Performance Comparison[1]

Periods Ended 9/30/17 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Small Cap Value (gross)	2.43	2.96	16.53	11.49	15.43	12.36
DCM Small Cap Value (net)	2.22	2.31	15.50	10.36	14.24	11.18
Russell 2000 Value	5.11	5.68	20.55	12.12	13.27	9.85

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

Performance Summary

The DCM Strategy, returned 2.43% (gross of fees) compared with 5.11% for the Russell 2000 Value Index at quarter end September 30, 2017.

Macro factors were once again negative for our style of investing this quarter. Momentum and growth continued to be the strongest factors as small cap momentum stocks outperformed small cap value stocks by nearly 6% this quarter, and they have outperformed by nearly 12% year to date (we use DWAS- DWA SmallCap Momentum Portfolio as a proxy for small cap momentum stocks throughout this commentary). As we would expect, this continued to be a major headwind for the portfolio. Last quarter we wrote:

"…However, one side effect of the current positioning that is worth mentioning is that the portfolio is presently the most contrarian (or anti-momentum) it has been in over five years. As a result, if the current market trends persist, and momentum continues to rule the day, the portfolio will most likely lag the small cap market indices. On the flip side, we feel the portfolio is well positioned for an inflection point as we believe the fundamental prospects of its holdings are currently being underappreciated by the market due to the market's seemingly singular focus on rapid growth…"

The same message shown above that was from last quarter would apply to this quarter as well. Momentum's rule did continue, and the portfolio did lag the small cap indices as we expected that it would if last quarter's trends persisted. As our long-term clients know well, our style of active value investing typically does not fare well in momentum driven, narrow (where few stocks are leading) market environments. This is because we are usually selling the stocks that are "working" as they become expensive through our normalized valuation framework, while buying those stocks that are "not working" as they become bargains through our normalized valuation framework. Lagging behind in momentum driven markets is a natural byproduct of our disciplined valuation process that, at times, leads to periods of underperformance. However, over the long term, our process has historically more than made up for these periods of momentum's strength by strongly outperforming when the inflection point hits.

By way of illustration, there have been three distinct periods in the last five years where small cap momentum stocks have had very strong performance relative to the DCM Portfolio: 1. late 2012 to early 2014 2. late 2014 to mid 2015 and 3. early 2017 to the end of this quarter. The DCM portfolio underperformed the momentum stocks by ~20% in the first period, ~22% in the second period, and by ~18% so far in this third period. The DCM Portfolio's underperformance relative to momentum stocks in the first two periods was followed by periods of strong outperformance as reversion to the mean came into effect. As we wrote last quarter:

"…The reason for this is that at a certain point, the rubber band of valuation can only be stretched so far before snapping back to reality-- even for stocks with great growth prospects. In other words, eventually the growth is fully priced into the glamour stocks.…"

The linking of all these periods resulted in a top third performance within our peer group for the five-year time frame and a return that beat the benchmark Russell 2000 Value Index even though we had three very difficult periods where momentum was favored in that five-year time frame, exacerbated by the end point sensitivity of currently being mired in a difficult period. A top third and benchmark beating performance in a very difficult market environment for our style speaks to our risk controls we have in place where we attempt to limit the damage of any one mistake and where we focus on rolling five-year periods rather than one quarter at a time.

Given the ~18% underperformance of the DCM portfolio relative to momentum stocks as mentioned above, if history repeats itself, we might be closer to the end of this momentum run rather than the beginning. In fact, we are beginning to see a few signs that dynamics could potentially be shifting underneath the market's surface as valuation spreads of the most expensive stocks relative to the cheapest stocks slightly narrowed in the last month of the quarter, which would most likely benefit the portfolio at this point in the market cycle. However, this momentum cycle could potentially be exacerbated by the possibility of a tax cut being enacted, as investors delay recognizing gains until next year and accelerate recognizing losses this year in anticipation of these potentially lower tax rates next year. This has the effect of propping up stocks that have gains and depressing stocks that have losses, thus exacerbating the momentum effect potentially into year end. This dynamic creates pockets of opportunities as it gets carried to extremes beyond the actual economic impact of a tax cut. Recognizing this dynamic is also important if the tax cut does not happen or if it is in a watered-down form relative to the expectations that are currently being priced into stocks.

Given the decade long underperformance of value relative to growth (which currently has momentum), where growth indices have nearly doubled the return of value indices (depending on the indices being used), we have read quite a few articles recently about how value investing may no longer work.

From our perspective, we believe that if an investor is accurate with their valuation of a company's worth, the stock market, or the private market, will recognize it eventually. However, the key is to be correct on the valuation of a stock's worth. As we have mentioned in previous quarterly commentaries, we estimate a private market value for each stock in the portfolio. Over the past year, there have been 11 acquisitions that were either current portfolio holdings (3 companies) or were former holdings (the remaining 8 companies) where we had an updated estimate of private market value for the company. Our average margin for error on that estimate versus the actual private market value realized was ~+/- 12%. This gives us some assurance that, on average, our valuation work is within the ballpark of actual, realized private market values. We might estimate too high of a value for some companies, or too low on others, but on average across a portfolio, and over time, our framework has been reasonably accurate relative to actual private market values.

