DEAN Capital Management

# Small Cap Value Commentary

Fourth Quarter 2024

## Performance Comparison[1]

| Periods Ended 12/31/24 (%) | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | 10 Yr | S. I.[1] |
|---|---|---|---|---|---|---|---|
| DCM Small Cap Value (gross) | -2.02 | 4.70 | 4.70 | 3.97 | 8.74 | 7.90 | 10.09 |
| DCM Small Cap Value (net) | -2.22 | 3.82 | 3.82 | 3.10 | 7.83 | 6.95 | 9.04 |
| Russell 2000 Value | -1.06 | 8.05 | 8.05 | 1.94 | 7.29 | 7.14 | 8.23 |

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

## Performance Summary

DCM Small Cap Value ("DCM SCV") returned -2.02% (net of fees) compared with -1.06% for the benchmark, the Russell 2000 Value Index, for the quarter ending December 31, 2024.

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. Momentum (DCM SCV has lower)
3. Leverage (DCM SCV has lower)
4. Profitability (DCM SCV has higher)
5. Valuation (DCM SCV has lower)

The macro factor backdrop provided a headwind this quarter as factor exposures accounted for approximately 2/3rds of the portfolio's underperformance. The factors that detracted the most were the portfolio's greater exposure to stocks with low price volatility and lower exposure to stocks with high price momentum (roughly defined as the highest price return over the last twelve months less the most recent month).

The last two years have provided one of the worst macro factor backdrops for the DCM style of investing in small cap stocks since DCM's inception in 2008. Our focus on high quality small caps that are undervalued with a narrower-than-average range of outcomes has been deeply out of favor. Below is a table of the DCM small cap portfolio's largest factor overweights for the past two years, with the isolated factor returns for the small cap value universe calculated by having a long position in the top 20% of stocks with the factor exposure and a short position in the bottom 20%:

**Small Cap Value Isolated Factor Returns**

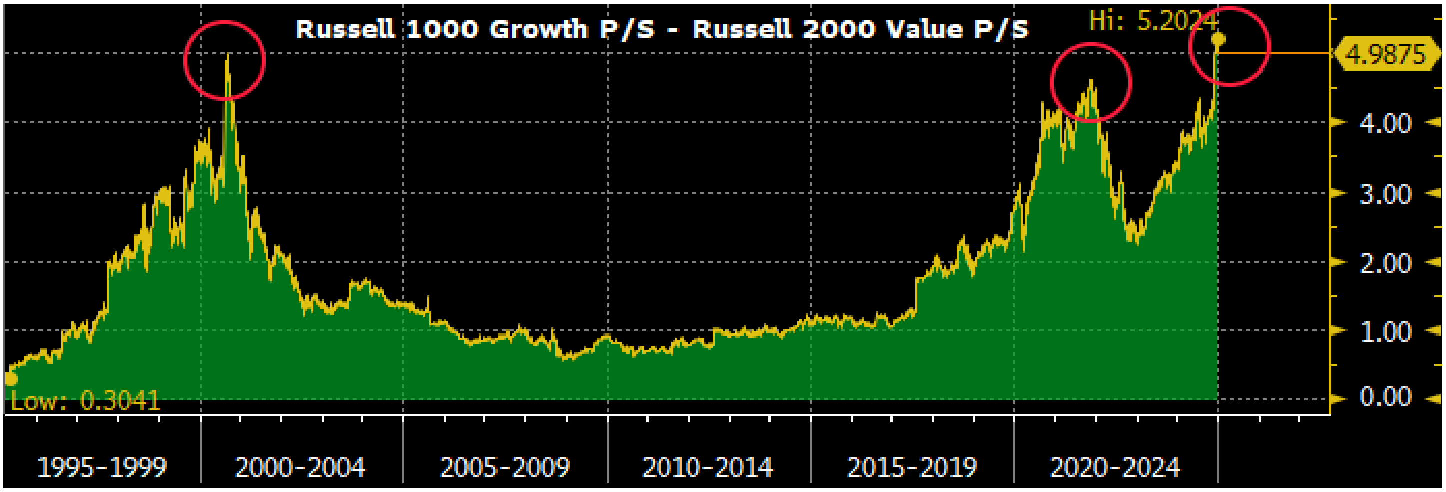
Largest DCM Factor Overweights Past 2 Yrs

| | Q4 '24 | 1 Yr (2024) | 2 Yr ('23 -'24) |
|---|---|---|---|
| **Low Volatility** | -8.3% | -31.8% | -52.0% |
| **Quality** | 0.6% | -37.2% | -48.9% |
| **Dividend Yield** | -5.9% | -17.7% | -21.5% |

Net Long-short return of equal weighted stocks. Values are negative if bottom 20% outperforms top 20%

