DEAN Capital Management

Small Cap Value Commentary

Fourth Quarter 2019

Performance Comparison[1]

Periods Ended 12/31/19 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	S. I.[1]
DCM Small Cap Value (gross)	7.78	22.42	22.42	4.00	7.07	11.63	10.68
DCM Small Cap Value (net)	7.55	21.41	21.41	3.13	6.07	10.52	9.56
Russell 2000 Value	8.49	22.39	22.39	4.77	6.99	10.56	8.65

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

Performance Summary

The DCM Small Cap Value ("DCM SCV") Strategy returned 7.78% (gross of fees) compared with 8.49% for the Russell 2000 Value Index for the quarter ending December 31, 2019.

Overall, macro factors provided a slight tailwind to the portfolio in the fourth quarter; however, underneath the surface, there were a few moving parts that both aided and hindered performance this quarter. On the negative side of the ledger:

- The Russell 2000 Growth Index outperformed the Russell 2000 Value Index by nearly 3% in the quarter (DCM SCV is positioned with more value exposure than the benchmark)
- Stocks with high volatility outperformed those with low volatility (DCM SCV has lower volatility exposure than the benchmark)
- Stocks with high balance sheet leverage outperformed those with low leverage (DCM SCV has less leverage exposure than the benchmark)

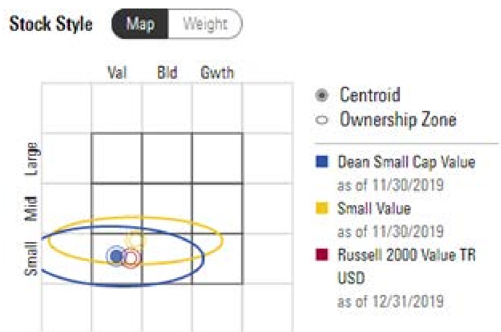
The negative factors listed above were offset slightly by the underperformance of momentum stocks in the quarter. DCM SCV benefited from having less momentum than its benchmark. As clients know, we have discussed the outperformance of momentum over the last three years at length, as it has had a very large impact on performance for our valuation sensitive process. However, it now feels as though the tone of the market may be changing; in the sense that momentum stocks could be starting to lose their luster. If momentum stocks do lag the broader market going forward, this should be beneficial to our style given the anti-momentum bias we have due to our valuation sensitive process.

Below is a chart we have shown in the past that compares the Bloomberg Pure Value Index relative to the Bloomberg Pure Momentum Index for the past five years. After three years of relentless and persistent momentum outperformance, including a capitulation type "waterfall" decline for value in August 2019, could a trend change be at hand? (source: Bloomberg, FTSE Russell):

Compared to the Broad Market, Things Look a Little Different in Small Cap Value Land…

The Russell 2000 Growth Index has outperformed the Russell 2000 Value Index for the past three years in a row. In addition, Growth has outperformed Value eight out of the last ten years. Over that 10-year time frame, the Russell 2000 Growth Index has had a total return of ~13.0% annualized versus ~10.6% for the Russell 2000 Value Index. Beyond small caps, it has been better to be in larger cap stocks over the last 10 years, as the Russell Midcap Index outperformed the Small Cap Index, while the Large Cap Index, in turn, outperformed the Midcap Index. All the growth indexes outperformed their corresponding value indexes, no matter which cap size is used. As a result, for the past 10 years, it has been much better to be "up and to the right" in terms of the ubiquitous Morningstar style box. In other words, any drifting towards growthier or larger cap names has been a benefit.

This "up and to the right" dynamic is interrelated with the momentum effect we showed above. It has been better to not sell a stock and let it continue to drift up and to the right, rather than to be valuation sensitive and sell. We have refused to drift, and have stayed true to our small cap value style as can be seen below (source: Morningstar):



Thus, as investors in different styles wring their hands about stock valuations and how far stocks have come in the last 10 years, in Small Cap Value Land, things look a little different. While valuations are certainly not at the bargain basement levels we saw in 2009, 2011, 2016, or even late 2018, they are also not exceedingly stretched either, at least for the types of companies the DCM SCV team is analyzing. We believe that we can find reasonably valued stocks with good growth prospects that the market has left behind in this adrenaline-fueled environment.

