## Performance Comparison[1]

| Periods Ended 3/31/17 (%) | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | S. I.[1] |
|---|---|---|---|---|---|---|
| DCM Small Cap Value (gross) | 0.51 | 0.51 | 25.09 | 10.20 | 14.47 | 12.80 |
| DCM Small Cap Value (net) | 0.30 | 0.30 | 23.84 | 9.05 | 13.26 | 11.61 |
| Russell 2000 Value | -0.13 | -0.13 | 29.37 | 7.62 | 12.54 | 9.73 |

*Periods greater than 1 year are annualized*
*[1]DCM inception was June 30, 2008*

## Performance Summary

The DCM Small Cap Value Strategy, returned 0.29% (net of fees) compared with -0.13% for the Russell 2000 Value Index for the quarter ended March 31, 2017.

Macro factors exhibited several cross currents this quarter that ultimately netted out to an overall negative effect on the portfolio. In a reversal from last quarter, small cap growth stocks handily outperformed small cap value stocks to the tune of nearly 5.5%. This was the dominant factor that hindered performance in the quarter from a macro factor perspective. The portfolio's greater exposure to stocks with low valuations created a performance headwind this quarter; nevertheless, the portfolio overcame this drag while still outperforming its benchmark through superior stock selection.

## Sector Drivers

| GICS Sectors | Average Weight | | | Stock Level Returns | | Portfolio Impact | |
|---|---|---|---|---|---|---|---|
| | Port | Bench | Active | Port | Bench | Contribution | Attribution |
| Financials | 21.3% | 32.4% | -11.1% | 1.4% | -2.3% | 26 bps | 95 bps |
| Consumer Discretionary | 13.3% | 9.6% | 3.6% | 4.2% | -0.5% | 58 bps | 61 bps |
| Energy | 3.1% | 5.7% | -2.6% | -6.3% | -9.8% | -20 bps | 38 bps |
| Real Estate | 6.2% | 10.0% | -3.8% | 2.4% | -0.8% | 12 bps | 24 bps |
| Consumer Staples | 7.3% | 2.8% | 4.6% | -1.3% | -2.8% | 10 bps | 22 bps |
| Utilities | 8.4% | 6.1% | 2.3% | 5.0% | 5.1% | 45 bps | 17 bps |
| Telecommunication Services | 0.5% | 0.7% | -0.1% | -1.1% | -9.2% | -1 bps | 7 bps |
| Information Technology | 10.8% | 10.6% | 0.3% | 1.3% | 6.2% | 25 bps | -45 bps |
| Health Care | 8.8% | 4.5% | 4.3% | -0.7% | 9.4% | -10 bps | -46 bps |
| Materials | 4.3% | 4.8% | -0.5% | -9.4% | 2.0% | -45 bps | -53 bps |
| Industrials | 13.2% | 12.8% | 0.3% | -3.5% | 0.6% | -49 bps | -54 bps |

*(see disclosures)*

The best performing sector relative to the benchmark was Financials. The portfolio benefited from strong stock selection as well as its underweight positioning in the sector, particularly in the banking industry. As we mentioned last quarter, we were constructive on small cap banks prior to the presidential election with the portfolio's bank weighting topping out around 17% of the portfolio at one point late last year. However, with the 30% move in small cap bank stock prices after the election, we felt the risk/reward had flipped to being skewed negatively. The 16.6% underweight positioning in banks & thrifts (Dean Small Cap Strategy = 7.5% vs Russell 2000 Value = 24.1%) is the most outsized positioning relative to the benchmark in the portfolio.

Given the extent of the underweight, we wanted to explain why we are comfortable with this outsized positioning. The consensus view is extremely positive on small cap banks with the thought that banks should benefit from: 1) rising interest rates leading to improving net interest margins, 2) lower taxes increasing bottom line earnings, and 3) deregulation lowering costs. We agree these are all potential benefits; however, we differ from the consensus view in that we believe the degree of magnitude for each of these potential benefits matters relative to the price move in the stocks. In other words, there is a point where the market has priced-in most of the benefits.

