

U.S. LARGE AND MID CAP - VALUE CREATORS

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During the quarter, equity markets were again impacted by the tariff war between China and the U.S. However, unlike during the third quarter, the fourth quarter saw a Phase One agreement between the two countries, helping to calm fears over the prospect of a more pronounced global slowdown. The U.S. equity markets responded with positive performance during the fourth quarter, capping a record year for equities with the S&P 500 generating a total return of 31.49% for the whole of 2019.

However, despite this positive backdrop, some sectors came under pressure during the quarter. The U.S. health care sector was whipsawed by commentary made by prospective U.S. presidential candidates, particularly the managed care insurers. Democratic candidates have introduced their views on universal health care and Medicare for all program concepts, which if enacted, would negatively impact key health insurance companies. Valuations came under significant pressure in shares of Anthem and UnitedHealth Care. During the quarter, valuations reached the very attractive level of 10.4 and 13.3x, respectively, a compelling risk-reward. Both companies, in our opinion, manage their businesses in a balanced fashion by reducing overall health care delivery costs, improving patient health outcomes, and providing fair returns to

shareholders. We added to both positions during the quarter, believing the share prices reflected a more positive risk reward over the long-term.

The value creators portfolios use a bottom-up stock selection process and focus on specific industries and companies with solid franchises, superior cash flow generation through cycles, and management teams with an emphasis on the longer-term. When companies with these characteristics experience short-term underperformance, we look to add to positions to take advantage of better valuations.

As shown below, the portfolios have a higher return on equity and growth rate vs. the benchmark, but are valued similarly based on the fiscal year 2 price-to-earnings multiple. We believe these quality factors, and resulting expected cash flows, will be key drivers of the portfolio over the long-term.

EXHIBIT 1: VALUE CREATORS PORTFOLIO CHARACTERISTICS (AS OF 12/31/19)

	US Mid Cap Value Creators	S&P 400	US Large Cap Value Creators	S&P 500
Debt Level				
Debt/Capital	73.0	40.6	50.3	47.9
Debt/Equity	94.2	48.8	60.7	40.7
Debt/EBITDA	2.3	2.6	1.8	2.2
Growth				
Dividend Growth 5 year	17.4	10.8	18.3	13.0
EPS Growth 3 year	15.0	14.9	17.4	16.9
EPS Growth 5 year	15.2	11.8	13.2	10.8
EPS Est Growth 3-5 Year	9.7	12.3	11.7	10.5
Dividend Payout Ratio	22.5	68.4	26.2	48.7
Profitability				
Return on Equity	26.0	13.9	27.6	21.8
Return on Assets	13.6	7.8	11.5	8.8
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	22.7	32.5	24.5	22.9
Price/Cash Flow	16.7	10.4	18.6	13.5
Price/Book	5.5	2.3	5.8	3.4
Price/Sales	4.7	4.1	5.6	4.8
Dividend Yield	0.9	1.7	1.1	1.9

As of December 31, 2019 (Preliminary)
Source: DuPont Capital, Barra

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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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