DEAN Capital Management

Equity Income Commentary

Second Quarter 2019

Performance Comparison[1]

Periods Ended 6/30/19 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Equity Income (gross)	1.86	14.20	9.86	9.85	9.40	12.36
DCM Equity Income (net)	1.71	13.87	9.21	9.17	8.69	11.60
Russell 1000 Value[2]	3.84	16.24	7.51	10.25	7.35	10.84

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 1.86% in the second quarter of 2019, compared with the Russell 1000 Value Index 3.84%.

In the second quarter, style factors in aggregate contributed negatively to relative performance. Positive influences on returns relative to the benchmark Russell 1000 Value Index included the portfolio being overweight the profitability factor and underweight earnings variability. On the other hand, negative factors included higher dividend yield, more value stock exposure (lower valuations), and smaller market capitalization.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Energy	7.8%	9.2%	-1.4%	-0.2%	-3.7%	-2 bps	40 bps
Financials	21.4%	22.5%	-1.1%	9.6%	7.7%	195 bps	35 bps
Utilities	8.7%	6.4%	2.3%	5.2%	3.4%	45 bps	15 bps
Communication Services	9.4%	7.1%	2.3%	6.8%	6.4%	62 bps	10 bps
Materials	4.4%	4.0%	0.4%	0.0%	4.2%	0 bps	-19 bps
Consumer Discretionary	4.4%	5.3%	-0.9%	-2.1%	3.6%	-9 bps	-26 bps
Health Care	8.9%	14.8%	-6.0%	-0.7%	2.9%	-6 bps	-26 bps
Information Technology	6.7%	9.8%	-3.1%	-1.8%	3.2%	-13 bps	-32 bps
Industrials	8.2%	7.9%	0.3%	0.7%	6.6%	6 bps	-48 bps
Real Estate	6.5%	5.1%	1.3%	-5.9%	1.0%	-40 bps	-50 bps
Consumer Staples	10.0%	7.8%	2.1%	-4.2%	2.5%	-43 bps	-72 bps

(see disclosures)

The best sector for Equity Income in the second quarter of 2019 was Energy. The Energy sector benefited from both allocation and security selection. Energy was an underweight sector in the Equity Income portfolio, while the Energy sector overall underperformed the benchmark. The principal driver of the Energy sector weakness was the decrease in oil and natural gas commodity prices down -2.8% and -13.3%, respectively. Also, while the Energy sector was down -3.7% in the quarter, two of the portfolio's three holdings were up, Kinder Morgan (KMI, +5.7%) and Chevron (CVX +2.0%).

The second best sector in the quarter was Financials. The Financial sector was the best performing sector in the benchmark this quarter, up 7.7%. The overall underweight in the sector negatively impacted performance, but overweights in the Diversified Financials and Insurance industry groups were additive while the underweight in Banks detracted from returns. The key driver of Financial sector outperformance was interest rates falling sharply in the quarter. The 10-year Treasury bond rate fell -16.6% in the quarter to 2.01% at quarter end. Interest rates fell due to some weakening economic indicators and dovish comments made by various Fed officials, including Chairman Powell, along with less restrictive language in the June Fed policy statement. Key holdings in the quarter included insurance provider MetLife (MET), insurance and other financial service provider Principal Financial Group (PFG), and regional bank KeyCorp (KEY), up 17.8%, 16.6%, and 13.9%, respectively. The portfolio continues to hold MET, PFG, and KEY.

The worst sector in the second quarter was Consumer Staples. The portfolio overweight in the sector detracted modestly from performance, but the bigger driver was stock selection. Tobacco holdings Altria (MO) and Philip Morris International (PM) were down -16.3% and -9.8%, respectively. See further discussion of the tobacco stocks and Philip Morris below. Household products leader Clorox (CLX) was also a detractor in the quarter, down -4.0%. The portfolio continues to hold MO, PM, and CLX.

The second worst sector in the quarter was Real Estate. Real Estate Investment Trusts (REITs) underperformed the broad benchmark during the quarter, and Equity Income was overweight this high dividend space. REITs underperformed the benchmark due principally to indications of cyclical weakness, particularly in retail. Additionally, stock selection was negative in the Real Estate sector driven by weakness at outlet shopping center and class A mall REITs Tanger Factory Outlet (SKT, -21.3%) and Simon Property Group (SPG, -11.3%). See further discussion of SKT below. The portfolio continues to hold both SKT and SPG as of quarter end.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	OMNICOM GROUP	2.79	34 bps
2	METLIFE INC	2.01	33 bps
3	PRINCIPAL FINANCIAL	1.95	29 bps
4	KEYCORP	2.11	27 bps
5	AT&T INC	2.84	24 bps
6	PRUDENTL FINANCIAL	2.37	24 bps
7	BLACKROCK INC	2.08	21 bps
8	SOUTHERN CO	2.64	21 bps
9	CUMMINS INC	2.24	20 bps
10	T ROWE PRICE GROUP	2.00	20 bps