We believe that net interest margins will expand less than the current consensus implies because as the Fed raises short term interest rates, the yield curve has historically flattened (this is happening currently), which coupled with deposit competition, has muted the effect on incremental net interest margins for small cap banks. In addition, over a full business cycle, credit quality on loans is a much larger swing factor for a small cap bank's normalized earnings power compared to net interest margins. Credit quality for the industry is as good as it was before the recent financial crisis; leaving very little room for improvement, yet plenty of room for deterioration. Finally, in our view, valuations fully reflect most of the potential positive developments that could occur for small cap banks. The private market seems to agree with us as recent acquisitions of small cap banks have come at extremely low premiums to the prevailing public stock market prices.

The second best performing sector relative to the benchmark for the quarter was Consumer Discretionary. Solid stock selection led to the outperformance versus the benchmark, while an overweight positioning in the sector detracted from relative performance. Portfolio holdings bucked the negative consumer discretionary trend in the Specialty Retail, Leisure Products, and Textiles and Apparel industries, which resulted in the portfolio's strong stock selection in this sector.

The worst performing sector relative to the benchmark for the quarter was Industrials. Most of the underperformance was due to poor stock selection. One large portfolio holding reported disappointing quarterly earnings resulting in a significant drop in its stock price. Another holding that has a somewhat counter-cyclical business model was out of step with the more cyclically oriented companies that performed well in the sector. This led to slow, consistent underperformance for the stock throughout most of the quarter.

The second worst performing sector relative to the benchmark for the quarter was Materials. Similar to the Industrials sector, the bulk of the underperformance in the Materials sector was a result of inferior stock selection. Two sizeable portfolio holdings that are considered fairly defensive stocks within the materials sector drove most of the underperformance. Similar to what we saw in some of the portfolio's Industrial holdings, the defensive nature of these stocks led to slow underperformance throughout most of the quarter.

## Top 10 Contributors/Detractors

| | Top 10 Contributors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | MURPHY USA INC | 2.72 | 49 bps |
| 2 | DIEBOLD NIXDORF INC | 1.45 | 36 bps |
| 3 | ICU MEDICAL INC | 1.23 | 24 bps |
| 4 | THE CHILDREN'S PLACE INC | 0.66 | 23 bps |
| 5 | LIFEPOINT HEALTH INC | 1.64 | 23 bps |
| 6 | SANDERSON FARMS INC | 1.81 | 23 bps |
| 7 | INTERDIGITAL INC | 1.04 | 20 bps |
| 8 | NATIONAL STORAGE AFFILIATES | 2.28 | 20 bps |
| 9 | EL PASO ELECTRIC CO | 2.04 | 19 bps |
| 10 | APOLLO COMMERCIAL REAL ESTATE | 1.10 | 17 bps |

| | Top 10 Detractors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | CONVERGYS CORP | 2.49 | -35 bps |
| 2 | MERIDIAN BIOSCIENCE INC | 1.85 | -32 bps |
| 3 | KNOLL INC | 2.10 | -28 bps |
| 4 | COMPASS MINERALS INTERNATIONAL | 1.80 | -25 bps |
| 5 | SCHWEITZER-MAUDUIT INTL INC | 2.50 | -20 bps |
| 6 | CATO CORP-CLASS A | 1.10 | -17 bps |
| 7 | MAGELLAN HEALTH INC | 1.65 | -17 bps |
| 8 | ORCHIDS PAPER PRODUCTS CO | 0.34 | -17 bps |
| 9 | DILLARDS INC-CL A | 0.68 | -15 bps |
| 10 | DRIL-QUIP INC | 1.56 | -15 bps |

## Selected Contributor(s) to Performance

The largest contributing company in the quarter was Murphy USA (MUSA). MUSA operates a chain of gas stations where it sells mostly gasoline as well as certain convenience merchandise. Most of its stores are in close proximity to a Wal-Mart store, which helps drive traffic. MUSA's stock price has been volatile recently as a result of uncertainty surrounding renewable energy tax credits and whether refiners or retail marketers will benefit or be disadvantaged by possible changes to the law. As the political pendulum swung in favor of a more status quo stance, MUSA's stock rallied. We feel MUSA's stock is still an attractive risk/reward, and it continues to be one of our largest positions.

