

# Driehaus Frontier Markets Strategy

## OBJECTIVE

The strategy seeks to outperform the MSCI Frontier Markets Index over full market cycles.

## KEY FEATURES

- » Active, growth approach to an attractive inefficient investment universe
- » Benchmark-aware not benchmark-constrained investment approach—high active share
- » Bias toward domestically driven growth companies
- » Holistic investment process that incorporates macro and bottom-up analysis
- » Focus on risk management
- » Portfolio management team with several years of investment experience in frontier markets

## INCEPTION DATE

September 1, 2014

## COMPOSITE ASSETS UNDER MANAGEMENT<sup>1</sup>

\$33 million  
Total Strategy Assets: \$33 Million

## FIRM ASSETS UNDER MANAGEMENT

\$8.6 billion

## INVESTMENT UNIVERSE

Frontier markets all cap equity

## INVESTMENT STYLE

Growth equity

## AVAILABLE INVESTMENT VEHICLES:

- » Separately managed account
- » Mutual fund

## PORTFOLIO MANAGERS



**Chad Cleaver, CFA**  
Large Portfolio Manager  
16 years of industry experience



**Richard Thies**  
Portfolio Manager  
11 years of industry experience

## MARKET OVERVIEW

The second quarter was characterized by a major correction within frontier markets, with the MSCI Frontier Markets Index experiencing its worst quarterly drawdown since the global financial crisis. Overwhelmingly, this period of underperformance relative to global equities was led by two countries – Argentina and Vietnam – which carried a combined weighting of 35% of the index at the beginning of the quarter. While these two countries were leading performers within frontier equities in the second half of 2017, and corrected in tandem during 2018, we see a divergent fundamental picture between the two economies and equity markets.

We have carried a meaningful underweight to Argentina year-to-date, as we witnessed a narrowing equity market accompanied by building macro risks throughout the last year. As we noted in our year-end 2017 commentary, President Macri's "gradualist" reform agenda was initially successful in 2016-2017, but faced potential hurdles ahead, in part driven by an increasing fiscal deficit that implied a greater sense of urgency for fiscal consolidation, while simultaneously attempting to address politically sensitive areas such as pension reform and electricity subsidies.

Widening fiscal and current account deficits against a comparatively meager level of foreign exchange reserves left Argentina in a highly vulnerable position, similar to the conditions faced by the "fragile five" emerging economies during the 2013 taper tantrum. Meanwhile, pronounced currency depreciation unfolded as conditions worsened, with the peso weakening by 35% against the dollar in the first half of 2018. Argentina has undertaken orthodox economic adjustments to address the crisis, including raising interest rates by 1300 basis

points and signing a stand-by agreement with the IMF for \$50 billion.

However, in an effort to counteract inflation resulting from the currency depreciation, the government implemented price controls on fuel, which will likely reduce the incentive to develop the country's highly prospective oil and gas resources. Further, the IMF agreement will accompany a tighter fiscal stance, removing the ability of the government to support growth through avenues such as a public works initiative.

Lastly, despite a 42% collapse of the equity market during the quarter, Argentine equities do not screen as particularly cheap. At the beginning of the year, the MSCI Argentina Index traded at 20x forward price per earnings (P/E), an all-time high, and has subsequently de-rated to 10x. Considering the likelihood that earnings downgrades still loom ahead, the index remains at valuations well above past periods of stress, which have historically bottomed out at sub-5x forward P/E multiples.

We remain heavily underweight Argentina, with a core focus on banks, which we see as beneficiaries of the interest rate hikes, and weak currency beneficiaries, including an IT services provider with a strong focus on innovation and an impressive group of clients.

Vietnam experienced a market correction of 16% during the quarter, however, in our view, maintains a much stronger fundamental case than Argentina. Underpinned by foreign direct investment, trade surpluses, and remittances, Vietnam's external balances are among the best in frontier markets. Inflation remains subdued, and the growth of the manufacturing sector recently reached a seven-year high.

<sup>1</sup>Composite assets include those accounts that meet the composite objectives and eligibility requirements. Please see notes at the end of this document for descriptions of composite objectives and eligibility requirements.