	Top 10 Detractors	Average % Weight	Contribution
1	ALTRIA GROUP INC	2.08	-37 bps
2	TANGER FACTORY	1.05	-26 bps
3	INTEL CORP	2.23	-25 bps
4	SIMON PROPERTY	1.93	-23 bps
5	PHILIP MORRIS INC	1.93	-21 bps
6	EXXON MOBIL CORP	3.76	-16 bps
7	UNITED PARCEL B	2.21	-16 bps
8	GENUINE PARTS CO	1.66	-12 bps
9	CARNIVAL CORP	1.37	-9 bps
10	BRISTOL-MYERS SQUIBB	1.90	-8 bps

Selected Contributor(s) to Performance

The highest contributing holding in the second quarter was Omnicom Group (OMC), up 13.2%. Omnicom is the world's second largest ad holding company. The firm's services include traditional and digital advertising and public relations worldwide. Omnicom beat first quarter earnings estimates and outlined a positive outlook for the remainder of 2019. Management stated that business in 2019 so far was better than the last several years. Domestic clients are more focused on investing in their brands as opposed to cutting costs, and the international markets remain strong despite macro challenges. Two large recent client wins will begin impacting financial performance in 2019 with Ford starting in Q2 and the U.S. Army in the second half of the year. The portfolio continues to hold OMC.

The second highest contributing security in the quarter was MetLife (MET), up 17.8%. MetLife is the largest life insurer in the U.S. by assets and provides a variety of insurance and financial services products. Outside the United States, MetLife operates in Japan and more than 50 countries in Latin America, the Asia-Pacific region, Europe, and the Middle East. The company reported a good first quarter ahead of estimates driven by improvement in the group benefits business, which benefited from expense controls and a mild flu season, and strong growth in the Asia and EMEA (Europe, Middle East, and Africa) regions. The portfolio continues to hold MET.

Selected Detractor(s) from Performance

The worst holding in the second quarter was Altria (MO, formerly Philip Morris), down -16.3% in the quarter. Altria holds the leading position in cigarettes and smokeless tobacco in the United States and the number two spot in machine-made cigars. The company's Marlboro brand is the leading cigarette brand in the U.S. with a 40% share. The stock was weak due to lower than expected tobacco sales volume in the quarter, partially offset by better pricing. Additionally, San Francisco became the first city in the U.S. to ban the sale, production, and distribution of e-cigarettes. In our view, such a ban is unlikely to spread through the U.S., nor will it materially harm Altria's near-term financial performance. The ban is temporary while the FDA completes its review of e-cigs, and the sales of substitute cigarettes won't be included in the ban. Altria is quickly reducing its dependence on declining U.S. cigarette consumption. Its 35% equity stake in e-cigarette trailblazer Juul and exclusive rights to market Philip Morris International's IQOS heated-tobacco products allow for participation in the fast-growing vapor segment. Altria's 45% stake in Canadian cannabinoid company Cronos Group provides exposure to rising cannabis sales. Finally, Altria holds a 10.2% interest in the world's largest brewer, Anheuser-Busch InBev. The portfolio continues to hold the position in MO.

The second lowest contributing holding in the second quarter was Tanger Factory Outlet (SKT), down -21.3% in the quarter. Tanger is the largest owner and operator of outlet centers in the U.S. and Canada. The company missed Wall Street earnings estimates and provided 2019 guidance that was below both management's prior guidance and Wall Street estimates. The key drivers of the fundamental weakness are an outlook for lower same center results and the absence of external growth opportunities via development or acquisitions. Occupancy is pressured by net store closings, low leasing spreads suggest weak pricing power, and limited tenant sales growth restricts potential improvement. The rapid fundamental weakening is causing us to question our assumptions and strongly consider alternative investment options. The 8.8% quarter end dividend yield remains well covered by funds from operations and does not appear at risk. The portfolio continues to hold SKT for the time being.

Current Positioning

Equity Income is currently overweight the Utilities, Communication Services, and Real Estate sectors, while it is underweight Health Care (mostly Health Care Equipment and Services), Financials (mostly Banks), Consumer Discretionary, and Energy sectors. An important theme in those sector weights is the overweight in traditionally higher dividend and lower volatility sectors. Overall, the portfolio continues to be heavily overweight dividend, profitability, and value factors and underweight size, earnings variability, leverage, and volatility factors.

The U.S. economy remains strong, but many indicators are clearly issuing warning signs. For example, the Chemical Activity Barometer (CAB) is below zero indicating a slowdown in demand for base chemicals that are the building blocks for many products instrumental to an expanding economy. These end products include consumer goods, plastics used in building products, and other basic industrial products. There are several other cautionary indicators, most directly the earnings and guidance from managements of common stocks we own and follow, but CAB is a good example of where we are seeing deepening weakness in the economy that may foreshadow a coming recession. It is far too early to be certain of that, but near-term weakening feels very likely, and we are watching all indicators closely and will adjust the portfolio accordingly.

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. Data subsequent to 3/31/19 represents preliminary performance results.*

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.