DEAN Capital Management

Multi-Cap Value Commentary

First Quarter 2022

Performance Comparison[1]

Periods Ended 3/31/22 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	S. I.[1]
DCM Multi-Cap Value (gross)	-1.15	-1.15	10.83	11.33	10.26	10.97	10.43
DCM Multi-Cap Value (net)	-1.30	-1.30	10.17	10.66	9.61	10.19	9.61
Russell 3000 Value	-0.85	-0.85	11.10	12.99	10.16	11.61	9.33

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

Performance Summary

The DCM Multi-Cap Value composite gross total return was -1.15% in the first quarter of 2022, compared with the Russell 3000 Value Index return of -0.85%.

Broad market factors were a positive in the first quarter. Lower volatility and momentum, along with a higher dividend yield, contributed positively to the performance. Less trade activity and lower leverage were negative contributors.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Health Care	16.8%	17.1%	-0.3%	4.6%	-1.8%	81 bps	106 bps
Information Technology	10.8%	9.3%	1.6%	-5.5%	-9.3%	-60 bps	32 bps
Materials	4.0%	3.9%	0.1%	10.0%	4.7%	42 bps	22 bps
Utilities	5.4%	5.1%	0.3%	6.0%	4.4%	32 bps	9 bps
Real Estate	4.2%	5.3%	-1.1%	-4.7%	-4.0%	-21 bps	0 bps
Communication Services	4.6%	7.1%	-2.5%	-5.2%	-3.0%	-25 bps	-5 bps
Financials	20.3%	21.7%	-1.4%	-1.9%	-1.5%	-41 bps	-5 bps
Consumer Discretionary	6.9%	5.5%	1.5%	-14.3%	-13.3%	-107 bps	-27 bps
Consumer Staples	8.8%	7.2%	1.7%	-4.7%	-0.1%	-48 bps	-43 bps
Energy	5.3%	6.6%	-1.2%	34.2%	39.1%	152 bps	-52 bps
Industrials	9.4%	11.4%	-2.1%	-11.8%	-4.1%	-118 bps	-68 bps

(see disclosures)

The best sector for Multi-Cap Value in the first quarter was Health Care. The portfolio benefitted from being underweight the underperforming sector, with stock selection providing the majority of the performance as most of the portfolio's sector holdings outperformed the benchmark. Mckesson Corp. (MCK), which is discussed in more detail below, Bristol Myers Squibb Co. (BMY), and Encompass Health Corp. (EHC) led the way returning 23.4%, 19.0%, and 9.4%, respectively. The Russell 3000 Value Health Care sector returned -1.8% for the quarter. BMY had a strong quarter on the back of management's announcement for accelerated share repurchases while maintaining guidance for FY22E, and EHC outperformed as investors finally received clarity on the proposed spinoff of its Home Health & Hospice business while providing stronger-than-expected guidance and commencing with deleveraging.

The second best sector this quarter was Information Technology. Allocation was negative as the portfolio was overweight the underperforming sector, but this was more than offset by strong stock selection. Cognizant Tech Solutions, a provider of custom information technology consulting services, returned 1.4% as the Russell 3000 Value Information Technology sector returned -9.3%. The outperformance was driven by solid 4Q21 results that were followed up by management guidance above consensus due in large part to increased demand for its digital offering which is benefitting from the global digital skills shortage and high levels of attrition as its products help businesses mitigate these effects. The portfolio also benefitted from not owning the more expensive, longer duration tech names that sold off as inflation fears kickstarted a Fed interest rate hiking cycle.

The worst sector for Multi-Cap Value in the first quarter was Industrials. Allocation was positive as the portfolio was underweight the underperforming sector, but selection was negative. Stanley Black & Decker Inc. (SWK) was down -25.5% in the quarter against a -4.1% return for the Russell 3000 Value Industrials sector, as fears of both rate hikes and the student debt moratorium ending contributed to fears of a severe slowdown in consumer discretionary spending. The portfolio continues to hold SWK as the secular home remodel thesis looks to remain strong in the face of rising mortgage rates, and home prices continue to reach record highs. 3M Co. (MMM) was down -15.4% in the quarter as investors continue to await further clarity on management's plans for the portfolio divestment strategy while legal woes related to combat earplugs continue, which may end up costing the company $8-11B in settlement value. With the portfolio restructuring still a remaining catalyst and margins seeming to have bottomed and looking to inflect higher, MMM is trading at a discount to normalized earnings, and the portfolio maintains a position.

The second worst sector was Energy. The portfolio was underweight the outperformer while selection was also negative. The portfolio was hurt by owning lower oil-beta stocks. Chevron Corp. (CVX), a globally integrated producer, refiner, and distributor of oil and gas products, was up 40.2% in the first quarter and is discussed in more detail below. Kinder Morgan Inc. (KMI), a pipeline transportation and energy storage company, returned 21.1% in the quarter, which underperformed the Russell 3000 Value Energy sector return of 39.1%. Recently, we have noticed a decoupling between oil prices and most E&P and OFS players, whereby these players are not reacting to the surge in oil prices in the same way as they have in past cycles. This leads us to be more cautionary with the space as capital markets still remain relatively closed off to Energy names, production is not expected to increase dramatically, and the economics are not falling to the bottom line to the same degree they have in past cycles. With higher oil-beta names trading at higher valuations than historical norms, we feel there are high expectations baked into these names, with higher-than-average risk as well.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	CHEVRON CORP	3.75	123 bps
2	MCKESSON CORP	3.11	66 bps
3	NUTRIEN LTD	1.71	61 bps
4	BERKSHIRE HATHAWAY INC CL B	2.63	44 bps
5	BRISTOL-MYERS SQUIBB CO	1.65	29 bps
6	KINDER MORGAN INC	1.59	29 bps
7	THE HERSHEY CO	2.23	26 bps
8	AFLAC INC	2.15	21 bps
9	GLOBE LIFE INC	2.36	15 bps
10	DUKE ENERGY CORP	1.83	14 bps