All the portfolio managers at DCM were professional investors during the end of the dot com bubble, and we saw firsthand a similar type of market environment that we see today. It was difficult to stay true to the small cap value style at that time too, as all the "up and to the right" styles were outperforming. However, we were rewarded for maintaining our style discipline when the market had realized how far valuations had been stretched in other parts of the market relative to small cap value. As can be seen in the chart below, which shows the Russell 2000 Value Index's total return relative to the Russell 1000 Growth Index since 1978, it feels as though we could be at a similar place in the cycle, with a great deal of reversion to the mean potential for small cap value stocks (source: Bloomberg, FTSE Russell):

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Real Estate	5.9%	11.4%	-5.5%	4.8%	3.3%	29 bps	37 bps
Utilities	3.0%	6.1%	-3.2%	-1.8%	-1.7%	-6 bps	33 bps
Consumer Staples	6.3%	2.6%	3.8%	12.1%	9.3%	79 bps	26 bps
Consumer Discretionary	9.3%	9.8%	-0.5%	8.8%	7.7%	98 bps	23 bps
Communication Services	2.8%	2.3%	0.4%	7.6%	2.6%	22 bps	12 bps
Industrials	21.7%	12.7%	9.0%	8.7%	9.4%	180 bps	-9 bps
Materials	5.6%	4.6%	1.0%	10.0%	13.1%	57 bps	-10 bps
Health Care	4.2%	5.2%	-1.0%	13.7%	17.6%	68 bps	-11 bps
Energy	5.1%	5.6%	-0.5%	-3.7%	7.9%	19 bps	-25 bps
Information Technology	7.5%	9.2%	-1.7%	17.1%	21.2%	137 bps	-32 bps
Financials	26.8%	30.5%	-3.7%	3.9%	7.3%	102 bps	-91 bps

(see disclosures)

The best performing sector relative to the benchmark for the quarter was Real Estate. The majority of the outperformance was a result of the portfolio being underweight an underperforming sector. Stock selection also slightly added to the outperformance. Investors began embracing the notion that the U.S. might not be headed for a recession soon, which was a real fear in the fourth quarter of 2018 and much of 2019. With this change in psychology, long term interest rates rose throughout the quarter, causing safe haven bond proxies, such as Real Estate and Utilities, to underperform more cyclical sectors. The portfolio benefited by being underweight.

The second best performing sector relative to the benchmark for the quarter was Utilities. Similar to Real Estate, the outperformance was a result of the portfolio being underweight the underperforming sector. As mentioned above, investors began embracing the notion that the U.S. might not be headed for a recession soon, which was a real fear in the fourth quarter of 2018 and much of 2019. With this change in psychology, long term interest rates rose throughout the quarter, causing safe haven bond proxies, such as Real Estate and Utilities, to underperform more cyclical sectors. The portfolio benefited by being underweight.

The worst performing sector relative to the benchmark for the quarter was Financials. The underperformance stemmed from below benchmark stock selection as well as from the portfolio's underweight positioning relative to the benchmark. The overweight in the Insurance industry hampered performance this quarter as well as lagging stock selection within Insurance. The benchmark has more weight in "equity sensitive" insurance stocks such as American Equity Life (AEL) and CNO Financial Group (CNO) that performed well with the equity market rally versus the portfolio's more defensively oriented insurance stocks.

