The Pros and Khans of Merger Arbitrage

2ND QUARTER 2023

Case Study Reprise

In last quarter's letter, seen here, we provided a case study of the fund's multi-asset investments in Golden Entertainment Inc.* to illustrate our differentiated approach to event driven investing: (i) investing in both announced and anticipated events, and (ii) investing in and hedging with both credit and equity instruments. Our objective was to provide investors with a real-life example of how we apply our investment philosophy and process to the investments and hedges that become a part of our portfolio.

This quarter we are inverting the case study theme by discussing examples of two prospective merger arbitrage investments wherein we applied our investing framework and decided NOT to invest initially, but ultimately invested once the risk-adjusted return opportunity became more compelling. These inverted cases exemplify how our investment process prioritizes preservation of capital first and foremost and illustrate how the broad scope and opportunistic nature of our approach to event driven investing provides more tools with which to generate alpha, as compared to funds limited to a single event type or asset class.

Our investment in Golden was predicated upon a meaningful disconnect between the value of the assets and the price of its securities and the presence of numerous high probability anticipated catalysts that would unlock that value. In contrast, the two merger arbitrage case studies below were announced events wherein initially, the risk premium did not adequately compensate for the underlying risk of a negative catalyst in the form of deal break. The arb spreads, as priced initially, indicated low risk and safety, became crowded, and eventually resulted in permanent capital losses in the face of negative deal news.

Investing in strategies like merger arbitrage on a discretionary -- as opposed to mandatory -- basis is a strategic advantage for our fund. It enables us to better preserve capital by avoiding crowded, high risk / low reward investments, and then allows us to generate alpha on the back end when consensus investments are abandoned en masse. Moreover, when we do find certain merger arbitrage investments compelling, our multi-asset approach often allows us to structure our position and hedges to a potentially better risk-adjusted outcome than pureplay equity investors.

Alpha Generation in the Merger Arb Minefield

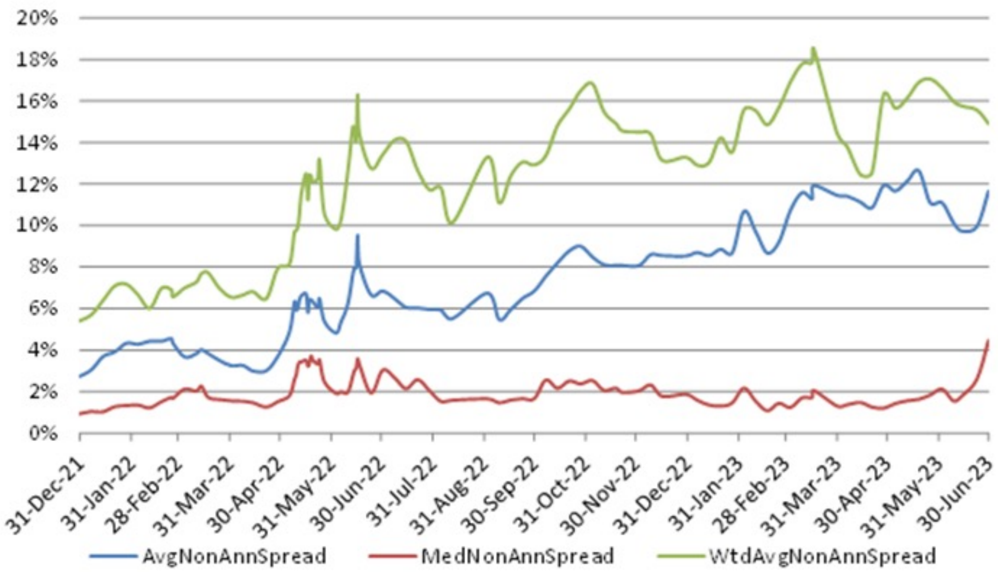
Merger arbitrage is a tried-and-true alternative investment strategy for good reason. For decades, merger arb specialists have harvested the risk premium associated with pending transactions to generate alpha across market cycles. Successful arbitrage strategies typically exhibit a high Sharpe ratio, low volatility, and limited correlation to traditional indices in addition to providing attractive absolute returns.

**For the quarter ended 6/30/23 the fund's average exposure to Golden consisted of a 635 basis point position in GDEN equity, a 592 basis point position in the GDEN 7.625% Unsecured Notes due 4/15/26, and a -242 basis point hedge via a custom basket of peer gaming company equities.*

Over the last year, however, the merger arbitrage investing landscape has become increasingly complicated and unpredictable. The regulatory environment is highly litigious with both the Federal Trade Commission ("FTC"), led by Lina Khan, and Department of Justice ("DOJ") increasing the scope and aggressiveness of their oversight. This less predictable backdrop and shifting view of how the agencies define 'anti-competitive' has led to heightened uncertainty with respect to deal closure prospects.

Navigating through this regulatory regime's deal block minefield has made merger arbitrage investing more challenging, and consequently arb investors have adjusted their required rates of returns higher, as illustrated in Exhibit 1 below.

Exhibit 1: Non-annualized merger arbitrage spread widened to 11.6% and the median widened to 4.5% (net of the effect of interest rates)



Source: UBS Special Situations

We welcome the spread widening in merger arbitrage given the potential for alpha generation for our strategy. The fund's multi-strategy, multi-asset class approach affords us the opportunity to strategically allocate capital to the sub-strategies that offer the most attractive potential risk-adjusted rewards. As importantly, it provides the flexibility to pare back exposure to an investment strategy experiencing an increase in risks, such as merger arbitrage as of late.

Unlike event driven funds that are primarily dedicated to merger arbitrage, we are never "forced" to accept the market's prevailing terms, regardless of risk, for the sake of "being invested". In the current state of regulatory oversight where risks are heightened, forced buyers leave themselves prone to pain. Their pain can be a source of opportunity for disciplined investors with flexible mandates that are not required to express a view on every merger arbitrage situation.

As was the case with Twitter last year, equities and bonds often price in dramatically different probabilities of deal closure, and we can utilize our multi-asset expertise to maximize risk-adjusted returns in ways that are unavailable to funds that only invest in equities.

Case Study Inversion: When the Investment Process Says "Not Yet"

Case Study 1: Microsoft Corp. ("MSFT") Acquisition of Activision Blizzard Inc. ("ATVI")*

The $95 per share all cash deal was announced in January of 2022. At the time of deal announcement, the gross spread was approximately 14%, implying an approximate 60% probability of deal closure using a $60 per share standalone value for ATVI. Given the adversarial stance of regulators toward "Large Tech" deals, the time to deal closure was expected to take up to 18 months. Additionally, ATVI fundamentals were weakening in the beginning of 2022 in concert with equity markets selling off more broadly.

After considering the equity arbitrage spread, as well as potential credit structures, the fund decided to not to invest at the time of deal announcement. In fact, it would take another 10 months for the fund to invest in the arbitrage spread. During that time, the deal dynamics and fundamentals evolved into a much more compelling opportunity to earn an attractive risk-adjusted return. Key developments included:

- Improved fundamentals at ATVI ahead of the Call of Duty and Diablo IV game launches
- Additional cash generated at ATVI throughout 2022 in excess of $2B
- A decline in the stock price of ATVI from the low $80s to the low $70s
- A reduction in the implied probabilities of deal closure from approximately 60% to 25% based on an updated $65 standalone value for ATVI
- A shortened timeline to deal consummation (roughly half of the original 18-month estimate) and upcoming milestones as potential value unlocking catalysts

In summary, the combination of a lower implied probability of deal close (25% down from 60%) and a higher standalone value for ATVI ($65 up from $60) made the risk-adjusted return profile much more compelling which led us to invest in the deal spread in early 4Q 2022.

In the latter part of 4Q 2022, however, risk sentiment swung more bullish as reflected by an implied deal closure probability of 50%, despite the FTC suing to block the merger from closing. At that spread, our compensation for the risks being undertaken were merely adequate, as opposed to compelling, so we reduced most of the fund's exposure to the deal.

To date, the words and actions of global regulators have continued to be the driving force of the ATVI share price and deal spread. The deal spread has and will continue to yo-yo until the deal closes or does not. To date, the fund has been able to benefit from this volatility by 1) avoiding being a forced seller ourselves and 2) exploiting the forced selling of other market participants to invest in the spread when it offered a compelling risk-adjusted return.

**For the quarter ended 6/30/23 the fund's average exposure consisted of a 72 basis point position in ATVI equity.*

Exhibit 2: Activision Blizzard, Inc. Share Price Since Deal Announcement

Source: Bloomberg

Case Study 2: Amgen Inc. ("AMGN") Acquisition of Horizon Therapeutics Plc ("HZNP")*

Announced at the end of 2022, the $116.50 per share all cash deal was originally expected to be non-controversial. Investors anticipated relatively limited regulatory oversight, which was reflected in a very modest gross spread of <3%. Given the large deal value of $27B, traditional merger arbitrage investors "had" to participate in the spread in meaningful size. In contrast, this fund had minimal exposure to the deal precisely because of the relatively low spread. While we generally agreed with the consensus view priced into the deal spread, the severity of the asymmetric skew to the downside in the event of a deal break warranted only a small position.

