DEAN Capital Management

Equity Income Commentary

Third Quarter 2020

Performance Comparison[1]

Periods Ended 9/30/20 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	S. I.[1]
DCM Equity Income (gross)	1.90	-9.94	-4.31	3.42	9.50	10.44
DCM Equity Income (net)	1.74	-10.35	-4.88	2.80	8.81	9.70
Russell 1000 Value[2]	5.59	-11.58	-5.03	2.44	7.64	8.96

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 1.90% in the third quarter of 2020, compared with the Russell 1000 Value Index 5.59%.

The biggest driving forces of the Equity Income third quarter underperformance were broad stylistic factors. They represented about the strongest headwind we have faced since the dot com era of the late 90's. Almost every stylistic investment factor we practice went against us. As is normally the case, the portfolio was heavily overweight dividend yield, profitability, and value factors. Each of these factors lagged while the generally opposing factors of higher volatility, leverage, momentum, and growth performed well in a heavily "risk-on" pattern.

The best we can say is that such a pattern is unlikely to last in the long term, and the longer it lasts, the stronger the bounce back is likely to be. At the conclusion of the dot com era, the value style outperformed dramatically for several years and made up more than was lost. It is impossible to predict if or when such a turn might happen, but often when such a change occurs it is large and quick. Investors are often paid for patience.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Industrials	11.8%	12.7%	-0.9%	15.6%	11.5%	167 bps	38 bps
Real Estate	5.0%	4.6%	0.4%	4.5%	1.7%	23 bps	13 bps
Information Technology	7.0%	9.7%	-2.7%	-5.4%	-0.5%	-39 bps	-20 bps
Energy	5.7%	4.7%	1.0%	-19.6%	-19.5%	-119 bps	-26 bps
Utilities	10.8%	5.9%	4.8%	2.1%	5.8%	24 bps	-38 bps
Health Care	10.6%	14.2%	-3.6%	3.9%	7.1%	42 bps	-39 bps
Materials	3.5%	4.7%	-1.2%	2.3%	12.0%	7 bps	-39 bps
Financials	20.0%	18.4%	1.6%	1.5%	3.8%	32 bps	-48 bps
Consumer Staples	11.0%	8.3%	2.7%	3.2%	9.1%	36 bps	-54 bps
Consumer Discretionary	2.8%	7.3%	-4.5%	10.3%	15.4%	26 bps	-54 bps
Communication Services	8.1%	9.5%	-1.5%	-1.6%	8.4%	-13 bps	-85 bps

(see disclosures)

The best sector for Equity Income in the third quarter was Industrials. Positive attribution was due to stock selection as the portfolio was modestly underweight this strong sector. The sector's two largest holdings, air freight and logistics leader United Parcel Service (UPS) and construction machinery and heavy truck engine manufacturer Cummins (CMI) were among the portfolio's strongest performers, up 50.8% and 22.6%, respectively. Due to the recent strength and reduced risk/reward, we trimmed these positions while adding aerospace & defense leader General Dynamics (GD). See further discussion of both UPS and CMI below.

The second best sector this quarter was Real Estate. Stock selection drove outperformance in the Real Estate space with self-storage facility leader Public Storage (PSA) up 17.1% in the quarter. Additionally, technology related real estate manager Digital Realty Trust (DLR) continues to take advantage of the expansion of mobile and cloud computing with another solid quarter up 4.1% comparing favorably with the benchmark Real Estate sector up 1.7%.

The worst sector for Equity Income was Communication Services. Similar to last quarter, the period was dominated by non-dividend paying stocks such as Pinterest (PINS), Zillow Group (ZG), and Twitter (TWTR), up 87.2%, 76.7%, and 49.4%, respectively. While stocks such as these are in the benchmark index, they are fundamentally different investments than Equity Income's core process. Their feast and famine life cycle can look very appealing in the good times, but the flipside is often equally dramatic. High dividend, quality and low range of outcome Communication Services holdings such as Omnicom (OMC), AT&T (T), and BCE (BCE – originally Bell Canada), lagged considerably in this risk-on environment, down -8.2%, -4.0%, and up 0.8%, respectively.