	Top 10 Detractors	Average % Weight	Contribution
1	BLACKROCK INC	3.09	-57 bps
2	LOWE'S COMPANIES INC	2.30	-54 bps
3	STANLEY BLACK & DECKER INC	1.26	-36 bps
4	DIGITAL REALTY TRUST INC	1.48	-34 bps
5	BANK OF NEW YORK MELLON CORP	2.11	-31 bps
6	CLOROX COMPANY	1.15	-31 bps
7	VF CORP	1.08	-27 bps
8	KIMBERLY-CLARK CORP	1.83	-26 bps
9	PFIZER INC	1.89	-24 bps
10	THE WALT DISNEY CO	1.80	-22 bps

Selected Contributor(s) to Performance

Chevron Corp. (CVX) was the highest contributing stock during the first quarter. CVX is a globally integrated producer, refiner, and distributor of oil and gas products that returned 40.2% during the quarter. Crude oil prices surged as high as 65% through the beginning of March, before ending up ‘only’ 33% for the quarter. The surge in crude oil was largely due to geopolitical tension as Russia decided to invade Ukraine, spooking markets with the fear of a supply shortage just as COVID cases began falling precipitously, foreshadowing increased demand. The market rewarded CVX for strong, stable performance during this period of heightened prices, as well as management’s continued commitment to returning cash to shareholders with an increased share repurchase authorization and steady focus on its highest yielding assets: the Permian, Tengiz, and LNG. The portfolio continues to hold a large position in CVX.

The second highest contributing stock was Mckesson Corp. (MCK). MCK is the largest pharmaceutical distributor, with a specialty focus in oncology drugs, as well as a provider of supply chain management solutions to its customers. The stock was up 23.4% in the quarter as one of the biggest overhangs for all pharma distributors, the opioid litigation, finally resolved itself with the big three (MCK, ABC, CAH) agreeing to a settlement worth $8B over 18 years, largely derisking projections for investment analysts going forward. The market has also changed its tune regarding generic drugs as the latter half of this decade should provide a boon for development and pricing that hasn’t been seen since the early 2010’s. All of this paired with internal portfolio rationalization and cost mitigation initiatives led to a strong quarter for MCK. The portfolio continues to hold a large weight in MCK.

Selected Detractor(s) from Performance

The largest detracting stock for the first quarter was BlackRock Inc. (BLK). BLK is the world’s largest asset manager offering advice-driven asset management, active investing strategies, and passive ETFs. BlackRock was down -16.0% in the quarter as equity markets were largely weaker during the quarter due to geopolitical issues revolving around Russia’s invasion of Ukraine, inflationary fears driven by higher oil prices, and the beginning of a Fed rate hiking cycle. Over the past few years, BLK has successfully mitigated fee margin cuts with volume growth, hitting $10T in assets under management mid-quarter, but the Company faces product mix headwinds as equities underperform and a stronger dollar erodes higher-margined international fees. As the largest asset manager with a globally diversified product offering and end market customers, we are excited about the long-term prospects for BLK and maintain a position.

The second lowest contributing security this quarter was Lowe’s Cos. Inc. (LOW). Lowe’s is the world’s second largest home improvement retailer with over 90% of its sales concentrated in the U.S. The stock was down -21.5% in the quarter as the same fears that struck SWK, discussed above, hit the company. We continue to believe home improvement demand will prove more durable than the market is giving it credit for. Between internal business optimization strategies focused on deepening relationships within the Pro segment, managing inventory shrink, and driving productivity initiatives, management provided strong margin guidance for FY22E on both the gross profit and EBIT levels of the P&L. The portfolio continues to hold a position in LOW.

Current Positioning

Multi-Cap Value is currently overweight dividend yield and profitability relative to the Russell 3000 Value. The portfolio is underweight volatility, trade activity, earnings variability, and momentum.

From a sector standpoint, the portfolio is currently most overweight Information Technology and Consumer Staples, while being underweight Communication Services and Industrials. As usual, these weights are a residual of our bottom-up process and do not reflect any broad macro or sector bets.

The market seems to be undergoing a regime change, whereby higher quality names and lower valuations seem to be catching investors’ eyes as risk continues to rise. In the last quarter, we’ve had geopolitical tensions rise to a level not seen since Russia’s annexation of Crimea in 2014, though the global response through sanctions and defense equipment deliveries has been much quicker and more staunch, while inflation continues to run at a mid- to high-single-digit pace provoking the Fed into an interest rate hike cycle which has caused the cost of capital to increase from all-time lows and made long-duration assets such as large-cap growth stocks less appealing. As investors become more discerning with their capital, we believe the names we own should benefit from a lower risk, higher quality, better valuation appetite that has been missing since the COVID panic and the ensuing easy money policy and risk-on market euphoria experienced since the March 2020 nadir. As profitability, strong balance sheets, near-term cash flow generation, and strong management teams make their way back onto investor checklists, we should see our normalization process and focus on high quality names trading at reasonable valuations begin to regain favor in the market’s eyes.

Disclosures

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The Multi-Cap Value style uses value oriented equities across the market capitalization spectrum of small, mid, and large stocks. This style is a fully invested equity style 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.

Future performance based on prior results should not be assumed. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 97% of the investable U.S. equity market. The Russell 3000 Value Index measures the performance of those Russell 3000 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 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, and trading and other expenses. Net results reflect the deduction of a model fee equivalent to the highest applicable advisory fee 0.60%. 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.

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 1/1/93 through 12/31/20. Data subsequent to 2/28/22 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.