



DGHM Enhanced Value LP

Portfolio Managers: Bruce Geller, CFA and Douglas Chudy, CFA
December 31, 2017
Strategy Assets: \$58mm

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*
1-Year Return	6.6%	10.0%	21.8%
3-Year Return	5.2%	2.4%	11.4%
5-Year Return	7.0%	3.9%	15.8%
10-Year Return	3.4%	-0.6%	8.5%
Since Inception Return	6.0%	1.7%	7.7%
Alpha <i>Listed below benchmark</i>	—	4.9%	3.1%
Beta <i>Listed below benchmark</i>	—	0.67	0.37
Standard Deviation	8.0%	6.9%	14.0%
Information Ratio <i>Listed below benchmark</i>	—	0.62	-0.16
Sharpe Ratio**	0.59	0.07	0.46
Sortino Ratio**	0.90	0.09	0.66
Upside Capture <i>Listed below benchmark</i>	—	104%	45%
Downside Capture <i>Listed below benchmark</i>	—	56%	41%
R-Squared <i>Listed below benchmark</i>	—	34%	41%
% Positive Months	62%	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) returned 1.3% in December, which was ahead of a 1.0% gain for our peer group of long/short hedge funds as measured by the HFRX Equity Hedge index ("HFRX"). Our results also compared well versus the broader market with the S&P 500 up 1.1% and Russell 2000 down 0.4% in December. For the full year period, EV returned 6.6%, which trailed the HFRX (+10.0%), S&P 500 (+21.8%) and Russell 2000 (+14.7%). We faced some headwinds as the year in general was more favorable to larger cap stocks and growth oriented names. This, combined with our lower net exposure, led to less favorable comparisons during what proved to be a strong performance period for the broader market. We are encouraged by our improved performance during the latter part of the year and feel we are well positioned as we enter 2018.

EV's long portfolio was up 1.3% during the month, which was above the upper end of the aforementioned market indices. Performance was led by **American Eagle** (apparel retailer), **Ark Restaurants** (restaurant operator) and **Fortress Transportation & Infrastructure** (transportation/equipment leasing). American Eagle was up after reporting a strong quarter with sales ahead of expectations and favorable trends accelerating into the key holiday season. Ark gave guidance for solid EBITDA growth in 2018 as several pitfalls that hurt them in 2017 are now behind them. Fortress is benefiting from improved trends in its aviation leasing franchise and nearing an inflection point in infrastructure-related assets, which should lead to better earnings and cash flow. Negative offsets on the long side included **Preformed Line Products** (electrical components) and **MetLife** (insurance). The pull back in Preformed Line Products likely reflected some profit-taking. MetLife reported a good quarter but has sold off since offering more cautious 2018 guidance. We remain optimistic on MetLife due to an attractive valuation and the likelihood of improved ROE as interest rates rise. We continue to own all of these stocks.

Our featured position this month is **CBS Corporation** (CBS—\$59), a global media company. The media landscape is rapidly changing as viewers shift from watching linear TV to consuming content on over-the-top (OTT) direct platforms, including web and mobile. This new paradigm will create winners and losers, and we believe that CBS is poised to not only defend its turf, but thrive in this new world. CBS is the owner and operator of the leading broadcast network in the US as well as the owner of Showtime, a premium cable network. CBS's hidden asset is that they create over 80% of their content. CBS stands to benefit from monetizing this content internationally, growing its retransmission fees from cable distributors and going direct to the consumer via CBS All Access and Showtime direct, which all come in at higher margins. CBS generates strong free cash flow that it returns to shareholders in the form of buybacks and dividends and is led by a strong and capable management team.

Our short portfolio returned 0.4%, which was at the high end of the inverse range of the aforementioned market indices. A couple of detractors during the month included automotive-related stocks **Cars.com** (auto website) and **Monro Inc.** (auto repair/tire retailer). We have covered Cars.com but maintain our short position in Monro. Our short thesis on Monro reflects our view that weak organic trends and increased competition do not support the current lofty valuation levels. A couple of positive contributors on the short side included **Greenlight Capital Re** (reinsurance) and **PDF Solutions** (semicap/software). Greenlight Capital has been under pressure due to weak results reflecting higher corporate expenses and poor underwriting. We see further downside potential for the stock, noting a weak pricing environment for reinsurance, a poor operating history and a rapid increase in underwriting. PDF Solutions was down during the month with the stock pulling back from a temporary spike last month related to news that the company would be included in the S&P SmallCap 600 Index. We maintain our negative view on PDF Solutions.

