DEAN Capital Management

Mid Cap Value Commentary

Third Quarter 2021

Performance Comparison[1]

Periods Ended 9/30/21 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	S. I.[1]
DCM Mid Cap Value (gross)	-0.49	17.30	38.99	8.66	10.51	14.27	11.95
DCM Mid Cap Value (net)	-0.70	16.57	37.86	7.76	9.59	13.25	10.94
Russell Midcap Value	-1.01	18.24	42.40	10.28	10.59	13.93	10.18

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

Performance Summary

The DCM Mid Cap Value composite was up -0.49% (gross of fees) for the quarter ended September 30, 2021, compared with the Russell Midcap Value Index, down -1.01%.

Macro style factors were a benefit to the portfolio this quarter. The market shifted, albeit modestly, to stocks with value and quality (higher profitability) characteristics, both traits the portfolio is overweight relative to the benchmark. With the shift to stocks with higher quality characteristics, the portfolio's underweight of stocks with high trading turnover, high price variability, and wider earnings variability added to factor outperformance.

Late in the second quarter and early in the third quarter, 10-year Treasury yields declined as concerns on rising inflation and Fed tapering were minimized with a continued dovish outlook communicated by the Fed. However, late in the third quarter, economic data, along with guidance from companies, highlighted the cost pressures being experienced on company earnings in terms of rising labor costs, increased expenses from stressed supply chains in the form of higher shipping costs and missed sales, and increased commodity costs, especially energy. As inflation expectations have risen, the 10-year Treasury yield has moved back above 1.50%, and the market has begun to rotate back to stocks with higher quality characteristics and lower valuation. In theory, higher rates and widening credit spreads should negatively impact stocks with high growth rates as the cash flows to be generated far in the future are worth less when discounted back at these higher rates. Thus, we continue to believe that stocks with high quality characteristics such as strong free cash flow, high returns on capital, and minimal debt, as well as those with valuations below the market, will benefit moving forward.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Industrials	15.1%	15.8%	-0.7%	0.5%	-3.1%	9 bps	58 bps
Consumer Staples	8.2%	4.2%	4.0%	2.7%	-2.7%	20 bps	37 bps
Real Estate	9.0%	11.0%	-2.0%	6.5%	2.3%	55 bps	29 bps
Energy	3.3%	4.7%	-1.3%	5.9%	-0.1%	19 bps	19 bps
Communication Services	1.7%	4.1%	-2.3%	-8.5%	-5.5%	-16 bps	5 bps
Financials	16.3%	16.3%	0.0%	3.1%	3.1%	49 bps	0 bps
Health Care	8.8%	8.6%	0.3%	0.6%	0.1%	3 bps	-1 bps
Utilities	6.9%	7.2%	-0.3%	-1.2%	-0.4%	-10 bps	-7 bps
Information Technology	6.9%	10.0%	-3.1%	-6.5%	-3.3%	-45 bps	-17 bps
Consumer Discretionary	10.6%	10.9%	-0.3%	-5.5%	-3.6%	-58 bps	-21 bps
Materials	9.1%	7.4%	1.7%	-7.8%	-2.2%	-73 bps	-55 bps

(see disclosures)

The best performing sector relative to the benchmark for the quarter was Industrials. Stock selection was the driver of the Industrials' outperformance with the majority of holdings outperforming the benchmark's Industrials sector. While demand appears to remain strong, rising inflation due to supply chain issues and labor shortages have led to concerns on forward earnings. The portfolio's holdings typically are higher quality with a narrower range of outcomes and have held up well in the face of uncertainty relative to inflationary pressures.

Consumer Staples was the second best performing sector relative to the benchmark. The outperformance was driven by stock selection with BJ's Wholesale (BJ) up 15.4% and Tyson (TSN) up 7.6%. BJ's Wholesale, a retail membership club operating on the east coast, continues to execute in the face of tough comps due to the COVID ramp of 2020. Currently, the company appears to be retaining the new members added in the pandemic, which was a concern of the market's. The stock is discussed in more detail in the Contributors to Performance section. Tyson Foods, a vertical chicken, beef, and pork producer, reported its fiscal third quarter results which significantly exceeded expectations. The company's beef profits were much higher than expected along with positive operating profits in its chicken division. The company's plans to improve chicken margins in 2022 was well received, leading to strong price performance this quarter.

