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# THE IMPORTANCE OF CAPITAL ALLOCATION: DCM US VALUE CREATORS PORTFOLIOS

**Lode Devlaminck**  
*Managing Director, Equities*

One Righter Parkway, Suite 3200  
Wilmington, Delaware 19803 USA  
(302) 477-6000  
[www.dupontcapital.com](http://www.dupontcapital.com)

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**DuPONT**  
CAPITAL

# INVESTMENT PHILOSOPHY

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**We believe the market underestimates the significant impact strong capital allocation policies can have on the long-term value of a company.**

- ❖ The strategic use of cash exceeding a company's organic growth needs can have a significant impact on the long-term value of an investment.
- ❖ Companies that combine core franchise strengths and significant free cash flow generating abilities with value-accretive capital allocation policies can provide value for the patient investor.
- ❖ A focus on quality, value, and sustainability helps to improve risk adjusted returns and increases the potential to outperform the benchmark.

# WHY DOES ROCE AND CAPITAL ALLOCATION MATTER?

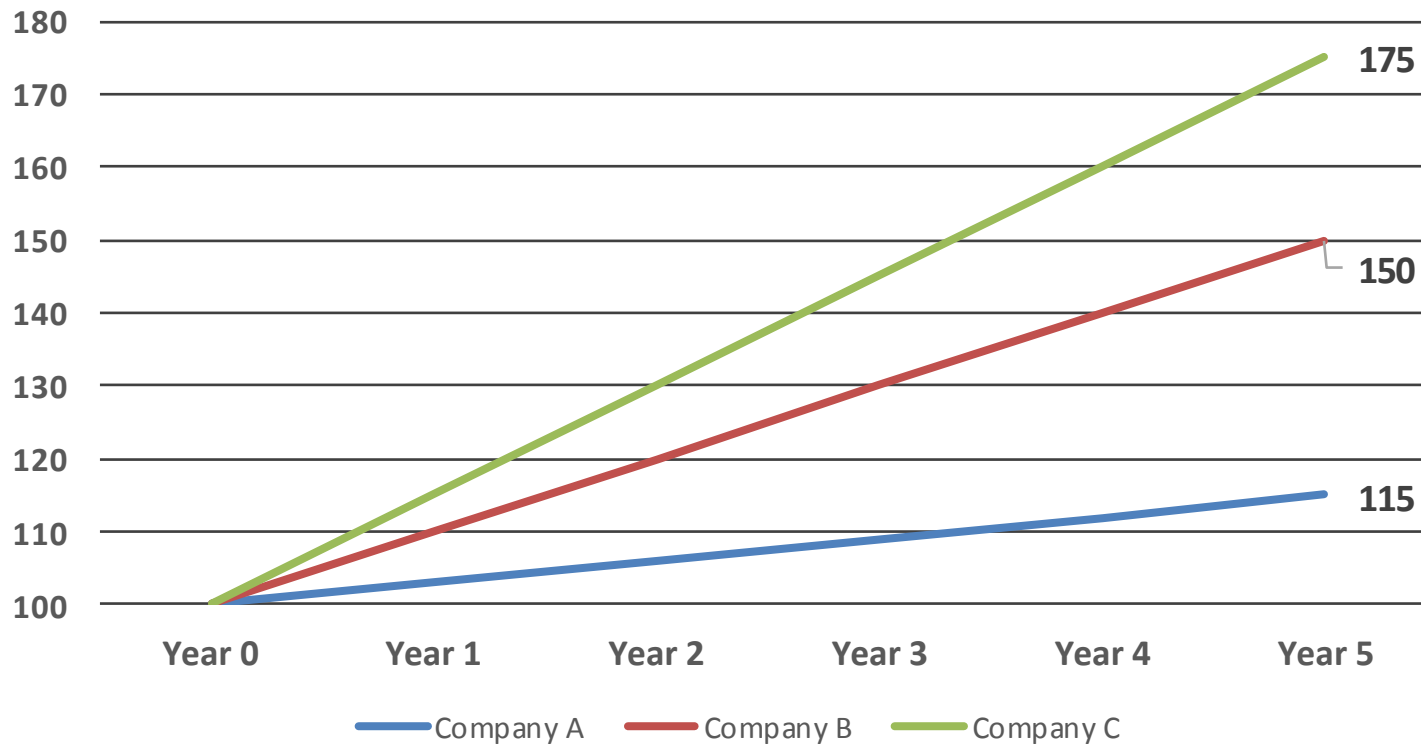
	<i>Company A</i>	<i>Company B</i>	<i>Company C</i>
Revenues	1000	1000	1000
Operating Profit	146	146	146
Margin	15%	15%	15%
Interest	13	13	13
Pre-tax Income	133	133	133
Tax (25%)	33	33	33
<b>Net Income</b>	<b>100</b>	<b>100</b>	<b>100</b>
FCF Per Year	100	100	100
FCF Conversion	100%	100%	100%
5 YR Cumulative FCF	500	500	500
<b>FCF Investment Return</b>	<b>3%</b>	<b>10%</b>	<b>15%</b>
Additional Net Income	15	50	75
Extra Net Income % of Original	15%	50%	75%
<b>Net New Income</b>	<b>115</b>	<b>150</b>	<b>175</b>

