Performance Comparison[1]

Periods Ended 12/31/17 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Small Cap Value (gross)	1.82	4.83	4.83	9.45	14.28	12.23
DCM Small Cap Value (net)	1.60	3.95	3.95	8.37	13.12	11.06
Russell 2000 Value	2.05	7.84	7.84	9.55	13.01	9.81

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

Performance Summary

The DCM Small Cap Value Strategy returned 1.82% (gross of fees) compared with 2.05% for the Russell 2000 Value Index at quarter end December 31, 2017.

Macro factors were again negative for our style of investing this quarter with growth and momentum stocks once more leading the way for the market. We have written, in detail, about the difficult macro backdrop for our style over the last three quarters. Rather than having us rehash the same material for a fourth quarter in a row, we thought we would provide some perspective on how extreme of an environment the calendar year 2017 was historically.

The following three quotes from Bloomberg articles amply sum up the macro backdrop of 2017 (underlined verbiage within the quotes is by DCM):

- "First, let's appreciate how substantial the decline in volatility has been. On pace to finish below 7 percent in 2017, **the realized volatility of the S&P 500 Index is the lowest in more than 53 years**."- 12/4/2017, *Bloomberg View, "Era of Low Volatility Will Unwind Formulaically"*

- "Investors betting on momentum, or the continuation of existing market trends, have made a killing thus far in 2017, with indexes tracking the strategy in the U.S. and Europe at or near record highs. Now, firms including Morgan Stanley and JPMorgan Chase & Co. are predicting that the trade -- akin to piling into technology stocks, this year's top stock-market performers -- could be getting stretched." … "Momentum stocks' growth this year is staggering. **The MSCI USA Momentum Index is heading for its biggest yearly gain since 1999**, while its European peer has climbed almost four times as much as last year in percentage terms." - 12/1/2017, *Bloomberg Markets, "Alarm Bells Sounding Over Gigantic Run-Up in Momentum Stocks"*

- "**The spread between the Russell growth index and its value gauge is at its widest in 17 years** after a 17 percentage point beat this year." – 11/1/2017, *Bloomberg Markets, "Growth Trouncing Value Most Since Tech Bubble Is Just the Start"*

Throw in the fact that large cap stocks beat small caps, and we had a superfecta of unfavorable macro factors for the portfolio in 2017. If we were asked to order up the worst type of environment for our dynamic active value investing style, this would be it: momentum driven, no volatility, growth centered, and skewed towards large cap. All of those factors came together in an extreme fashion this year, and some were the most extreme in 17 to 53 years.

In this type of environment, and in the short run, nearly every sell decision appears to be a bad one, and the subsequent buy decision also appears to be a bad one since the winners keep winning and the losers keep losing with little volatility to change that situation. We typically try to take advantage of volatility, as volatility and our willingness to act around it, usually sets up our future performance. However, this year as stocks reached our sell ranges and we sold, they tended to continue rising, while the stocks we purchased that had fallen to within our buy ranges tended to continue falling. In 2017, there was historically low volatility, and historically high momentum, which does not fit our active style very well at all. Instead, this type of environment favors those investors, as well as indexes, that let their winners run.

At the end of the day, however, the macro environment "is what it is", and an investor has to play the hand they were dealt. We continue to hold true to our investing process and philosophy, as well as adhere to our risk controls, while readily awaiting a potential inflection point in the macro factor backdrop.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Industrials	17.9%	12.0%	5.9%	10.6%	4.4%	180 bps	116 bps
Financials	25.9%	30.9%	-5.0%	3.0%	0.7%	68 bps	59 bps
Real Estate	5.6%	10.8%	-5.2%	0.2%	-1.2%	-2 bps	20 bps
Materials	6.0%	4.3%	1.7%	6.1%	3.7%	33 bps	15 bps
Utilities	3.9%	6.8%	-2.8%	4.9%	0.1%	10 bps	14 bps
Information Technology	13.8%	9.2%	4.7%	1.5%	-0.2%	20 bps	14 bps
Telecommunication Services	0.0%	0.5%	-0.5%	0.0%	-7.4%	0 bps	5 bps
Consumer Staples	5.1%	2.7%	2.4%	4.8%	5.9%	17 bps	-5 bps
Health Care	3.6%	6.1%	-2.5%	-4.0%	-0.2%	-24 bps	-19 bps
Consumer Discretionary	9.4%	10.5%	-1.1%	2.9%	6.9%	17 bps	-51 bps
Energy	4.4%	6.3%	-1.9%	-26.4%	6.4%	-137 bps	-177 bps