Source: Bloomberg

Those are stunning negative returns from factors that have historically added value. In addition to these factor tilts being deeply unfavorable for DCM's portfolio for the past two years, the market has become the most concentrated it has ever been. This has benefited any strategy that leans "up and to the right" in the Morningstar equity style box; meaning, any portfolio's holdings that move it closer to large cap growth has been a benefit. The extreme nature of this market can be simplistically seen by looking at the multiple expansion of large cap growth stocks versus small cap value stocks:




On Christmas Eve 2024, the difference between the Price to Sales ratio of the Russell 1000 Growth and the Russell 2000 Value reached its highest level ever (data going back to 1995). This includes eclipsing the highs of both the 2000 tech bubble and the 2021 meme stock craze.

This dynamic has also played out in the small and mid-cap space as well. Below is a table showing the Russell 2500 Index (smidcap) broken down by market cap stratification. As can be seen, there is a monotonic relationship between the market cap and the past two years' performance. The performance difference has been driven mostly by multiple expansion as can be seen by the lower valuation ratios for the smaller market cap companies. Many pundits point to faster growth rates justifying the multiple expansion of larger companies, even within the smidcap space. However, as shown below, two-year revenue growth rates do not differ enough to justify a 48% performance differential between the median stock that is larger than $5 billion in market cap compared to the median stock that is smaller than $1 billion in market cap:

**Russell 2500 Index**

| Market Cap | 2 Yr Median Total Return: | Median P/B | Median P/S | Median P/E | Median 2 yr Sales Growth |
|---|---|---|---|---|---|
| >$5 bil | 42.3% | 3.7x | 2.7x | 23.6x | 14.2% |
| $3 bil to $5 bil | 31.0% | 2.4x | 2.2x | 19.2x | 12.4% |
| $1 bil to $3 bil | 14.8% | 2.0x | 1.8x | 18.2x | 13.6% |
| <$1 bil | -5.7% | 1.4x | 1.5x | 15.7x | 12.3% |

| | |
|---|---|
| **DCM Small Cap Avg Mkt Cap:** | **$2.0 bil** |
| Small Cap Value Category Avg Mkt Cap: | $5.3 bil |
| Russell 2000 Value Avg Mkt Cap: | $2.1 bil |

Source: Bloomberg, FTSE Russell, Morningstar

DCM's strict and disciplined adherence to its style has materially detracted from performance the last two years as staying style pure to small cap value, while also insisting on quality, has significantly reduced the portfolio's relative return over this period.

There are two major forces that drive financial market prices: momentum and reversion to the mean. Even though it may seem like it in the past few years, reversion to the mean has not been eradicated. Which is to say, we believe there is a lot of pent-up relative performance in the pure small cap value space, and particularly within the high-quality portion that fits DCM's style of investing.

## Sector Drivers

| GICS Sectors | Average Weight | | | Stock Level Returns | | Portfolio Impact | |
|---|---|---|---|---|---|---|---|
| | Port | Bench | Active | Port | Bench | Contribution | Attribution |
| Health Care | 2.4% | 9.0% | -6.7% | -1.6% | -7.1% | -7 bps | 52 bps |
| Communication Services | 1.6% | 3.4% | -1.7% | 16.7% | -3.8% | 24 bps | 35 bps |
| Information Technology | 11.2% | 6.1% | 5.2% | 5.3% | 10.1% | 55 bps | 13 bps |
| Real Estate | 4.1% | 11.0% | -6.9% | -8.5% | -5.7% | -39 bps | 6 bps |
| Materials | 3.2% | 5.2% | -2.0% | -5.1% | -4.3% | -32 bps | 3 bps |
| Energy | 5.7% | 7.1% | -1.4% | -2.9% | -2.6% | -28 bps | -6 bps |
| Consumer Staples | 7.4% | 2.2% | 5.2% | -0.2% | 6.5% | -4 bps | -18 bps |
| Utilities | 8.7% | 5.1% | 3.6% | -4.6% | -4.6% | -40 bps | -35 bps |
| Financials | 23.0% | 29.1% | -6.1% | 2.5% | 2.9% | 56 bps | -37 bps |
| Industrials | 20.3% | 12.4% | 7.9% | -2.1% | 1.7% | -55 bps | -51 bps |
| Consumer Discretionary | 10.8% | 9.5% | 1.3% | -12.8% | -7.3% | -134 bps | -72 bps |

*(see disclosures)*

The best performing sectors relative to the benchmark were Health Care and Communication Services. The Health Care sector benefited from the portfolio being underweight the underperforming sector as well as having better than benchmark stock selection, aided by the acquisition of portfolio holding Patterson Companies (PDCO). The dental and pet supplier was bought for a ~49% premium by private equity firm Patient Square Capital. The Communication Services sector benefited from the portfolio being underweight the underperforming sector as well as solid relative stock performance from the portfolio's one sector holding, TEGNA Inc (TGNA). TGNA's stock price rose on hopes of rekindling merger and acquisition activity because of the potential deregulation at the Federal Communication Commission that could result from the GOP's recent electoral sweep.

