



# DRIEHAUS EMERGING MARKETS SMALL CAP GROWTH FUND

May 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:** \$646 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.*



## Better again. Or better worse.

*"All the negativity in this town sucks. It sucks, and it stinks, and it sucks."—Rick Pitino, former Boston Celtics coach*

*"This is a proud, storied, championship tradition unlike any other in all of professional sports." —Brad Stevens, current Boston Celtics coach*

You can't blame emerging market investors for acting a bit curmudgeonly in recent years. After a 79% rally in 2009, the MSCI Emerging Markets Index returned only 17% between January 2010 through May 2015, paling in comparison to the S&P 500's 112% return over that same period.

Those who have bought and held the EM index over the past five years may feel like they have experienced a bear market relative to developed market equities around the world, which have reflatd thanks to ultra-easy monetary policies. Further, a 17% cumulative return in such an environment is a far cry from the 30-40% annual return investors became accustomed to in the middle part of the last decade.

As a result, investor sentiment turned negative toward emerging market assets. Rick Pitino's quote from near the end of his brief tenure as Boston Celtics head coach is likely symbolic of many investors' feelings toward EM at this point.

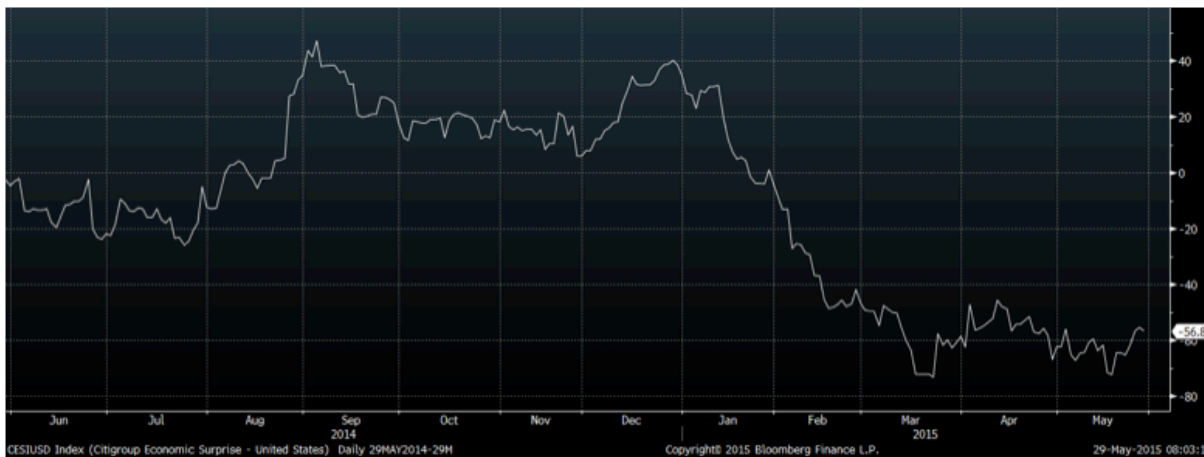
However, we prefer to look at EM in a manner similar to current Celtics coach Brad Stevens, recognizing that this is an asset class prevalent with inefficiencies and growth, which are increasingly difficult to find in other parts of the world.

Since October of 2014, we have had an increasingly positive stance on EM equities. We've maintained a net long exposure in the mid-80s for much of the past seven months, with some tactical hedging when we saw opportunities develop to hedge exposures, such as to India and the US dollar.

Moving into the summer, we largely retain this stance, but we note a few potentially worrisome developments for equity markets.

First, US economic surprises appear to be bottoming out (Exhibit 1). With improvements in labor and housing markets, the notion of a September interest rate "liftoff" is again back in play. Importantly, any further improvements in the data could start leading investors to price in a swifter tightening cycle than they are currently prepared for. Higher interest rates could again expose some of the more vulnerable areas of EM, which could be at risk due to the massive growth of credit in recent years.

### Exhibit 1: Citigroup US Economic Surprise Index



Source: Bloomberg

Second, while the US equity market is still hovering around its all-time high, divergences are starting to surface with fewer stocks making new highs despite the broad equity market strength. Furthermore, economically sensitive indices such as the Transports are starting to lag materially. Deteriorating breadth, which we have observed in EM as well, warrants caution.