(see disclosures)

The best performing sector relative to the benchmark was Industrials. The outperformance relative to the benchmark was due to the portfolio's overweight positioning in the sector as well as solid stock selection. The media buzzword of the quarter was "synchronized global growth." Enthusiasm over global growth accelerating, coupled with excitement over the new tax cuts, led to the outperformance of the Industrials sector, and the portfolio was well positioned to benefit from this change in market psychology.

The second best performing sector relative to the benchmark for the quarter was Financials. The outperformance relative to the benchmark resulted from the portfolio's stock selection, particularly in the Capital Markets and Mortgage Real Estate Investment Trusts (REIT) industries. The portfolio held two boutique investment banks that are both benefitting from current merger and acquisition activity as well as corporate restructuring activity. The Mortgage REIT companies that the portfolio owns are involved in commercial real estate financing where the financing they provide is typically tied to short term interest rates. These companies are benefitting from the Federal Reserve continuing to raise short term interest rates as they are able to reprice their loans upward proportionate with the upward movement in short term interest rates.

The worst performing sector relative to the benchmark for the quarter was Energy. Most of the underperformance relative to the benchmark was a result of poor stock selection. The portfolio owned two services companies that are tied to deep water drilling activity, and both of those companies missed analysts' earnings estimates while also lowering 2018 earnings projections. The portfolio also had a fuel logistics company that missed earnings estimates as well.

The second worst performing sector relative to the benchmark for the quarter was Consumer Discretionary. The underperformance relative to the benchmark was driven mostly by the portfolio's underweight positioning. Many beaten down specialty retail stocks bounced from depressed levels in the quarter, and we had little exposure remaining in that industry.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	SIMPSON MANUFACTURING CO INC	1.93	46 bps
2	HOULIHAN LOKEY INC	1.71	26 bps
3	KNOLL INC	1.78	25 bps
4	NETGEAR INC	1.14	23 bps
5	WESCO INTERNATIONAL INC	1.51	22 bps
6	STEVEN MADDEN LTD	0.66	21 bps
7	SCHWEITZER-MAUDUIT INTL INC	2.07	20 bps
8	TECH DATA CORP	1.88	20 bps
9	COLUMBIA PROPERTY TRUST INC	1.38	19 bps
10	ARMSTRONG WORLD INDUSTRIES	1.06	18 bps

	Top 10 Detractors	Average % Weight	Contribution
1	OCEANEERING INTL INC	0.37	-41 bps
2	TRAVELPORT WORLDWIDE LTD	1.99	-38 bps
3	LIFEPOINT HEALTH INC	1.93	-37 bps
4	ADTRAN INC	1.00	-25 bps
5	HORIZON GLOBAL CORP	0.43	-24 bps
6	AMC NETWORKS INC-A	0.57	-23 bps
7	DRIL-QUIP INC	0.50	-22 bps
8	WORLD FUEL SERVICES CORP	1.33	-22 bps
9	SRC ENERGY INC	1.56	-20 bps
10	C&J ENERGY SERVICES INC	0.30	-16 bps

Selected Contributor(s) to Performance

The largest contributing company in the quarter was Simpson Manufacturing (SSD). SSD designs, engineers, and manufactures wood and concrete construction products. Under the Simpson Strong-Tie brand its products include connectors, truss plates, fastening systems, fasteners and pre-fabricated shearwalls amongst others. In October, SSD announced its eagerly awaited 2020 operating plan. This plan focused on SSD's core businesses and included various financial goals. The plan was well received by the market, and the stock price rallied sharply. We reduced the portfolio's weight on the price strength, but maintain a position in SSD.

