DEAN Capital Management

Equity Income Commentary

Second Quarter 2024

Performance Comparison[1]

Periods Ended 6/30/24 (%)	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	S. I.[1]
DCM Equity Income (gross)	-0.72	4.21	7.61	5.11	8.48	8.94	10.90
DCM Equity Income (net)	-0.87	3.90	6.97	4.48	7.83	8.26	10.19
Russell 1000 Value[2]	-2.17	6.62	13.06	5.52	9.01	8.17	10.15

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 -0.72% in the second quarter of 2024, compared with the Russell 1000 Value Index -2.17%.

Broad market factors were a tailwind in the second quarter. The portfolio's lower beta, higher dividend yield, and higher profitability exposures contributed to the positive relative performance. On the other hand, lower than benchmark momentum and lower portfolio volatility were detractors in the quarter as anything related to artificial intelligence (which includes most of Information Technology) continued very strong price performance.

Sector Drivers

GICS Sectors	Average Weight			Stock Level Returns		Portfolio Impact	
	Port	Bench	Active	Port	Bench	Contribution	Attribution
Real Estate	10.0%	4.5%	5.4%	4.1%	-1.4%	40 bps	59 bps
Energy	8.3%	8.1%	0.1%	2.6%	-2.5%	21 bps	42 bps
Consumer Staples	14.1%	7.9%	6.2%	1.6%	1.3%	24 bps	26 bps
Information Technology	5.2%	9.3%	-4.1%	4.6%	-1.1%	22 bps	24 bps
Health Care	9.6%	14.0%	-4.4%	-3.9%	-4.8%	-38 bps	22 bps
Materials	4.7%	4.8%	-0.1%	-1.6%	-4.8%	-8 bps	15 bps
Communication Services	6.1%	4.5%	1.6%	-2.0%	-4.4%	-12 bps	12 bps
Utilities	12.7%	5.0%	7.7%	1.2%	4.7%	17 bps	9 bps
Consumer Discretionary	2.3%	4.8%	-2.6%	-9.7%	-7.5%	-24 bps	8 bps
Financials	15.4%	22.7%	-7.2%	-3.0%	-1.3%	-49 bps	-34 bps
Industrials	9.3%	14.4%	-5.2%	-7.3%	-2.3%	-70 bps	-47 bps

(see disclosures)

In the second quarter the best performing sector relative to the Russell 1000 Value index was Real Estate. The Equity Income portfolio was overweight Real Estate while the sector outperformed the benchmark overall. Stock selection was the primary driver of the Real Estate sector positive attribution as every Real Estate position in the portfolio had positive return while the Russell 1000 Value was down more than -2% in the quarter. Apartment complex owner and manager Essex Property Trust (ESS) was particularly strong, up 12.2% in the second quarter. See further discussion of Essex Property Trust below.

Energy was the second best performing sector in the quarter. The portfolio was nearly equal in Energy sector weight to the benchmark but had strong stock selection with all Energy holdings outperforming the benchmark Energy sector in the quarter. Pipeline transportation and energy storage company Kinder Morgan (KMI) was particularly strong in the second quarter, up 10.0%. The portfolio continues to hold KMI.

The Industrial sector was the most detracting sector in the second quarter. The Equity Income portfolio Industrial sector underweight position was a positive due to the relatively weak benchmark Industrial performance. However, stock selection was a drag on performance with several holdings underperforming in the quarter. Fastenal (FAST), last quarter's highest contributing security, was the largest detractor this quarter and is discussed in detail below.

The Financial sector was the second most detracting sector in the second quarter. Allocation detracted from performance as the portfolio was underweight this relatively strong sector. Also, Financial sector stock selection was a drag on performance. Financial services provider Principal Financial Group (PFG) was down -8.3% in the quarter. In late April the company announced lower than expected earnings estimates for the first quarter. Results were pressured by a shortfall in investment income and higher-than-expected expenses in the specialty benefits insurance business. The portfolio continues to hold PFG. Another relatively weak holding was asset manager T Rowe Price (TROW). TROW was down -4.4% in the second quarter despite strong first quarter earnings reported in April. Net investment flows were below expectations, and several Wall Street analysts have highlighted the increased risk of market weakness and recession due to economic slowdown. The portfolio continues to hold TROW.