Early in 1Q 2023, the FTC issued what is known as a "second request" for US approval, before ultimately suing to block the merger from closing. This development caught market participants (including us) by surprise, given the lack of overlap between the merging entities. The FTC's case is based on unsubstantiated novel theories of harm and anticipated future behaviors that the acquiring company explicitly committed to avoid. Following this action by the FTC the gross spread widened out to >20% from <3%, reflecting a probability of deal closure of just 50%. While most arbitrage investors were forced to reduce exposure to manage their risk parameters, the fund was able to tactically increase exposure to the spread as it widened and offered a more compelling risk adjusted return. Given the fund's view that the probability of deal closure -- based on the merits of the case -- was closer to 80-90%, as compared to the 50% probability being priced into the stock post-news, we moved quickly to grow the position which ultimately generated an attractive return for the fund.

Exhibit 3: Horizon Therapeutics Share Price Since Deal Announcement

Source: Bloomberg

For the quarter ended 6/30/23 the fund's average exposure consisted of a 346 basis point position in HZNP equity.

Conclusion

The merger arbitrage roller coaster ride is expected to continue for the foreseeable future, absent a dramatic change in the agenda of the executive branch and/or personnel changes at the regulatory bodies. For some event driven investors, the negative development of regulatory uncertainty might more than offset the positive development of wider deal spreads, and if we could only invest in merger arbitrage, we might share that view. Fortunately, we have an event driven mandate and investing framework that allows us to seek out the most compelling risk adjusted returns across asset classes and event driven sub-strategies. **Specifically, with respect to merger arbitrage, we have the luxury of being selective when it comes to participating in deal spreads, and endeavor to maintain the discipline required to trust our investment process whether the outcome is yes, no, or not yet.**

Performance Review

For the second quarter of 2023, the Driehaus Event Driven Fund returned 0.58%.[1] The catalyst driven bond strategy was the fund's biggest contributor at (0.57%). The catalyst driven equity strategy contributed (0.40%), and the risk arbitrage strategy contributed (0.14%). The portfolio hedging strategy detracted (-0.63%) during the quarter. The largest contributors for the quarter were a therapeutics company that is being acquired by a global large cap pharma company (0.68%), followed by a clinical stage pharmaceutical company (0.32%) and a recent IPO in the healthcare sector (0.23%). The largest detractors for the quarter were a portfolio hedge in the infrastructure space (-0.36%), a regional bank (-0.33%), and a biotechnology company (-0.31%).

Best,

Mike, Tom and Yoav

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. 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.

Driehaus Event Driven Fund

Ticker
DEVDX

% Quarter-End Performance (as of 6/30/23)

				Annualized		
	QTR	YTD	1 Year	3 Year	5 Year	Inception[1]
Driehaus Event Driven Fund	0.58	2.88	3.78	5.97	6.73	4.96
S&P 500 Index[2]	8.74	16.89	19.59	14.60	12.31	12.64
FTSE 3-Month T-Bill Index[3]	1.25	2.39	3.75	1.33	1.57	0.99
Alpha to S&P 500 Index	--	--	-0.53%	1.97%	3.20%	1.16%
Beta to S&P 500 Index	--	--	0.2	0.3	0.3	0.3
Correlation to S&P 500 Index	--	0.6	0.7	0.6	0.6	0.6
Volatility as a % of S&P 500 Index	--	--	33%	45%	42%	--

Morningstar Event Driven Rankings[5] (as of 6/30/23)

	1 Year	3 Year	5 Year
Number of Funds in Category	37	37	37
Position - DEVDX	8	3	3
Percentile Ranking - DEVDX	**22%**	**8%**	**8%**

Source: Driehaus Capital Management, FactSet
Data as of 6/30/23

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. 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.

[1]The Driehaus Event Driven Fund has an inception date of August 26, 2013. [2]The Standard & Poor's ("S&P") 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group. It is a market-weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. [3]The FTSE 3-Month T-Bill Index is designed to mirror the performance of the 3-Month U.S. Treasury Bill. The FTSE 3-Month T-Bill Index is unmanaged and its returns include reinvested dividends. An investor cannot invest directly in an index. [4]Represents the Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 2023. 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. [5]Morningstar Event Driven (all share classes). Data based on monthly returns of 37, 37 and 37 mutual funds (all share classes) for the one, three and five year periods respectively. Net of fees. Past performance is no guarantee of future results.