In times of underperformance or difficult market environments for our style, we often go back to the basics: are we reasonably accurate with our valuations? and do we still believe the market will eventually recognize it? We feel the answers to both of these are yes, but it never happens in a straight line or on a set schedule in terms of timing.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Consumer Staples	3.8%	2.8%	1.1%	3.7%	3.7%	16 bps	13 bps
Consumer Discretionary	11.2%	10.4%	0.9%	2.8%	2.2%	47 bps	10 bps
Materials	5.4%	4.2%	1.2%	7.8%	7.9%	37 bps	5 bps
Utilities	3.4%	7.0%	-3.6%	-1.6%	5.5%	4 bps	0 bps
Telecommunication Services	0.5%	0.6%	-0.2%	-13.6%	-15.6%	-19 bps	-5 bps
Real Estate	5.9%	11.7%	-5.8%	-2.5%	2.1%	-17 bps	-11 bps
Financials	24.7%	30.4%	-5.7%	4.3%	5.2%	94 bps	-26 bps
Industrials	19.4%	11.7%	7.7%	4.7%	8.0%	117 bps	-34 bps
Information Technology	11.5%	9.4%	2.1%	-0.1%	3.1%	11 bps	-45 bps
Energy	7.6%	6.0%	1.6%	-2.6%	6.2%	-24 bps	-70 bps
Health Care	5.5%	5.8%	-0.3%	-2.0%	13.0%	-20 bps	-85 bps

(see disclosures)

The best performing sector relative to the benchmark was Consumer Staples. The outperformance relative to the benchmark was due to the portfolio's overweight positioning in the sector as well as solid stock selection in the Personal Products industry.

The second best performing sector relative to the benchmark for the quarter was Consumer Discretionary. The outperformance relative to the benchmark resulted from the portfolio's small overweight positioning, from a portfolio holding that was acquired by a larger company during the quarter, and as a result of some of the beaten down retail stocks owned bouncing back a little in the quarter.

The worst performing sector relative to the benchmark for the quarter was Health Care. Most of the underperformance relative to the benchmark was a result of the portfolio's lack of Biotechnology stock exposure. Biotech stocks surprisingly represent ~2.3% of the benchmark Russell 2000 Value; and they were up as a group, over 25% this quarter. The DCM Portfolio, not surprisingly given the binary nature of Biotech stocks, owns 0% in the Biotechnology space.

The second worst performing sector relative to the benchmark for the quarter was Energy. The underperformance relative to the benchmark was driven by both the portfolio's overweight positioning as well as poor stock selection in the Energy Equipment & Services industry.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	SRC ENERGY INC	0.73	43 bps
2	MAGELLAN HEALTH INC	1.82	31 bps
3	SCHWEITZER-MAUDUIT INTL INC	2.34	29 bps
4	URBAN OUTFITTERS INC	1.09	29 bps
5	SIMPSON MANUFACTURING CO INC	2.05	27 bps
6	COOPER-STANDARD HOLDING	0.85	26 bps
7	MEDIFAST INC	0.59	26 bps
8	TRAVELPORT WORLDWIDE LTD	1.24	23 bps
9	HSN INC	0.05	22 bps
10	CENTERSTATE BANK CORP	2.02	21 bps

	Top 10 Detractors	Average % Weight	Contribution
1	HIBBETT SPORTS INC	1.26	-46 bps
2	C&J ENERGY SERVICES INC	1.47	-35 bps
3	DRIL-QUIP INC	2.13	-31 bps
4	LIFEPOINT HEALTH INC	1.93	-30 bps
5	CATO CORP-CLASS A	0.98	-26 bps
6	DIEBOLD NIXDORF INC	0.08	-22 bps
7	OWENS & MINOR INC	1.74	-21 bps
8	WORLD FUEL SERVICES CORP	1.79	-21 bps
9	ATN INTERNATIONAL INC	0.45	-19 bps
10	PLANTRONICS INC	0.78	-19 bps

Selected Contributor(s) to Performance

The largest contributing company in the quarter was SRC Energy (SRCI). SRCI explores and produces oil and natural gas primarily in the Wattenberg area of Northeastern Colorado. Infrastructure improvements to the Wattenberg area have helped to close the gap in Wattenberg pricing relative to other continental U.S. shale plays. SRCI has a solid balance sheet and is rapidly growing production as it scales its operation. Production numbers have come in better than expected, propelling the stock price higher. The portfolio maintains a sizeable position in SRCI.