For illustrative purposes only.

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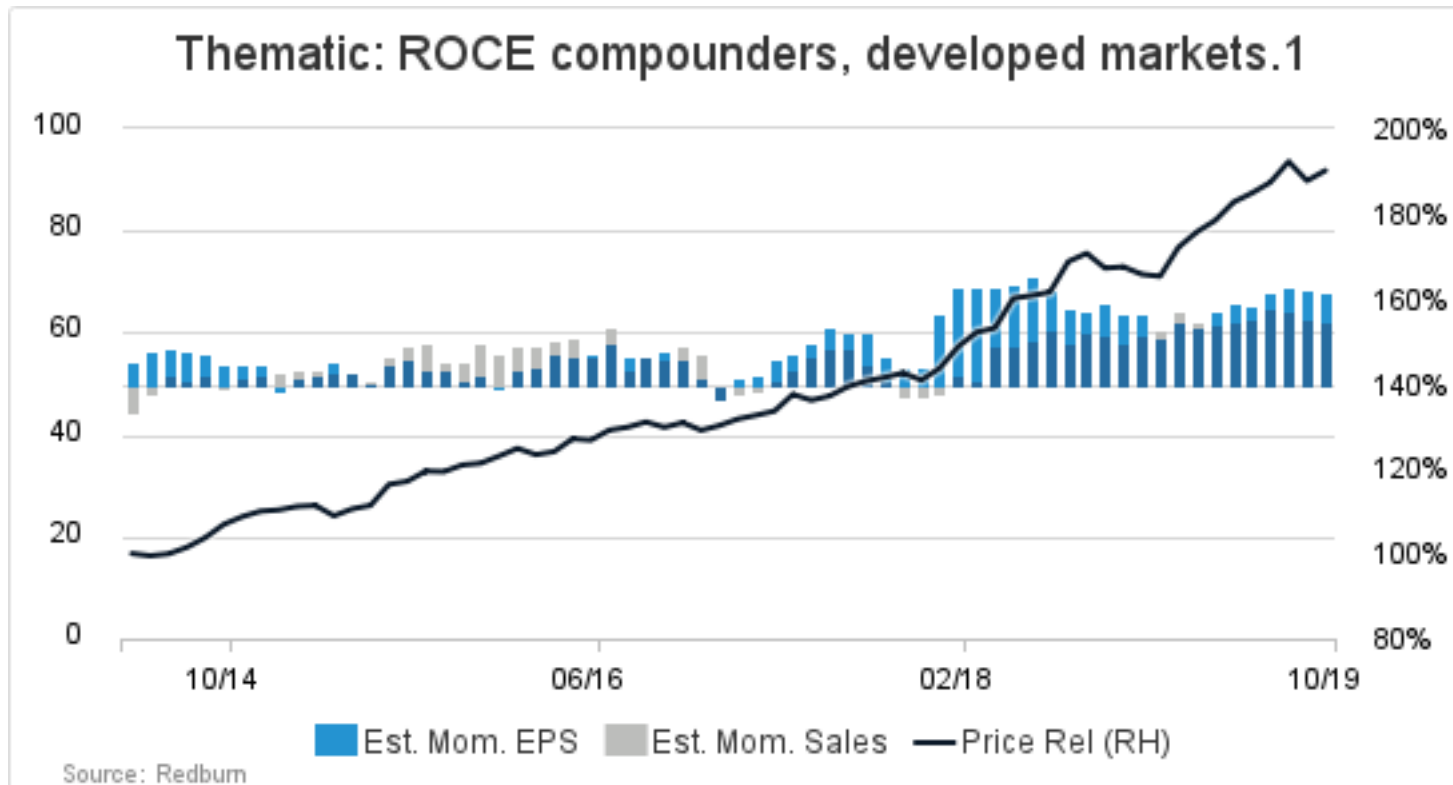
# WHY DOES ROCE AND CAPITAL ALLOCATION MATTER?

## Impact of Capital Allocation on Net Income



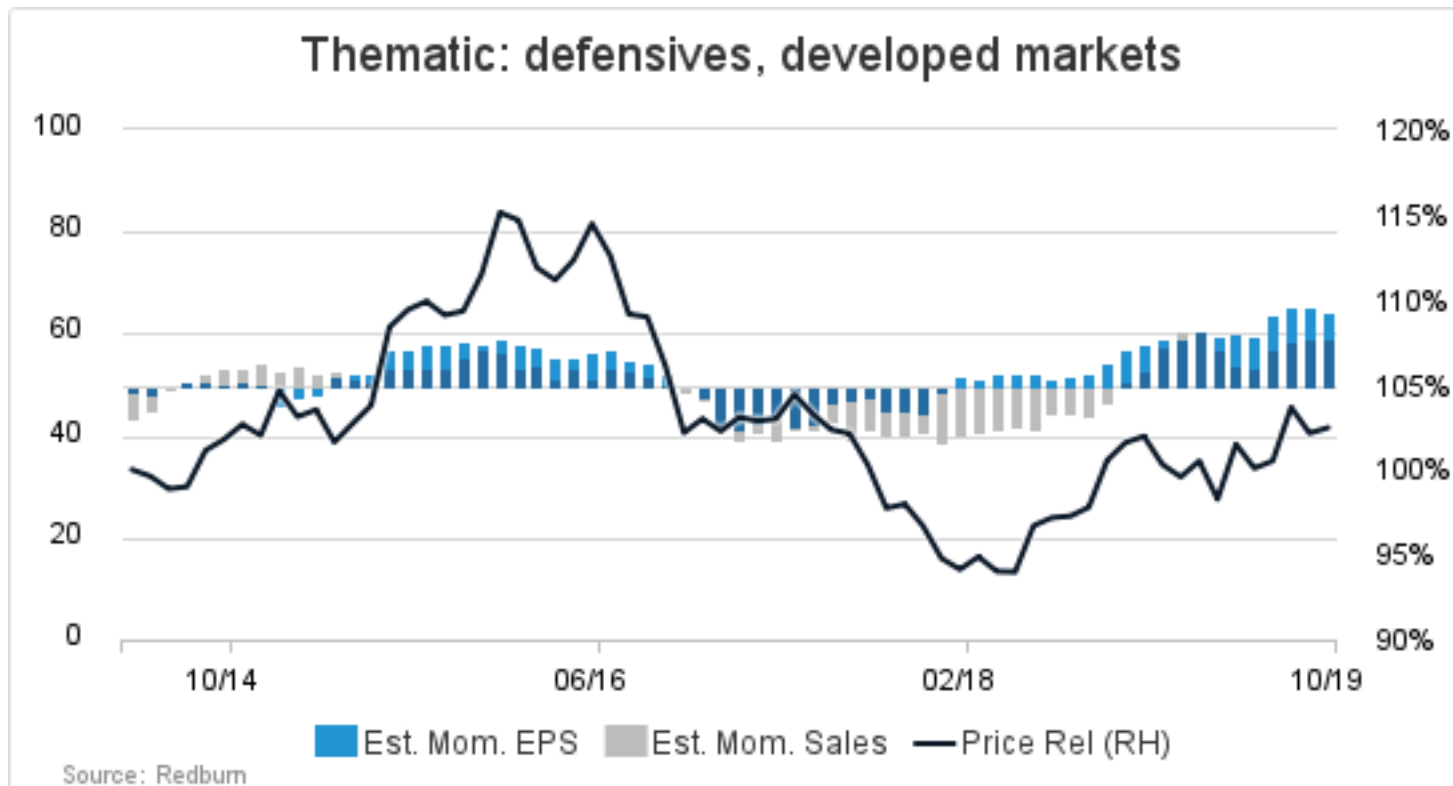
# ROCE COMPOUNDERS

The market generally underestimates the quality and sustainability of the growth and the returns



# NOT TO BE CONFUSED WITH DEFENSIVES

The relative earnings and share price performance of Defensives are more market dependent



# INVESTMENT APPROACH

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**We invest in companies that are well-positioned within their industry and we believe are expected to generate significant shareholder value over a long-term investment horizon.**

**Common characteristics of the portfolio investments we seek are:**

- ❖ Favorable competitive environment at the industry and company level.
- ❖ Excellent management team.
- ❖ Superior fundamental outlook.
- ❖ Strong free cash flow generation.
- ❖ Capital allocation decisions that are well-aligned with the creation of long-term shareholder value.