Top 10 Contributors/Detractors

	Top 10 Contributors	Average % Weight	Contribution
1	TEXAS INSTRUMENTS INC	2.85	32 bps
2	ESSEX PROPERTY TRUST INC	2.13	25 bps
3	KINDER MORGAN INC	2.40	23 bps
4	PHILIP MORRIS INTERNATIONAL	2.01	23 bps
5	KIMBERLY-CLARK CORP	2.74	21 bps
6	AMGEN INC	1.95	20 bps
7	ALTRIA GROUP INC	2.89	19 bps
8	DUKE ENERGY CORP	3.03	14 bps
9	DIGITAL REALTY TRUST INC	2.02	13 bps
10	AIR PRODUCTS & CHEMICALS INC	1.89	11 bps

	Top 10 Detractors	Average % Weight	Contribution
1	FASTENAL CO	2.37	-49 bps
2	BRISTOL-MYERS SQUIBB CO	1.11	-30 bps
3	HOME DEPOT INC	2.27	-24 bps
4	JOHNSON & JOHNSON	2.70	-20 bps
5	PRINCIPAL FINANCIAL GROUP	1.96	-17 bps
6	SONOCO PRODUCTS CO	1.24	-14 bps
7	T ROWE PRICE GROUP INC	2.74	-14 bps
8	UNITED PARCEL SERVICE CL B	1.99	-14 bps
9	MERCK & CO INC	2.23	-13 bps
10	THE HERSHEY CO	2.43	-12 bps

Selected Contributor(s) to Performance

The highest contributing holding in the second quarter was Texas Instruments Inc (TXN). Texas Instruments is an analog and embedded processors semiconductor manufacturer. The stock returned 12.5% in the quarter. The outperformance came on the back of a strong earnings release in which sales and profit both beat Street estimates, and management gave a forecast for the second quarter that seemed to indicate that the inflection point in semiconductor demand the market had been waiting for had finally occurred. The stock continued to rise on further strong earnings from competitors and peers throughout the quarter. Elliott Management, an activist investor, announced a large stake in the company near quarter end and is pushing for changes to management's long-term oriented strategy in favor of higher near-term shareholder returns. We still own a sizable position in TXN and will continue to monitor the activist situation.

The second highest contributing holding was Essex Property Trust Inc (ESS). ESS is a developer and manager of multi-family residential properties with sizable exposure in California (LA, San Diego, and San Francisco) and Washington (Seattle). ESS returned 12.2% over the course of the quarter. Due to a persistent housing shortage and strong local economies, ESS reported consensus-beating funds from operations and raised its fiscal year outlook on the metric. The market is also experiencing ‘sticky’ cap rates as interest rates are expected to fall and demand should remain strong, even in light of new supply coming to market in the second half of the year. The portfolio continues to hold the position in ESS.

Selected Detractor(s) from Performance

The lowest contributing security in the quarter was Fastenal Co (FAST). Fastenal is a global distributor of industrial and construction supplies with over 1.4mm products, 34% of which are threaded fasteners. FAST lost -18.1% in the quarter as weaker-than-expected earnings amidst an industrial production slowdown weighed on the shares. Continued monthly sales stagnation and decline led to further underperformance throughout the quarter. The portfolio maintains a position in FAST as its pristine balance sheet and strong free cash flow generation should provide it with capital allocation flexibility through the slowdown.

The second biggest detractor in the second quarter was Bristol-Myers Squibb Co (BMY). BMY is a global biopharmaceutical company with products in the cardiovascular and oncology treatment end markets, among others. The stock declined -22.5% in the quarter on a low-quality sales beat – legacy portfolio outperformed, led by slowing declines in Revlimid, while the growth portfolio underperformed – and an announced headcount reduction, of which savings are to be reinvested in the business instead of falling to the bottom line. The company maintains a full pipeline and is focusing its resources on its highest-return-potential ideas, while implementing a further $1.5B cost reduction initiative that should be fully realized by FYE25. The portfolio continues to hold BMY.

Current Positioning

The Equity Income portfolio continues to be overweight dividend yield and profitability broad factors while remaining underweight momentum, beta, and volatility. Utility, Consumer Staples, and Real Estate are the largest overweight sectors. Financials, Industrials, and Health Care are the most underweight sectors relative to the benchmark Russell 1000 Value Index.

Over the last 18 months or so the investment community only seemed to be excited by the ebb and flow of prospective interest rate cuts, when not distracted by artificial intelligence, no matter how ambiguous the investment prospects. During this past quarter it seems to be beginning to dawn on investors that perhaps one should be careful what they wish for. Concern is rising for the principal driver of lower rates – lower economic growth, or even the prospect of recession. We are only surprised it has taken so long for this worry to come to the forefront. As such, we feel our relatively defensive positioning (less cyclical exposure) and security attributes (lower beta, higher quality, better valuation support) lead the Dean Equity Income portfolio to be well positioned should the economy continue to deteriorate.

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 Equity Income style is a fully invested style of primarily large 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 93% of the Russell 3000 Index. 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 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 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 1/1/11 through 12/31/23. A firm-wide verification was performed for the periods 7/1/08 through 12/31/23. Data subsequent to 5/31/24 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.