DEAN Capital Management

Equity Income Commentary

Third Quarter 2017

Performance Comparison[1]

Periods Ended 9/30/17 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Equity Income (gross)	5.64	7.08	14.06	12.32	13.71	13.71
DCM Equity Income (net)	5.49	6.60	13.36	11.55	12.92	12.92
Russell 3000 Value	3.27	7.72	15.53	8.79	13.20	11.99

Periods greater than 1 year are annualized
[1]DCM Equity Income inception was January 1, 2011

Performance Summary

The DCM Equity Income composite gross total return was 5.64% in the third quarter of 2017, compared with the Russell 3000 Value Index up 3.27%.

Many broad factors were headwinds in the third quarter. Higher dividend yielding securities largely underperformed lower yielding securities. Stocks that are more volatile with higher beta outperformed in the quarter. High dividends and low volatility are primary factors in the securities the portfolio tends to hold and thus were negative influencers in the quarter. The related attribute of higher growth was also working against us as higher dividend paying and more predictable businesses tend to be somewhat slower growers. Finally, momentum stocks continued to perform well, which is to say the stocks that were strong the last quarter and over the last year continued to work, generally. This also typically works against our investment strategy and style.

What did work for us stylistically then? Several factors of quality that we look for such as lower debt levels and higher profitability were positive in the quarter. The quarter's strong performance was mostly a function of beneficial security selection versus any combination of factor exposures.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Industrials	6.6%	8.8%	-2.2%	14.4%	1.5%	88 bps	92 bps
Health Care	7.7%	13.5%	-5.8%	5.9%	0.7%	47 bps	56 bps
Energy	12.8%	10.1%	2.7%	8.7%	6.9%	110 bps	32 bps
Information Technology	7.4%	8.2%	-0.8%	9.4%	5.0%	70 bps	29 bps
Financials	19.7%	26.0%	-6.2%	6.7%	4.9%	129 bps	25 bps
Materials	5.4%	2.9%	2.5%	10.7%	8.3%	57 bps	24 bps
Utilities	9.5%	6.4%	3.1%	6.2%	3.0%	50 bps	19 bps
Telecommunication Services	4.8%	2.9%	1.9%	8.0%	4.7%	36 bps	18 bps
Real Estate	7.6%	5.5%	2.1%	2.6%	0.3%	17 bps	9 bps
Consumer Discretionary	6.0%	7.1%	-1.1%	0.4%	1.8%	-1 bps	-8 bps
Consumer Staples	9.2%	8.7%	0.5%	-3.5%	-0.3%	-33 bps	-33 bps

(see disclosures)

The best sector for the Equity Income portfolio in the third quarter was Industrials. It was helpful that the portfolio was underweight this underperforming sector, but the larger contribution was from stock selection. Every portfolio Industrial holding outperformed both the sector and the benchmark. Boeing (BA) was up 20.45%, United Parcel Service (UPS) up 9.40%, Emerson Electric (EMR) up 6.12% and Fastenal (FAST) up 5.49%. We sold BA during the quarter due to the price reaching beyond our range of fair value and the dividend yield falling below other investment opportunities. The portfolio continues to hold UPS, EMR and FAST.

Health Care was the portfolio's second best sector in the third quarter. Both being underweight the underperforming sector, as well as stock selection, contributed to the sector's strength. Amgen (AMGN) led the way in the sector for the portfolio, up 8.99% with Pfizer (PFE) up 7.31%. Johnson & Johnson (JNJ) underperformed with the stock down -1.10%. The portfolio reduced the position in JNJ by more than half very early in the quarter, minimizing the impact of the stock's weakness. The portfolio continues to hold positions in AMGN and PFE, as well as the remaining position in JNJ.

The worst sector for Equity Income this quarter was Consumer Staples. The key drivers of the weakness were positions in Altria Group (MO) and General Mills (GIS). MO was down -13.94% during the quarter and is discussed further below. GIS was down -5.72% due to ongoing weakness in the cereal and yogurt categories. Changing consumer preferences, particularly in the breakfast category, are pressuring cereal sales. Also, the firm's Yoplait brand is having trouble taking share from the Greek yogurt leaders Chobani and Fage. The portfolio continues to hold both MO and GIS.