After doubling over the past two years, the Ho Chi Minh Stock Index topped out in April, subsequently pulling back by 20% through the end of June. The proximate cause for this pullback was the new listing of two high profile IPOs in the retail and property sectors, which competed for liquidity with stocks that had already appreciated considerably. As investors sold shares in companies with large weightings in the benchmark, this led highly leveraged investors to generate short-term losses, starting a vicious circle of margin calls and forced selling. We entered the quarter with a slight overweight position in Vietnam and used this technically-driven selloff as an opportunity to add to our overweight.

## PERFORMANCE REVIEW

The Driehaus Frontier Markets strategy, net of fees, returned -13.61% for the quarter, compared to the MSCI Frontier Markets Index (ND) return of -15.19% for the quarter.<sup>1</sup> At the sector level, the most significant contributors to returns were utilities and energy. The financials and real estate sectors detracted the most value. At the country level, Argentina and Saudi Arabia contributed most to performance for the month, while Kuwait and Nigeria were notable detractors from performance.

## POSITIONING AND OUTLOOK

As the fundamental picture in frontier markets has evolved over the past several years, the strategy maintains its focus on stock specific fundamentals, while remaining heavily underweight some of

the large country constituents within the benchmark. As noted in recent commentaries, we no longer see as pronounced a divide between commodity producers and commodity importers as we did in 2014-2015, and our country weightings seek to take advantage of the heterogeneous nature of frontier markets as an asset class, noting that the economic cycle is in different phases across many frontier economies.

For example, following several years of robust growth conditions, we have begun to see strains in liquidity within the banking system in Bangladesh. We expect loan growth and economic activity to moderate from here, and have reduced our positions in the equity market after strong performance over the past few years. We maintain defensive positions in the consumer staples and healthcare sectors, which we do not expect to be impacted by a slight slowdown in growth, yet have reduced or exited more economically sensitive areas within the market.

Over the course of the quarter, we have increased our weighting in a number of the Middle Eastern markets, as buoyant

liquidity and rising oil prices have led to improved growth prospects in the region. Amid an environment of dwindling spare capacity for oil production, Kuwait and Saudi Arabia stand out as beneficiaries, both through a high degree of dependence on oil prices for the fiscal budgets and local economies, but also as being two of the four countries (along with Russia and the UAE) with meaningful spare capacity remaining. The banks in these countries have benefited from improved loan growth prospects and rising yields, and we have focused our positions in the financials sector throughout the region.

We continue to expect that both the macro and company-specific dispersion will create opportunities for the strategy, with the current positioning articulated above in Bangladesh, the Middle East, Argentina, and Vietnam being emblematic of this approach. We remain optimistic on the prospects for economic growth and maturation of equity markets across frontier markets, and continue to emphasize the low correlation between frontier and global equities amid the current late-cycle market backdrop.

Until next month,



**Chad Cleaver**  
Lead Portfolio Manager



**Rich Thies**  
Portfolio Manager

<sup>1</sup>The performance data represents the strategy's composite of frontier markets accounts managed by Driehaus Capital Management LLC (DCM) (the composite). These returns are estimated for the period as all underlying accounts have not yet been reconciled. All rates of return include reinvested dividends and other earnings. Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and transfer fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts. 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. The performance results for the composite are shown in comparison to an index. The index is not actively managed and does not reflect the deduction of any advisory or other fees and expenses. While the securities comprising the index are not identical to those in the composite, DCM believes this comparison may be useful in evaluating performance. Please see the notes section for other important information.

## Disclosures

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 July 17, 2018 and are subject to change at any time due to changes in market or economic conditions. The commentary has not been updated since July 17, 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.

