DEAN Capital Management

Mid Cap Value Commentary

Third Quarter 2020

Performance Comparison[1]

Periods Ended 9/30/20 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	S. I.[1]
DCM Mid Cap Value (gross)	4.56	-16.60	-11.69	0.88	7.20	9.99	9.99
DCM Mid Cap Value (net)	4.34	-17.14	-12.44	0.03	6.28	9.00	8.99
Russell Midcap Value	6.40	-12.84	-7.30	0.82	6.38	9.71	7.90

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

Performance Summary

The DCM Mid Cap Value composite was up 4.56% (gross of fees) for the quarter ended September 30, 2020, compared with the Russell Midcap Value Index, up 6.40%.

Macro style factors played a large role in the strategy's underperformance this quarter. Stocks with larger market capitalizations and higher secular growth continue to outperform the overall market. Relative to the benchmark, the portfolio's average weighted market capitalization is smaller, and our exposure to stocks with lower valuations is higher creating a headwind to performance.

Like last quarter, the strategy's focus on high quality stocks proved detrimental as the "risk on" rally advanced. The portfolio is overweight stocks with high operating profit which underperformed. The portfolio is also underweight stocks with high trading turnover, higher volatility, and poor balance sheets, all factors that outperformed in the quarter.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Financials	16.0%	15.2%	0.8%	5.9%	2.4%	89 bps	54 bps
Energy	2.7%	4.0%	-1.3%	-12.4%	-16.2%	-42 bps	39 bps
Utilities	7.7%	9.0%	-1.4%	3.0%	4.3%	39 bps	0 bps
Health Care	9.1%	7.8%	1.4%	6.5%	8.0%	56 bps	-7 bps
Real Estate	7.2%	10.7%	-3.5%	-4.4%	0.1%	-31 bps	-12 bps
Materials	8.2%	6.9%	1.4%	9.7%	13.1%	81 bps	-17 bps
Consumer Staples	6.0%	4.5%	1.5%	2.5%	4.7%	21 bps	-19 bps
Industrials	19.2%	16.9%	2.3%	9.7%	11.8%	174 bps	-25 bps
Information Technology	10.3%	9.6%	0.7%	1.9%	4.9%	24 bps	-32 bps
Communication Services	1.5%	3.9%	-2.5%	-8.2%	15.4%	-12 bps	-56 bps
Consumer Discretionary	10.3%	11.6%	-1.3%	7.3%	14.6%	58 bps	-89 bps

(see disclosures)

The best performing sector relative to the benchmark for the quarter was Financials. The outperformance was driven by stock selection. Assurant (AIZ), an insurer of major consumer purchases such as electronics or automobiles with extended service contracts, exceeded expected earnings for the quarter and reinstated earnings guidance for the year to be up greater than 10%, signaling confidence in their business. The shares were up 18.1% this quarter. Consumer finance company Synchrony Financial (SYF) was up 19.3% in the quarter as credit loan balances showed stability and charge offs were slightly better than expected. As shares of financial firms sold off in the early stages of the pandemic, we added weight to the sector and are now slightly overweight the Financials sector, which was a modest negative with the sector underperforming the benchmark.

Energy was the second best performing sector relative to the benchmark. Both allocation and stock selection contributed to the outperformance. The Energy sector continues to be plagued by weak demand and an over-supply of oil, forcing a significant curtailment of activity as cash flow and access to capital markets decline. These factors led the Energy sector down -16.2% in the quarter, far lower than the benchmark return and the only sector with a negative return in the quarter. Thus, our underweight to the sector added to performance. In addition, Permian Basin focused Pioneer Natural Resources (PXD) held up better than the overall sector, down -11.4%.