The second largest contributing stock in the quarter was Diebold (DBD). DBD provides automatic teller machines (ATM) and point of sale (POS) services. DBD completed a very large acquisition of a competitor last year where the acquisition had various moving parts including disposition of certain assets. The market was skeptical of the acquisition, which was depressing DBD's stock price and provided us with an opportunity to purchase the stock. When DBD reported its earnings for the quarter, the integration progress on the acquisition and expected combined earnings power of the company surprised the market on the upside leading to appreciation in the stock price. We reduced the weight in the portfolio on the price strength, but continue to hold a small position in DBD.

## Selected Detractor(s) from Performance

The largest detracting stock in the quarter was Convergys (CVG). CVG provides customer relationship management services via call center agents that handle customer service interactions such as account service, billing inquiries, and technical support. For the second quarter in a row, CVG reported earnings that disappointed analysts. Similar to last quarter, revenues came in below expectations while this year's earnings growth rate was also lowered due to continuing volatility in the communications industry. We purchased shares on the price weakness that followed the earnings report in order to maintain the portfolio weight. CVG continues to be a large holding.

The second largest detracting stock in the quarter was Meridian Bioscience (VIVO). VIVO manufactures diagnostic test kits for certain gastrointestinal, viral, respiratory, and parasitic infectious diseases. VIVO announced quarterly earnings that badly missed expectations due to weak results in its core U.S. diagnostic business. It also lowered forward guidance and cut its dividend by ~38%. This trifecta of news led to a ~20% decline in the stock price. We feel VIVO is currently taking the right steps to regain its normalized earnings power (new management in struggling businesses, new distribution agreements, cost cutting, etc.) and if successful, it will restore its dividend to prior levels in keeping with its target dividend payout ratio of between 75-85% of earnings per share. We continue to hold a position in VIVO.

## Current Positioning

Our largest overweight sectors relative to the benchmark are in the Consumer Staples and Health Care sectors. Our largest underweight sectors relative to the benchmark are in the Financials and Energy sectors. As always, these relative weights are a residual of our bottom up opportunities and not based on a top down macro call on the market or economy.

Similar to last quarter, we continued to move the portfolio into sectors considered to be more defensive in nature. From a bottom up, stock by stock perspective, we feel the positive perception of the market has continued to possibly disconnect with the economic reality of many companies post the presidential election. The risk/reward for many cyclical companies appears to be skewing negatively when viewed through our full cycle earnings normalization process as the market appears to be in the stages of capitalizing higher than normal earnings power in numerous instances.

To illustrate the portfolio's activity: in the fourth quarter of last year, we reduced ~12% of the portfolio from all of the sectors Dean considers cyclical: Consumer Discretionary, Energy, Financials, Industrials, Materials and Technology. This left the portfolio with a combined ~73% weight in these sectors versus ~76% for the benchmark at year end. In the first quarter of this year, we reduced an additional ~16% from these cyclical sectors leaving the portfolio with a combined ~57% weight in cyclical sectors versus ~76% for the benchmark at quarter end.

The portfolio weight that was reduced from cyclical sectors continued to be redeployed into all of the sectors Dean considers more defensive: Consumer Staples, Health Care, REIT's, Telecommunication Services, Utilities, plus Cash. After increasing the combined weight in these five sectors plus cash by ~16% in the quarter, the portfolio now has ~43% in defensive sectors versus ~24% for the benchmark as of quarter end.

