## Performance Comparison[1]

| Periods Ended 12/31/23 (%) | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | S. I.[1] |
|---|---|---|---|---|---|---|---|
| DCM Small Cap Value (gross) | 8.84 | 3.78 | 3.78 | 12.68 | 12.19 | 8.17 | 10.44 |
| DCM Small Cap Value (net) | 8.62 | 2.91 | 2.91 | 11.75 | 11.26 | 7.19 | 9.38 |
| Russell 2000 Value | 15.26 | 14.65 | 14.65 | 7.94 | 10.00 | 6.76 | 8.25 |

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

## Performance Summary

DCM Small Cap Value ("DCM SCV") returned 8.62% (net of fees) compared with 15.26% for the benchmark, the Russell 2000 Value Index, for the quarter ending December 31, 2023.

The fourth quarter can be split into two distinct periods: the month of October and the November through December time frames. October was characterized by fear as the combined threats of a slowing economy, high interest rates, and an unfriendly Fed led to a drop in the Russell 2000 Value Index of approximately -3%. The DCM Small Cap Value portfolio materially outperformed in October capturing only about 55% of the month's downturn. However, the hopes of a Fed pivot and a soft landing ignited a tremendous risk seeking environment for the last two months of the quarter, leading to a gain in the Russell 2000 Value of approximately +22.6% in November through December. Given the risk seeking behavior by the market, low quality stocks led the charge, which in turn, led to the underperformance of the DCM Small Cap Value portfolio for the last two months, with the portfolio capturing approximately 56% of the upside move.

Macro factors were a headwind for the quarter and a severe headwind for the calendar year 2023. The largest factor exposure for the DCM Small Cap Value portfolio is an overweight to low volatility stocks. According to Bloomberg, a net long-short basket of equal weighted small cap value stocks that isolates the low volatility factor lost approximately -11% for the fourth quarter and approximately -30% for calendar year 2023. In addition, a net long-short basket of equal weighted small cap value stocks that isolates high quality stocks (defined as high profitability, low leverage, and low earnings variability) lost approximately -1% for the quarter and approximately -18% for calendar year 2023. An overweight to low volatility and high quality stocks are, by a large magnitude, the two largest factor exposures for the DCM Small Cap Value portfolio, and both worked severely against it for all of 2023.

While factor headwinds were severe in 2023, it is important to keep perspective that the economic and market cycles do not care when the calendar year flips. They have their own distinct time frames. In analyzing companies from a bottom-up perspective, DCM provides valuation context by analyzing the normalized earnings power of a company over a full cycle. By viewing earnings through a normalized full cycle lens, we gain clarity that blocks out a lot of short-term noise. In that same vein, we analyze portfolio returns from either a rolling time frame or a full cycle perspective. In that regard, both the economic and small cap market cycles are still very much intact as they are both still on the downward slope of a sine curve.

To illustrate, the small cap stock market peaked on November 8th, 2021. Since then, both our primary and secondary small cap benchmarks have negative total returns with the Russell 2000 Value Index losing approximately -10.4% and the Russell 2000 Index losing approxiamtely -17.6% (as of this writing, Jan 5, 2024). Meanwhile, the DCM Small Cap Value portfolio has a positive total return of nearly +5.0%, before fees, over the same time frame. Thus, even though the optics of the calendar year 2023 are less than ideal for the DCM Small Cap Value portfolio, from a full cycle perspective, the portfolio continues to have a material lead over both our primary and secondary small cap indices with a positive total return compared to negative double digit total returns for the indices since the small cap market peak in November 2021. The furious two-month rally in November and December in the fourth quarter helped close some of the underperformance gap from the peak in 2021, for the small cap indices relative to the DCM Small Cap Value portfolio, but the power of full cycle economics is significant. At DCM, we focus on the durability of the portfolio's gains over the full cycle by emphasizing the assuredness of growth of the companies in the portfolio, and this ultimately flows through to solid risk adjusted portfolio returns over the long run.