The worst performing sector relative to the benchmark for the quarter was Materials. Underperformance was due to stock selection, primarily from two holdings in FMC Corp (FMC), down -14.9%, and Diversey Holdings (DSEY), down -9.7% for the period held. FMC is an agricultural solutions company focusing on crop aids such as herbicides, insecticides, and fungicides. The company has had several quarters of headwinds with early issues being a drought in South America and supply chain concerns leading to missed sales, while, more recently, the Company has faced raw materials inflation to go along with continued supply chain problems in delivering and receiving materials on time. The company lowered its forward guidance once again as it plans to absorb some raw materials inflation in terms of lower price to maintain or increase market share. This shift to a market share strategy over profits in the short term, and the resulting decline in earnings expectation, led to the selloff in the stock. Diversey Holdings is a hygiene and cleaning products company with a large percentage of sales in Europe, which is primarily focused on selling products to the institutional food service industry, office buildings, etc. The stock has disappointed as the Delta variant rages, delaying the opening of many customers Diversey serves.

Consumer Discretionary was the second worst performing sector. The driver of underperformance was stock selection and weighting concentrated in the Consumer Durables & Apparel and Automobiles & Components industry groups. The general theme among the stocks driving underperformance was the disruption and costs associated with supply chain issues. Auto production has been hampered due to the lack of parts, primarily semiconductors, impacting BorgWarner (BWA). Homebuilder PulteGroup (PHM) guided volumes lower along with lower margins on homes sold due to lack of supplies to finish homes in a timely manner. After crushing last quarter's expectations, footwear maker Skechers (SKX) traded off on concern they would be short of product for the holiday season. Several retailers and manufacturers have started to raise concern over the holidays due to supply shortages, including Nike (NKE).

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	HILL-ROM HOLDINGS INC	1.70	46 bps
2	BJ'S WHOLESALE CLUB HOLDINGS	1.98	27 bps
3	CBRE GROUP INC A	1.90	24 bps
4	AUTOZONE INC	1.69	22 bps
5	FIFTH THIRD BANCORP	1.81	21 bps
6	QUEST DIAGNOSTICS INC	1.65	16 bps
7	ESSEX PROPERTY TRUST INC	2.23	15 bps
8	HEALTHCARE TRUST OF AMERICA CL A	1.48	15 bps
9	REPUBLIC SERVICES INC	1.69	15 bps
10	RAYMOND JAMES FINANCIAL INC	2.01	13 bps

	Top 10 Detractors	Average % Weight	Contribution
1	JAZZ PHARMACEUTICALS PLC	0.51	-36 bps
2	WESTERN DIGITAL CORP	1.34	-31 bps
3	MKS INSTRUMENTS INC	0.67	-28 bps
4	FMC CORP	1.42	-24 bps
5	PULTEGROUP INC	1.45	-24 bps
6	SKECHERS USA INC CL A	1.52	-23 bps
7	POLARIS INC	1.47	-20 bps
8	DIVERSEY HOLDINGS LTD	0.74	-17 bps
9	OMNICOM GROUP	1.71	-16 bps
10	BORGWARNER INC	1.35	-15 bps

Selected Contributor(s) to Performance

Hill-Rom Holdings (HRC), up 32.3%, was the largest contributing stock. Hill-Rom is a producer of med-tech equipment, including beds and lifts used in a healthcare setting, specialty scopes, blood pressure systems, diagnostic cardiology products used in front line care and tables, as well as lights and positioning systems used in the surgical rooms. The company has focused on a strategy of connected care with investments in monitoring, device integration, and communications. In September, Baxter International agreed to acquire HRC in an all-cash deal for $156 a share, an approximate 34% premium to the pre-rumor price in mid-July. The portfolio continues to hold the stock as we see very little risk in the deal not closing in first quarter 2022, and the stock currently trades at approximately a 3% discount to the offer price.