The worst performing sector relative to the benchmark for the quarter was Consumer Discretionary. Allocation was a modest negative as we were underweight a sector that significantly outperformed the benchmark. After strong performance in the second quarter, several of our holdings in the Consumer Durables & Apparel industry significantly underperformed in the third quarter. Garmin (GRMN), a maker of consumer products enabled with global positioning technology (GPS), Polaris (PII), a maker of motorcycles, ATVs, and Snowmobiles, and Carter's (CRI), a maker of children's apparel, returned negative -2.1%, 2.6%, and -3.3% for the period held vs. the industry up 20.8%. Within the Consumer Durables & Apparel industry, homebuilders drove the outperformance with the majority up greater than 30% in the quarter as low interest rates spurred demand. Our lack of ownership of hotel or restaurant stocks also generated a headwind as these stocks rebounded sharply in the quarter.

Communication Services was the second worst performing sector. Allocation was negative as we were nearly 2.50% underweight the top performing sector in the benchmark. Stock selection was also negative as advertising and marketing company Omnicom (OMC) was down -8.2% as second quarter earnings were uninspiring. Many of the names that significantly outperformed in the sector do not meet our valuation or quality criteria. For instance, "new media" companies such as Pinterest (PINS), Zillow (Z), and Twitter (TWTR) were up 87%, 77%, and 49%, respectively. These stocks tend to have large followings but generate little to no profit for the foreseeable future, making them unattractive within our process.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	PERKINELMER INC	1.68	43 bps
2	KANSAS CITY SOUTHERN	1.85	36 bps
3	PENTAIR PLC	1.83	35 bps
4	EAGLE MATERIALS INC	1.61	33 bps
5	ZIMMER BIOMET HOLDINGS INC	1.87	30 bps
6	APTIV PLC	1.74	29 bps
7	AMEREN CORPORATION	1.91	28 bps
8	STANLEY BLACK & DECKER INC	1.72	27 bps
9	ARROW ELECTRONICS INC	1.89	26 bps
10	ASSURANT INC	1.58	26 bps

	Top 10 Detractors	Average % Weight	Contribution
1	WESTERN DIGITAL CORP	1.38	-27 bps
2	PIONEER NATURAL RESOURCES CO	2.02	-24 bps
3	ESSEX PROPERTY TRUST INC	1.85	-23 bps
4	FRONTDOOR INC	0.43	-23 bps
5	MSC INDUSTRIAL DIRECT CO A	1.46	-20 bps
6	BAKER HUGHES CO	0.69	-18 bps
7	HILL-ROM HOLDINGS INC	0.42	-18 bps
8	HIGHWOODS PROPERTIES INC	1.81	-16 bps
9	OMNICOM GROUP	1.45	-12 bps
10	COMMERCE BANCSHARES INC	1.39	-8 bps

Selected Contributor(s) to Performance

PerkinElmer (PKI), up 28.0%, was the largest contributing stock. The company is a supplier of analytical instruments, diagnostic platforms, and related services for clinical, food, environmental, industrial and life sciences research markets. The Discovery & Analytical segment accounts for approximately 60% of revenue and focuses on technologies for life science research and monitoring for contaminants and toxic chemicals that impact the environment and food supply. The remaining 40% of sales are in the Diagnostics segment which sells instruments, reagents, assay kits and software to hospitals, clinical labs, and medical research professionals with a focus on reproductive health. PerkinElmer is the leader in early detection of genetic disorders from pregnancy to early childhood. Within the Diagnostics segment, PerkinElmer has emerged as a leading provider of products related to Covid-19 testing, with over a dozen new products introduced.

Currently, sales of new testing products are outpacing Covid-19 lost sales by an approximately 2 to 1 ratio, generating strong earnings growth over the next year. While we have reduced our weight due to outperformance, we continue to hold a position in PerkinElmer.

The second largest contributing stock was Kansas City Southern (KSU), up 21.4% this quarter. KSU is the smallest of the Class 1 railroads. Its primary network resides in 10 central U.S. states as well as in the central and northeastern states of Mexico. KSU's growth has benefitted from automotive plant openings in Mexico along with continued growth in intermodal and is growing faster than larger peers. While the second quarter benefitted from volumes ramping higher off May lows, the highlight was much improved operational metrics as the company's precision scheduled railroading implementation is paying off. Based on the improved metrics, Kansas City Southern increased the annual cost savings target, highlighting the potential for higher incremental margins post the downturn. In addition, The Wall Street Journal reported in early August that Global Infrastructure Partners and the infrastructure arm of Blackstone Group were exploring a potential bid to acquire Kansas City Southern for nearly $20B, or approximately $208 per share. The bid was deemed to undervalue the operator and rejected by management. However, the bid provides support for the shares, which we continue to hold.