**PERFORMANCE** as of 6/30/18

	MTH	QTR	YTD	1 Year	3 Year	Inception 9/1/14
<b>DrieHaus Frontier Markets Composite (Gross)</b>	<b>-2.02</b>	<b>-13.22</b>	<b>-7.63</b>	<b>0.99</b>	<b>4.97</b>	<b>3.05</b>
<b>DrieHaus Frontier Markets Composite (Net)</b>	<b>-2.13</b>	<b>-13.61</b>	<b>-8.49</b>	<b>-0.91</b>	<b>3.23</b>	<b>1.56</b>
MSCI Frontier Markets Index (ND)	-3.54	-15.19	-10.86	1.69	2.15	-2.43

**SECTOR PERFORMANCE ATTRIBUTION** 2nd Quarter — 3/31/18 to 6/30/18

MSCI/GICS Sector	DrieHaus Frontier Markets Strategy (Port) (%)		MSCI Frontier Markets Index (ND) <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
Consumer Discretionary	6.69	-1.05	0.50	-0.05	0.83	-0.93	-0.07
Consumer Staples	7.43	-0.58	10.19	-1.51	0.16	0.41	0.52
Energy	1.60	-0.43	6.20	-1.77	0.78	-0.15	0.61
Financials	32.96	-6.80	45.91	-7.00	0.02	-1.74	-1.87
Health Care	8.10	-0.43	2.93	-0.12	0.58	-0.13	0.42
Industrials	7.50	-0.48	4.08	-0.51	0.09	0.45	0.55
Information Tech.	3.23	0.00	1.09	0.13	0.37	-0.28	0.11
Materials	6.61	-1.03	5.12	-0.50	0.05	-0.08	-0.35
Real Estate	3.59	-0.74	7.30	-0.43	-0.40	-0.55	-0.87
Telecomm. Services	5.08	-1.23	12.88	-1.68	-0.23	-0.64	-0.78
Utilities	0.02	-0.01	3.79	-1.76	1.23	-0.01	1.19
Cash	11.38	-0.07	0.00	0.00	1.92	0.00	2.00
Unassigned*	5.82	-0.71	0.00	0.00	0.21	0.00	0.17
<b>Total</b>	<b>100.00</b>	<b>-13.56</b>	<b>100.00</b>	<b>-15.19</b>	<b>5.61</b>	<b>-3.65</b>	<b>1.63</b>

Data as of 6/30/18

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

The performance data represents the strategy's composite of frontier markets accounts managed by DrieHaus Capital Management LLC (DCM) (the composite). These returns are estimated for the period as all underlying accounts have not yet been reconciled. All rates of return include reinvested dividends and other earnings. Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and transfer fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts. 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. The performance results for the composite are shown in comparison to an index. The index is not actively managed and does not reflect the deduction of any advisory or other fees and expenses. While the securities comprising the index are not identical to those in the composite, DCM believes this comparison may be useful in evaluating performance. **Please see the notes section for other important information.**

<sup>1</sup>The Morgan Stanley Capital International Frontier Markets Index provides broad representation of the equity opportunity set while taking investability requirements into consideration within each market MSCI classifies as a frontier market. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment.

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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. Definitions of the attribution analysis can be found on page 5. \*Unassigned refers to securities that are not recognized by FactSet.