The second worst sector this quarter was Consumer Discretionary. Allocation was the driver behind the weakness as the portfolio weight was well below the benchmark while Consumer Discretionary was the strongest performing sector in the quarter. Again, performance was dominated by non-dividend payers such as L Brands (LB) and Peloton (PTON), up 112.5% and 71.8%, respectively. The sole Consumer Discretionary holding in the portfolio, automotive and industrial parts distributor Genuine Parts (GPC), was up a respectable 10.3% in the quarter, but that lagged the sector's 15.4% gain.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	UNITED PARCEL SERVICE CL B	2.19	88 bps
2	CUMMINS INC	2.68	53 bps
3	DUKE ENERGY CORP	2.52	30 bps
4	PUBLIC STORAGE	1.70	28 bps
5	GENUINE PARTS CO	2.76	26 bps
6	CANADIAN IMPERIAL BANK OF COMMERCE	2.04	24 bps
7	AMGEN INC	2.61	22 bps
8	PFIZER INC	1.57	20 bps
9	PAYCHEX INC	2.63	16 bps
10	PHILIP MORRIS INTERNATIONAL	1.81	15 bps

	Top 10 Detractors	Average % Weight	Contribution
1	CISCO SYSTEMS INC	3.07	-48 bps
2	EOG RESOURCES INC	1.21	-39 bps
3	CHEVRON CORP	1.61	-31 bps
4	KINDER MORGAN INC	1.67	-31 bps
5	CAPITOL FEDERAL FINANCIAL INC	1.66	-28 bps
6	CVS HEALTH CORP	2.04	-20 bps
7	OMNICOM GROUP	2.39	-20 bps
8	SCHLUMBERGER LTD	1.17	-18 bps
9	ESSEX PROPERTY TRUST INC	1.14	-14 bps
10	NORTHWEST BANCSHARES INC	1.52	-14 bps

Selected Contributor(s) to Performance

The highest contributing security in the third quarter was United Parcel Service Inc. (UPS). UPS is the world's largest package delivery company, a leader in the U.S. less-than-truckload ("LTL") industry and a provider of global supply chain management solutions. The Company was up 50.8% in the third quarter holding period. UPS's outperformance was driven by the record-high volumes experienced in the quarter which led to a huge profitability beat on better package yields. While the record volumes are expected to be more subdued in the second half of 2020, the market is giving credit for a structural shift in increased shipment demand for businesses and individual customers alike. A new CEO has also stringently outlined the Company's renewed focus on capital allocation with the goal of revitalizing both returns and margins, which have dropped significantly over the past few years' capital spending up cycle. She has also emphasized both rationalizing the product offerings and the pricing structure to concentrate on getting 'better not bigger.'

The second highest contributing holding in the quarter was Cummins Inc. (CMI). Cummins is the world's largest manufacturer of diesel engines and related products. The stock was up 22.6% in the third quarter as the Company flexed its operational leverage to generate above-expected profitability in the face of a record decline in revenue. CMI also gained market share in what turned out to be a record-setting growth quarter for China, while announcing an additional $300mm in expected revenue over the next 18 months in China and India, due to recently implemented government regulation surrounding emissions standards. Management's continued commitment to returns and growing the dividend, diversification efforts in aligning its product portfolio for the future of greener vehicles through its new power business, and their announcement pertaining to the expected second half of 2020 completion of the world's largest PEM hydrogen electrolysis plant supports our confidence in Cummins future.

Selected Detractor(s) from Performance

The lowest contributing security in the third quarter was Cisco Systems Inc. (CSCO). Cisco is a designer and distributor of hardware and software technology products that are used across a wide spectrum of end markets including networking, security, collaboration, applications, and the cloud. CSCO was down -14.9% in the third quarter, compared with the benchmark Russell 1000 Value Technology industry group down -0.5% in the quarter. Due to COVID-19, CSCO has seen the largest portions of its business – campus switching and data center switching – slow as enterprises become more cautious with their spending due to the macro uncertainty and potential secular move to work-from-home and the public cloud. The CEO also announced to the market that the network architectures the Company has been building and working on for the last 15 years aren't "as relevant because the traffic flows are completely different." This revelation and short- to medium-term uncertainty acted to drop the stock in the quarter. Longer-term we believe this market share leader has the right plan to navigate this secularly growing industry by increasing its recurring software sales, now 78% of total, and continuing the shift to collaboration and security as remote working takes stronger hold. The Company has approximately $14B in net cash and a dividend expected to yield approximately 4%, more than 2x covered by earnings, giving us comfort in continuing to hold the position throughout this short-term uncertainty.