Terms. **Beta:** A measure of a portfolio's volatility compared to that of the market as a whole. **Effective Duration:** Duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. **Spread Duration:** The sensitivity of the price of a bond to a 100 basis point change to its option-adjusted spread.

Fund Overview

- The Driehaus Event Driven Fund seeks to generate consistently high alpha, low beta and low correlation to major market indexes.
- The fund invests long and short in equities and bonds that we believe are mispriced due to an announced or anticipated idiosyncratic corporate action and/or special situation.
- The fund's long/short hedged portfolio construction is designed to generate idiosyncratic returns, reduce market exposure and provide downside protection.
- The opportunistic mandate across asset classes ensures a robust investment landscape throughout the market cycle.

The Driehaus Event Driven Fund seeks to provide:

- Superior risk-adjusted returns
- Consistently strong alpha with minimized beta
- Low volatility and correlation to major asset classes
- Absolute Returns with low market exposure

Facts

Inception Date	8/26/13
Fund Assets Under Management	$204M
Strategy Assets	$495M
Firm Assets Under Management	$14.4B

Annual Operating Expenses[4]	
Gross Expenses	1.71%
Net Expenses	1.71%

Portfolio Management

Yoav Sharon, Portfolio Manager
18 years industry experience

Tom McCauley, Portfolio Manager
17 years industry experience

Michael Caldwell, Portfolio Manager
16 years of industry experience

DEVDX Portfolio Characteristics*

Fund Information

Catalyst Spectrum

Hard	Mergers & Acquisitions	Opportunistic Credit Reorganizations Refinancings Recapitalizations	Capital Allocation Repurchases Divestitures & Asset Sales	Special Situations Spin-offs SPACs IPOs	Activism Collaborative Incentive Alignment	Regulatory Data Releases Bank Regulation	Post M&A Combinations Synergies Shareholder Transition	Soft

Investment Strategy

	Long Exposure	Short Exposure	Gross Exposure	Net Exposure
Arbitrage	19.9%	-4.0%	23.9%	15.9%
Credit	30.3%	-1.8%	32.1%	28.5%
Equity	27.6%	0.0%	27.6%	27.6%
Hedges	0.0%	-12.4%	12.4%	-12.4%

Overall Morningstar Rating™

Based on risk-adjusted returns as of 6/30/23

★★★★

All Share Classes among 37 Funds in the Event Driven Category

Sector

GICS[1]	Long Exposure	Short Exposure	Gross Exposure	Net Exposure
Communication Services	1.4%	0.0%	1.4%	1.4%
Consumer Discretionary	29.6%	-2.7%	32.3%	26.9%
Consumer Staples	1.6%	0.0%	1.6%	1.6%
Energy	0.0%	0.0%	0.0%	0.0%
Financials	11.6%	-1.9%	13.5%	9.8%
Health Care	12.9%	-2.7%	15.7%	10.2%
Industrials	8.5%	-4.1%	12.6%	4.3%
Information Technology	3.3%	-0.8%	4.1%	2.4%
Materials	1.6%	0.0%	1.6%	1.6%
Real Estate	0.0%	0.0%	0.0%	0.0%
Utilities	4.7%	0.0%	4.7%	4.7%
Other[2]	2.8%	-5.9%	8.7%	-3.2%

Top Contributors/Detractors (by Investment Strategy)

Top 5	
Equity	0.68%
Equity	0.32%
Equity	0.23%
Credit	0.22%
Equity	0.22%
Total	1.66%

Bottom 5	
Hedges	-0.36%
Equity	-0.33%
Equity	-0.31%
Hedges	-0.30%
Equity	-0.30%
Total	-1.59%

Source: Driehaus Capital Management, FactSet

Quarterly Contribution to Return (by Investment Strategy)

	April	May	June	2nd Quarter
Arbitrage	0.04%	-0.02%	0.12%	0.14%
Credit	0.46%	-0.05%	0.16%	0.57%
Equity	-0.45%	-0.31%	1.17%	0.40%
Hedges	-0.15%	0.28%	-0.76%	-0.63%
Cash/Expenses[3]	0.00%	-0.01%	0.01%	0.00%
Total	-0.10%	-0.11%	0.70%	0.48%

Preliminary data. May differ from data shown by third-party providers because of rounding or for other reasons.

