

Driehaus Small Cap Growth Fund

Investor Class: **DVSMX** Institutional Class: **DNSMX**

Key Features

- Benchmark aware, not benchmark constrained
- Opportunistic investment approach
- High active share

Inception Date

8/21/2017

The fund's predecessor limited partnership has a performance inception date of 1/1/2007.

Fund Assets Under Management

DVSMX: \$1.2 million // DNSMX: \$43.0 million

Firm Assets Under Management

\$9.0 billion

Investment Style

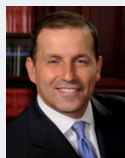
Growth equity

Available Investment Vehicles:

Mutual Fund

Separately managed account

Portfolio Managers

**Jeff James**

Portfolio Manager

26 years of industry experience

**Michael Buck**

Assistant Portfolio Manager

17 years of industry experience

MARKET OVERVIEW

The fourth quarter was a positive conclusion to a bullish year for US equities. The major indices reached new highs during the quarter with large caps outperforming small caps. The S&P 500 rallied in a linear up-and-to-the-right fashion each month of the quarter and completed its first year without a single monthly decline. The Russell 2000 Index, in contrast, pulled back almost 4% during the first half of the quarter largely on reduced optimism that the US tax reform legislation would pass. But while the Washington DC sausage-making process can be messy and unappetizing, the outlook for the tax bill passing improved, helping small caps stocks to bottom in mid-November before rallying into the year end.

The current macroeconomic environment has improved markedly over the past year with the US and most parts of the globe benefitting from synchronized global economic growth. This positive backdrop is conducive to rising earnings and provides fundamental support for the recent market gains. Many economic indicators have seen a sharp acceleration. The majority of recent US macro data (initial jobless claims, personal income, Purchasing Manager's Index (PMI), business and consumer confidence, durable goods, housing starts, etc.) support the prospect for sustained growth into 2018.

We view the US tax legislation as a significant upside catalyst for equities as it is positive for earnings revisions, earnings growth and economic growth. The recent reduction of the US corporate tax rate from 35% to 21% will be a big driver for positive earnings revisions for most companies in 2018, especially for the more US-centric

small cap companies. Most of our portfolio companies pay above 30%. So on average, the new rate will be a big boost to earnings and likewise reduce the average valuation of many of our portfolio companies.

One of the most significant and positive changes over the past year has been the reining in and rolling back of countless federal regulations. This is a major reason for the acceleration in economic growth in the past year. The pace of deregulation can be measured by the massive reduction in the pages of the Federal Register and it is frequently cited as a primary driver (along with taxes) for the multi-year highs in small business and CEO optimism.

The current robust economic data, such as the PMIs and Leading Economic Indicators (LEI) hitting new cycle highs are historically consistent with sustained economic expansion. This gives further support for the Federal Open Market Committee (FOMC) to continue rate normalization. We acknowledge that the current yield curve flattening is a cautionary tale when looking for an end to the cycle (the current 10-2 year yield spread is down to under 60 basis points from 120 basis points at the start of 2017), yet it is actually typical of the early phase of Fed tightening and very consistent with sustained growth and equity advances when looking at previous economic cycles.

This equity rally has been about earnings as earnings drive stock prices. Aggregate earnings are at new highs, which along with some multiple expansion helps explain the strength in equity prices. As we look ahead to 2018, we see a continuation of these key drivers as well as a continuation in many of the sector, industry and thematic trends in



which we are invested. We also see a nice combination of secular and cyclical investments in addition to new opportunities which are emerging as the environment has strengthened. Overall, beyond this macro discussion, on a daily basis we continue to focus on bottom up earnings and individual company fundamentals which remain encouraging and sustainable for our portfolio holdings.

PERFORMANCE REVIEW

For the fourth quarter, the Driehaus Small Cap Growth Fund outperformed its benchmark. The fund returned 7.82% (DNSMX) and 7.73% (DVSMX), net of fees, while the Russell 2000 Growth Index rose 4.59%.¹

By sector, for the quarter, the fund's relative outperformance occurred in nearly every sector. In order of largest sector contribution to relative returns, it was technology, consumer discretionary, industrials, financials, and health care. On an absolute basis, every sector contributed to the positive returns for the quarter. Technology and then consumer discretionary accounted for the two largest sector contributors to the portfolio's absolute returns.

