



# **A YEAR IN REVIEW**

**January 2009**

**Driehaus Capital Management LLC**

*Driehaus Capital Management LLC — January 28, 2009*

*25 East Erie Street, Chicago, Illinois 60611 (800) 688-8819 ext. 8621 [www.driehaus.com](http://www.driehaus.com)*





This past year proved to be a remarkably challenging environment for the global economy, the credit markets and of course for equity markets world-wide as investors experienced what was undoubtedly one of the worst performance periods in modern times. 2008 was a year of extremes and rapid changes. There were record market declines, record market volatility, massive financial failures, and the beginning of the great unwind - an ongoing deleveraging process. Many global economies went from a boom to a recession and from the highest inflation levels in 18 years to the most deflationary environment in 54 years. As 2009 begins, we at Driehaus Capital Management LLC (“Driehaus”) would like to take the opportunity to reflect on the past year and to discuss our outlook.

## FIRST HALF 2008: *The Warning Signs*

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### ENVIRONMENT

- The first half of 2008 brought negative returns for the major U.S. and non-U.S. equity indices as the market grappled with tangible signs of recession, an unprecedented surge in the cost of energy and food, falling home prices, the continuing deterioration in sub-prime mortgages, and the collapse of Bear Stearns.

### POSITION

- During this six-month period, the Driehaus Strategies (*the “Strategies”*) maintained a bias toward leading materials, energy, and industrials (“MEI”) companies, focusing on those companies with superior business models and/or strategic advantages that looked to benefit from the long-term structural constraints in the supply of energy, materials and other commodities.

### RESULTS

- These MEI investments performed well in the second quarter, helping our Strategies post performance that was either in-line or above their respective benchmarks for the first half of the year. This past year proved to be a remarkably challenging environment for the global economy, the credit markets and of course for equity markets world-wide as investors experienced what was undoubtedly one of the worst performance periods in modern times. 2008 was a year of extremes and rapid changes. There were record market declines, record market volatility, massive financial failures, and the beginning of the great unwind — an ongoing deleveraging process. Many global economies went from a boom to a recession and from the highest inflation levels in 18 years to the most deflationary environment in 54 years. As 2009 begins, we at Driehaus Capital Management LLC (“Driehaus”) would like to take the opportunity to reflect on the past year and to discuss our outlook.



## THIRD QUARTER 2008: *An Inflection Point for Growth Stocks*

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### ENVIRONMENT

- As signs of global economic weakness accelerated, nearly all commodities experienced a stunning free-fall.
- The stock prices of high-growth companies, many of which had prospects tied to global economic growth (including most MEI related companies), declined during the third quarter. During this period, the stocks of many companies with the highest expected earnings growth rates massively underperformed the overall market.
- At the same time, many stocks of companies with low expected earnings growth, or negative growth, performed the best as market leadership rotated from late cycle sectors (MEI) to early cycle sectors such as financials and consumer-related areas.

### POSITION

- During the quarter, our Strategies reduced their underperforming positions, including a lightening of MEI exposures.
- Our Strategies' exposure increased to the better performing health care and consumer discretionary sectors; however, we did not identify a sufficient number of fundamentally attractive growth companies within the relatively strong performing financials and consumer staples sectors and remained underweight those areas.

### RESULTS

- Our Strategies underperformed in this environment due to positioning (leadership rotated to lower-growth areas such as financials and consumer staples) and stock selection (stocks of high growth companies significantly underperformed).

## FOURTH QUARTER 2008: *The Market Crash*

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### ENVIRONMENT

- Following the failure of Lehman Brothers in mid-September, a "crisis of confidence" in the global financial system accelerated and the markets began to massively, and in some cases historically, underperform despite the U.S. and foreign governments' attempts to stem the global crisis.
- Diversification strategies failed investors as most asset classes, including hedge funds, long-only equities (value, growth, and core), timber, commodities, real estate, private equity, and corporate bonds all declined.
- Market volatility and volume reached record breaking levels

## POSITION

- During this environment, our Strategies maintained a significant exposure to the relatively better performing health care sector. We also opportunistically gravitated to areas of the market that were also exhibiting relative strength, including adding additional domestic-oriented exposures (consumer staples and select well-positioned financials such as regional banks and those benefiting from refinancing) that were positioned well for a deflationary and lower interest rate environment.

## RESULTS

- Although the fourth quarter brought disappointing absolute results for our Strategies, many outperformed relative to their indices in large part due to the timely application of our sell discipline and the relative strength of more defensive-oriented investments.