*Exposure: please note exposure may be different than market value. For equities, bonds, foreign exchange forwards and interest rate swap products, exposure is the same as market value. For options, exposure represents delta-adjusted underlying exposure. For credit default swap and credit default swap indices,- exposure represents bond equivalent exposure. [1]The Global Industry Classification Standard (GICS), a collaboration between Standard & Poor's and Morgan Stanley Capital International, is a system of classification that identifies a company according to its business activity. [2]The Other Industry Sector data is not categorized within the GICS classification system. [3]Estimated expenses for the month (not annualized) as a percentage of the fund's net assets for the month. Interest on cash balances are netted against fund expenses.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Driehaus Event Driven Fund has a four star rating for the three and five year periods, with 37 and 37 funds respectively in the category.

Sector Breakout by Top Weighted Investment Strategy

Sector	Investment Strategy	Security Type	Average Weight	Contribution To Return
Communication Services			**2.51**	**-0.16**
	Credit	Corporate	1.30	0.08
	Arbitrage	Equity Common	0.72	-0.01
	Credit	Preferred	0.42	-0.21
	Credit	Preferred	0.07	-0.03
Consumer Discretionary			**28.20**	**-0.13**
	Equity	Equity Common	6.35	-0.18
	Credit	Corporate	5.92	0.09
	Credit	Corporate	4.78	0.11
	Credit	Corporate	4.41	0.22
	Credit	Bank Loan	3.03	0.08
Consumer Staples			**1.56**	**0.09**
	Arbitrage	Equity Common	1.56	0.09
	Credit	Preferred	0.00	0.00
Energy			**0.34**	**0.10**
	Equity	Equity Common	0.21	0.09
	Credit	Corporate	0.14	0.01
Financials			**9.81**	**-0.16**
	Equity	Equity Common	2.80	0.16
	Arbitrage	Equity Common	2.65	0.04
	Hedges	Exchange Traded Fund	-2.53	0.20
	Equity	Equity Common	2.49	-0.33
	Credit	Corporate	1.19	0.02
Health Care			**9.49**	**0.60**
	Arbitrage	Equity Common	3.46	-0.21
	Hedges	Exchange Traded Fund	-3.20	-0.30
	Equity	Equity Common	3.18	0.32
	Equity	Equity Common	2.50	0.17
	Equity	Equity Common	1.29	0.68
Industrials			**3.93**	**-0.07**
	Equity	Equity Common	4.04	0.08
	Hedges	Exchange Traded Fund	-2.00	-0.36
	Equity	Equity Common	1.98	0.16
	Credit	Corporate	-0.58	-0.08
	Equity	Equity Common	0.48	0.12
Information Technology			**2.41**	**0.00**
	Credit	Corporate	1.68	0.05
	Arbitrage	Equity Common	1.00	0.17
	Arbitrage	Equity Common	-0.66	-0.23
	Credit	Corporate	0.39	0.01
Materials			**3.55**	**0.13**
	Credit	Corporate	3.55	0.13
Utilities			**4.82**	**0.05**
	Credit	Corporate	4.05	0.04
	Credit	Corporate	0.77	0.01

Important Disclosures

Investments in overseas markets can pose more risks than U.S. investments, and share prices are expected to be more volatile than that of a U.S.-only fund. The Driehaus Event Driven Fund invests in foreign securities, including small and mid cap stocks, which may be subject to greater volatility than other investments. In addition, returns of this Fund will fluctuate with changes in stock market conditions, currency values, interest rates, foreign government regulations, and economic and political conditions in countries in which this Fund invests. These risks are generally greater when investing in emerging markets. These and other risk considerations are discussed in the prospectus for this Fund. At times, a significant portion of the 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. Stocks of medium-sized companies tend to be more volatile in price than those of larger companies and may have underperformed the stocks of small and large companies during some periods. In addition, investments in medium-sized companies may be more susceptible to particular economic events or competitive factors than are larger, more broadly diversified companies. Growth stocks may involve special risks and their prices may be more volatile than the overall market.

