

# Driehaus Micro Cap Growth Fund

## KEY FEATURES

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

## INCEPTION DATE

November 18, 2013

*The fund's predecessor limited partnership has a performance inception date of 1/1/2003.*

## FUND ASSETS UNDER MANAGEMENT

\$322.6 million

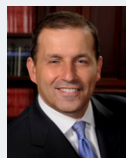
## FIRM ASSETS UNDER MANAGEMENT

\$8.8 billion

## INVESTMENT STYLE

Growth equity

## PORTFOLIO MANAGERS



**Jeff James**  
Portfolio Manager  
27 years of industry experience



**Michael Buck**  
Assistant Portfolio Manager  
18 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 micro caps and 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 Microcap index, in contrast, pulled back over 5% 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 micro and 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 micro and 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 Micro Cap Growth

Fund outperformed its benchmark. The fund returned 4.41%, net of fees, while the Russell Micro Cap Growth Index rose 0.93%.<sup>1</sup>

For the full year of 2017, the fund returned 24.30%, net of fees, while the Russell Micro Cap Growth Index rose 16.65%.

The calendar year that just ended marked a milestone being the 20th year in which I have managed the strategy and the 19th calendar year out of those 20 in which the strategy has outperformed its relevant

Russell index. By sector, for the quarter, the strategy's relative outperformance occurred across the board. In order of largest sector contribution to relative returns, it was technology, health care, consumer discretionary, industrials, consumer staples and energy. On an absolute basis, every sector contributed to the positive returns for the quarter. Consumer discretionary and then technology 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 the 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

“This equity rally has been about earnings as earnings drive stock prices.”

<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

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, technology, industrials and energy. Health care, technology, industrials and consumer discretionary are the four largest absolute weightings. The fund is underweight health care, consumer staples, materials and utilities.

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.

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**PERFORMANCE** as of 12/31/17

	Annualized Total Return						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Inception 1/1/03
<b>Driehaus Micro Cap Growth Fund<sup>1</sup></b>	<b>4.41%</b>	<b>24.30%</b>	<b>24.30%</b>	<b>13.34%</b>	<b>20.47%</b>	<b>9.78%</b>	<b>17.42%</b>
Russell Microcap <sup>®</sup> Growth Index <sup>2</sup>	0.93%	16.65%	16.65%	6.22%	13.82%	7.23%	9.81%

**ANNUAL FUND OPERATING EXPENSES<sup>3</sup>**

Management fee:	1.25%	Other expenses:	0.23%	Total annual fund operating expenses:	1.48%
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**SECTOR PERFORMANCE ATTRIBUTION** 4th Quarter — 9/30/17 to 12/31/17

	Driehaus Micro Cap Growth Fund (Port) (%)		Russell Microcap <sup>®</sup> Growth Index <sup>1</sup> (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	14.47	1.46	10.31	0.83	0.18	0.39	0.57
Consumer Staples	3.68	0.61	2.85	0.21	0.04	0.34	0.38
Energy	2.72	0.35	2.51	0.11	-0.01	0.23	0.22
Financials	7.56	0.25	8.08	0.29	-0.13	0.03	-0.10
Health Care	24.76	0.07	37.97	-0.29	0.08	0.54	0.63
Industrials	16.07	0.58	11.57	0.04	-0.02	0.54	0.52
Information Technology	24.47	0.27	19.68	-0.65	-0.21	1.12	0.91
Materials	2.22	0.25	2.22	0.21	0.00	0.04	0.04
Real Estate	0.79	0.08	2.17	0.07	-0.04	0.05	0.02
Telecom. Services	2.98	0.84	1.65	0.09	0.06	0.64	0.70
Utilities	0.00	0.00	1.01	-0.01	0.01	0.00	0.01
Cash	0.28	0.00	0.00	0.00	-0.02	0.00	-0.02
Other	0.00	-0.32	0.00	0.00	-0.32	0.00	-0.32
<b>Total</b>	<b>100.00</b>	<b>4.44</b>	<b>100.00</b>	<b>0.89</b>	<b>-0.37</b>	<b>3.92</b>	<b>3.56</b>