## *Outlook & Positioning*

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- Near-term, it is clear to us that the economic condition of the U.S. and many non-U.S. countries will remain weak. However, we continue to find companies that we expect to exceed earnings growth expectations. Since the near-term bottom on November 20th, 2008, we have seen some encouraging signs (accommodative monetary policy by the U.S. Federal Reserve, decline in crude oil prices, falling mortgage rates, etc.) that provide some counter balance to the immensely negative economic environment.
- In our Strategies, we have increased exposures to the Industrials (engineering and highway construction), Health Care (diagnostic and home health care), and Financials (companies that may benefit from lower mortgage rates) sectors.
- In addition, we are also finding attractive opportunities tied to education, an area benefiting from increased activity due to high levels of unemployment and tough economic conditions as people tend to use such periods as an opportunity to pursue advanced degrees.
- We are also selectively revisiting well-positioned companies in the Energy and Materials sectors where long term supply/demand structural imbalances remain and many stocks appear more timely following significant sell-offs since July 2008.

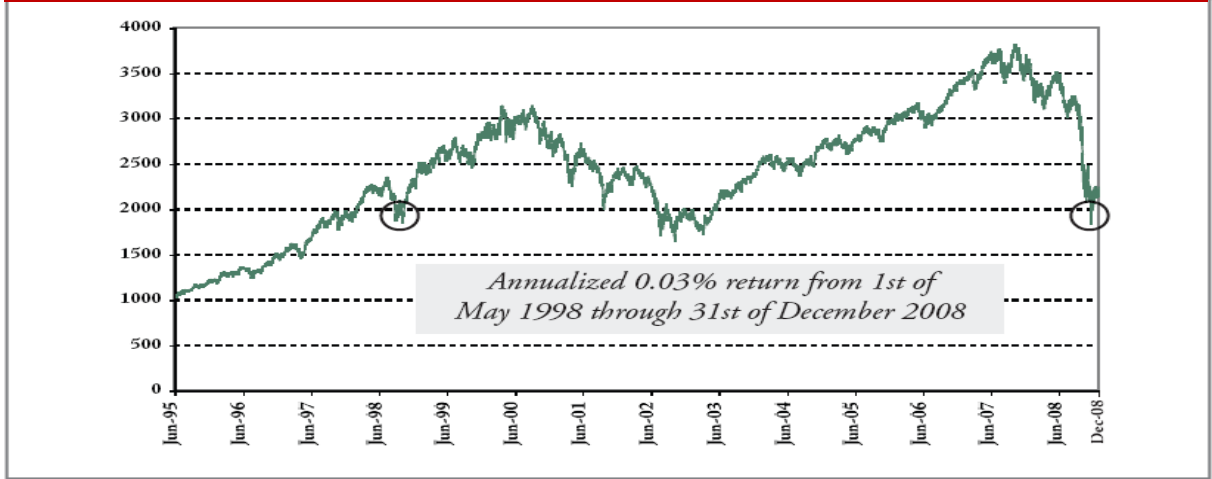
## *The Big Picture*

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Periods of underperformance are inevitable for our active, relatively concentrated, long-only investment Strategies. Despite the uncertainties investors face today, we firmly believe that our active approach to equity investing maximizes our opportunities to deliver long-term capital appreciation, and Alpha, to our investors.

As shown in the following graph, the Russell 3000 Index (a proxy for the U.S. equity market) closed 2008 at a level that it first reached in April of 1998, essentially creating a lost decade for the U.S. equity market:

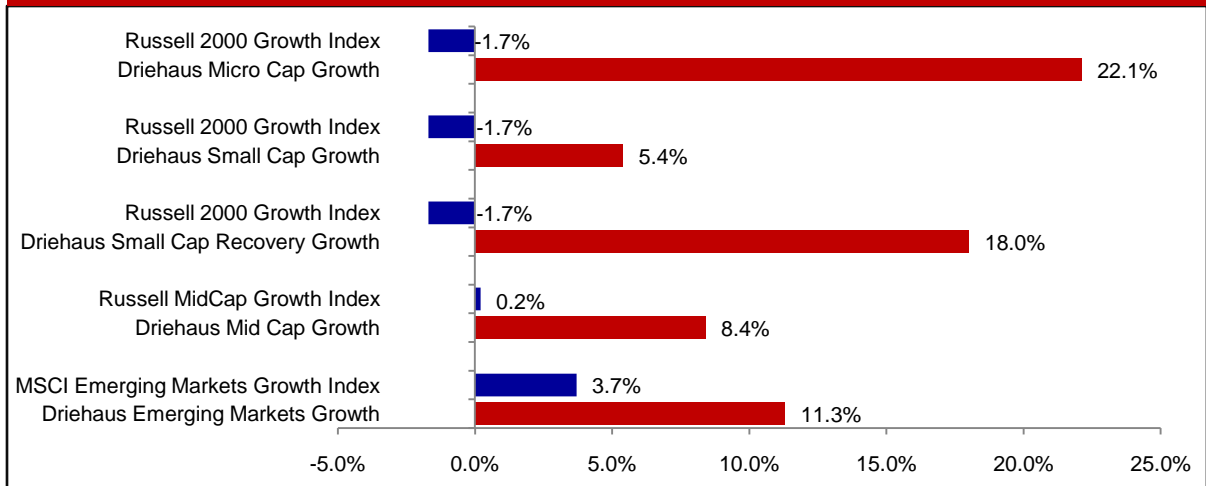
## DAILY RUSSELL 3000 INDEX WITH DIVIDENDS