The worst performing sectors relative to the benchmark were Consumer Discretionary and Industrials. The underperformance in the Consumer Discretionary sector stemmed from the portfolio being overweight the underperforming sector as well as weak stock performance from pizza chain operator Papa John's (PZZA) and children's apparel company Carter's (CRI). The Industrials sector benefited from being overweight the outperforming sector; however, a weak earnings report, plus a canceled U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services contact center operations contract led to a selloff in Maximus Inc's (MMS) share price.

## Top 10 Contributors/Detractors

| | Top 10 Contributors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | AIR TRANSPORT SERVICES GROUP | 1.32 | 0.49 |
| 2 | CAL-MAINE FOODS INC | 1.13 | 0.37 |
| 3 | FRESH DEL MONTE PRODUCE INC | 1.62 | 0.31 |
| 4 | THE HACKETT GROUP INC | 1.81 | 0.28 |
| 5 | TEGNA INC | 1.64 | 0.24 |
| 6 | ADVANCED ENERGY INDUSTRIES | 2.53 | 0.23 |
| 7 | PATTERSON COMPANIES INC | 0.44 | 0.21 |
| 8 | VIAVI SOLUTIONS INC | 1.45 | 0.15 |
| 9 | CATHAY GENERAL BANCORP | 1.46 | 0.15 |
| 10 | QCR HOLDINGS INC | 1.78 | 0.15 |

| | Top 10 Detractors | Average % Weight | Contribution |
|---|---|---|---|
| 1 | PAPA JOHN'S INTERNATIONAL INC | 1.34 | -0.34 |
| 2 | CARTER'S INC | 1.76 | -0.32 |
| 3 | MAXIMUS INC | 1.52 | -0.28 |
| 4 | TREEHOUSE FOODS INC | 0.63 | -0.28 |
| 5 | WINNEBAGO INDUSTRIES | 1.46 | -0.25 |
| 6 | SPARTANNASH CO | 0.93 | -0.24 |
| 7 | BROADSTONE NET LEASE INC | 1.17 | -0.19 |
| 8 | LEGGETT & PLATT INC | 0.70 | -0.19 |
| 9 | UNIVERSAL HEALTH REALTY INCOME | 0.70 | -0.19 |
| 10 | WORLD KINECT CORP | 1.80 | -0.18 |

## Selected Contributor(s) to Performance

The top contributing stocks to portfolio performance were Air Transport Services Group (ATSG) and Cal-Maine Foods (CALM). ATSG, which provides cargo aircraft leasing, aircraft maintenance/support services, and niche airline operations, was acquired by private equity firm Stonepeak for a ~30% premium. CALM, the leading U.S. egg producer, continued to report stellar earnings as it has been able to raise prices due to low supply levels due to increasing bird flu cases, as well as increased egg demand for the holiday season. We have been reducing CALM's weight in the portfolio on the outperformance that has led to an increase in its normalized valuation.

## Selected Detractor(s) from Performance

The stocks that detracted the most from portfolio performance were Papa John's (PZZA) and Carter's (CRI). PZZA, a leading pizza chain operator, saw its share price decline from a Wall Street brokerage firm downgrade due to a delayed recovery in its operations as well as from a negative market reaction to PZZA not giving financial targets at its investor day meeting. With a pathway in place to return to its normalized earnings power, we are maintaining PZZA's weight in the portfolio through measured buying on price weakness. CRI, a children's apparel company, continues to report worse than expected earnings as its gross margin is under pressure from lower selling prices and increased marketing spend. CRI's core customer has struggled with cumulative inflation over the past few years, which has led to weak sales at CRI. With a solid balance sheet and strong market share, the portfolio continues to hold CRI.

## Current Positioning

The portfolio's largest overweight sectors relative to the benchmark are currently in the Industrials and Information Technology sectors. The largest underweight sectors relative to the benchmark are currently in the Real Estate and Health Care sectors. Throughout the quarter, the Industrials and Information Technology sectors increased the most in weight, while the Utilities and Real Estate 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.

A residual from the bottom-up changes in the portfolio this quarter was that the portfolio's beta relative to the small cap value universe moved from ~0.85 at the start of the quarter to ~0.91 at the end of the quarter, which is up from ~0.73 at the start of 2024.

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 12/31/23. A firm-wide verification was performed for the periods 7/1/08 through 12/31/23. Data subsequent to 11/30/24 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.