## COUNTRY PERFORMANCE ATTRIBUTION 2nd Quarter — 3/31/18 to 6/30/18

MSCI Country	Driehaus Frontier Markets Strategy (Port) (%)			MSCI Frontier Markets Index (ND) <sup>1</sup> (Bench) (%)			Attribution Analysis (%)		
	Port Avg. Weight	Port Total Return	Port Contrib To Return	Bench Avg. Weight	Bench Total Return	Bench Contrib To Return	Allocation Effect	Selection + Interaction	Total Effect
Argentina	10.78	-50.77	-6.04	18.92	-45.03	-9.98	3.72	-0.67	2.69
Bahrain	0.00	0.00	0.00	3.47	-2.28	-0.07	-0.45	0.00	-0.47
Bangladesh	9.04	-7.36	-0.63	2.77	-7.11	-0.20	0.42	0.00	0.45
Botswana	0.82	-10.09	-0.08	0.00	0.00	0.00	0.09	0.00	0.03
Brazil	0.16	-3.37	-0.01	0.00	0.00	0.00	0.00	0.00	0.00
Cambodia	2.23	-12.82	-0.35	0.00	0.00	0.00	-0.06	0.00	-0.03
Croatia	0.00	0.00	0.00	1.62	-5.15	-0.08	-0.22	0.00	-0.17
Egypt	8.25	-2.15	-0.28	0.00	0.00	0.00	1.00	0.00	1.00
Estonia	0.07	-5.85	-0.03	0.32	-4.19	-0.01	-0.06	-0.02	-0.06
Georgia	0.77	-27.45	-0.23	0.00	0.00	0.00	-0.10	0.00	-0.13
Ghana	0.50	-27.58	-0.16	0.00	0.00	0.00	-0.05	0.00	-0.09
Ivory Coast	0.00	0.00	0.00	0.17	-16.39	-0.03	-0.01	0.00	0.00
Jordan	1.98	-11.12	-0.23	1.33	-2.00	-0.04	0.04	-0.16	-0.11
Kazakhstan	0.60	-7.77	-0.07	0.69	-8.47	-0.05	0.00	0.00	-0.03
Kenya	2.21	-7.05	-0.21	5.53	-8.31	-0.44	-0.24	-0.01	-0.28
Kuwait	5.21	-1.24	-0.02	17.18	-0.75	-0.02	-1.72	-0.08	-1.83
Lebanon	0.00	0.00	0.00	2.30	-8.75	-0.20	-0.13	0.00	-0.16
Lithuania	0.00	0.00	0.00	0.24	-7.44	-0.02	-0.03	0.00	-0.02
Luxembourg	2.51	9.28	0.20	1.18	1.60	0.04	0.12	0.18	0.33
Mauritius	0.00	0.00	0.00	2.19	1.80	0.02	-0.47	0.00	-0.36
Morocco	1.51	-7.97	-0.07	8.04	-9.96	-0.79	-0.46	0.07	-0.30
Nigeria	5.49	-10.36	-0.62	7.32	-4.75	-0.40	-0.18	-0.32	-0.51
Oman	0.00	0.00	0.00	1.91	-5.20	-0.07	-0.21	0.00	-0.24
Pakistan	1.43	-26.58	-0.43	0.00	0.00	0.00	-0.19	0.00	-0.22
Romania	5.46	-8.84	-0.46	4.17	-6.57	-0.26	0.16	-0.16	-0.03
Saudi Arabia	5.35	7.78	0.41	0.00	0.00	0.00	1.15	0.00	1.21
Senegal	0.00	0.00	0.00	0.83	-2.66	-0.02	-0.14	0.00	-0.11
Slovenia	0.00	0.00	0.00	1.64	-3.55	-0.06	-0.25	0.00	-0.19
Serbia	0.00	0.00	0.00	0.22	-7.43	-0.02	-0.03	0.00	-0.02
Sri Lanka	0.81	3.47	0.03	1.22	-8.22	-0.10	-0.04	0.10	0.06
Suriname	1.08	10.17	0.08	0.00	0.00	0.00	0.22	0.00	0.23
Switzerland	0.27	-2.75	-0.03	0.00	0.00	0.00	0.06	0.00	0.05
Thailand	2.40	-25.20	-0.60	0.00	0.00	0.00	-0.13	0.00	-0.22
Togo	0.00	0.00	0.00	0.32	21.80	0.04	-0.09	0.00	-0.10
Tunisia	0.00	0.00	0.00	0.60	6.90	0.05	-0.18	0.00	-0.14
Ukraine	0.53	-4.15	-0.04	0.00	0.00	0.00	0.04	0.00	0.05
United Arab Emirates	1.41	-0.32	-0.02	0.00	0.00	0.00	0.27	0.00	0.20
United Kingdom	1.86	-10.47	-0.25	0.00	0.00	0.00	0.14	0.00	0.04
United States	0.00	-100.00	-0.02	0.40	8.11	0.04	-0.11	-0.02	-0.14
Vietnam	15.90	-18.74	-2.94	15.42	-17.22	-2.54	-0.08	-0.25	-0.34
Cash	11.38	-0.66	-0.07	0.00	0.00	0.00	1.92	0.00	2.00
Unassigned*	0.00	-0.43	-0.40	0.00	0.00	0.00	-0.40	0.00	-0.40
<b>Total</b>	<b>100.00</b>	<b>-13.56</b>	<b>-13.56</b>	<b>100.00</b>	<b>-15.19</b>	<b>-15.19</b>	<b>3.30</b>	<b>-1.34</b>	<b>1.63</b>

Sources: FactSet Research Systems Inc. and Driehaus Capital Management. Per FactSet Research Systems Inc., the Attribution Report provides an in-depth analysis of relative performance. With this report one can research whether 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.** <sup>1</sup>A definition of this index can be found on page 3. \*Unassigned refers to securities that are not recognized by FactSet. Definitions of the attribution analysis can be found below.