The second worst performing sector relative to the benchmark for the quarter was Information Technology. The underperformance was entirely accounted for from the portfolio's lack of weighting in the Semiconductors industry. With the market moving past its growth scare in the fourth quarter, Semiconductors were one of the best performing industries, rising over 30%. The benchmark averaged a 2.3% weighting to the Semiconductor industry throughout the quarter; thus, this was a drag on the portfolio's relative performance given its lack of exposure to the industry. Most of the Semiconductor stocks appear overvalued to us relative to the quality of the business combined with the lack of assuredness in the individual company growth prospects for a highly competitive space.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	AVX CORP	1.26	74 bps
2	THOR INDUSTRIES	2.15	60 bps
3	MAGELLAN HEALTH	1.51	48 bps
4	WESCO INTERNATIONAL	2.00	47 bps
5	INSIGHT ENTERPRISES	1.87	45 bps
6	G III APPAREL	1.29	37 bps
7	ASTEC INDUSTRIES	1.07	34 bps
8	REGAL BELOIT CORP	1.66	29 bps
9	ANDERSONS INC	1.65	28 bps
10	CACTUS INC- A	1.24	27 bps

	Top 10 Detractors	Average % Weight	Contribution
1	RESIDEO TECHNOLOGIES	1.75	-23 bps
2	APOGEE ENTERPRISES	0.24	-19 bps
3	PROASSURANCE CORP	1.64	-17 bps
4	DEL TACO RESTAURANTS	0.74	-16 bps
5	SRC ENERGY INC	1.60	-15 bps
6	MTS SYSTEMS CORP	1.66	-11 bps
7	ARGO GROUP INTERNATIONAL	1.73	-10 bps
8	SAFETY INSURANCE	0.98	-8 bps
9	SUPERNUS PHARMACEUTICALS	0.99	-8 bps
10	AMERICAN NATIONAL INSURANCE	1.46	-7 bps

Selected Contributor(s) to Performance

The largest contributing stock this quarter was AVX Corporation (AVX). AVX is a global manufacturer, supplier, and reseller of a broad line of electronic components, interconnect, sensing and control devices, and related products. The company sells its products to the telecommunications, automotive, transportation, energy harvesting, consumer electronics, military/aerospace, medical, computer, and industrial markets. We liked that AVX is majority owned by Kyocera, a Japanese manufacturer of electronic components and licensing partner of AVX, which provided the company broader access and appeal to what became AVX's largest geographical revenue segment, Asia, which also happens to be the industry's driver of growth. A one-stop shop offering customers one of the broadest selections of components in the industry, AVX underperformed for much of 2019 due to over-supply concerns. In November 2019, Kyocera made an offer to acquire the remaining outstanding shares of AVX for $19.50/share, a ~30% premium to the price just prior to announcement. Shares ultimately traded around $20.50 that day, which was above the deal price. Kyocera's offer price was in line with our estimate of AVX's private market value of $20/share, reinforcing our confidence that our valuation techniques match reality in the private market. We took advantage of the situation and liquidated our position, as fair value had been fully realized.

The second largest contributing stock in the quarter was Thor Industries, Inc. (THO). Thor is the largest manufacturer of Recreational Vehicles ("RV") in North America, and, through its recent acquisition of Erwin Hymer Group (EHG) in February 2019, one of the largest manufacturers of RVs in Europe. The company manufactures both towable and motorized RVs. We initiated our position in this niche market leader in November 2018, as the market was extrapolating out transitory dealership inventory levels, which were near record highs after a 32% CAGR in sales coming out of the recession through 2017. We felt that dealers were rational actors and would work through their inventory levels quickly, while continuing to place orders as the secular tailwinds of an aging and retiring population, paired with the growing affinity for travel and experiences amongst millennials, provided demand support. We believe this fundamental shift in industry outlook should drive earnings higher to a more normalized level. THO missed estimates but improved gross margins, received an upgraded issue-level rating on its senior secured term loan, and provided an optimistic outlook on inventory rationalization at dealers, which helped propel the stock higher. The portfolio maintains a position in THO.