Strong earnings across the fund drove the results. Technology was led by hardware (specialty memory, solar and semiconductors), e-commerce as well as enterprise and internet software. Health care's positive performance was led by medical devices, biotech and pharma.

Consumer discretionary was broad-based with particular strength in gaming, hotels, recreational vehicles, specialty retail, and residential building materials. Industrials' strength came from air cargo, trucking, and machinery. Energy finally rebounded with strength in oil field services as crude oil hit a new cycle high and the outlook for the rig count and capex improved.

OUTLOOK & POSITIONING

As a new year begins, looking at a wide number of economic indicators, the current strong macro environment appears sustainable. Credit conditions are benign. Most key economic statistics and indicators are trending positively, with many at new cycle highs. The economic expansion is boosting most industries and most parts of the economy. The synchronized global growth backdrop is healthy and provides a bullish environment for equities. Tax cuts are incrementally boosting earnings (and helping valuations) and deregulation is helping business optimism. The Federal Reserve Chair will transition to Jerome (Jay) Powell but the Fed's accommodative monetary policy is expected to remain status quo.

Naturally, there are risks that could disrupt these positive conditions. The pace of growth could tip inflation higher causing the Fed to get more aggressive with rates, ruining the current positive interplay between growth, inflation and rates. With the Fed raising rates, if the long end of the treasury yield curve does not rise greater than the short end, the shape of the yield

curve could flatten further. Trump's trade and immigration rhetoric could move from potential risks to actual policies with uncertain outcomes. Terrorism and the war of words with North Korea could also result in dangerous scenarios. Finally, a deceleration in economic growth or earnings, even if short-term, could cause a correction in equities and an increase in volatility. We have a sanguine outlook regarding all these risks, but market scares and resulting corrections are natural market events and volatility is likely to pick up after record low levels in 2017.

In terms of positioning, the fund is overweight the following sectors: consumer discretionary, energy, technology, telecom and financials. Technology, consumer discretionary, health care and industrials and are the four largest absolute weightings. The fund is underweight health care, real estate, industrials and consumer staples.

We look forward to the upcoming earnings season to assess the fundamental progress and outlooks of our portfolio companies. We continue to hold and discover an exciting mix of inefficiently priced and less discovered companies that are early in their growth expansions. We are confident that these differentiated companies will gain market share, exceed expectations and will become larger companies over time.

This update is not intended to provide investment advice. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment fund or strategies. You should assess your own investment needs based on your individual financial circumstances and investment objectives. This material is not intended to be relied upon as a forecast or research. The opinions expressed are those of Driehaus Capital Management LLC ("Driehaus") as of January 19, 2018 and are subject to change at any time due to changes in market or economic conditions. The material has not been updated since January 19, 2018 and may not reflect recent market activity. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Driehaus to be reliable and are not necessarily all inclusive. Driehaus does not guarantee the accuracy or completeness of this information. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

¹Performance 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 for more current performance information.

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

PERFORMANCE as of 12/31/17

	Annualized Total Return						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Inception ¹
Investor Class: DVSMX¹	7.73%	30.65%	30.65%	13.48%	18.85%	8.17%	10.78%
Institutional Class: DNSMX¹	7.82%	30.76%	30.76%	13.51%	18.87%	8.18%	10.79%
Russell 2000 [®] Growth Index ²	4.59%	22.17%	22.17%	10.28%	15.21%	9.19%	8.99%

ANNUAL FUND OPERATING EXPENSES³

	Management Fee	Other Expenses ⁴	Total Annual Fund Operating Expenses	Expense Reimbursement	Total Annual Fund Operating Expenses After Expense Reimbursement ⁵
Investor Class: DVSMX	0.60%	0.89%	1.49%	(0.29%)	1.20%
Institutional Class: DNSMX	0.60%	0.64%	1.24%	(0.29%)	0.95%