The Fund, in addition to investing in unrated and investment grade bonds, may also invest in junk bonds, which involve greater credit risk, including the risk of default. The prices of high yield bonds are more sensitive to changing economic conditions and can fall dramatically in response to negative news about the issuer or its industry, or the economy in general. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is a risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Further, the Fund may invest in derivatives for speculative purposes. Gains or losses from speculative positions in a derivative may be much greater than the derivative's original cost and potential losses may be substantial. The Fund may make short sales. Short sales expose the Fund to the risk of loss. No investment strategy, including an absolute return strategy, can ensure a profit or protect against loss. Additionally, investing in an absolute return strategy may lead to under performing results during an upward moving market. When interest rates increase, bond prices decrease and bond funds become more volatile. 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. This is a non diversified fund compared to other funds, the Fund may invest a greater percentage of assets in a particular issuer or a small number of issuers. As a consequence, the Fund may be subject to greater risks and larger losses than diversified funds.

Fund holdings are subject to change and should not be viewed as a recommendation to buy or sell any security. Dividends are not guaranteed and may fluctuate.

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. Please read the prospectus and summary prospectus carefully before investing.

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Foreside Financial Services, LLC, Distributor

FUND INFORMATION

Types of events in which the fund frequently invests include:

Corporate action: Changes to the company's strategy or capital structure as a result of mergers, acquisitions, spin-offs, lawsuits, etc.

Earnings: A trade involving an upside or downside surprise to earnings versus market expectations.

Market dislocation: Any mispricing of a security for a non-fundamental reason.

Product cycle: A key change to the company's product/service offering, or a change in customer preferences for the company's product/service.

Restructuring: A change to the company's capital structure or business prospects as a result of bankruptcy, reorganization or corporate distress.

Types of trades in which the fund frequently invests include:

Bond catalyst driven: Event-driven trades that are expressed predominately through bond positions.

Deep value: Trade that attempts to capture the mispricing of an extremely undervalued security.

Equity catalyst driven: Event-driven trades that are expressed predominately through equity positions.

Portfolio hedge: A hedge to an unwanted factor exposure, such as equity, volatility, credit or interest rate risk.

Risk arbitrage: Trades that attempt to capture a valuation discrepancy between similar securities.

DEFINITIONS OF KEY TERMS

Credit Default Swap (CDS) - A contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) goes into default. In its simplest form, a credit default swap is a bilateral contract between the buyer and seller of protection.

Delta - The ratio that compares the change in the price of a derivative to the corresponding change in the price of an underlying asset.

Derivatives Premium – Value of a derivatives contract.

Effective Duration - A duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

Portfolio Coupon - The annualized interest earned for the portfolio.

Portfolio Current Yield - The annual income (interest or dividends) divided by the current price of the security, aggregated to the portfolio level.

Portfolio Yield-to-Worst - The lowest potential yield that can be received on a bond without the issuer actually defaulting, aggregated to the portfolio level. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

Spread Duration - The sensitivity of the price of a bond to a 100 basis point change to its option-adjusted spread. As the rate of the Treasury security in the option-adjusted spread increases, the rate of the option-adjusted spread also increases.

Swap - A derivative in which two counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument.

Special Purpose Acquisition Company (SPAC) - a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring or merging with an existing company.

Leveraged Buyout (LBO) - the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) - a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.

Return on Invested Capital (ROIC) - a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Mortgage Servicing Rights (MSR) - a contractual agreement in which the right to service an existing mortgage is sold by the original mortgage lender to another party that specializes in the various functions involved with servicing mortgages.

High Yield (HY) - are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.

Investment Grade (IG) - Bonds that are believed to have a lower risk of default and receive higher ratings by the credit rating agencies.

World Government Bonds Benchmark – yields over a variety of short-, medium- and long-term time frames for a global array of government bonds.

Russell 2000 Index (RTY) – is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

Credit Default Index (CDX) – is a financial instrument composed of a set of credit securities issued by North American or emerging market companies.

Risk-Free Rate – the theoretical return attributed to an investment that provides a guaranteed return with zero risks.

Risk Premium – the investment return an asset is expected to yield in excess of the risk-free rate of return.

Par – the fact value of a bond or stock, as stated in the issuing company's corporate charter.

Drawdown – a peak-to-trough decline during a specific period for an investment, trading account, or fund.

Yield to Call – refers to the return a bondholder receives if the bond is held until the call date, which occurs sometime before it reaches maturity.

Hurdle Rate – is the minimum required rate of return or target rate that investors are expecting to receive on an investment

Free Cash Flow – is the amount by which a business's operating cash flow exceeds its working capital needs and expenditures on fixed assets

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.

Arbitrage Spread – is a difference in price between two markets or exchanges for a particular security, currency, or commodity.