DEAN Capital Management

Equity Income Commentary

First Quarter 2019

Performance Comparison[1]

Periods Ended 3/31/19 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Equity Income (gross)	12.14	12.14	11.42	10.78	10.07	12.51
DCM Equity Income (net)	11.97	11.97	10.76	10.09	9.35	11.74
Russell 1000 Value[2]	11.93	11.93	5.30	10.50	7.56	10.67

Periods greater than 1 year are annualized
[1]DCM Equity Income inception was January 1, 2011
[2]Effective 1/1/19, the benchmark was changed from Russell 3000 Value to Russell 1000 Value. Benchmark returns presented reflect Russell 3000 Value for time periods prior to January 1, 2019.

Performance Summary

The DCM Equity Income composite gross total return was 12.14% in the first quarter of 2019, compared with the Russell 1000 Value Index 11.93%.

Most broad market factors proved to be headwinds in the first quarter of 2019. The most detracting factor was the portfolio's high dividend yield. This factor was followed by the underperformance of profitability as a style factor. Lower earnings variability and smaller size proved to be detrimental to the portfolio as well this quarter.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Consumer Staples	10.5%	7.8%	2.8%	19.1%	12.5%	196 bps	72 bps
Utilities	9.7%	6.3%	3.4%	16.0%	11.5%	153 bps	44 bps
Financials	20.4%	22.5%	-2.2%	9.0%	8.0%	186 bps	27 bps
Energy	7.9%	9.6%	-1.8%	20.4%	16.6%	153 bps	21 bps
Information Technology	7.1%	9.5%	-2.4%	21.5%	18.5%	146 bps	6 bps
Consumer Discretionary	4.2%	5.3%	-1.1%	14.4%	13.2%	57 bps	4 bps
Industrials	8.2%	7.7%	0.6%	18.6%	18.7%	147 bps	4 bps
Materials	3.2%	4.0%	-0.9%	9.4%	9.5%	28 bps	3 bps
Communication Services	9.4%	7.1%	2.3%	7.8%	9.3%	76 bps	-20 bps
Real Estate	6.8%	5.1%	1.7%	10.4%	16.5%	72 bps	-33 bps
Health Care	9.5%	15.2%	-5.7%	-0.3%	7.6%	-7 bps	-57 bps

(see disclosures)

The best sector for Equity Income in the first quarter was Consumer Staples. The portfolio sector weight was greater than the benchmark sector, and that was additive in the quarter. The larger performance driver was Consumer Staples stock selection. Leading the way for the portfolio were packaged food leader General Mills (GIS) and tobacco manufacturer Philip Morris International (PM), up 34.5% and 34.1%, respectively. Additionally, tobacco manufacturer Altria (MO) and household products maker Proctor & Gamble (PG) were up 17.9% and 14.1%, respectively. The portfolio continues to hold GIS, PM, MO, and PG.

Utilities was the portfolio's second best sector in the first quarter. Security selection drove the strong performance. Decreasing interest rate expectations were a strong tailwind for the group. South Dakota based utility NorthWestern Corp (NWE) led the way with a 19.4% total return in the quarter. Georgia utility Southern Company (SO) was nearly as strong, up 19.1%. Finally, Wisconsin based WEC Energy Group (WEC) was up 15.1% during the first quarter. The portfolio continues to hold all three utilities but reduced the position in NWE during the first quarter.

The worst sector for the portfolio in the first quarter was Health Care. The sector underperformed the benchmark in the period, and Health Care was the portfolio's largest underweight sector. Unfortunately, stock selection hurt the positive weighting position. The portfolio overweight in the Pharmaceutical, Biotechnology, and Life Sciences industry group was particularly negative. CVS Health Corp (CVS) was the worst contributing holding for the portfolio during the quarter, down -17.1%. See further discussion of CVS below. Additional weak holdings included Pfizer (PFE) and Amgen (AMGN), down -1.9% and -1.7%, respectively. The portfolio continues to hold CVS, PFE, and AMGN.

The Real Estate sector was the portfolio's second worst sector in the first quarter. Allocation was positive, but stock selection was negative. Both retail shopping related Real Estate Investment Trusts held in the portfolio were the drivers of the weakness. Tanger Factory Outlet Center (SKT) and Simon Property Group (SPG) were up 5.4% and 9.7% in the first quarter compared to the benchmark, up 11.9%, and the benchmark Real Estate sector up 16.5%. The portfolio continues to hold SKT and SPG.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	EXXON MOBIL CORP	3.86	73 bps
2	PAYCHEX INC	2.67	61 bps
3	PHILIP MORRIS INC	1.95	60 bps
4	NORTHWESTERN CORP	2.65	54 bps
5	GENERAL MILLS INC	1.68	53 bps
6	CISCO SYSTEMS	2.06	50 bps
7	FASTENAL CO	2.21	49 bps
8	KINDER MORGAN INC	1.66	47 bps
9	SOUTHERN CO	2.53	47 bps
10	GENUINE PARTS CO	2.73	44 bps