# INVESTMENT PROCESS OVERVIEW

We utilize a four-step investment process to identify companies that we expect to generate above average per share value creation throughout economic cycles.

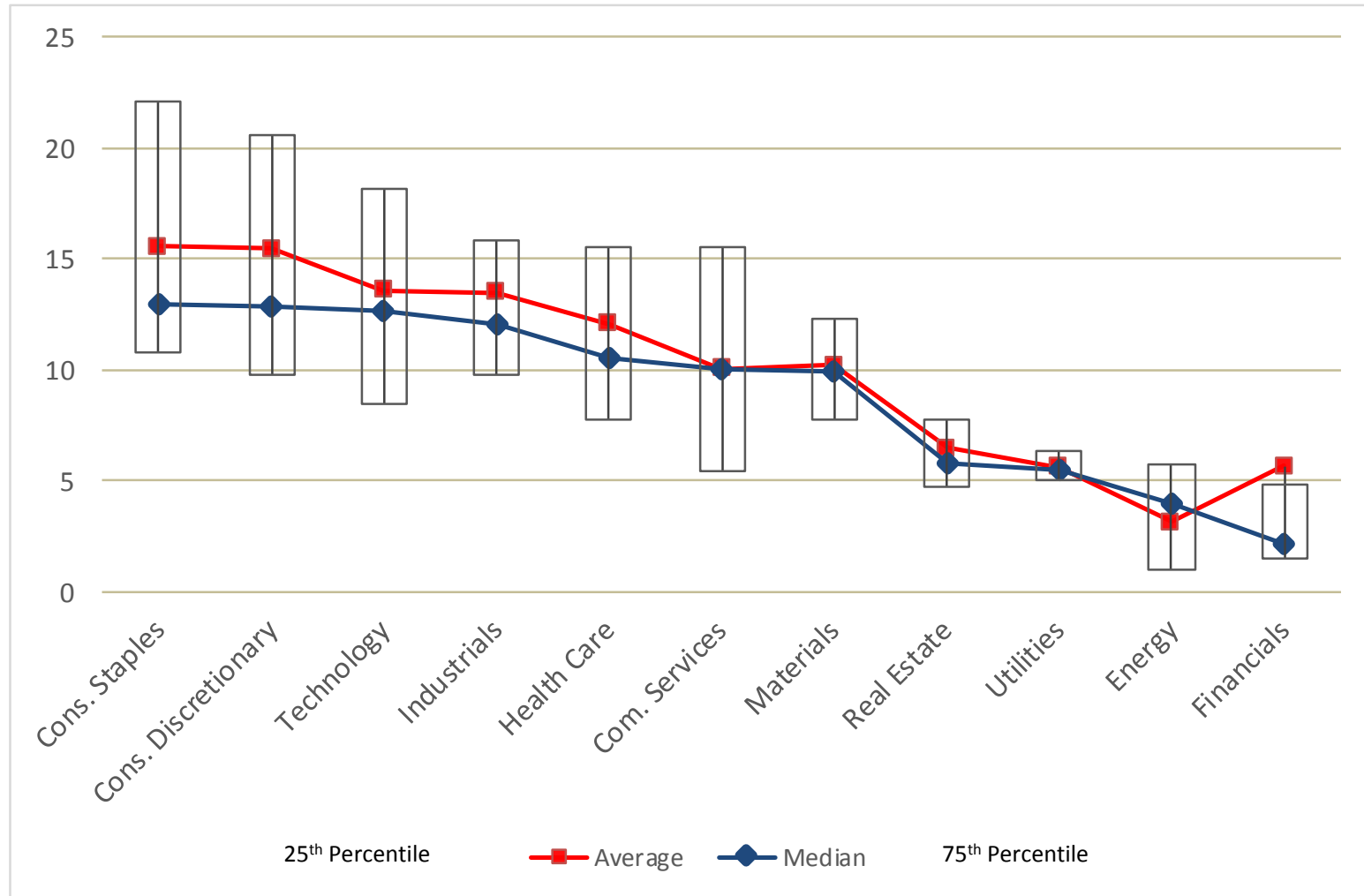


*We look for high-quality companies with durable competitive advantages and value-accretive capital allocation policies.*



