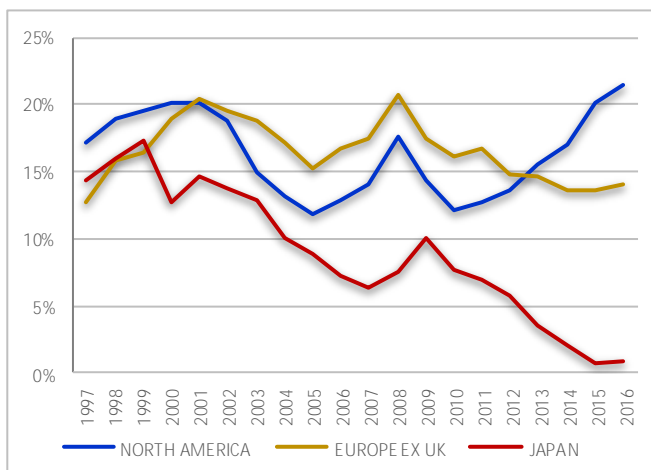




Real-time insight on how DuPont Capital has positioned its portfolios as a function of key factors driving the markets.

KEY MARKET FACTORS (as of October 1, 2017)

Median Net Debt-Equity

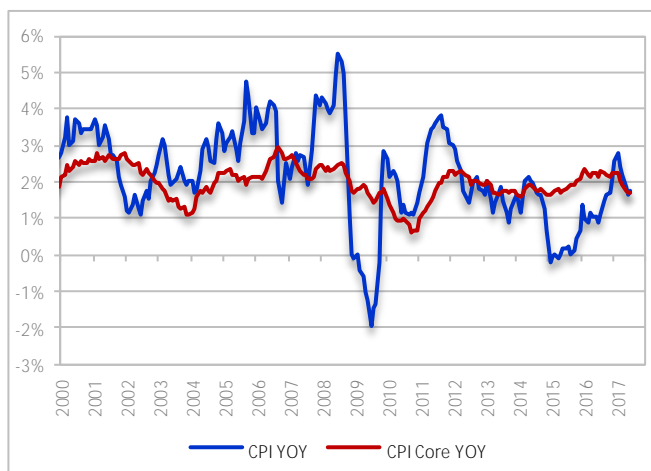


Source: Market QA

CORPORATE BORROWING APPETITES HAVE DIVERGED

- ❖ Rising financial leverage in the U.S. has been partially veiled by cash-rich Technology names. The median debt-equity ratio now exceeds the two previous peaks. Cheap debt has fueled acquisitions or stock repurchases rather than organic growth, leaving investors hopeful of corporate tax reform to prolong growth.
- ❖ European companies, faced with excess productive capacity and tighter lending conditions, have safeguarded balance sheets in recent years. Broadening economic confidence in the Eurozone is reviving bank-financed capital expenditures, particularly on the demand side.
- ❖ Corporate Japan continues to deleverage despite interest rates at zero and companies trading at a discount to book value. 55% of Japanese firms hold net cash balances, but share buybacks have declined due to near-term political uncertainty. With profitability beating forecasts, we look for management actions and ROE improvements as indicators of shareholder-friendliness.

U.S. Consumer Price Index



Source: Bloomberg

US AND GLOBAL ECONOMIES CONTINUE TO IMPROVE

- ❖ Surprisingly, inflation fell over the summer, largely due to declines in the price of wireless services, physician costs and lodging away from home. Year-over-year Core CPI declined to 1.7% from 2.2%.
- ❖ The drop in inflation led to a rally in intermediate and longer maturity bonds over the summer. We expect the drop in inflation is most likely temporary, and CPI will move slightly higher over the coming months to settle closer to 2% next year. The Fed is still on track for one additional rate hike in December.
- ❖ U.S. economic growth should be moderate through the end of 2017 and global growth continues to improve.
- ❖ International assets are in favor across both fixed income and equities. The preference for international coupled with investors continued search for yield led to strong performance in Emerging Markets Debt. Local currency EMD performed particularly well.



Valerie J. Sill, CFA, CAIA
President & CEO



Lode J. Devlaminck
Managing Director, Global Equity



Krzysztof (Kris) A. Kowal, PhD, CFA
Managing Director, Fixed Income

CURRENT POSITIONING (as of October 1, 2017)

GLOBAL EQUITY



- ❖ Cooling sentiment caused markets to consolidate over the summer months, but economic data has been holding up. Lackluster inflation data in the U.S. has led the Fed to re-evaluate tighter monetary policy, triggering a weaker dollar and widespread debate about whether the disinflationary dynamics are structural or seasonal. This anxiety is benign as medium-term inflation expectations appear to be well-anchored, even if they are subdued relative to cyclical precedents.
- ❖ European earnings projections have proven more resilient than in prior years. Earnings momentum has been propelled by domestic-exposed stocks and sectors while currency strength has been a headwind for export-oriented cyclicals. Rehabilitation of the banking sector can continue, especially if the yield curve steepens further. Pricing power and product innovation can offset forex among well run Industrials and Consumer Staples.
- ❖ For Emerging Markets, we expect sectors and geographies with a cyclical tilt to perform better in the current economic environment. We focus on firms with lower valuations whose strong business fundamentals have yet to be recognized by the broader market. We are underweight China due to credit quality concerns and other systemic factors, particularly within internet-related names. Risk-reward opportunities in Brazil and Russia seem more favorable.
- ❖ Global interest rates and quantitative easing measures, excluding Japan, are poised for further normalization, but the pace is expected to remain moderate. The corporate debt landscape is just one of several risk factors that could earn increasing attention if the widespread low volatility is challenged.

FIXED INCOME



- ❖ Global economic growth has improved, but inflation in the U.S. has surprised on the downside. The Federal Reserve may hike the Funds Rate one more time in December, but the move is uncertain. Spread products continue to perform well, due to carry and a modest tightening of spreads.
- ❖ We believe interest rates may rise slightly over the next year as the Federal Reserve continues to tighten. Durations are slightly shorter than the benchmark across most of our fixed income portfolios.
- ❖ We find both U.S. Dollar denominated and local currency sovereign emerging markets debt to be slightly more attractive relative to most other fixed income sectors. However, due to spread tightening, we have reduced the overall risk in our EMD portfolios while increasing local currency exposure. We remain overweight Ukraine and Argentina, as well as higher quality countries, such as Mexico and Brazil. We have added Poland and Malaysia local currency bonds.
- ❖ Investment grade corporate spreads did not change materially this quarter, but have tightened significantly over the past year. Despite this tightening, corporates remain the best valued segment in investment grade fixed income. We have reduced our exposure in our Core portfolios, but remain slightly overweight, particularly within basic industry, insurance and capital goods.
- ❖ In our high yield portfolios, we are maintaining some liquidity due to the significant spread tightening over the past eighteen months. We are putting money to work in select situations where the potential rewards merit adding risk. We are not seeing broad opportunities, but some idiosyncratic situations are interesting and may present investment opportunities.

The information contained in this memorandum is intended for the sole use of prospective investors in understanding and evaluating the impact of market events and is not designed or intended to be used for any other purpose. The document may contain forward-looking statements, which are based on current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements. An investment in securities includes risk of loss. There is no guarantee that any investment in the securities mentioned will be profitable. This document is not intended as an offer or solicitation for the purchase or sale of any security or financial instrument or as a recommendation to invest in any of the securities or financial instruments discussed herein. Registration of an investment adviser with the SEC does not imply any level of skill or training.