The second largest contributing stock in the quarter was Magellan Health (MGLN). MGLN is a healthcare company that is roughly half a behavioral health services company and half a niche specialty pharmacy benefit manager. MGLN has worked on repositioning the company over the last few years to be more evenly balanced. This job is mostly done, and now it is focusing on growth going forward. It continues to execute its strategy well. After trimming some of the position on the stock price strength, the portfolio maintains a position in MGLN.

Selected Detractor(s) from Performance

For the second quarter in a row, the largest detracting stock in the quarter was Hibbett Sports (HIBB). HIBB operates a chain of sporting goods stores in small towns in the Southeast and Midwest. HIBB has been caught up in the carnage within the retail industry as fears about Amazon's impact on all facets of retail have become more pronounced recently. Being a dominant niche player in small towns, HIBB has historically produced high returns on capital while maintaining a very solid balance sheet. We have lowered our estimate of normalized earnings power for HIBB given the competitive landscape; however, we feel the market continues to compensate us for the potential wide range of outcomes. Although, admittedly, the range of outcomes is extremely wide in nearly all of the retail industry at this point in time. The portfolio maintains a position in HIBB.

The second largest detracting stock in the quarter was C&J Energy (CJ). CJ is a vertically integrated oilfield service provider. It holds the #1 market position in cased-hole wireline & pumping, #2 in coiled tubing, #2 in rig services, and #1 in fluids management. CJ entered bankruptcy in mid-2016 after rapid growth and large acquisitions coincided with plummeting oil prices. It exited bankruptcy in January this year with eliminated debt and restructured contracts that now put it in an advantageous position relative to its peers. As oil prices and oil patch activity have remained low, CJ reported disappointing earnings this quarter, and it lowered future expectations. The portfolio maintains a position in CJ.

Current Positioning

The portfolio's largest overweight sectors relative to the benchmark are in the Industrials and Information Technology sectors. The largest underweight sectors relative to the benchmark are in the Financials and Real Estate sectors. Throughout the quarter, we added the most weight to the Industrials and Information Technology sectors, while reducing the most weight in the Consumer Staples and Utilities 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.

In last quarter's commentary we included a table that illustrated how the portfolio was positioned statistically. We wrote:

"…The table above displays why we feel the DCM portfolio *is well positioned going forward. It currently has valuation metrics that are more favorable than those of the median stock in the Russell 2000 Value Index, yet potential growth that is nearly comparable to that of the median stock in the Russell 2000 Growth Index, all while having a sizeable dividend yield to potentially help cushion volatility…"*

The portfolio is in a relatively similar statistical position as it was last quarter. This quarter we wanted to comment on the qualitative side of the portfolio. When we try to find high quality stocks in which to invest, one attribute we look for is a high return on invested capital. One way for a company to maintain a high return on invested capital is to be a market share leader within its industry. For small cap companies, this usually means being a leader in a niche business, where the industry is small enough for a small company to dominate, but either too difficult to enter or too small to worry about for a large company to disrupt.

Given the current momentum driven, narrow market environment that we are witnessing in small cap stocks, many true market leaders have found their way into our valuation range. We are always looking to add market leaders to the portfolio, but true market leaders are generally small in number within the small cap space, and/or they are typically too expensive for our valuation framework. However, because of the opportunities being presented by the market's narrow focus on rapid growth, nearly half of the portfolio is currently held in companies that have leading market share in their niches.

Being a market share leader does not automatically result in success for a company or a stock. Even if a company is a market share leader, it may not create value for many different reasons. For example, it may not create value due to having leading market share in a declining industry, or by losing market share to a competitor or substitute product/service, or the industry might not be stable, leading to frequent market share shifts and bad overall industry economics, etc. From a stock perspective, even if the company does create tremendous value as a result of being a market share leader, if the price paid for the stock relative to the normalized fundamentals is too expensive when first purchased, the company's fundamental results might be great, but the investor's results might be less than satisfactory. This happens as the normalized earnings multiple compresses from too high of a level, which could offset and erase the growth from the fundamentals, eliminating the investor's gains. So, the trick is to find stocks where the quality fundamentals are not being properly reflected in the current stock price, in other words: expectations embedded in the stock price need to be lower than the expected normalized reality.

In this regard, we target companies that are trading at reasonable normalized valuations, where they are market share leaders in stable industries. These types of companies usually have high returns on capital, and they typically grow near the rate of the industry, while also having some pricing power they can add on top of the industry's growth rate. This often leads to more reliable, dependable, and thus more predictable fundamental performance. When valuing companies, we prefer reliability and dependability over guessing where near term estimate revisions might go, or focusing on companies with massive growth or a "good story," since reliability and dependability allow for a higher degree of confidence in our normalized valuations. Therefore, as a result of having many true market share leaders currently in the portfolio, we feel the portfolio is well positioned qualitatively, in addition to the good statistical positioning we demonstrated last quarter.

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 $3.5 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.

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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: 0.3%*

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.