EQUITY STRATEGY REVIEW
JANUARY 2020

EMERGING MARKETS EQUITY

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With Phase One of the U.S.-China trade deal complete and relaxed monetary policy across most of the globe, optimism for emerging market equities is picking up. That increase in optimism is reflected in the asset class's 18% gain last year, driven by strong returns during the fourth quarter. However, emerging market equities are only back to where they started two years ago. Valuation levels do not appear stretched and earnings may receive a boost from a rebound in global trade.

The U.S-China dispute has had a negative impact on global trade and thus the growth of emerging economies. Global supply chains have been disrupted and inventories have been reduced as a result of trade uncertainty. While the recent Phase One deal between U.S. and China is just a start of a more comprehensive deal, it reduces uncertainty for businesses and investors. This is a positive development that should not be overlooked. Chinese economic activity is beginning to show signs of improvement and business sentiment is picking up. Given the low level of business inventories, an improved outlook could cause a traditional inventory restocking and a tailwind for economic growth in the coming year.

Despite the improved near-term outlook for emerging economies and the recent strong performance of emerging market equities, the valuation gap between the most expensive and the least expensive stocks remains very wide by historical standards. We expect this gap to narrow in the coming year driven by a pick up in global trade and improvement in economic activity. Our portfolio is positioned to benefit from a narrowing of this valuation gap.

Among our more recent purchases that illustrate this valuation dynamic are a steel company in China and a beverage company in Chile. Before our purchase, the Chinese steel company dropped nearly 30% during 2019 due to the trade war and fears regarding steel prices. While legitimate concerns, the very depressed valuation suggested investors expected a significantly worse outcome than what we deemed to be a worst-case scenario. The market value of the company was less than the cash on its balance sheet at one point during the year. The very depressed valuation, strong financial position of the company, and its low-cost operations made the shares a very attractive investment for the portfolio.

Political turmoil in Chile brought us an investment opportunity in one of the largest Coca Cola bottlers in Latin America. The shares dropped more than 25% in U.S. Dollar terms after Chilean political leaders were caught off-guard by wide spread protests demanding action on growing income inequality. We felt investors over-reacted to these developments. Importantly, the company only generates a third of its sales in Chile, has a strong financial position, good levels of profitability, and the consumption of soft drinks tends to be very stable over time. We were able to add this high-quality company to the portfolio at a discounted valuation relative to similar companies due to these near-term uncertainties.

Overall, we continue to focus our research and portfolio construction efforts on finding companies with characteristics (financial strength, profitability, debt levels, etc.) that are similar to or better than the overall market at lower valuations. Company valuations are often depressed due to temporary issues, which we believe enables us to add them to the portfolio at a discounted valuation and outperform as that valuation discount closes over time.

EXHIBIT 1: SUMMARY OF PORTFOLIO CHARACTERISTICS

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	78	1,404
Active Share	71.0	--
Price/Earnings	10.8	14.1
P/E using FY1 Est	11.1	14.2
P/E using FY2 Est	10.1	12.8
Price to Cash Flow	8.1	8.9
Dividend Yield	3.4	2.6
Est 3 Yr EPS Growth	28.7	28.9
Est 5 Yr EPS Growth	13.5	17.2
Price/Book	1.3	1.7
ROE	12.2	11.5
ROA	8.4	8.4
LT Debt to Capital	21.6	23.2
Market Capitalization	74,029	68,097

As of December 31, 2019
Source: DuPont Capital

About our firm:

DuPont Capital Management is an SEC registered investment advisor based in Wilmington, Delaware. Since the firm's establishment in 1993, we've had a long history of developing global investment opportunities in both traditional and alternative strategies across equity, fixed income and alternative investments. Our investment team structure gives us the ability to be flexible and adapt to changing market conditions. DuPont Capital's focus is delivering consistent investment management results for our clients. Our history of institutional asset management is rooted back to 1942 when our former parent company, DuPont, established a pension plan for its employees. Corteva Inc. succeeded DuPont as sponsor of the DuPont Pension Plan in 2019. DuPont Capital is a wholly owned subsidiary of Corteva and continues to manage the legacy DuPont Pension Plan.

DuPont Capital's President and CEO, Valerie Sill believes in education and diversity of experience as represented in our investment teams which are comprised of PhDs, engineers, medical doctors, and scientists. We believe their global expertise creates a portfolio implementation edge that benefits our clients.

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Important Disclosures: