



# DGHM Enhanced Value LP

Portfolio Managers: Bruce Geller, CFA and Douglas Chudy, CFA  
September 30, 2017  
Strategy Assets: \$55mm

DGHM's goal is to be a leading practitioner of fundamental analysis. Our long/short equity hedge fund seeks to capitalize on the intensive research performed by our experienced team of nine Sector Specialists. This diversified portfolio is constructed in a fashion to capture alpha between the longs and shorts in a framework wherein risk control—at the market, sector, capitalization, and individual security levels—is paramount.

## FUND OBJECTIVES

- Above-average risk-adjusted returns
- Preservation of capital
- Below-average volatility
- Low correlation to the broad equity markets
- Minimize risks external to stock selection
- Tax efficiency

To preserve the integrity of this product, the strategy will close at \$500 million in assets under management.

## COMPETITIVE EDGE

- Nine Sector Specialists with 28 years of experience on average
- Sector-focused fundamental analysis across the cap spectrum
- Proprietary valuation approach utilized since inception
- Superior expertise trading illiquid smallcap positions
- Vigilant risk management

## ANNUALIZED RETURNS AND STATISTICS

	EV LP (Net)	HFRX*	S&P 500*
YTD Return	3.2%	7.1%	14.2%
1-Year Return	10.0%	7.9%	18.6%
3-Year Return	4.0%	1.6%	10.8%
5-Year Return	6.7%	3.6%	14.2%
10-Year Return	3.6%	-1.0%	7.4%
Since Inception Return	5.8%	1.6%	7.4%
Alpha	—	4.9%	3.1%
Listed below benchmark			
Beta	—	0.67	0.37
Listed below benchmark			
Standard Deviation	8.1%	7.0%	14.1%
Information Ratio	—	0.62	-0.14
Listed below benchmark			
Sharpe Ratio**	0.57	0.05	0.44
Sortino Ratio**	0.87	0.06	0.62
Upside Capture	—	104%	45%
Listed below benchmark			
Downside Capture	—	56%	41%
Listed below benchmark			
R-Squared	—	34%	41%
Listed below benchmark			
% Positive Months	61%	58%	67%
Maximum Drawdown	-20.9%	-29.5%	-50.9%

DGHM Enhanced Value returns are since inception (4/2002). See the provided Explanation of Performance.

\* The HFRX Equity Long/Short and S&P 500 are registered trademarks of Hedge Fund Research Inc. and Standard & Poor's, respectively.

\*\* Sharpe and Sortino ratios are calculated using the Citigroup 3-Month T-Bill.

## MONTHLY COMMENTARY

**Enhanced Value LP (EV) increased 3.7% in September**, which was above the 1.8% return of our peer group of long/short hedge funds as measured by the HFRX Equity Hedge index (HFRX). Our performance was mixed versus the broader market with the S&P 500 up 2.1%, while the Russell 2000 increased 6.2%. **On a year-to-date (YTD) basis, EV has returned 3.2%**, which remains below the 7.1% gain of the HFRX. The S&P 500 and Russell 2000 are up 14.2% and 10.9%, respectively YTD.

Our long portfolio was up 6.7% during the month, which was above the upper-end of the aforementioned market indices. Leading positive contributors included **Preformed Line Products** (electrical components) and fashion apparel retailers **American Eagle** and **Gap Inc.** Preformed Line Products was up in anticipation that the company could be a large beneficiary of hurricane related rebuild of electrical infrastructure. Gap (led by Old Navy) reported strong earnings, while American Eagle is also proving their resilience and gaining market share in a challenging apparel/retail environment. A couple of detractors on the long side included **Brookdale Senior Living** (senior living facilities) and **Twenty-First Century Fox** (media conglomerate). Brookdale has been under pressure as rumors of a near-term takeout appear less likely, however, the company continues to explore strategic alternatives. Additionally, recent transaction activity in the senior housing space has been supportive of real estate values. Fox was down reflecting a tough month for media stocks coupled with some ongoing headline noise. We continue to hold all of these stocks and remain constructive on the longer-term fundamentals.

Our featured position this month is a "pair trade" with **BrightHouse Financial** (BHF—\$61) on the long side and **Manulife Financial** (MFC—\$20) on the short side. Both companies operate in the life insurance and variable annuity sector. BHF was spun-off from MetLife's retail annuity and life insurance operations in July. Post spin-off, the company faced some selling pressure, which has started to subside. BHF is attractively valued at just 0.5x book value, which remains well below industry peers. With a reasonably clean book following recent charges, we see potential for near-term earnings to serve as a catalyst for the stock. On the other hand, MFC is trading at 1.6x book value, which is high for the insurance industry and more than triple that of BHF. Given the large valuation gap between the two stocks and some overlap in risk exposure, we view BHF and MFC as a good pair trade opportunity.

