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Morgan Dempsey Expands Ownership, Markets Strong Returns

Morgan Dempsey Capital Management has expanded its ownership team as it looks to build out its institutional client base.

As part of the ownership change, Brian Rafn, portfolio manager for the firm's small/micro-cap value equity portfolio, and David Durham, director of sales and marketing, have been named principals of the company along with Marc Dion, the firm's dividend income portfolio manager.

Tom Dempsey, founder of the firm, will remain on full-time as a managing director focusing on client service and helping the business partners grow the firm.

"Our goal when we purchased this business was to fortify our institutional capabilities and provide Brian and Marc with the support they need to best execute their unique investment strategies. We are putting a lot of effort into promoting our Small/Micro-Cap Strategy which we feel is extremely well suited for institutional investors," Durham said.

"We have probably one of the most distinctive styles," Durham said, pointing out the six to seven year average holding period in the portfolio, including some companies that have been in the portfolio more than a decade.

The long-term outlook has worked out well for the firm, as it is in the top decile among small-cap value managers over the past three and five years, returning 5.77% and 10.54%, respectively, compared to -8.22% and -0.01% for the Russell 2000 Value Index over the same time periods. Since inception in October 2002, the strategy has outperformed the index by 6.97 percentage points on an annualized basis.

The firm has spent the last two years entering its data into public databases and focusing on foundations and endowments, family offices and emerging manager platforms.

"We've come a long way," Durham said. "We've been put on an approved list or two and we are waiting to be funded. We are in the old Catch-22 of you are going to get the assets when the assets are there."

The firm currently has approximately \$21 million in the small-cap portfolio and expects to make a soft close at around \$300 million. Overall, the firm has approximately \$172 million in assets under management.

Rafn said Durham and marketer Maury McCoy have moved the firm from more of a high-net-worth shop on a local basis to an insti-

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*Director of Marketing & Sales
Morgan Dempsey Capital Management*

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tutional firm with national and international exposure. "We have always had top decile research...we really did not have the commensurate marketing with guys scouting out for searches," he said.

The firm uses a pure accounting type analysis that is based on a large archive of annual reports.

"We have this long duration holding period, but we also have a long duration historic forensic accounting system," Rafn said, pointing out that the EDGAR system goes back to 1994 but the firm has information going back 15 years beyond that. "We will go back and model earnings growth, margin structure, debt levels, chairman's letters" that talk about acquisitions in 1983," he said when explaining how the archives are put to use. "That is a process of minutia that other managers talk about but that we do."

Morgan Dempsey typically looks for companies that have a founder/owner operator or companies dominated by a family group, with nearly 70% of the portfolio's capitalization dominated by multi-generational companies.

"In a recession, these are the companies that have continued to hire or have kept their headcounts," Rafn explained, noting that in these companies the ratio of the president's salary to the janitor is more likely to be 7:1 than 800:1 like is often found in other companies.

The firm's investment analysis also includes three "margin of safety" factors-fortress balance sheets, emerging catalyst and discount to intrinsic value-and 12 other factors that isolate potential portfolio candidates to be analyzed further.

"We try to keep about two-thirds of the ideas in the portfolio with some catalyst in the 12-18 months," Rafn said.