Portfolio exposures at year end are 115% long and 74% short, for a gross exposure of 188% and a net exposure of 41%. Our long, short, gross and net exposure levels are up from last month.

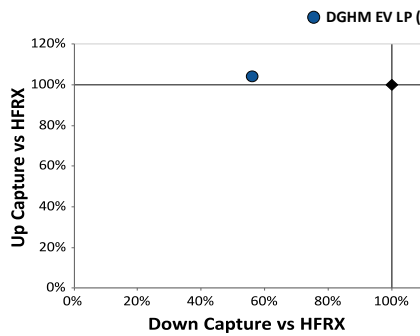
Thank you to our investors and interested parties for your continued support and confidence in DGHM. We wish everyone a happy, healthy and successful 2018!

DGHM Enhanced Value LP

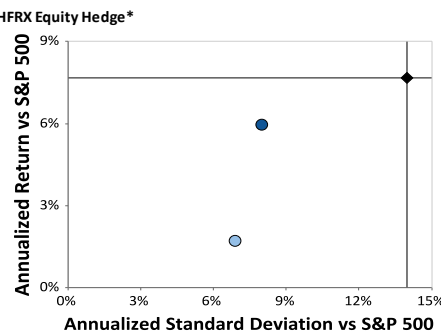
MONTHLY RETURNS (NET OF FEES)

	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%	0.9%	1.1%	1.3%	6.6%
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%

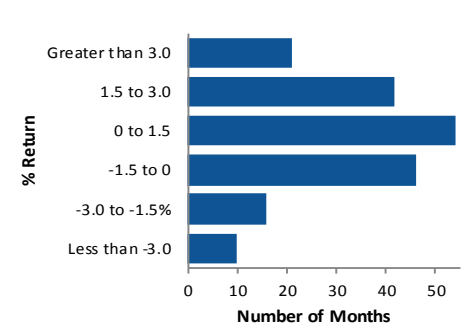
UP CAPTURE/DOWN CAPTURE



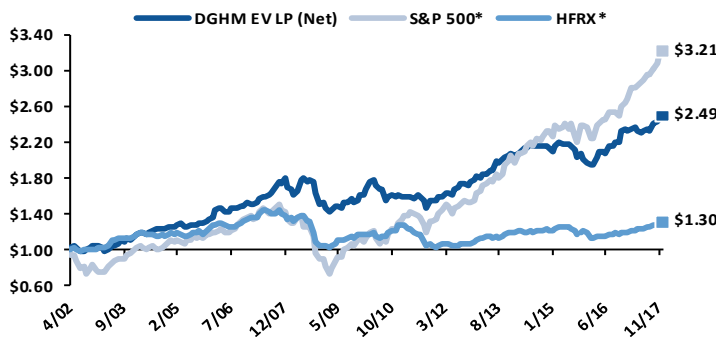
RETURN VS. VOLATILITY



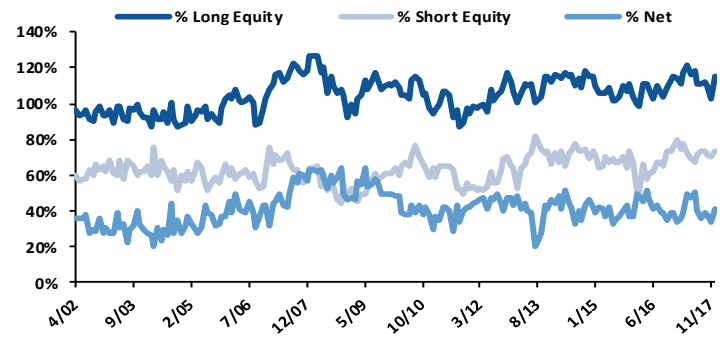
MONTHLY RETURN DISTRIBUTION (NET)



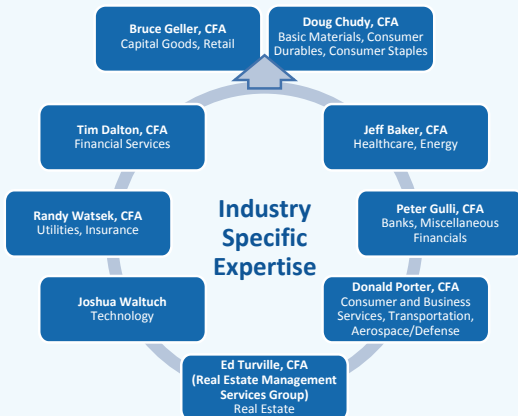
VALUE OF A DOLLAR



LONG/SHORT EXPOSURE



TEAM STRUCTURE



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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.