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. Volatility (DCM SCV has lower)
2. Earnings Variability (DCM SCV has lower)
3. Momentum (DCM SCV has lower)
4. Profitability (DCM SCV has higher)
5. Dividend Yield (DCM SCV has higher)

## Sector Drivers

| GICS Sectors | Average Weight | | | Stock Level Returns | | Portfolio Impact | |
|---|---|---|---|---|---|---|---|
| | Port | Bench | Active | Port | Bench | Contribution | Attribution |
| Energy | 1.6% | 10.3% | -8.7% | -7.8% | -5.2% | -16 bps | 183 bps |
| Communication Services | 2.0% | 2.6% | -0.6% | 5.8% | 5.9% | 11 bps | 4 bps |
| Information Technology | 2.0% | 5.7% | -3.7% | 12.9% | 13.9% | 27 bps | 3 bps |
| Materials | 4.4% | 4.7% | -0.3% | 7.0% | 13.5% | 33 bps | -31 bps |
| Health Care | 8.5% | 8.3% | 0.2% | 13.2% | 18.4% | 105 bps | -37 bps |
| Real Estate | 6.5% | 10.5% | -4.0% | 4.8% | 16.2% | 27 bps | -72 bps |
| Consumer Staples | 7.8% | 2.6% | 5.3% | 3.7% | 11.8% | 29 bps | -82 bps |
| Utilities | 13.4% | 4.1% | 9.3% | 5.7% | 7.6% | 85 bps | -107 bps |
| Industrials | 15.5% | 14.2% | 1.3% | 5.8% | 15.0% | 103 bps | -147 bps |
| Financials | 26.1% | 26.5% | -0.4% | 17.8% | 23.8% | 457 bps | -156 bps |
| Consumer Discretionary | 9.3% | 10.6% | -1.3% | 3.0% | 20.6% | 55 bps | -177 bps |

*(see disclosures)*

The best performing sector relative to the benchmark for the quarter was Energy. The outperformance was a result of being underweight the only sector that had a negative total return for the quarter. Despite a war that erupted in the Middle East, WTI Oil prices dropped from roughly $90/barrel to roughly $70/barrel. This led to the underperformance of Energy stocks. We continue to believe the market is underestimating the amount of demand destruction that could come with the completion of this economic cycle as most small cap energy companies are currently overearning their normalized levels based on our estimate of full cycle normalized earnings power.

The second best performing sector relative to the benchmark for the quarter was Communication Services. The slight outperformance was produced by being slightly underweight in the underperforming sector and by having slightly better than benchmark stock selection.

The worst performing sector relative to the benchmark for the quarter was Consumer Discretionary. The underperformance was due to stock selection as some of the riskiest and highest beta stocks in the sector had the best performance. The portfolio's holdings, which generally have a narrower range of outcomes, did not keep pace. While homebuilder stocks continued their outperformance, the portfolio exited the last of its homebuilder exposure in the third quarter as the space looks to have high expectations priced into the valuations, even when viewed through a normalized full cycle earnings power lens. In addition, the portfolio had a couple of companies report earnings that were below consensus estimates, which led to price declines.

The second worst performing sector relative to the benchmark for the quarter was Financials. The underperformance stemmed mostly from an underweight stance in the banking industry (which rallied on the hope of a Fed pivot) and insurance stocks that were more defensive than the benchmark's holdings. While we increased the portfolio's weight to the banking industry earlier in the year as the stock prices declined post the high-profile bank failures, we continue to remain underweight the benchmark's significant exposure as we believe the credit cycle has yet to fully play out.

## Top 10 Contributors/Detractors

| | Top 10 Contributors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | NATIONAL HEALTHCARE CORP | 2.19 | 88 bps |
| 2 | PJT PARTNERS INC A | 2.65 | 76 bps |
| 3 | CAMDEN NATIONAL CORP | 1.68 | 56 bps |
| 4 | INDEPENDENT BANK CORP MA | 1.54 | 51 bps |
| 5 | CATHAY GENERAL BANCORP | 1.73 | 48 bps |
| 6 | AZZ INC | 1.71 | 46 bps |
| 7 | 1ST SOURCE CORP | 1.51 | 44 bps |
| 8 | GREAT SOUTHERN BANCORP INC | 1.49 | 35 bps |
| 9 | QCR HOLDINGS INC | 1.72 | 34 bps |
| 10 | STEPAN CO | 1.36 | 34 bps |

| | Top 10 Detractors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | PHYSICIANS REALTY TRUST | 0.66 | -21 bps |
| 2 | AIR TRANSPORT SERVICES GROUP | 1.06 | -19 bps |
| 3 | DRIL-QUIP INC | 0.75 | -19 bps |
| 4 | FOX FACTORY HOLDING CORP | 0.41 | -17 bps |
| 5 | SSR MINING INC | 0.80 | -17 bps |
| 6 | SEABOARD CORP | 2.33 | -14 bps |
| 7 | ONE GAS INC | 1.71 | -12 bps |
| 8 | PATTERSON COS INC | 1.83 | -6 bps |
| 9 | THE WENDY'S CO | 2.02 | -6 bps |
| 10 | EMPLOYERS HOLDINGS INC | 2.17 | -3 bps |