Put another way, the Dean Small Cap Value Strategy is currently positioned reasonably close to equal in terms of "offense" versus "defense," which compares to the Russell 2000 Value that is skewed heavily towards "offense." Analyzing the market on a stock by stock basis, we feel the market is generally overpaying for economic potential, while underpaying for predictability and consistency. A little over a year ago, our view was nearly the opposite.

In today's fast moving stock market that is driven by index funds, ETF's, robo-advisors, and factor based investing, relative risk/rewards can change quickly and often inexplicably as computers are increasingly driving the stock market direction. Our process, judgment, and willingness to act allow us to take advantage of these volatile shifts that occur underneath the surface of the stock market. In doing so, we have continued to produce consistent results over full cycles for the Dean Small Cap Value Strategy.

We remain focused on the fundamentals of the companies we own, and the price we are paying for those fundamentals. We are confident that a steadfast application of our proven and disciplined process should produce favorable results over time.

## Disclosures

*Dean Capital Management, LLC (DCM) is an independent investment management firm owned by LLC members and entities affiliated with C.H. Dean, LLC. The firm manages a variety of equity and fixed income assets for institutional and individual investors. Dean Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS). Past performance is no guarantee of future results.*

*The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account at the time you receive this report or that securities sold have not been repurchased.*

*The Small Cap Value style uses value oriented equities, the majority of which have a market capitalization of less than $3 billion at purchase. The strategy is typically invested in 90%-100% in equity positions.*

*Future performance based on prior results should not be assumed. The Russell 2000 Index measures performance of the small-cap segment of the market and includes approximately 2000 securities based on a combination of their market cap and current index membership. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. The Russell 1000 and Russell 2000 Indexes are subsets of the Russell 3000 Index.*

*The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The stocks in the Russell 3000 Value Index are also members of either the Russell 1000 Value or the Russell 2000 Value indexes. These stock indexes assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. Russell statistics used in this presentation were obtained from Russell Investments (www.russell.com).*

*Performance represents all fully discretionary commission accounts for the respective strategy. A complete list and description of DCM's composites and additional information regarding the calculation and reporting of returns is available upon request. To obtain a GIPS compliant presentation and/or the firm's list of composite descriptions please contact us at 1.913.944.4452.*

*The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities' transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. The contributors/detractors listed do not represent all securities purchased or sold for our clients. To obtain a list showing the contribution of each holding that contributed to overall performance during the period and the calculation methodology, please call 1.913.944.4452. The detailed sector attribution table is specific to the policy portfolio for the strategy. Individual account results may vary.*

*Gross performance figures do not reflect payment of investment advisory fees, but do reflect deduction of brokerage commissions and trading expenses. Net of fee performance reflects the deduction of advisory fees, brokerage commissions, trading and other expenses. Net results reflect the deduction of a model fee equivalent to the highest applicable advisory fee. The net compounded effect of the deduction of fees over time will be affected by the amount of the fee, the time period, and investment performance. Management fee schedules are available on Form ADV Part 2A.*

*Performance presents results with all dividend and interest income reinvested and are stated in U.S. Dollar terms. Leverage is not used in any portfolio in these composites. Certain accounts owned or controlled by DCM or C.H. Dean, LLC employees are non-fee paying assets and represent the following percentage of the composites: Small Cap Value: 2008: 29.5% 2009: 29.1% 2010: 4.1% 2011: 1.9% 2012: 1.1% 2013: 0.7% 2014: 0.7% 2015: 0.5% 2016: 0.4% 2017*: 0.4%*

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## ABOUT DEAN CAPITAL MANAGEMENT, LLC

Dean Capital Management, LLC ("DCM") is an employee-owned registered investment advisor founded in March 2008. Located in Overland Park, Kansas, DCM is a long-only, fundamental U.S. Value equity manager. DCM manages portfolios across the capitalization spectrum for institutional clients, financial intermediaries and advisors.

Dean Capital Management is majority-owned by the founding principals, who also comprise the investment team. Additionally, all investment professionals maintain significant personal investments in DCM managed products, further aligning the investment team with our clients.