**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.

**Currency Effect** - The currency effect is the portion of the total effect the portfolio manager can potentially influence by using currency hedging.

**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 5/31/17)

Company		Country	% of Strategy
Airports Corporation of Vietnam	Industrials	Vietnam	3.7
Grupo Financiero Galicia SA Sponsored ADR Class B	Financials	Argentina	3.3
Guaranty Trust Bank PLC	Financials	Nigeria	2.9
National Bank of Kuwait K.S.C.	Financials	Kuwait	2.7
Samba Financial Group	Financials	Saudi Arabia	2.5

## SECTOR WEIGHTS (%)

## COUNTRY WEIGHTS (%)

	Strategy		Benchmark		Active Weights	Strategy		Benchmark			
	Strategy	Benchmark	Strategy	Benchmark		Strategy	Benchmark	Strategy	Benchmark		
Consumer Discretionary	6.3	0.7			5.6	Argentina	6.5	15.2	Nigeria	6.3	7.4
Consumer Staples	9.7	10.0			-0.3	Bahrain	0.0	3.8	Oman	0.0	1.4
Energy	0.6	5.4			-4.8	Bangladesh	7.4	2.9	Pakistan	1.3	0.0
Financials	29.7	43.9			-14.2	Botswana	0.4	0.0	Romania	5.1	4.3
Health Care	6.5	3.1			3.3	Cambodia	1.1	0.0	Saudi Arabia	4.7	0.0
Industrials	7.5	4.2			3.2	Croatia	0.0	1.7	Senegal	0.0	0.8
Information Technology	1.4	1.6			-0.2	Egypt	8.1	0.0	Slovenia	0.0	1.7
Materials	5.5	5.2			0.3	Estonia	0.0	0.3	Serbia	0.0	0.2
Real Estate	4.7	9.3			-4.6	Georgia	0.5	0.0	Sri Lanka	1.1	1.2
Telecomm. Services	3.9	12.6			-8.6	Ghana	0.5	0.0	Suriname	1.0	0.0
Utilities	0.0	0.0			0.0	Ivory Coast	0.0	0.2	Switzerland	1.1	0.0
Cash	16.3	0.0			16.3	Jordan	2.5	1.4	Thailand	1.2	0.0
Unassigned	7.9	0.0			7.9	Kazakhstan	0.7	0.8	Togo	0.0	0.4
						Kenya	1.7	5.8	Tunisia	0.0	0.8
						Kuwait	7.0	19.3	Ukraine	1.3	0.0
						Lebanon	0.0	2.1	UAE	1.4	0.0
						Lithuania	0.0	0.2	United Kingdom	1.1	0.0
						Luxembourg	1.4	1.8	Vietnam	18.4	16.3
						Mauritius	0.0	2.2	Cash	16.3	0.0
						Morocco	1.5	8.0			

PORTFOLIO CHARACTERISTICS<sup>2</sup>

	Strategy	Benchmark
Number of Holdings	63	115
Weighted Avg. Market Cap (M)	\$3,744	\$5,638
Median Market Cap (M)	\$1,574	\$1,972
Est. 3-5 Year EPS Growth	30.1%	37.9%
Active Share	75.01	n/a
Market Cap Breakout (%)		
< \$5 billion	83.5	63.8
\$5 - \$15 billion	10.0	29.8
> \$15 billion	6.5	6.4

Sources: Drieaus Capital Management LLC, Factset Research Systems, Inc., eVestment Alliance  
Data as of 6/30/18. Benchmark: MSCI Frontier Markets Index (ND)

<sup>1</sup>Holdings subject to change.

<sup>2</sup>Portfolio characteristics represent the strategy's composite.