The second largest contributing stock in the quarter was Houlihan Lokey (HLI). HLI is a boutique investment bank with expertise in mergers and acquisitions, capital markets, and strategic consulting. It operates in three segments: Corporate Finance, Financial Restructuring, and Financial Advisory Services. HLI reported another solid quarter relative to analysts' expectations driven by a strong quarter in Corporate Finance. The stock has been reacting favorably to the company's positive fundamentals. We reduced the portfolio's weight on the price strength, but maintain a position in HLI.

Selected Detractor(s) from Performance

The largest detracting stock in the quarter was Oceaneering International (OII). OII provides engineered services and products to the offshore oil and gas industry, with a focus on deepwater applications. OII reported earnings that disappointed Wall Street and also lowered its future earnings expectations given the lack of activity in deepwater drilling projects. We lowered our estimate of normalized earnings power for OII, as we pushed out the timing of the recovery by two more years. By lowering our normalized earnings power estimate, this lowered the normalized return on capital to a level below our target and also pushed out getting back to normalized earnings power beyond our time frame. As a result, the portfolio exited the position.

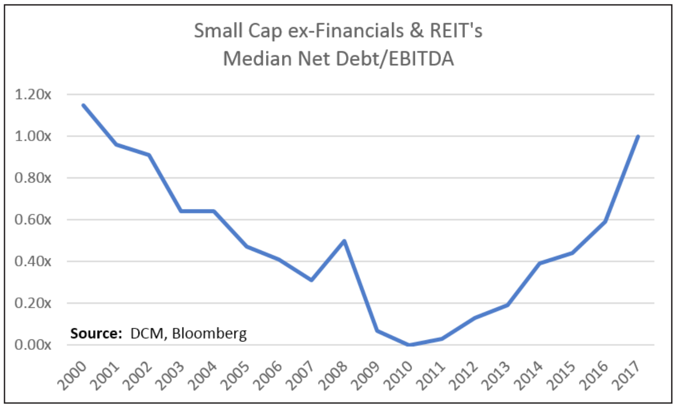
The second largest detracting stock in the quarter was Travelport Worldwide (TVPT). TVPT is a global distribution system (GDS). It is one of three companies that essentially control 98% of the GDS market. These companies provide a platform onto which travel suppliers such as airlines, hotels, and cruise lines place their services for traditional travel agents, travel management, and online travel agencies to book travel. TVPT's operating margin was lower than analysts expected when it reported earnings. This was due to replacing some traditional travel agency bookings with lower margin online travel agency bookings, as well as having some additional costs in the quarter. We believe some of the increased costs are temporary, and the lowered margin will return to normal in the future. The portfolio maintains a position in TVPT.