Finally, all of this is occurring at a time in which equity market volatility has been virtually nonexistent. As shown in Exhibit 2, the CBOE Emerging Markets Volatility Index (EM equivalent of the VIX) has been hovering near a nine-month low. Similarly, the volatility of the VIX Index (referred to by options traders as the “vol of vol”) is threatening to retest the all-time lows that were reached around this time last year. Exhibits 2 and 3 suggest investors are overly complacent given the concerns just mentioned. While volatility has seemingly departed from equity markets, interest rate volatility has quietly moved higher and FX volatility remains elevated after the rapid strengthening of the dollar in the second half of 2014.

### Exhibit 2: CBOE Emerging Markets Volatility Index



Source: Bloomberg

### Exhibit 3: Implied Volatility of VIX Index



Source: Bloomberg

### Performance Review and Portfolio Positioning

The Driehaus Emerging Markets Small Cap Growth Fund returned 0.83% in May compared to the MSCI Emerging Markets Small Cap Index gain of 0.43% and the MSCI Emerging Markets Index return of -3.99%.<sup>1</sup>

May started off slowly as India continued its correction and China saw a round of profit-taking. Both indices recovered over the course of the month and the fund ended up modestly positive. Hedging helped dampen the volatility that surfaced within emerging markets toward the end of May.

With respect to positioning, a meaningful change was undertaken this month as a result of team discussions surrounding the concept of duration. A critical concept to fixed income investors, duration is less frequently discussed by equity strategists; however, it is important to understand interest rate sensitivity at the company level, particularly for long duration equities that are trading at elevated valuations.

Weighting reductions in Southeast Asia and India reflected the selling of longer duration positions, in which our fundamental view suggested limited scope for earnings upside, while valuations reflected high embedded earnings expectations. We intend for these changes to help cushion the portfolio should bond markets start to price in a more aggressive tightening of monetary policy in the US.

### Outlook

We maintain a positive outlook overall for EM, but are growing increasingly cautious toward high deficit countries that may be prone to currency volatility or valuation de-ratings in the event that interest rate volatility continues its ascent. Accordingly, we have the lowest weighting to the Southeast Asian region that we have held in the last several years, a significant underweight to South Africa, and an underweight to Turkey.

Conversely, we continue to increase our allocation to North Asia, and despite not being excited about the structural dynamics of a market like Korea, we are finding an increasingly attractive opportunity set on a bottom-up basis. That said, we continue to believe that the benchmark's weighting in Korea and Taiwan provides disproportionately high exposure to these countries relative to the rest of EM, so while we have added exposure, we remain underweight. We remain bullish on China, yet have slightly reduced China's weighting in the portfolio, noting the seasonal tendency toward tighter liquidity in the summer months.

<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

Lastly, we see scope for volatility to pick up over the course of the year from its currently low level. In the last nine months we have seen successive spikes in FX volatility and interest rate volatility, while equity volatility has continued to grind lower. QE's impact on the portfolio balance channel (i.e., low rates encouraging investors to buy equities) has been undeniable in recent years. Stocks are at all-time highs and share buybacks financed by debt have become the norm.

While significant gains have accrued to capital, a spillover to labor has been largely absent up until now. At face value, it may appear increasingly evident that the Federal Reserve is starting to succeed at inflating wages. As shown in Exhibit 4, the Bureau of Labor Statistics' Employment Cost Index is showing the strongest year-over-year growth since 2008. However, productivity has been on a steady downward trend. The emerging labor tightness is likely less a function of accelerating external demand and more a function of abysmal productivity (Exhibit 5).

**Exhibit 4: Employment Cost Index YoY**



Source: Bloomberg

**Exhibit 5: US Productivity Growth YoY**



Source: Bloomberg

Further positive economic surprises, particularly in the areas of labor and housing, may lead to a rise in volatility levels, resulting from the data dependent stance of the Fed, and the potential for short-term interest rates to break out of their range.