The second worst sector for the portfolio in the third quarter was Consumer Discretionary. Despite strength in the Target (TGT) holding, up 14.11%, holdings in Cato Corp (CATO) and Brinker International (EAT) performed poorly. CATO was down -24.62% before being sold midway through the quarter. CATO is discussed further below. EAT was down -15.31% during the quarter. The company's flagship Chili's chain is struggling to stand out in a challenging casual dining environment. Customer traffic has declined 6% in each of the past three quarters. Despite this, the company recently increased its quarterly dividend 12% and continues to generate cash flow far in excess of the dividend. The portfolio continues to hold EAT.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	T ROWE PRICE GROUP INC	2.88	61 bps
2	HOLLYFRONTIER CORP	1.90	57 bps
3	THE BOEING CO	1.46	52 bps
4	AVISTA CORP	2.48	50 bps
5	AGRIUM INC	1.88	34 bps
6	CHEVRON CORP	2.37	32 bps
7	TARGET CORP	2.08	28 bps
8	AMGEN INC	2.87	26 bps
9	CISCO SYSTEMS INC	3.06	26 bps
10	INTEL CORP	1.84	24 bps

	Top 10 Detractors	Average % Weight	Contribution
1	ALTRIA GROUP INC	2.31	-37 bps
2	CATO CORP-CLASS A	0.55	-28 bps
3	BRINKER INTERNATIONAL INC	1.32	-24 bps
4	GENERAL MILLS INC	2.26	-13 bps
5	NORTHWESTERN CORP	1.99	-12 bps
6	ENERGY TRANSFER PARTNERS LP	1.38	-11 bps
7	TANGER FACTORY OUTLET CENTER	1.69	-8 bps
8	OMEGA HEALTHCARE INVESTORS	2.44	-3 bps
9	BRIGHTHOUSE FINANCIAL INC	0.01	-2 bps
10	DOMINION ENERGY INC	0.98	-2 bps

Selected Contributor(s) to Performance

The largest contributing security in the portfolio this quarter was T. Rowe Price (TROW). T. Rowe Price provides investment advisory and administrative services in their line of no-load mutual funds and private accounts. TROW was up 22.98% in the third quarter due to continued strong earnings growth on top of asset and advisory fee growth. Additionally, the firm's operating expenses were down -6.6% in the third quarter. The firm has continued to have investment success with 82%, 79% and 85% of their mutual funds beating peers on a 3-, 5- and 10-year basis, respectively. The portfolio continues to hold TROW.

The second best contributor for the Equity Income portfolio was HollyFrontier (HFC). HollyFrontier Corp is one of the largest independent petroleum refiners in the United States. HFC was up 32.51% in the quarter due to continued strong earnings trends as well as benefits from refinery shut downs in the wake of hurricane Harvey. The portfolio continues to hold HFC.

Selected Detractor(s) from Performance

The worst contributor in the portfolio this quarter was Altria (MO). Having sold the international rights to many of its brands, Altria mostly operates in the U.S. tobacco industry. The firm also owns 10.5% of Anheuser-Busch InBev following that company's acquisition of SABMiller, giving it exposure to the global beer market as well. MO was down -13.94% in the third quarter principally due to the FDA's announcement of a new comprehensive plan for tobacco and nicotine regulation. The dual threats of regulation and taxation have overtaken litigation as the largest risks to the tobacco business. Despite these headwinds, tobacco manufacturing remains a lucrative business, generating healthy cash flow and dividend growth. The company increased their dividend 6.5% during the quarter. The portfolio continues to hold MO.

The second worst contributor in the third quarter was Cato Corp. Cato operates 1,371 fashion specialty stores principally in the southeastern U.S. The stock was down -24.62% due to a lengthy streak of weak financial results and rapidly declining same store sales. Management blames merchandising missteps for the precipitous fall, but it seems there may be additional forces that are magnifying these mistakes. Due to the lack of clarity on the fundamental drivers as well as the risk to the dividend, we decided to cut our losses and exited the position.

Current Positioning

The DCM Equity Income portfolio is overweight Utilities, Energy, Materials, Real Estate and Telecommunication Services compared with the benchmark Russell 3000 Value. Significant underweight sectors include Financials, Health Care and Industrials.

The portfolio sector weights are a function of bottom up security and dividend analysis rather than a top down macro call. The best risk/reward situations currently appear to reside in Utilities and Real Estate, with many individual opportunities in Energy and Materials. Within Financials, Banks seem to have relatively few equity income opportunities despite a very large weight in the benchmark.

As of quarter end, the portfolio weighted average indicated dividend yield was 3.74% with about 5-6% annual growth expected. This compares very favorably with bond yields. For example, the quarter end 10-year U.S. Treasury yield stood at 2.33% (with no future growth). Corporate Bond yields were not much better as indicated by the iShares Core U.S. Aggregate Bond ETF yield at 2.49% as of September 30.

The current portfolio management challenge is to balance participating in the ongoing strong equity markets, while providing downside protection for a potentially significant market pull back. Portfolio moves to protect capital by and large have not provided short term benefits this year. Nonetheless, the economy appears to be on relatively solid footing and somewhat higher than average valuations are balanced with earnings growth and generally strong cash flow, providing ample opportunity for long term investment.

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).

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: 3.4%*

FOR MORE INFORMATION

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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.