The second lowest contributing security this quarter was EOG Resources Inc (EOG). EOG is an exploration and production company, primarily focused in the United States, that has operations producing crude oil, natural gas liquids, and natural gas throughout major basins such as the Eagle Ford, Permian, DJ, and Niobrara. EOG was down -28.5% in the third quarter, compared with the benchmark Russell 1000 Value Energy industry group down -19.5% in the quarter. Not only has the prolonged work-from-home environment continued to stymie gasoline demand, air travel demand continues to remain subdued – both of which act to increase distillate stockpiles and push production down. More importantly, as presidential candidate Joe Biden has gained popularity in the polls, the closer to reality his stance on no new oil and gas permits being granted on federal lands gets to being enacted. With approximately 50% of the Company's own self-proclaimed premium drilling locations potentially inaccessible, the stock took a drastic tumble. However, in light of this, management stated on the second quarter 2020 earnings call that the other 50% of its premium portfolio, which resides on non-federal lands, would provide for an 8-year drilling schedule at the current capital plan, and the permits currently in hand for federal land drilling would provide a 3-4 year production schedule as well. With a management focused on continuing its track record of peer-leading returns and a strong balance sheet backing a stable dividend, we have maintained the portfolio's position in this best-in-class operator.

Current Positioning

As previously mentioned, the portfolio remains overweight high dividend stocks with a strong tilt toward higher profitability and value-priced stocks. The largest portfolio factor underweights are toward volatility, larger market capitalizations, and momentum securities. Equity income is overweight the Utilities and Consumer Staples sectors while underweight Consumer Discretionary, Health Care, and Information Technology sectors. The Health Care sector underweight is entirely due to under-exposure to the Health Care Equipment and Services industry group with its lack of higher dividend opportunities. The portfolio is overweight pharmaceutical holdings. As of quarter end, the portfolio's weighted average dividend yield was 4.06%, which compares favorably with the benchmark Russell 1000 Value Index at 2.65% and the 10-year U.S. Treasury yield of 0.68%.

The current economic environment is unusually tricky. It is a fool's errand to try and predict near term economic changes. What one hears from so-called experts on TV news and elsewhere sometimes feels invariably linked to the last couple month's economic indications. Such forecasts are often as unhelpful as they are common. What is challenging about today is the rapid acceleration in consumer spending after initial pandemic lock downs, particularly related to new home construction and sales, juxtaposed with the historic magnitude of corporate spending cuts and widespread unemployment. This situation at least partly reflects the bifurcated nature of the COVID-19 impact. Industries and employees that are able to work remotely are, by and large, in a relatively strong position. While consumer service industries such as restaurants, bars, airlines, theme parks, movie theaters, etc. are struggling as much, or more, than during the great recession. A key difference between these groups is the typical earning levels of those most impacted. Lower income positions dominate the latter and thus may have a muted impact on the economy as a whole. Regardless, how the economy moves in future quarters relies considerably upon how the pandemic evolves. If a vaccine or other mitigating factors do not arrive in the next few months and the potential second wave leads to renewed lockdowns and closures during the traditional flu season, a significant recessionary trend may accelerate beyond any stimulation the Federal Reserve and White House can muster. It is this scenario we are trying to protect capital from, and it seems quite a different focus from that of the market at large. Time will tell, but as always, we will continue to focus on optimizing the risk/reward balance of the Equity Income portfolio.

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: 2.7% 2020: 2.3%.*

**A performance examination has been performed on performance results through 12/31/19. A firm-wide verification was performed for the periods 1/1/93 through 12/31/19. Data subsequent to 6/30/20 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.