The second largest contributing stock was BJ's Wholesale Club (BJ), up 15.4% this quarter. BJ's Wholesale operates 219 member-warehouse clubs in the Eastern United States with 62% of locations also selling gasoline. Food accounts for approximately 60% of food and general merchandise sales. Prior to the pandemic, BJ's had been focused on improving the in-store/on-line experience with digital enhancements as well as improved assortment/mix. During Covid, the company experienced a significant lift in new members with the concern in 2021 surrounding BJ's ability to retain these new members going forward. For 2021, the company has seen higher than expected retention in their member base leading to the company exceeding second quarter results and guiding the remainder of the year's earnings higher. The portfolio continues to hold BJ's Wholesale Club.

Selected Detractor(s) from Performance

Jazz Pharmaceutical (JAZZ) was the largest detracting stock. Jazz is a global pharmaceutical company focusing on chronic diseases with little to no current therapy options in the sleep, oncology, and epilepsy therapeutics spaces. JAZZ was down -24.5% for the period held, compared with the benchmark Russell Midcap Value Health Care sector which returned 0.1% in the quarter. JAZZ produced solid second quarter results that were released in August, showing that the conversion of patients from Xyrem to Xywav, a lower-sodium treatment for chronic excessive daytime sleepiness (EDS), was approximately 32%, nearing a potential generic Xyrem triggering event of approximately 50% conversion. This spooked markets as the introduction of generic competition is set to occur earlier than expected. We felt this was unjustified as doctors unanimously support Xywav adoption due to the chronic nature of EDS and the health benefits provided from lower-sodium intake versus Xyrem or the potential Xyrem generics. However, just days after its own earnings release, Avadel Pharmaceuticals plc (AVDL) released its own earnings and announced that its drug, FT218, which competes with Xywav and offers patients a once-nightly dosage instead of Xywav's twice-nightly, was on track for commercial launch in fourth quarter 2021, causing JAZZ to leg down further on fears of consumer preference for less nightly interruption. The portfolio exited JAZZ as we revisit the competitive landscape and the impact on the company's plans to de-lever and support its diversified pipeline of drug launches.

The second largest detracting stock was Western Digital (WDC), down -20.7% for the quarter. Western Digital 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, and Micron Technology is a large competitor. Western Digital significantly exceeded estimates in the second quarter on improved demand for disk drives and guided the remainder of the year higher. However, the stock continues to trade sideways to down on concerns of the NAND markets pricing and the continual market share losses of HDD. The stock also sold off in late August on rumors of WDC merging with Kioxia, another producer of flash memory. While the industry could benefit from consolidation in the long run, the stock continued to fall on concerns that WDC would make an acquisition rather than reducing debt and buying back shares. The portfolio has not added to Western Digital but continues to hold the shares.

Current Positioning

At quarter end, the portfolio's largest overweight sectors relative to the benchmark are the Consumer Staples and Materials sectors. The largest underweight sectors relative to the benchmark are the Communication Services and Information Technology sectors. The most weight was added in the Health Care and Utilities sectors while the Industrials and Information Technology Sectors were reduced by the most weight.

While the valuation gap has narrowed very modestly recently, our view from the past several quarters has not changed in that the valuation gap between stocks with high quality attributes and the overall market is too wide, especially considering relatively high growth expectations for future growth. A similar valuation gap exists between value and growth stocks, which has been magnified in the low interest rate environment that favors growth. As growth expectations moderate on higher capital costs and rising inflation, we believe quality and valuation will perform well relative to stocks with questionable quality metrics or excessive growth priced in. We continue to focus on stocks with higher quality attributes selling at a discount while trimming some of our wider range of outcome holdings as the risk vs. reward is less attractive.

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®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Past performance does not guarantee future results.

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The Mid Cap Value style uses value oriented equities, the majority of which have a market capitalization between $3.5 billion and $40 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 report 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 0.80%. 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 is stated in U.S. Dollar terms. Leverage is not used in any portfolio in these composites.

A performance examination has been performed on performance results from 7/1/08 through 12/31/20. A firm-wide verification was performed for the periods 7/1/08 through 12/31/20. Data subsequent to 8/31/21 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.