	Top 10 Detractors	Average % Weight	Contribution
1	CVS HEALTH CORP	1.41	-26 bps
2	CARNIVAL CORP	0.13	-16 bps
3	AMGEN INC	2.84	-5 bps
4	BRISTOL-MYERS SQUIBB	0.19	-4 bps
5	PFIZER INC	1.57	-4 bps
6	CASH	3.19	0 bps
7	OMNICOM GROUP	2.79	2 bps
8	NORTHWEST BANCSHARES	2.11	4 bps
9	LYONDELLBASELL-A	1.65	5 bps
10	INTL PAPER CO	0.15	6 bps

Selected Contributor(s) to Performance

Rebounding from being the lowest contributing portfolio holding in the fourth quarter, Exxon Mobil (XOM) was the strongest holding in the first quarter. XOM was up 19.8% during the quarter. The biggest driver of XOM performance was the price of oil up over 32% in the first quarter. Exxon is using its financial strength to invest in large-scale projects more so than many of its peers and increasingly will benefit from higher commodity prices. The portfolio continues to hold XOM.

The second highest contributing security in the first quarter was Paychex (PAYX), up 24.1%. Paychex is primarily engaged in providing computerized payroll-accounting, salary deposit, and tax return filing services to mostly small and medium-sized businesses. The firm continues to benefit from the strong employment environment. Additionally, the firm made a sizeable acquisition in the fourth quarter of Oasis Outsourcing Acquisition, a privately-owned human resources firm. Such human resources bolt on acquisitions are serving to increase Paychex revenue growth despite the economy operating at nearly full employment. The portfolio continues to hold PAYX.

Selected Detractor(s) from Performance

CVS Health (CVS) was the portfolio's lowest contributing security in the first quarter. CVS operates one of the nation's largest retail drug store chains and pharmacy benefit managers and recently added managed care to their portfolio with the acquisition of Aetna in 2018. The stock's weakness in the first quarter, -17.1%, was due to two principal drivers. First, management lowered earnings expectations for 2019 during their 4Q18 earnings call. Aetna integration costs were largely to blame for the expected shortfall. Secondly, the WellCare Health Plans (WCG) acquisition by managed care provider Centene (CNC) could move $15-$20 billion in pharmacy spending away from CVS to CNC, providing another blow to a stock that hasn't had much good news lately. Despite the recent negatives, the long-term quality of CVS remains intact, and the portfolio has held its position in CVS.

The second lowest contributing security in the first quarter was cruise ship operator Carnival Corp (CCL). Carnival is the largest global cruise company with more than 100 ships. Its portfolio brands include Carnival Cruise Lines, Holland America, Princess Cruises, and Cunard Line among others. The stock was down -10.1% during the short holding period in the quarter. The company announced first quarter earnings that were above expectations, but lowered guidance due to unfavorable currency exchange rates and fuel costs. Additional factors included cyclones near Australia and economic weakness in Europe. We feel these weaknesses are transitory in nature, and the risk/reward in CCL remains favorable. The portfolio continues to hold the position.

Current Positioning

The Equity Income portfolio is overweight Consumer Staples, Communication Services, and Utilities as of quarter end. The portfolio is underweight Health Care and Information Technology. The principal driving force behind these weighting decisions is the relative availability of high dividend paying good risk/reward opportunities. Our investment process tends to lean toward higher dividend paying and lower volatility securities. These are in much greater abundance in some sectors versus others (Utilities versus Technology, for example). That being said, there are times when the risk/rewards do not justify higher weights in traditionally lower volatility sectors. In the first quarter we reduced our exposure to Utilities and Staples and increased our weights in Financials and Consumer Discretionary, taking advantage of relative strength/weakness, respectively, in the sectors.

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, and the number of holdings typically ranges between 40 and 60. The remainder of the portfolios is typically invested in short term U.S. Treasury Bills or other cash equivalents.

Effective 1/1/19, the benchmark was changed from Russell 3000 Value to Russell 1000 Value to provide a better represenation of the investment strategy. The Russell 1000 Index measures the performance of the large-cap segment and includes approximately 1000 securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. equity market. The Russell 1000 Value Index measures the performance of those Russell 1000 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: 7.6% 2016: 4.8% 2017: 4.2% 2018: 3.8% 2019: 2.3%.*

**A performance examination has been performed on performance results through 12/31/18. A firm-wide verification was performed for the periods 1/1/93 through 12/31/18. Subsequent data represents preliminary performance results.*

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.

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.