DEAN Capital Management

Equity Income Commentary

First Quarter 2018

Performance Comparison[1]

Periods Ended 3/31/18 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Equity Income (gross)	-5.62	-5.62	5.57	10.41	11.09	12.66
DCM Equity Income (net)	-5.76	-5.76	4.94	9.68	10.33	11.88
Russell 3000 Value	-2.82	-2.82	6.81	7.87	10.71	11.44

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

Performance Summary

The Dean Equity Income composite gross total return was -5.62% in the first quarter of 2018, compared with the Russell 3000 Value Index down -2.82%.

Most broad quantitative factors were headwinds in the first quarter. The principal negative factor was the very poor performance of high dividend paying stocks. Along with poor performance by high dividend payers, stocks with low valuations such as Price to Earnings or Enterprise Value to EBITDA dramatically underperformed the market overall. The quarter saw a continuation of momentum strength with those stocks having recently outperformed continuing to outperform on average.

Two factors that were positive in the quarter were our investment in higher profitability firms as well as those with lower earnings variability over time.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Consumer Discretionary	7.4%	7.2%	0.2%	0.8%	-2.7%	4 bps	23 bps
Industrials	5.9%	8.6%	-2.7%	-4.0%	-4.2%	-23 bps	5 bps
Information Technology	8.0%	8.9%	-0.9%	6.2%	5.4%	51 bps	1 bps
Real Estate	6.5%	4.8%	1.8%	-8.2%	-7.4%	-54 bps	-14 bps
Health Care	9.7%	13.2%	-3.5%	-2.7%	-1.4%	-28 bps	-17 bps
Telecommunication Services	6.0%	2.7%	3.3%	-7.9%	-7.2%	-49 bps	-19 bps
Materials	3.6%	3.1%	0.5%	-12.2%	-5.3%	-49 bps	-30 bps
Energy	10.5%	10.5%	0.1%	-9.3%	-6.0%	-98 bps	-35 bps
Utilities	8.9%	5.6%	3.3%	-9.1%	-3.3%	-83 bps	-56 bps
Consumer Staples	9.8%	7.9%	1.9%	-13.5%	-8.3%	-135 bps	-64 bps
Financials	21.8%	27.6%	-5.8%	-5.1%	-1.0%	-112 bps	-99 bps

(see disclosures)

The best sector for the portfolio in the first quarter was Consumer Discretionary. Allocation among the Consumer Discretionary industries was a larger driver of performance than individual stock selection. The automobiles & components industry group was down almost -10% in the quarter, and the portfolio did not hold any. Similarly, the consumer durables & apparel industry group was down -4.5%, and we had no investments in the space. On the other hand, the portfolio was overweight the retailing industry group, and it contributed to the outperformance due to the solid +7.3% gain by Target (TGT). Target has continued to recover from lowered expectations in early 2017 due to Amazon competition. Target's same store sales and online sales have improved rapidly, and given hope they will be able to thrive in the digital age. The portfolio continues to hold TGT.

The second best sector in the first quarter was Industrials. The portfolio was underweight this underperforming sector and had a couple relatively strong performing holdings. Industrial supplier Fastenal (FAST) was up 0.5%, and electric equipment manufacturer Emerson Electric (EMR) was down only -1.3% (versus the capital goods industry group down -4.6%). Additionally, we did not hold General Electric (GE) which was the sector's largest member and down -22.1%. The portfolio continues to hold FAST and EMR, and not GE.

The worst sector this quarter was Financials. Underperformance was due to both allocation and selection with the Financials sector outperforming in the quarter while being the portfolio's largest underweight sector. Specifically, the banking industry group was the largest underweight, and the group performed well. There are very few banks that have a dividend yield even above the benchmark average, let alone near their historical levels. It was those with the highest dividend yields that performed worst and served as a microcosm to the Dean Equity Income quarter. Banks Wells Fargo (WFC), Canadian Imperial Bank of Commerce (CM), and Capitol Federal Financial (CFFN) were down -13.1%, -8.3%, and -7.3%, respectively. The portfolio continues to hold these positions.