Source: Russell Indices

Contrast this flat performance for U.S. equities with the net of fee and brokerage commission returns of those Driehaus Strategies in existence on May 1st, 1998, versus their primary benchmarks.

## PERFORMANCE FROM 01/05/98 THROUGH 31/12/08



Source: Driehaus Capital Management LLC, Russell Indices, Morgan Stanley Capital International

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. All rates of return include reinvested dividends and are net of fees and brokerage commissions. The Composites have not yet been verified by a third party. Please see the notes at the end of this letter for important information about market indices, investment risks and performance calculations. The Russell Microcap Growth Index's performance is not presented because the Index was not established until August 2000.

This 10 year 8 month period is just a snap shot in time, but it does illustrate that long-term investors in our Strategies were rewarded with significant capital appreciation despite a market environment that brought a flat return for the overall market and negative returns for small cap growth stocks. This long term outperformance over time has been generated despite several inevitable periods of negative relative and absolute underperformance — including our results in the second half of 2008.



We have managed money through recessions and other negative market turmoil in the past and will continue to apply our investment philosophy and process through this environment. As always, we appreciate your patience and your ongoing commitment to our relationship and the Driehaus investment approach. Please know we welcome the opportunity to speak with you directly about our specific Strategies and views on the current market.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Driehaus".

Richard H Driehaus  
*Chief Investment Officer*

A handwritten signature in black ink, appearing to read "Dan M. Rea".

Daniel M. Rea  
*Director of Research*

Sources: Driehaus Capital Management LLC, Russell Indices, Morgan Stanley Capital International and Factset

The letter is not intended to provide investment advice. Nothing herein should be construed as a solicitation or a recommendation to buy or sell securities or other investments. You should assess your own investment needs based on your individual financial circumstances and investment objectives.

The opinions expressed are those of Driehaus Capital Management LLC ("Driehaus") as of January 28, 2009, and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of any individual holdings or market sectors.

Driehaus does not guarantee the accuracy or completeness of this information. This letter was prepared on January 28, 2009 and has not been updated since then. It may not reflect recent market activity.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy.

The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by Driehaus to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. 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.

#### COMPOSITE OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE MICRO CAP GROWTH COMPOSITE

The Micro Cap Growth Composite (the "Composite") presented includes all unleveraged "micro cap growth accounts" over which Driehaus Capital Management LLC and Driehaus Securities LLC (collectively, the "Companies") exercise discretionary investment authority of both cash and equities using the same investment objective and philosophy. The Composite was created in January 1996.

An account is considered to be a micro cap growth account if it primarily invests in U.S. equity securities of growth companies with market capitalization ranges of generally followed micro cap indices at the time of purchase. However, there is no requirement to be exclusively invested in micro cap stocks and the accounts have invested, to a lesser extent, in stocks with a smaller or larger capitalization from time to time.

Once an account has met the above criteria, it is included in the Composite in the first month in which it was fully invested as of the beginning of the month. 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.





## OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE SMALL CAP COMPOSITE

The Small Cap Composite (the “Composite”) presented includes all unleveraged “small cap growth accounts” over which Driehaus Capital Management LLC and Driehaus Securities LLC (collectively, the “Companies”) exercise discretionary investment authority of both cash and equities using the same investment objective and philosophy. The Composite was created in January 1993.

An account is considered to be a small cap growth account if it primarily invests in U.S. equity securities of high growth companies within market capitalization ranges of generally followed small cap indices at the time of purchase. However, there is no requirement to be exclusively invested in small cap stocks and the accounts have invested, to a lesser extent, in stocks with a smaller or larger capitalization from time to time.

Once an account has met the above criteria, it is included in the Composite in the first month in which it was fully invested as of the beginning of the month. 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.

## COMPOSITE OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE SMALL CAP RECOVERY COMPOSITE

The Small Cap Recovery Composite (the “Composite”) presented includes all unleveraged “small cap recovery accounts” over which Driehaus Capital Management LLC and Driehaus Securities LLC (collectively, the “Companies”) exercise discretionary investment authority of both cash and equities using the same investment objective and philosophy. The Composite was created in January 1997.