SECTOR PERFORMANCE ATTRIBUTION 4th Quarter — 9/30/17 to 12/31/17

	Driehaus Small Cap Growth Fund (DVSMX) ¹ (Port) (%)		Russell 2000 [®] Growth Index ² (Bench) (%)		Attribution Analysis (%)		
	Port Avg. Weight	Port Contrib To Return	Bench Avg. Weight	Bench Contrib To Return	Allocation Effect	Selection + Interaction	Total Effect
GICS Sector							
Consumer Discretionary	17.80	1.80	14.46	1.27	0.10	0.26	0.35
Consumer Staples	1.85	0.04	2.70	0.22	-0.03	-0.11	-0.14
Energy	1.85	0.12	1.26	0.11	0.09	-0.11	-0.02
Financials	7.64	0.48	6.59	0.28	0.01	0.16	0.17
Health Care	19.71	0.77	24.20	0.76	0.07	0.16	0.24
Industrials	15.36	1.46	18.00	1.20	-0.11	0.53	0.42
Information Technology	26.73	2.47	22.67	0.37	-0.07	1.87	1.84
Materials	3.96	0.26	4.69	0.18	-0.02	0.13	0.11
Real Estate	2.16	0.09	3.46	0.06	0.05	0.02	0.06
Telecom. Services	2.47	0.77	1.24	0.03	-0.02	0.70	0.67
Utilities	0.00	0.00	0.73	0.04	-0.01	0.00	-0.01
Cash	0.49	0.00	0.00	0.00	0.03	0.00	0.03
Other	0.00	-0.16	0.00	0.00	-0.15	0.00	-0.15
Total	100.00	8.09	100.00	4.53	-0.08	3.60	3.57

Data as of 12/31/17 Sources: Russell Investments, eVestment Alliance, LLC, SS&C Inc., Russell Investments and Standard & Poor's Global Industry Classification Standard and Driehaus Capital Management LLC. 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), during the given month, on an investment in the Fund (assuming reinvestment of all dividends and distributions). Average annual total return reflects annualized change. Since Fund performance is subject to change after the month-end, please call (800) 560-6111 or visit www.driehaus.com for more current performance information. **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. Please read the prospectus carefully before investing.** ¹The average annual total returns and attribution of the Driehaus Small Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2007, before it commenced operations as a series of the Driehaus Mutual Funds on August 21, 2017 and succeeded to the assets of the Driehaus Institutional Small Cap, L.P. (the "Predecessor Partnership"), Driehaus Small Cap Investors, L.P., Driehaus Institutional Small Cap Recovery Fund, L.P. and Driehaus Small Cap Recovery Fund, L.P., (together, the "Limited Partnerships"). The Limited Partnerships were managed by the same investment team with substantially the same investment objective, policies and philosophies as the Fund. The investment portfolios of the Limited Partnerships were identical and therefore had similar performance. The performance of the Predecessor Partnership is shown here because it has been in operation the longest. The Predecessor 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 Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Accordingly, future Fund performance may be different than the Predecessor Partnership's past performance. After-tax performance returns are not included for the Predecessor Partnership. The Predecessor Partnership was not a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and therefore did not distribute current or accumulated earnings and profits and was not subject to the diversification and source of income requirements applicable to regulated investment companies. ²The Russell 2000[®] Growth Index measures the performance of those Russell 2000[®] companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index. ³Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated August 4, 2017. It is important to understand that a decline in the Fund's average net assets due to unprecedented market volatility or other factors could cause the Fund's expense ratio for the current fiscal year to be higher than the expense information presented. A shareholder may be required to pay a commission to their financial intermediary. ⁴Other Expenses⁴ are estimated for the current year. ⁵Driehaus Capital Management LLC, the Fund's investment adviser (the "Adviser"), has entered into a contractual agreement to cap the Fund's current ordinary annual operating expenses (excluding interest, taxes, brokerage commissions, other investment-related expenses, acquired fund fees and expenses, and extraordinary expenses, such as litigation and other expenses not incurred in the ordinary course of the Fund's business) at 1.20% of average daily net assets for the Investor Shares and 0.95% of average daily net assets for the Institutional Shares until the earlier of the termination of the investment advisory agreement, by the Board of Trustees or the Fund's shareholders, or August 20, 2020. Pursuant to the agreement, and so long as the investment advisory agreement is in place, for a period of three years subsequent to the Fund's commencement of operations on August 21, 2017, the Adviser is entitled to reimbursement for previously waived fees and reimbursed expenses to the extent that the Fund's expense ratio remains below the operating expense cap that was in place at the time of the waiver / expense reimbursement as well as the current operating expense cap.