Our short portfolio declined 3.7% during the month, which was within the inverse range of the aforementioned market indices. **Monro Inc.** (auto repair) and **Pzena Asset Management** (investment management) were a couple of detractors. We remain short both stocks given our longer-term negative views. A couple of winners on the short side included **Heska Corp** (veterinary products) and **Athenahealth** (medical software). Both stocks were down as higher multiple growth stocks in the healthcare sector pulled back during the month.

Portfolio exposures at month end are 112% long and 73% short, for a gross exposure of 185% and a net exposure of 39%. Exposure levels are relatively unchanged from last month.

As we head into the fourth quarter, portfolio characteristics remain very attractive. The valuation spread between the long and short book is compelling with the average Enterprise Value/EBITDA ratio on our longs at 9x compared to 17x for our shorts. Additionally the long portfolio benefits from superior profitability, free cash flow generation and better balance sheet characteristics. We believe this should bode well for future performance as we look to capitalize on the long/short tradeoff. We were also encouraged to see a rebound in small cap and value oriented stocks in September relative to the broader market. While one month does not make a trend, any sustained momentum in small cap value stocks should be a tailwind for the portfolio.

# DGHM Enhanced Value LP

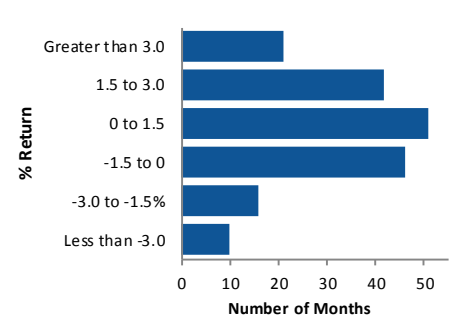
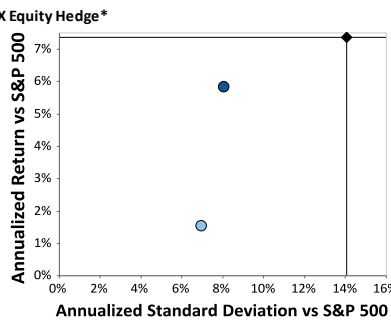
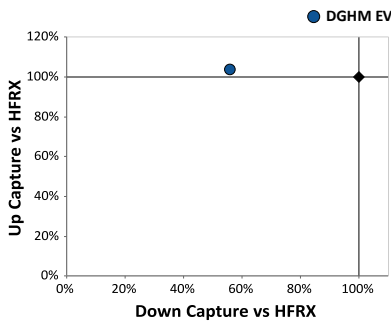
## MONTHLY RETURNS (NET OF FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-0.3%	0.2%	1.1%	-1.6%	-0.9%	0.9%	0.6%	-0.4%	3.7%	—	—	—	3.2%
2016	-1.4%	-0.3%	5.2%	3.0%	-0.4%	-1.4%	4.2%	0.8%	1.4%	0.5%	5.2%	0.8%	18.7%
2015	-2.7%	3.1%	2.4%	-0.7%	-0.2%	-0.3%	-0.6%	-2.6%	-3.6%	1.7%	-2.9%	-1.6%	-7.9%
2014	-1.0%	1.7%	0.8%	1.2%	0.4%	1.6%	-0.5%	0.3%	-0.6%	0.6%	-0.3%	-0.7%	3.6%
2013	2.5%	-1.4%	2.0%	0.1%	2.6%	0.3%	5.1%	-0.9%	1.7%	1.2%	1.4%	0.5%	16.0%
2012	2.0%	1.0%	2.1%	0.4%	-1.8%	3.5%	1.8%	1.9%	1.2%	-1.4%	1.7%	1.8%	15.0%
2011	-0.6%	-0.4%	0.0%	0.4%	-1.0%	1.6%	-0.7%	-2.7%	-5.4%	5.9%	-0.6%	0.5%	-3.4%
2010	0.4%	4.2%	4.1%	1.2%	-2.9%	-3.3%	0.6%	-7.6%	3.0%	1.7%	-1.9%	0.9%	-0.3%
2009	-3.5%	-3.4%	1.8%	3.4%	-0.9%	-0.8%	3.3%	0.2%	3.6%	-2.4%	1.1%	3.6%	5.7%
2008	-5.9%	-1.2%	-2.9%	1.6%	8.1%	0.9%	-1.4%	0.4%	-1.4%	-6.2%	-8.3%	1.1%	-15.1%
2007	-0.6%	-0.7%	1.8%	2.5%	2.0%	0.3%	0.7%	2.0%	3.3%	3.7%	-1.0%	3.0%	18.1%
2006	1.8%	5.5%	2.3%	0.4%	-2.9%	-0.2%	2.7%	-0.2%	-0.1%	1.3%	-0.3%	2.7%	13.6%
2005	-0.9%	1.7%	2.5%	-2.8%	-0.1%	1.4%	-0.2%	0.2%	2.0%	-1.3%	2.7%	1.1%	6.3%
2004	1.5%	1.5%	0.1%	-1.8%	2.1%	2.5%	1.3%	0.6%	-0.8%	-0.1%	1.5%	0.9%	9.5%
2003	-1.0%	-2.5%	-2.2%	1.6%	3.6%	0.1%	3.1%	2.9%	-1.3%	2.5%	-0.3%	2.8%	9.5%
2002	—	—	—	1.2%	2.3%	-1.4%	-3.5%	0.1%	1.1%	2.1%	1.5%	1.1%	4.5%

