

## Performance Comparison<sup>1</sup>

Periods Ended 6/30/17 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I. <sup>1</sup>
DCM Equity Income (gross)	0.25	1.36	10.92	9.46	13.44	13.31
DCM Equity Income (net)	0.10	1.06	10.20	8.70	12.65	12.52
Russell 3000 Value	1.29	4.32	16.21	7.32	13.89	11.92

Periods greater than 1 year are annualized  
<sup>1</sup>DCM Equity Income inception was January 1, 2011

## Performance Summary

The DCM Equity Income composite gross total return was .25% in the second quarter of 2017, compared with the Russell 3000 Value Index up 1.29%.

High dividend yielding stocks underperformed the market once again this quarter. That was the largest broad quantitative factor impacting performance with the DCM Equity Income portfolio heavily invested in high dividend yielding stocks providing a significant drag on performance. Additionally, the all capitalization nature of the portfolio worked against relative performance as the very largest market capitalization stocks significantly outperformed both mid and small caps.

Offsetting the negative factors were the portfolio's higher than average exposure to lower debt leverage and higher growth stocks. Lower price momentum and price volatility were additional positive factors, though not enough to overcome the high dividend and all capitalization impacts on the portfolio.

## Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Energy	12.3%	11.1%	1.2%	-4.1%	-7.5%	-52 bps	30 bps
Real Estate	6.9%	5.2%	1.7%	6.1%	1.6%	38 bps	24 bps
Utilities	8.3%	6.4%	1.9%	3.5%	2.2%	28 bps	11 bps
Financials	18.5%	26.7%	-8.3%	4.9%	3.6%	91 bps	11 bps
Telecommunication Services	3.5%	3.2%	0.3%	-7.7%	-7.0%	-28 bps	-5 bps
Materials	5.2%	3.0%	2.2%	-0.7%	-0.2%	-4 bps	-7 bps
Consumer Staples	9.6%	8.2%	1.4%	0.0%	0.9%	0 bps	-8 bps
Health Care	8.5%	10.8%	-2.3%	4.2%	6.2%	35 bps	-21 bps
Industrials	9.3%	10.3%	-1.0%	1.6%	3.3%	7 bps	-21 bps
Information Technology	8.4%	9.6%	-1.3%	-3.5%	0.4%	-30 bps	-30 bps
Consumer Discretionary	6.7%	5.1%	1.6%	-8.0%	3.1%	-55 bps	-75 bps

(see disclosures)

The best sector in the DCM Equity Income portfolio was Energy. It was the worst sector in the benchmark Russell 3000 Value index and yet despite being overweight the sector, stock selection proved strong. HollyFrontier Corp (HFC), a new addition this quarter, is one of the largest independent petroleum refiners in the United States. HFC appreciated 5% since the mid-May purchase, in contrast to the sector's -7.5% second quarter return. Also, Spectra Energy Partners (SEP), Exxon Mobil (XOM), and Chevron (CVX) were down -2%, -6%, and -1.8% respectively contributing to the portfolio's positive relative performance in the energy sector. The portfolio continues to hold HFC, SEP, XOM and CVX.

Strong stock selection in Real Estate put this sector as the second best in the quarter. Hotel investment company Pebblebrook Hotel Trust (PEB) was a particularly strong performer up 11.7% versus the broad Real Estate sector up only 1.6%. Also, data center and technology facility operator Digital Realty Trust (DLR) was up over 7.0% in the second quarter. The portfolio continues to hold DLR, but exited PEB soon after quarter end due to the strong price performance and better investment opportunities elsewhere.

The biggest negative impacting sector this quarter was Consumer Discretionary. Stock selection was the driving factor with restaurant operator Brinker International (EAT) down -12.6% and fashion specialty store Cato Corp (CATO) down

-18.6% on continued negative same store sales and the fear of internet shopping on their brick and mortar operations. The portfolio continues to hold CATO.

The second worst sector for the Equity Income portfolio this quarter was Information Technology. Again stock selection was the key driver of the sector's weakness with several holdings underperforming the benchmark. Network equipment manufacturer Cisco Systems (CSCO) was down -6.6%. Semiconductor giant Intel (INTC) was down -5.8%. And finally, computer payroll accounting service provider Paychex, Inc. (PAYX) was down -2.6%. The portfolio continues to hold CSCO, INTC and PAYX.

### Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	BOEING CO	2.38	29 bps
2	INVESCO LTD	1.70	25 bps
3	T ROWE PRICE GROUP INC	2.55	24 bps
4	BLACKROCK INC	2.17	23 bps
5	JOHNSON & JOHNSON	3.29	22 bps
6	AVISTA CORP	2.12	19 bps
7	PEBBLEBROOK HOTEL TRUST	1.54	17 bps
8	AFLAC INC	2.02	15 bps
9	AMGEN INC	2.69	15 bps
10	ALTRIA GROUP INC	2.57	13 bps

	Top 10 Detractors	Average % Weight	Contribution
1	FASTENAL CO	1.86	-32 bps
2	SCHLUMBERGER LTD	1.98	-32 bps
3	CATO CORP-CLASS A	1.32	-26 bps
4	BRINKER INTERNATIONAL INC	1.65	-22 bps
5	CISCO SYSTEMS INC	3.20	-22 bps
6	ENERGY TRANSFER PARTNERS LP	1.59	-22 bps
7	VERIZON COMMUNICATIONS INC	1.99	-15 bps
8	AT&T INC	1.53	-13 bps
9	GENERAL MILLS INC	2.40	-13 bps
10	INTEL CORP	1.90	-11 bps

### Selected Contributor(s) to Performance

The largest contributing security in the portfolio this quarter was Boeing (BA). The Boeing Company is a leading manufacturer of commercial and military aircraft and weapons systems. Year to date, Boeing has been a very strong performer with a 28.0% total return. The stock was up 12.7% in the second quarter. Drivers of this performance include earnings results above Wall Street expectations, market share growth and perhaps most importantly for Equity Income investors, the company recently raised the dividend over 30%. The portfolio continues to hold BA.

The second best contributor for the DCM Equity Income portfolio was Invesco (IVZ). Investment manager Invesco beat first quarter Wall Street earnings estimates (reported in April) and raised the dividend contributing to the continued strong performance of the stock, up 15.9% in the second quarter. The company is doing a good job managing expenses and growing their PowerShares ETF business. The portfolio continues to hold IVZ.

### Selected Detractor(s) from Performance

The worst contributor in the portfolio this quarter was Schlumberger (SLB). Schlumberger is the world's leading oilfield services company. The stock was down -15.1% in the quarter due to poor reported results, the fall in energy commodity prices and related weakness in international production activity. On the bright side, the first quarter was the first time revenues have grown year over year since 2014. The international reduction in production may bode well for future commodity levels and energy services activity. The portfolio continues to hold SLB.

The second worst contributor in the second quarter was Fastenal (FAST). FAST was down -14.9% despite strong earnings and overall positive fundamental improvement. The significant negatives affecting the stock were feared impact of Amazon, com entering the industrial parts market as well as negative reported results of peer MSC Industrial Direct (MSM). The portfolio continues to hold FAST.

### **Current Positioning**

The DCM Equity Income portfolio holds significant underweight positions in Health Care, Financials with more modest below market sector weights in Information Technology, Industrials and Consumer Discretionary. On the other hand, the portfolio is somewhat overweight Energy, Materials, Real Estate, Utilities and Telecommunication Services.

High dividend stocks appear to be stronger than normal risk/rewards at this time. Investors' appetite for growth and risk has led to some very expensive securities particularly in larger capitalization stocks. Defensive areas such as Utilities, Real Estate and Telecom appear to be relatively undervalued.

Brick and mortar retail stocks have underperformed the market. While many appear to be screaming buys using traditional value metrics with high dividend yields, we have chosen to tread lightly in the space, though up to this point it would have been better to avoid it all together. We continue to analyze these opportunities on a bottom up basis, but as is typical will attempt to avoid those with the widest range of outcomes.

---

## 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 Equity Income style is a fully invested style of large, mid, and small cap stocks which ranges from 90%-100% in equity. The remainder of the portfolios are typically invested in short term U.S. Treasury Bills or other cash equivalents.*

*Future performance based on prior results should not be assumed. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. 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](http://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: Equity Income: 2011: 10.6% 2012: 12.1% 2013: 10.6% 2014: 7.0% 2015: 6.7% 2016: 4.8% 2017\*: 3.8%*

### FOR MORE INFORMATION

Patrick J. Krumm  
Founding Member/  
Director of Institutional Sales

7400 W. 130th St., Suite 350  
Overland Park, KS 66213

[pkrumm@deancapmgmt.com](mailto:pkrumm@deancapmgmt.com)  
913-944-4452  
[www.deancapmgmt.com](http://www.deancapmgmt.com)

### 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.