The Russell Indices are a trademark/service mark of the Frank Russell Company. Russell is a trademark of the Frank Russell[®] Company. Per FactSet Research Systems Inc., the Attribution Report provides an in-depth analysis of relative performance. With this report one can research whether or not a portfolio outperformed a benchmark, and how each group contributed to performance. The performance data shown above is estimated and represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The information presented is intended for informational purposes only. Driehaus Securities LLC, Distributor

ATTRIBUTION ANALYSIS CATEGORIES ARE DEFINED AS: Allocation Effect - Measures the impact of the decision to allocate assets differently than those in the benchmark. **Security Selection Effect** - Measures the effect of choosing securities, which may or may not outperform those of the benchmark. **Interaction Effect** - Jointly measures the effect of allocation and selection decisions. **Total Effect** - The Total Effect for each MSCI/GICS Sector is equal to the sum of the individual Attribution Effects for that MSCI/GICS Sector.

SECTOR PERFORMANCE ATTRIBUTION 1-Year — 12/31/16 to 12/31/17

GICS Sector	Driehaus Small Cap Growth Fund (DVSMX) ¹ (Port) (%)		Russell 2000 [®] Growth Index ² (Bench) (%)		Attribution Analysis (%)		
	Port Avg. Weight	Port Contrib To Return	Bench Avg. Weight	Bench Contrib To Return	Allocation Effect	Selection + Interaction	Total Effect
Consumer Discretionary	16.06	4.98	14.84	2.57	-0.01	1.98	1.93
Consumer Staples	1.51	0.44	2.92	0.28	0.34	0.16	0.50
Energy	1.53	-1.03	1.30	-0.47	-0.15	-0.48	-0.57
Financials	8.84	2.53	6.59	0.89	-0.32	1.63	1.31
Health Care	19.96	8.31	23.72	8.28	-0.52	1.12	0.60
Industrials	16.90	4.10	16.67	3.25	-0.30	1.23	0.93
Information Technology	25.58	11.32	22.95	4.93	0.02	5.16	5.24
Materials	3.97	0.54	4.93	1.11	0.15	-0.57	-0.42
Real Estate	3.08	0.84	4.19	0.51	0.20	0.41	0.61
Telecom. Services	1.64	0.83	1.11	0.38	-0.09	0.44	0.34
Utilities	0.02	-0.16	0.78	0.13	0.05	-0.11	-0.06
Cash	0.92	0.01	0.00	0.00	0.40	0.00	0.40
Unassigned	0.00	-0.91	0.00	0.00	-0.88	0.00	-0.88
Total	100.00	31.79	100.00	21.86	-1.13	10.97	9.93

Data as of 12/31/17

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance

Per FactSet Research Systems Inc., the attribution report provides an in-depth analysis of relative performance. With this report one can research whether or not a portfolio outperformed a benchmark, and how each group contributed to performance. The performance data shown above is estimated and represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The information presented is intended for informational purposes only.

¹The average annual total returns and attribution of the Driehaus Small Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2007, before it commenced operations as a series of the Driehaus Mutual Funds on August 21, 2017 and succeeded to the assets of the Driehaus Institutional Small Cap, L.P. (the "Predecessor Partnership"), Driehaus Small Cap Investors, L.P., Driehaus Institutional Small Cap Recovery Fund, L.P. and Driehaus Small Cap Recovery Fund, L.P., (together, the "Limited Partnerships"). The Limited Partnerships were managed by the same investment team with substantially the same investment objective, policies and philosophies as the Fund. The investment portfolios of the Limited Partnerships were identical and therefore had similar performance. The performance of the Predecessor Partnership is shown here because it has been in operation the longest. The Predecessor 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 Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Accordingly, future Fund performance may be different than the Predecessor Partnership's past performance. After-tax performance returns are not included for the Predecessor Partnership. The Predecessor Partnership was not a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and therefore did not distribute current or accumulated earnings and profits and was not subject to the diversification and source of income requirements applicable to regulated investment companies. ²The Russell 2000[®] Growth Index measures the performance of those Russell 2000[®] companies with higher price-to-book ratios and higher forecasted growth values. The performance data includes reinvested dividends. The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index.