Selected Detractor(s) from Performance

Western Digital Corp (WDC), down -17.2% for the quarter, is a maker of hard disk drives (HDD) with an approximate 40% market share. The market for HDD technology is mature with WDC's largest competitor being Seagate Technology (STX). In 2016, WDC made a push into the flash memory business purchasing Sandisk. NAND flash memory now makes up 40% of WDC revenues where Micron Technology is a large competitor. Oversupply of NAND memory and falling average selling prices hit NAND memory in the second quarter. There are also concerns the data center spending, a key driver for HDD technology, may be curtailed in the wave of the pandemic. While near term fundamentals are difficult in the industry, we continue to hold WDC on valuation and the continued demand for all things cloud related, including memory and disk drives. We also believe new CEO David Goeckler will aggressively address the firm's balance sheet and reorganize the firm with a possible unwinding of the Sandisk acquisition at a future date, which would create two pure play companies in different product lines.

The second largest detracting stock was Pioneer Natural Resources (PXD), down -11.4% for the quarter. The company's primary asset is in the Permian Basin where it was one of the early developers of the field. The company has a deep inventory of undeveloped drilling locations in the Midland side of the basin where it is one of the lowest cost producers in the basin. In uncertain times for oil prices, we own Pioneer due to its low-cost position and better than average balance sheet that can withstand lower commodity prices. On an absolute basis, Pioneer was one of our worst stocks for the quarter, largely due to the Energy sector being down -16.2% in the quarter as ample spare production capacity exists in the face of weak demand due to the pandemic. While fundamentals are weak, we continue to hold Pioneer with its defensive characteristics as we believe demand will return at a time when industry capital investment has declined materially, creating an opportunity for higher prices in the short run.

Current Positioning

Currently, the portfolio's largest overweight sectors relative to the benchmark are the Industrials and Financials sectors. The largest underweight sectors relative to the benchmark are the Real Estate and Communication Services sectors. The most weight was added in the Industrials, Energy, and Consumer Discretionary sectors while Utilities, Consumer Staples, and Information Technology decreased the most in weight.

Like last quarter, a clear line to "normal" is murky at best. While significant monetary and fiscal stimulus has avoided the worst-case scenario, Covid-19 infections and unemployment claims remain stubbornly high. With government aid set to wind down, politicians are gridlocked over the steps forward for the next round of stimulus. In addition, a presidential election will occur in November and is already rumored to be severely contested via lawsuits related to voter ballots. Thus, the path forward could see wide ranges of volatility and outcomes in the short term. However, we believe in the long term, the government will continue to support the economy and return to prosperity once Covid-19 fades. While we have discussed it many times, the valuation spreads between growth and value have widened to extremes. Trends tend to gain momentum and typically last longer than anyone expects, but we believe the valuation discrepancy has reached a level that will lead to small and mid-cap value outperforming as these stocks show higher earnings growth post 2020. As such, we continue to move the portfolio into cyclical areas of the market with lower market caps and better valuation characteristics than the overall 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 Mid Cap Value style uses value oriented equities, the majority of which have a market capitalization between $2 billion and $20 billion at purchase. These are fully invested equity styles which range 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.

Future performance based on prior results should not be assumed. The Russell Midcap Index is a subset of the Russell 1000 Index and includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The Russell Midcap Value Index measures the performance of those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. Members of the Russell Midcap Value Index are also members of the Russell 1000 Value Index. 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: 100.0% 2009: 100.0% 2010: 39.9% 2011: 11.1% 2012: 7.4% 2013: 6.8% 2014: 4.0% 2015: 4.2% 2016: 3.6% 2017: 3.1% 2018: 2.7% 2019: 1.4% 2020: 1.1%.*

**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

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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.