Driehaus Capital Management LLC (DCM) is a registered investment adviser with the United States Securities and Exchange Commission (SEC). DCM provides investment advisory services using growth equity strategies to individuals, organizations, and institutions. The firm consists of all accounts managed by DCM (the Company). Prior to October 1, 2006, the firm included all accounts for which Driehaus Capital Management (USVI) LLC (DCM USVI) acted as investment adviser. On September 29, 2006, DCM USVI ceased conducting its investment advisory business and withdrew its registration as a registered investment adviser with the SEC. Effective September 30, 2006, DCM USVI retained DCM as investment adviser to these portfolios.

DCM claims compliance with the Global Investment Performance Standards (GIPS®).

**COMPOSITE OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE FRONTIER MARKETS COMPOSITE**

The Driehaus Frontier Markets Composite represents all “frontier markets accounts” actively and exclusively managed by DCM since inception of the first account in September 2014 when the composite was created.

The style seeks to maximize capital appreciation by investing primarily in equity securities of companies domiciled in frontier markets and companies not domiciled in frontier markets but that derive a substantial portion of their revenues from frontier markets. Frontier markets will be defined as those countries classified as frontier markets by the MSCI. The style will hold a diversified portfolio unconstrained as to geography, sector or market capitalization.

Once an account has met the above criteria and is fully invested, it is included in the Composite in the next full monthly reporting period. Accounts that change investment strategies are transferred between composites in the first full monthly reporting period in which the account is managed under the new style. Terminated accounts are excluded from the Composite in the first month in which they are not fully invested as of the end of the month.

**PERFORMANCE RESULTS**

Asset-weighted, net of fee and gross of fee composite returns are presented. Monthly composite returns are calculated as the sum of the monthly returns of each account weighted by the account’s beginning monthly value as compared to the Composite total. For periods prior to November 1, 2004, time-weighted account rates of return were calculated on a monthly basis and allowed for the effect of cash additions and withdrawals using the Modified-Dietz method. If a cash contribution or withdrawal exceeded 10% of an account’s value, the account was revalued and the return was calculated for the interim period. Effective November 1, 2004, account rates of return are calculated on a monthly basis by geometrically linking daily returns. Monthly composite returns are geometrically linked to determine annual composite returns.

Net of fee returns reflect the payment of advisory fees and in some instances, other fees and expenses such as administrative and transfer fees while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts.

The annualized rate of return is presented as the level annual rate which, if earned for each year in a multiple-year period, would produce the actual cumulative rate of return over that period.

For frontier markets accounts, valuations and returns are computed and stated in U.S. dollars. Since returns are stated in U.S. dollars, exchange rates were used in the conversion. The Company is not aware of any significant inconsistencies between exchange rates used in the Composite and those used in the benchmark indices. Securities transactions, which include brokerage commissions, are recorded on a trade date basis, and where information is available, income and expense items are recorded on an accrual basis. Returns are presented on a pretax basis and are net of any actual foreign taxes withheld on dividends and interest. Leverage is not a part of the Company’s investment strategy for this Composite. Securities are valued in the foreign currency in which they are denominated and then translated into U.S. dollars at the spot rate. Forward contracts are generally purchased to hedge the risk of the currency fluctuation between the trade date and the settlement date of the underlying securities transactions.

Past performance is not indicative of future results. All investments have risks and you could lose money. Other methods may produce different results and the results for individual accounts and for different periods may vary depending on market conditions and the composition of the account. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods.

Additional information regarding policies for valuing portfolios, calculating and preparing compliant composite presentations are available upon request. A complete listing and description of all composites is also available upon request. Please contact our sales, marketing and relationship management department at 312-932-8621.

**TAX EFFECT**

The rates of return presented are determined without regard to U.S. tax consequences. Income tax may be withheld on income depending on the tax laws of each country and its treaty, if any, with the U.S. Such withholding taxes are reflected in the performance of accounts.

**INDICES**

The performance results for the Composite are shown in comparison to indices. While the securities comprising the indices are not identical to those in any account in the Composite, the Company believes this may be useful in evaluating performance. Unlike the Composite, the indices are not actively managed and do not reflect the deduction of any advisory or other fees and expenses.

The Morgan Stanley Capital International Frontier Markets Index provides broad representation of the equity opportunity set while taking investability requirements into consideration within each market MSCI classifies as a frontier market. Data is in US Dollars. The net dividend (ND) index is calculated with net dividend reinvestment.

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. 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. **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/UpSide 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.

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