The second worst sector in the quarter was Consumer Staples. The group was the worst performing sector in the benchmark index and one of the portfolio's larger overweights. Consumer Staples has long been one of the principal sources of high and safe dividend yields because their earnings are noncyclical and relatively stable overtime. The worst performing holding in the space was General Mills (GIS). The stock was down -23.4% in the quarter and is discussed further below. Additionally, pharmacy retail and benefit manager CVS (CVS) and tobacco products manufacturer Altria (MO) were down -13.7% and -11.8%, respectively. The portfolio continues to hold GIS, CVS, and MO.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	CISCO SYSTEMS INC	2.83	46 bps
2	INTEL CORP	2.28	29 bps
3	TARGET CORP	2.52	16 bps
4	BLACKROCK INC	2.35	13 bps
5	T ROWE PRICE GROUP INC	2.28	7 bps
6	CLOROX COMPANY	0.98	4 bps
7	FASTENAL CO	2.08	1 bps
8	OMNICOM GROUP	2.15	1 bps
9	CASH	1.83	0 bps
10	BLACKSTONE MORTGAGE TRU-CL A	1.95	0 bps

	Top 10 Detractors	Average % Weight	Contribution
1	GENERAL MILLS INC	2.09	-52 bps
2	DOMINION ENERGY INC	2.34	-39 bps
3	SPECTRA ENERGY PARTNERS LP	2.94	-38 bps
4	ALTRIA GROUP INC	2.82	-35 bps
5	EXXON MOBIL CORP	3.40	-34 bps
6	THE PROCTER & GAMBLE CO	2.25	-30 bps
7	VERIZON COMMUNICATIONS INC	3.30	-29 bps
8	NUTRIEN LTD	1.88	-26 bps
9	WELLS FARGO & CO	1.94	-26 bps
10	TANGER FACTORY OUTLET CENTER	1.46	-25 bps

Selected Contributor(s) to Performance

The highest contributing security in the first quarter was network equipment manufacturer Cisco Systems (CSCO). CSCO was up 12.8% in the quarter. The stock performed well in part because Cisco reported strong fiscal second quarter results and provided investors with a relatively bright third-quarter forecast. The key driver of the strength was healthy demand from data center customers and the continued massive growth of cloud based computing. In addition to the price return on the stock, Cisco raised their healthy dividend nearly 14% to an indicated dividend yield of 3.1% as of quarter end. The weight in CSCO was trimmed during the quarter from one of the largest portfolio positions closer to an average position size.

The second highest contributing security in the quarter was Intel Corp (INTC) which was up 13.6%. Intel is the leading semiconductor manufacturer in the world. Intel beat earnings estimates in the quarter and guided to significantly higher than expected 2018 revenue and earnings. Similar to Cisco, Intel continues to benefit from growth in mobile and cloud computing. Intel's server chips carry their highest margins and are their fastest growing line. The portfolio continues to hold INTC.

Selected Detractor(s) from Performance

The lowest contributing security in the first quarter was General Mills (GIS). GIS was down -23.4%. The drivers of the weakness were the market's displeasure with the company's announced acquisition of pet food manufacturer Blue Buffalo and the subsequent earnings release. Wall Street analysts voiced concern with the General Mill's profitability as the gross margin contracted significantly in the quarter on higher commodity and logistics costs. The firm remains very profitable with considerable free cash generation and the financial wherewithal to make the Blue Buffalo acquisition. Additionally, the 4.3% dividend yield appears quite healthy, as does the modest but predictable annual dividend growth. The portfolio continues to hold General Mills, though as always we are watching the fundamentals closely for deterioration outside of historical ranges as well as more compelling investment ideas.

The second lowest contributing security this quarter was Dominion Energy (D), down -15.9%. Dominion Energy is a utility holding company for Virginia Power and North Carolina Power. Additionally, Dominion owns several non-utility, but related businesses in electricity transmission and independent power production. Dominion Energy announced the acquisition of SCANA, the parent of South Carolina Electric & Gas, which has been troubled by the cancellation of a nuclear construction project due to extensive delays and cost overruns. The market reacted negatively to this announcement, and SCANA's stock remains far below the offer price suggesting low confidence in completion. We feel the acquisition makes strategic sense, and the offer price is appealing, though it carries risk. The portfolio continues to hold D, but we will continue to monitor the SCANA acquisition and regulatory reaction.

Current Positioning

As of quarter end the portfolio is largely overweight noncyclical areas of the market and underweight more cyclical areas. Specifically, the portfolio is overweight Telecommunication Services, Utilities, and Consumer Staples, while underweight Financials, Health Care (mostly Health Care Equipment and Services), and Information Technology.

In what we perceive to possibly be the later stages of the current bull market, investors are increasingly paying a large premium for growth, and valuations in many parts of the market suggest a degree of optimism that seems excessive. To be fair, the economy remains on solid footing, and we are not suggesting a recession is imminent. However, we do find the valuation gap between growth and value stocks to be too wide and as such have gravitated more and more toward traditional value areas of the market.

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 Equity Income style is a fully invested style of large, mid, and small cap stocks which ranges from 90%-100% equity. The remainder of the portfolios is 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, and 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: 2011: 10.6% 2012: 12.1% 2013: 10.6% 2014: 7.0% 2015: 6.7% 2016: 4.8% 2017: 4.2% 2018: 3.4%.

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
913-944-4452
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.

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.