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](http://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](http://www.driehaus.com). Please read the prospectus carefully before investing.** <sup>1</sup>The average annual total returns of the Driehaus Micro Cap Growth Fund include the performance of one of the Fund's predecessor limited partnerships, which is calculated from January 1, 2003, before the Fund commenced operations and succeeded to the assets of its predecessors on November 18, 2013. The Fund's predecessors are the Driehaus Micro Cap Fund, L.P. (1996 inception) and the Driehaus Institutional Micro Cap Fund, L.P. (2011 inception). The performance of the Driehaus Micro Cap Fund, L.P., which was selected because it has the longer track record of the two predecessor partnerships, has been restated to reflect estimated expenses of the Fund. The predecessor limited partnerships were not registered under the Investment Company Act of 1940, as amended ("1940 Act") and thus were not subject to certain investment and operational restrictions that are imposed by the 1940 Act. If the predecessors had been registered under the 1940 Act, their performance may have been adversely affected. After-tax performance returns are not included for the Driehaus Micro Cap Fund, L.P. The predecessors were not regulated investment companies and therefore did not distribute current or accumulated earnings. <sup>2</sup>The Russell Microcap<sup>®</sup> Growth Index is constructed to provide a comprehensive and unbiased barometer of the microcap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate microcap growth manager's opportunity set. The index has an inception date of July 2000. <sup>3</sup>Represents the estimated Annual Fund Operating Expenses as disclosed in the current prospectus dated April 30, 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. "Other Expenses" are estimated for the current fiscal year. The Russell Indices are a trademark/service mark of the Frank Russell Company. Russell is a trademark of the Frank Russell<sup>®</sup> 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 Micro Cap Growth Fund (Port) (%)		Russell Microcap® Growth Index¹ (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	14.50	2.31	11.96	1.47	0.01	0.36	0.38
Consumer Staples	3.84	1.19	2.75	0.33	-0.07	0.79	0.72
Energy	2.77	-1.03	2.50	-0.75	0.06	-0.12	-0.07
Financials	6.21	0.00	6.94	0.77	-0.26	-0.24	-0.50
Health Care	29.50	10.46	37.67	7.39	-0.39	4.57	4.18
Industrials	14.27	3.10	11.08	1.18	-0.12	1.37	1.24
Information Technology	22.49	9.07	18.84	3.23	0.21	4.55	4.76
Materials	1.92	0.44	2.18	0.48	0.06	0.00	0.06
Real Estate	1.31	0.03	2.70	0.31	0.07	-0.05	0.02
Telecom. Services	2.28	1.02	2.27	1.95	-0.54	-0.45	-0.99
Utilities	0.10	-0.37	1.12	0.00	0.14	-0.26	-0.13
Cash	0.81	0.02	0.00	0.00	0.16	0.00	0.16
Unassigned	0.00	-1.44	0.01	0.00	-1.41	0.00	-1.41
<b>Total</b>	<b>100.00</b>	<b>24.79</b>	<b>100.00</b>	<b>16.37</b>	<b>-2.10</b>	<b>10.51</b>	<b>8.42</b>

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.

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**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.

TOP 5 HOLDINGS<sup>1</sup> (as of 11/30/17)

Company	Sector	Description	% of Fund
GTT Communications, Inc.	Information Technology	Provides cloud networking services to a range of clients	1.9
Five9, Inc.	Information Technology	Provider of cloud software for contact centers	1.9
SMART Global Holdings, Inc.	Information Technology	A telecommunications service provider in the Philippines	1.9
AxoGen, Inc.	Health Care	Offers surgical solutions for peripheral nerve injuries	1.8
Tactile Systems Technology, Inc.	Health Care	Medical technology company that develops and provides medical devices for the treatment of chronic diseases at home	1.8

## SECTOR WEIGHTS

## Month-End Absolute Weights

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Telecomm. Services	Utilities	Cash
Fund	16.1	4.5	3.2	9.2	24.8	15.9	19.9	2.4	0.8	3.1	0.0	0.2
Benchmark	10.7	2.9	2.6	7.6	39.3	11.4	18.6	2.4	2.1	1.6	0.9	0.0
Active Weights	5.4	1.6	0.6	1.6	-14.5	4.5	1.3	0.0	-1.3	1.6	-0.9	0.2

## PORTFOLIO CHARACTERISTICS

	Fund	Benchmark	5-year period	Fund	Benchmark
Number of Holdings	127	876	Annualized Alpha	5.57	n/a
Weighted Avg. Market Cap (M)	\$1,183	\$668	Sharpe Ratio	1.07	0.79
Median Market Cap (M)	\$918	\$231	Information Ratio	1.07	n/a
Active Share (3-year avg.) <sup>2</sup>	80.19	n/a	Beta	1.04	1.00
<b>Market Cap Breakout</b>			Standard Deviation	18.91	17.14
< \$1 billion	49.8	83.4	Tracking Error	6.20	0.00
> \$1 billion	50.2	16.6	R-squared	0.89	1.00

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

Driehaus Securities LLC, Distributor

Data as of 12/31/17. Benchmark: Russell Microcap<sup>®</sup> Growth Index

<sup>1</sup>Holdings subject to change. <sup>2</sup>Data 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 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.**

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**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.