Empresa de Shopping Centers S.A	Brazil	Engaged in the real estate development sector	2.2
Zhuzhou CSR Times Electric Co., Ltd. Class H	China	Manufacture of train-borne electrical systems and electrical components	2.0
CT Environmental Group Ltd.	Hong Kong	A provider of customized wastewater treatment and industrial water supply services	1.8

\*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. **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.