## UP CAPTURE/DOWN CAPTURE

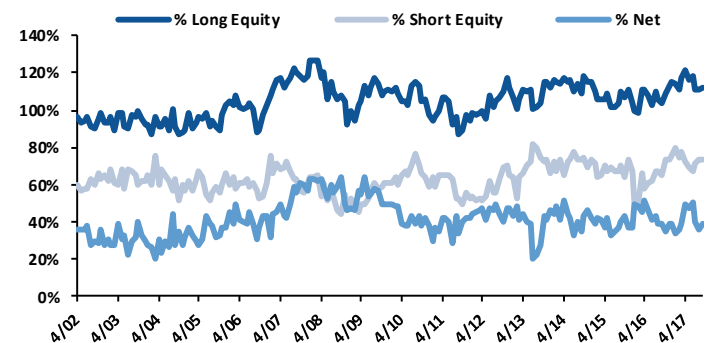
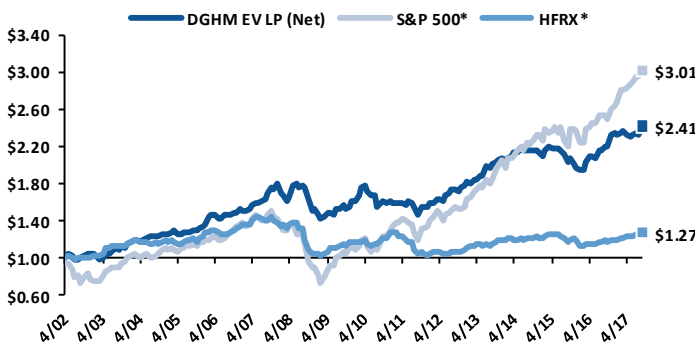
## RETURN VS. VOLATILITY

## MONTHLY RETURN DISTRIBUTION (NET)



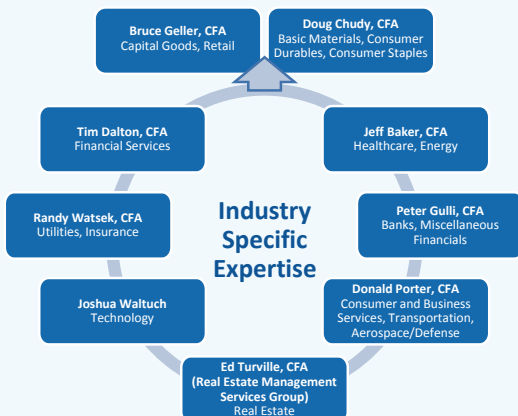
## VALUE OF A DOLLAR

## LONG/SHORT EXPOSURE



## TEAM STRUCTURE

## CONTACT INFORMATION



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NOTES: All monthly performance data herein are estimates. Annual financial statements are audited. Results may vary. Please refer to your statement for your individual returns.

- Past Performance of any DGHM Fund or investment vehicle is not indicative of future results. The performance data presented above represent the month-to-month and annual Total Return of an investment in the applicable DGHM Fund and describe results for the indicated Fund ONLY for the full period reported; results for specific capital accounts and separately managed accounts may vary due to the cash flows and timing of (a) investments made or withdrawn by the respective accounts and (b) fees paid to DGHM in accordance with applicable fee agreements between said investor(s) and DGHM.
- DGHM Monthly Reports are for informational purposes only and do not constitute an offering of securities unless accompanied by the complete Confidential Private Offering Memorandum for the DGHM Enhanced Value LP, together with the respective Limited Partnership and Subscription Agreements, Accredited Investor Questionnaire and the DGHM Form ADV, each as may be amended from time to time.
- The fund's summary of performance stated herein is internally prepared and results are unaudited.
- An investment in the fund is suitable only for qualified individuals that fully understand the risks of such a fund. An investor should review thoroughly with an advisor the fund's private offering memorandum.
- For the performance period measured herein, audit and legal fees were paid by the General Partner, DGHM Management LLC. The General Partner may or may not elect to pay these fees going forward which may adversely impact future performance of the fund.