## Selected Contributor(s) to Performance

The largest contributing stock this quarter was National Healthcare Corp (NHC). NHC operates skilled nursing facilities, assisted living facilities, and independent living facilities as well as home care programs. It provides sub-acute and post-acute skilled nursing care, intermediate nursing care, rehabilitative care, memory and Alzheimer's care, senior living services, and home health care services. Increased occupancy and a moderation in labor cost increases has helped to drive solid earnings for NHC the last couple of quarters. In addition, it was added to the S&P 600 Index this quarter, which helped propel the stock higher. The portfolio maintains a sizeable position in NHC.

The second largest contributing stock in the quarter was PJT Partners (PJT). PJT is an advisory-focused investment bank that offers a portfolio of advisory services such as: strategic, capital markets, restructuring, and shareholder advisory services to corporations, financial sponsors, and institutional investors. While merger and acquisition activity was muted in 2023, restructuring services picked up as companies struggled with a higher cost of capital. The pickup in restructuring, along with continued aggressive hiring led PJT to solid earnings. With the default cycle still low and M&A activity at a trough, the portfolio continues to hold a sizeable position in PJT as the runway to a higher normalized earnings level looks robust.

## Selected Detractor(s) from Performance

The largest detracting stock in the quarter was Physicians Realty Trust (DOC). DOC is a healthcare REIT that owns and leases properties to physicians, hospitals, and healthcare delivery systems. Its portfolio includes medical office buildings, outpatient treatment and diagnostic facilities, physician group practice clinics, and ambulatory surgery centers as well as specialty hospitals. DOC has struggled with growth for the past couple of years but has had a good balance sheet with stable cash flow. Its role in the portfolio was to play defense and hold up in a choppy market. However, given its "bond-like" profile, it struggled as interest rates rose with no growth to offset the rising cost of capital plus the negative sentiment for yield securities. Given its failure to fulfill its role in the portfolio, we sold the position, and the portfolio no longer holds DOC.

The second largest detracting stock in the quarter was Air Transport Services Group (ATSG). ATSG leases aircraft and provides airline operations, ground services, aircraft modification and maintenance, and other support services mainly to the cargo transportation and package delivery industry. ATSG reported earnings and guidance that missed consensus estimates due to the Israel conflict, a weaker cargo market, inflation, and a negative sales mix. ATSG has historically had volatile earnings, especially in a late economic cycle environment, so a miss of consensus does not come as a significant surprise. We continue to believe ATSG is underearning its normalized earnings power potential, but given it is a wider than normal range of outcome stock for the DCM Small Cap Value strategy, we control the risk through a smaller than average weight in the portfolio.

## Current Positioning

The portfolio's largest overweight sectors relative to the benchmark are currently in the Utilities and Consumer Staples sectors. The largest underweight sectors relative to the benchmark are currently in the Energy and Real Estate sectors. Throughout the quarter, the Consumer Discretionary and Utilities sectors increased the most in weight, while the Real Estate and Health Care sectors decreased the most in weight. 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.

When analyzing historical portfolio metrics, we find that the portfolio is currently positioned to where it is presenting historically above average projected total return potential, while at the same time presenting historically below average risk in terms of volatility and projected downside risk. These two characteristics: historically above average return potential with historically below average risk potential, combine to create well above average future risk adjusted return potential from this point in time. This dynamic has us optimistic about the current positioning of the portfolio as the market moved in a different direction than our portfolio's positioning in 2023, leaving attractive risk adjusted opportunities going forward.

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®). 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.*

*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 $4 billion at purchase. The strategy is typically invested 90%-100% in equity positions, and the number of holdings typically ranges between 60 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 7% 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 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 12/31/22. A firm-wide verification was performed for the periods 7/1/08 through 12/31/22.*

**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.