Until next month,

**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 5/31/15

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>	0.83%	10.67%	7.90%	17.12%	12.21%	n/a	18.82%
MSCI Emerging Markets Small Cap Index <sup>3</sup>	0.43%	13.52%	7.37%	11.09%	6.64%	n/a	19.70%
MSCI Emerging Markets Index <sup>4</sup>	-3.99%	5.78%	0.33%	6.32%	4.41%	n/a	13.42%

## 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

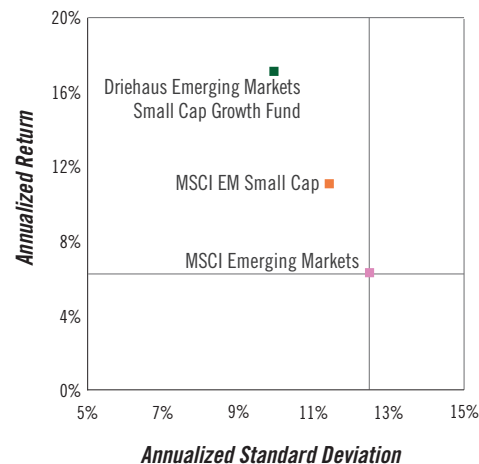
## PORTFOLIO CHARACTERISTICS

PORTFOLIO SNAPSHOT		
		ex-cash
AUM	\$645,735,351	
Cash/AUM	7.94%	
Long Exposure	\$653,367,000	\$602,086,503
Short Exposure	(\$216,402,631)	(\$216,402,631)
Net Exposure	\$436,964,370	\$385,683,873
Net Exposure/AUM	67.67%	59.73%
Gross Exposure	\$869,769,631	\$818,489,134
Gross Exposure/AUM	1.35x	1.27x

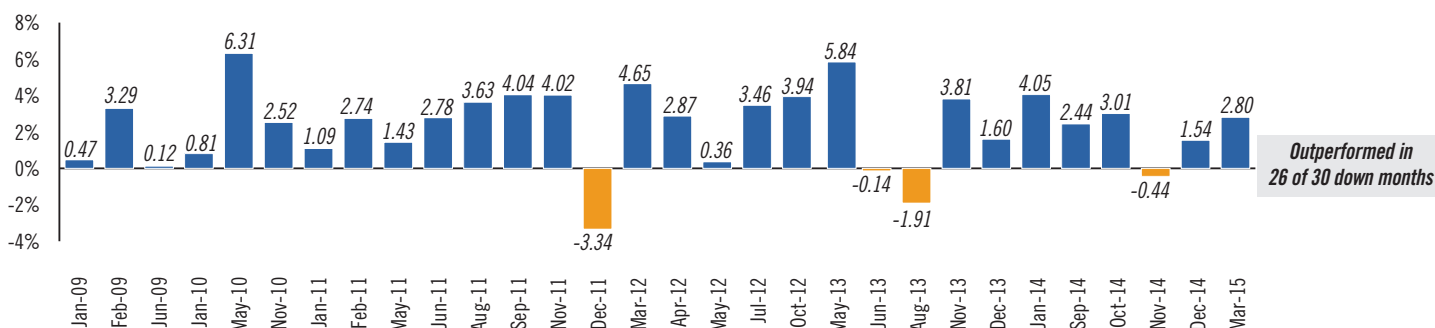
PORTFOLIO CHARACTERISTICS		
	Fund	Benchmark
Number of Holdings	140	1,782
Active Share (3-year avg.) <sup>1</sup>	96.11	n/a
Est. 3-5 Year EPS Growth	30.8%	17.9%
Weighted Avg. Market Cap (\$M)	\$2,196	1,324
Median Market Cap (\$M)	\$1,615	\$641
Mkt. Cap Breakout	< \$5 billion	90.4%
	> \$5 billion	9.6%

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

	Fund	vs.	MSCI EM Small Cap	Fund	vs.	MSCI Emerging Markets
Annualized Return	17.12		11.09	17.12		6.32
Standard Deviation	9.95		11.42	9.95		12.49
Upside Capture	74.63		100.00	73.83		100.00
Downside Capture	2.12		100.00	-0.15		100.00
Beta	0.66		1.00	0.45		1.00
Alpha	9.42		n/a	14.10		n/a
Sharpe Ratio	1.72		0.97	1.72		0.50
R-Square	0.57		1.00	0.33		1.00
Tracking Error	7.60		0.00	10.63		0.00
Information Ratio	0.79		n/a	1.02		n/a
# Negative Monthly Returns	8		13	8		15
# Positive Monthly Returns	28		23	28		21