ATTRIBUTION ANALYSIS CATEGORIES ARE DEFINED AS:

Allocation Effect - Measures the impact of the decision to allocate assets differently than those in the benchmark.

Security Selection Effect - Measures the effect of choosing securities, which may or may not outperform those of the benchmark.

Interaction Effect - Jointly measures the effect of allocation and selection decisions.

Total Effect - The Total Effect for each MSCI/GICS Sector is equal to the sum of the individual Attribution Effects for that MSCI/GICS Sector.

SECTOR WEIGHTS

Month-End Absolute Weights

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecomm. Services	Utilities	Cash
DVSMX	21.8	2.0	3.0	6.7	19.7	15.7	23.2	4.3	1.0	2.5	0.0	0.2
Benchmark	14.8	2.8	1.4	6.5	24.4	18.2	22.0	4.6	3.3	1.2	0.7	0.0
Active Weights	7.0	-0.8	1.6	0.2	-4.8	-2.6	1.2	-0.3	-2.4	1.3	-0.7	0.2

PORTFOLIO CHARACTERISTICS

	DVSMX	Benchmark	5-year period ¹	DVSMX	Benchmark
Number of Holdings	114	1,175	Annualized Alpha	2.76	n/a
Weighted Avg. Market Cap (M)	\$2,879	\$2,640	Sharpe Ratio	1.12	1.03
Median Market Cap (M)	\$2,291	\$1,007	Information Ratio	0.56	n/a
Active Share	88.21	n/a	Beta	1.05	1.00
Market Cap Breakout (%)			Standard Deviation	16.57	14.58
< \$2.5 billion	51.6	52.8	Tracking Error	6.47	0.00
\$2.5 - \$15 billion	48.5	47.2	R-squared	0.85	1.00
> \$15 billion	0.0	0.0			

TOP 5 HOLDINGS² (as of 11/30/17)

Company	% of Fund
XPO Logistics, Inc.	2.1
Exact Sciences Corporation	2.0
RingCentral, Inc. Class A	2.0
Insulet Corporation	1.9
Tower Semiconductor Ltd	1.9

Sources: Driehaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance
Data as of 12/31/17. Benchmark: Russell 2000[®] Growth Index

¹The 5-year period characteristics of the Driehaus Small Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2007, before it commenced operations as a series of the Driehaus Mutual Funds on August 21, 2017 and succeeded to the assets of the Driehaus Institutional Small Cap, L.P. (the "Predecessor Partnership"), Driehaus Small Cap Investors, L.P., Driehaus Institutional Small Cap Recovery Fund, L.P. and Driehaus Small Cap Recovery Fund, L.P., (together, the "Limited Partnerships"). The Limited Partnerships were managed by the same investment team with substantially the same investment objective, policies and philosophies as the Fund. The investment portfolios of the Limited Partnerships were identical and therefore had similar performance. The performance of the Predecessor Partnership is shown here because it has been in operation the longest. The Predecessor 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 Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Accordingly, future Fund performance may be different than the Predecessor Partnership's past performance. After-tax performance returns are not included for the Predecessor Partnership. The Predecessor Partnership was not a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and therefore did not distribute current or accumulated earnings and profits and was not subject to the diversification and source of income requirements applicable to regulated investment companies. ²Data is calculated monthly.

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 this Fund may not experience similar performance results as its assets grow. The securities of small and micro-cap companies may be more volatile in price, have wider spreads between their bid and ask prices, and have significantly lower trading volumes than the securities of larger capitalization companies. As a result, the purchase and sale of more than a limited number of shares of the securities of a smaller company may affect its market price. Growth stocks may involve special risks and their prices may be more volatile than the overall market. It is anticipated that the Fund will experience high rates of portfolio turnover, which may result in payment by the Fund of above-average transaction costs. 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. Please read the prospectus carefully before investing.**

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell[®] is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

TERMS: **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. **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. **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. **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. Source: eVestment Alliance. **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. **Information Ratio (IR)** measures a portfolio manager's ability to generate excess returns relative to a benchmark, but also attempts to identify the consistency of the investor. This ratio will identify if a manager has beaten the benchmark by a lot in a few months or a little every month. The higher the IR the more consistent a manager is and consistency is an ideal trait. **R-squared** is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. For fixed-income securities, the benchmark is the T-bill. For equities, the benchmark is the S&P 500.