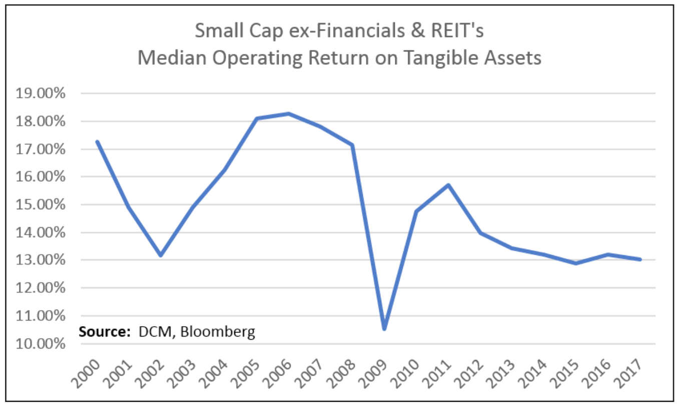
Current Positioning

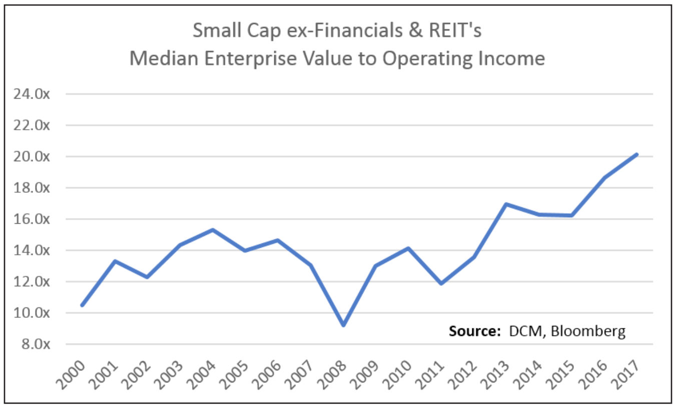
The portfolio's largest overweight sectors relative to the benchmark are in the Information Technology and Industrial sectors. The largest underweight sectors relative to the benchmark are in the Real Estate and Financials sectors. Throughout the quarter, we added the most weight to the Utilities and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

In Berkshire Hathaway's 1988 shareholder letter, Warren Buffett wrote "…the less the prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs." He was referring to an overheated arbitrage market at the time, but the same statement could be made regarding how we are approaching the current small cap stock market.

Stemming from the enthusiasm surrounding tax cuts and accelerating worldwide economic growth, there has been a dynamic developing in the small cap market where less and less prudence is seemingly being applied. This dynamic also most likely pertains to the overall market in general, but this discussion will focus on small cap stocks. Below are three charts that illustrate what we mean by less and less prudence:







These charts show that the median small cap company has recently increased its leverage to levels that are nearing 17-year highs, while its return on tangible assets is nearing 17-year lows, all while its unlevered valuation level is at 17-year highs – surpassing both the tech bubble and the housing bubble. It is difficult to envision how these three situations coexist without increasing risk: near 17-year high debt levels, near 17-year low return on capital, while being at 17-year high valuations.

One argument would be that companies took advantage of low interest rates and leveraged their balance sheets while parking the excess capital in cash for the "optionality" to use the cash strategically at some point in the future. This would increase leverage while simultaneously lowering return on capital (given the low yields on cash). However, the median small cap company's "cash and marketable securities" as a percentage of tangible assets has been relatively steady for the last 15 years, typically ranging between 20-25%. So, it does not appear that companies leveraged their balance sheets for "optionality." Instead, this could be demonstrating how small cap companies might have leveraged their balance sheets for stock buybacks. Leveraged buybacks could lead to the dynamic above by increasing leverage with no commensurate increase in operating earnings (other than on a per share basis), while also helping to boost valuations. As a result, it appears the median small cap stock now sits more levered than normal, with deteriorating return on tangible capital, while also trading at high valuations, with many of the buybacks taking place at these high valuations to boot.

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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.

DCM 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.

The upshot is that, in our opinion, this is a point in time where small cap investors need to be more discerning than usual since the overall small cap market appears to be at a higher than normal level of risk, or stated another way, demonstrating less and less prudence. When buying an index, the investor gets a broad exposure to these risks. On the other hand, as active managers, we are seeking to be selective and have recently been emphasizing the risk side of the risk/reward equation more than the reward side by sticking to our process of owning high quality small cap stocks with good balance sheets and high returns on capital that are trading at low normalized valuations.

Howard Marks, Co-Chairman of Oaktree Capital, has had a saying for his firm since 2011: "move forward, but with caution." We feel this now applies to small cap stocks. **One of the great aspects of small cap investing is that there are always good opportunities out there given the large number of companies in the small cap space. We only need to find 60-80 good opportunities, even if the overall small cap market appears to be stretched. In addition, as discussed in the macro factor section, the environment has been extremely unfavorable to our style of investing in 2017, and we feel it is ripe for reversion to the mean. However, as Howard Marks has been saying, this might be a time to "move forward, but with caution.**"

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. DCM, 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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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%.*

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