### 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 5/31/15.

<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 April 30, 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 1.73% as disclosed in the 4/30/15 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	0.51%	--	--	0.51%	--	0.51%
Brazil	2.64%	--	--	2.64%	3.07%	-0.44%
Cambodia	0.63%	--	--	0.63%	--	0.63%
Chile	--	--	--	--	0.97%	-0.97%
China	21.79%	--	--	21.79%	26.19%	-4.39%
Colombia	--	--	--	--	0.07%	-0.07%
Czech Republic	--	--	--	--	0.03%	-0.03%
Egypt	--	--	--	--	0.81%	-0.81%
Greece	--	--	--	--	0.54%	-0.54%
Hungary	--	--	--	--	0.11%	-0.11%
India	18.18%	--	--	18.18%	8.66%	9.52%
Indonesia	2.39%	--	--	2.39%	2.82%	-0.43%
Kazakhstan	1.28%	--	--	1.28%	--	1.28%
Kenya	0.44%	--	--	0.44%	--	0.44%
Malaysia	1.59%	--	--	1.59%	3.56%	-1.97%
Mexico	2.17%	--	--	2.17%	2.35%	-0.18%
Nigeria	0.26%	--	--	0.26%	--	0.26%
Pakistan	1.70%	--	--	1.70%	--	1.70%
Peru	--	--	--	--	0.07%	-0.07%
Philippines	2.12%	--	--	2.12%	1.41%	0.71%
Poland	1.33%	--	--	1.33%	1.10%	0.23%
Qatar	--	--	--	--	0.49%	-0.49%
Russia	1.77%	--	--	1.77%	0.57%	1.20%
Saudi Arabia	4.06%	--	--	4.06%	--	4.06%
South Africa	0.46%	--	--	0.46%	6.35%	-5.90%
South Korea	9.30%	--	--	9.30%	17.69%	-8.38%
Taiwan	11.72%	2.17%	--	13.89%	17.26%	-3.37%
Thailand	1.97%	--	--	1.97%	3.36%	-1.38%
Turkey	0.99%	--	--	0.99%	1.39%	-0.41%
United Arab Emirates	--	--	--	--	0.73%	-0.73%
Vietnam	0.28%	--	--	0.28%	--	0.28%
Other Countries <sup>2</sup>	3.49%	--	--	3.49%	0.41%	3.08%
EM Index Equity Hedges	--	--	-17.66%	-17.66%	--	-17.66%
U.S. Index Equity Hedges	--	--	-10.77%	-10.77%	--	-10.77%
Other - Sector/Currency Hedges	--	--	-5.07%	-5.07%	--	-5.07%
<b>Total Exposure (ex-cash)</b>	<b>91.08%</b>	<b>2.17%</b>	<b>-33.51%</b>	<b>59.74%</b>	<b>100.00%</b>	<b>-40.26%</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	16.26%	--	--	16.26%	15.80%	0.46%
Consumer Staples	6.27%	--	--	6.27%	7.58%	-1.32%
Energy	1.31%	--	--	1.31%	1.73%	-0.41%
Financials	19.49%	--	--	19.49%	20.02%	-0.54%
Health Care	6.99%	--	--	6.99%	7.22%	-0.23%
Industrials	15.54%	--	--	15.54%	15.58%	-0.04%
Information Technology	16.10%	--	--	16.10%	16.52%	-0.42%
Materials	6.48%	--	--	6.48%	11.48%	-5.00%
Telecom. Services	0.44%	--	--	0.44%	0.69%	-0.24%
Utilities	2.19%	--	--	2.19%	3.38%	-1.19%
Other - Market/Currency Hedges	--	2.17%	-33.51%	-31.34%	--	-31.34%
<b>Total Exposure (ex-cash)</b>	<b>91.08%</b>	<b>2.17%</b>	<b>-33.51%</b>	<b>59.74%</b>	<b>100.00%</b>	<b>-40.26%</b>

PORTFOLIO WEIGHTS (Net Exposure)		
Frontier Market: 13.72%	Emerging Market: 42.53%	Other Countries: 3.49%

<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 4/30/15)**

Company	Country	Description	% of Fund
SKS Microfinance Limited	India	An India-based financing company	4.5
Henan Pinggao Electric Co., Ltd. Class A	China	Engaged in manufacture and distribution of electric power transmission and conversion equipment	3.0
Sunac China Holdings Ltd.	China	Engaged in property development, property investment and property management services	1.9
Sino-Ocean Land Holdings Ltd.	China	Engaged in real estate development, construction, property management & hotel operation businesses	1.6
Hermes Microvision, Inc.	Taiwan	Develops, designs, manufactures, and sells precision instruments and electronic inspection equipment	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. **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.