An account is considered to be a small cap recovery account if it primarily invests in U.S. equity securities within the market capitalization range of generally followed small cap indices at the time of purchase. However, there is no requirement to be exclusively invested in small cap stocks and the accounts have invested, to a lesser extent, in stocks with a smaller or larger capitalization from time to time. The account invests in companies that are trading below their historical high prices and have recently demonstrated improving business prospects.

Once an account has met the above criteria, it is included in the Composite in the first month in which it was fully invested as of the beginning of the month. 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.

## COMPOSITE OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE MID CAP COMPOSITE

The Mid Cap Composite (the “Composite”) presented includes all unleveraged “mid cap growth accounts” over which Driehaus Capital Management LLC and Driehaus Securities LLC (collectively, the “Companies”) exercise discretionary investment authority of both cash and equities using the same investment objective and philosophy. The Composite was created in January 1993.

An account is currently considered to be a mid cap growth account if it primarily invests in U.S. equity securities of growth companies with market capitalizations within the market capitalization ranges of generally followed mid cap indices at the time of purchase. However, there is no requirement to be exclusively invested in mid cap stocks and the accounts have invested, to a lesser extent, in stocks with a smaller and larger capitalization from time to time, as well as in certain derivative instruments known as “SCORES.” Certain accounts invested in “SCORES,” an equity derivative representing the underlying security’s capital appreciation component, between 1988 and 1992.

Once an account has met the above criteria, it is included in the Composite in the first month in which it was fully invested as of the beginning of the month. 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.

## COMPOSITE OBJECTIVES AND ACCOUNTS ELIGIBLE FOR THE EMERGING MARKETS GROWTH COMPOSITE

The Emerging Markets Growth Composite (the “Composite”) presented includes all unleveraged “emerging markets growth accounts” over which Driehaus Capital Management LLC and Driehaus Securities LLC (collectively, the “Companies”) exercise full discretionary investment authority of both cash and equities using the same investment objective and philosophy. The Composite was created in January 1997.

An account is considered to be an emerging markets growth account if it seeks capital appreciation by investing primarily in equity securities of rapidly growing companies in emerging markets countries around the world. This strategy invest substantially all (no less than 65%) of its assets in emerging markets companies.

Once an account has met the above criteria, it is included in the Composite in the first month in which it was fully invested as of the beginning of the month. 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 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. Equal-weighted Composite returns are available upon request. For periods prior to November 1, 2004, time weighted 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, rates of return are calculated on a monthly basis by geometrically linking daily returns. Monthly or partial month returns are geometrically linked to determine annual returns.

Returns are presented on a net of fee basis. Gross of fee returns are available upon request. Net of fee returns include the account's applicable advisory fee while the gross of fee returns do not. Both are net of brokerage commissions charged to the accounts.

The cumulative asset-weighted, net of fee return for a multiple-year period is computed by compounding the annual rates of return for the years included in such multiple-year periods. 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 small cap growth and mid cap growth accounts, valuations and returns are computed and stated in U.S. dollars. After January 1, 1990, securities transactions, which include brokerage commissions, are recorded on a trade date basis and income and expense items are recorded on an accrual basis. Prior to 1990, settlement date valuation was used and interest and dividends were recorded on a cash basis. Returns are presented on a pretax basis. Leverage is not a part of the Companies' investment strategy for these Composites.

For micro cap growth and mid cap recovery growth valuations and returns are computed and stated in U.S. dollars. Securities transactions, which include brokerage commissions, are recorded on a trade date basis and income and expense items are recorded on an accrual basis. Returns are presented on a pretax basis. Leverage is not a part of the Companies' investment strategy for these Composites.

For emerging markets growth 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 Companies are 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 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 Companies' 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.

Additional information regarding policies for calculating and reporting performance and the Global Investment Performance Standards ("GIPS® standards") compliant presentation are available upon request. Other methods may produce different results and the results for individual accounts within the Composite 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.

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.

## 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.

## MARKET INDICES

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

The Russell 3000 Index tracks the performance of 3,000 of the largest US companies, based on market capitalization.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The performance data includes reinvested dividends.

\*The 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 Mid Cap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

\*The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. The performance data includes reinvested dividends.

The Morgan Stanley Capital International Emerging Markets Index (MSCI Emerging Markets Index) is a market capitalization weighted index designed to measure equity market performance in 25 global emerging markets.

\*The Morgan Stanley Capital International Emerging Markets Growth Index (MSCI Emerging Markets Growth Index) is a subset of the MSCI Emerging Markets Index and includes only the MSCI Emerging Markets Index stocks which are categorized as growth stocks.

\*benchmark