Selected Detractor(s) from Performance

The largest detracting stock in the quarter was Resideo Technologies, Inc. (REZI). Resideo spun out of Honeywell International, Inc. (HON) in October 2018; taking with it ADI (industrial distribution) and the Home Products & Solutions segments from the parent. The company focuses on the manufacture and distribution of its home products with an emphasis on the Comfort (temperature / humidity control, Internal Air Quality, and Residential Thermal Solutions) and Security segments. We initiated a position in REZI in August 2019, as the stock was being pressured by continued forced selling and a messy spin-off transaction structure. We were attracted to its participation in the secularly growing home connectivity and Internet of Things end market, and felt the forced selling created an opportunity to own a secularly growing company at a good valuation level. A couple of months after our first purchase, REZI reported disappointing earnings, announced the CFO was leaving, and refinanced its debt, all of which served to amplify the previous underperformance that originally attracted us to the stock. After re-evaluating the current state of the business, we estimated the market was only giving REZI credit for its low-growth, low-margin distribution segment, and very little was assigned to the high-growth, high-margin Home Products segment. Not only did this result in the multiple being depressed on current earnings, but it also provided potential for significant upside to normal earnings compared to what the street was modeling. This comfortability with the valuation discrepancy, along with new management hires, a shareholder-friendly activist investor, and strong secular growth in the housing market, led us to add to the position on the steep price decline. We subsequently reduced the weight after the stock outperformed from the bottom it found in mid-November. The portfolio maintains a position in REZI.

The second largest detracting stock in the quarter was Apogee Enterprises, Inc. (APOG). Apogee is a global leader in the design and development of value-added glass and metal products and services for enclosing commercial buildings and framing and displays. The company has faced continued headwinds in its Architectural Glass segment as it endures a tight labor market and works to get its new production facility up and running efficiently. Recent share price performance has also been hampered by continued cost overruns related to legacy projects of EFCO, a company focused on small to medium-sized commercial framing projects that was acquired in 2017 to help diversify the segment away from larger, more cyclical projects. These transitory headwinds – the last of the legacy projects from EFCO and the new glass facility – should be behind APOG by the end of the first half of calendar 2020, providing significant upside to reach normal earnings on a record backlog supported by non-residential construction growth and project diversification across size of customers and end markets. We initiated a position in APOG in December 2019 and maintain a position.

Current Positioning

The portfolio's largest overweight sectors relative to the benchmark are currently in the Industrials and Consumer Staples sectors. The largest underweight sectors relative to the benchmark are currently in the Real Estate and Financial sectors. Throughout the quarter, we added the most weight to the Consumer Discretionary and Energy sectors, while reducing the most weight in the Financials and Health Care 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 addition, according to Bloomberg Risk data, relative to the benchmark Russell 2000 Value Index, the portfolio's largest risk factors at quarter end are listed below. Thus, at this point in time, these factors will likely have the most significant impact on relative performance outside of individual company fundamentals:

1. Momentum (DCM SCV has lower)
2. Leverage (DCM SCV has lower)
3. Earnings Variability (DCM SCV has higher-typically not the case, currently due to a few companies dramatically underearning normal)
4. Value (DCM SCV has lower valuations)
5. Profitability (DCM SCV has higher)

As we demonstrated at the top of this commentary and as we have been writing in the last two quarterly commentaries, we continue to believe the small cap value space, in general, is ripe for reversion to the mean; and we believe DCM Small Cap Value in particular, is positioned well from a relative risk adjusted basis. To that end, we received real, private market value feedback on two of our valuations this quarter with AVX and AXE both announcing deals to be acquired, where both announced deal prices were within 5% of our estimate of private market values. This helps give us confidence that if we are correct on our company valuations, the public market, or a private market entity, will eventually realize the value.

Portfolio companies being acquired is one advantage that active small cap value investing has over other styles. Typically, value will be realized in a reasonable period of time by either the public or private market. The trick is getting the ultimate valuation correct. The private market helped reinforce our approach this quarter with AVX and AXE.

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 90%-100% in equity positions, and the number of holdings typically ranges between 50 and 80. 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 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.

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, 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: 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% 2018: 0.3% 2019: 0.4%.*

**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 9/30/19 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.