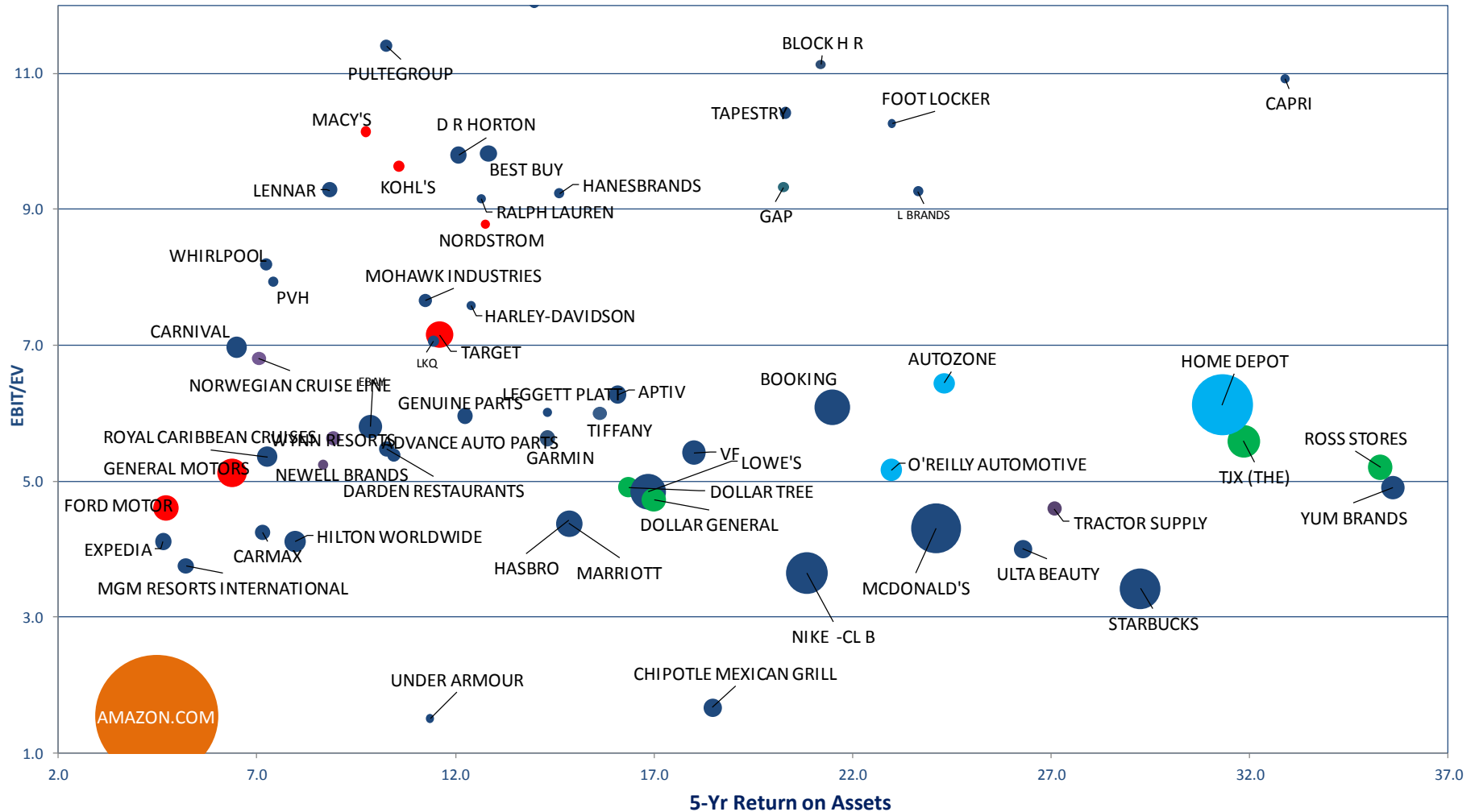
# VALUE CREATORS FISHING POOLS

## 5 Year Average Return on Investment S&P 500 Sectors



# VALUE CREATORS FISHING POOLS

## S&P 500 Consumer Discretionary Return on Assets



As of: 05/31/2019

Source: DCM, Bloomberg, CSFB Holt, FactSet

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# US LARGE CAP - VALUE CREATORS: PORTFOLIO CHARACTERISTICS

	US LC Value Creators <sup>1</sup>	S&P 500 <sup>2</sup>
P/E us FY2 Est. (ex. Negatives)	22.5	20.7
Price / Cash Flow (x)	17.9	12.6
Price/ Book Value	5.2	3.2
Dividend Yield (%)	1.2	2.0
Return on Equity (Top Down)	28.8	22.1
Return on Assets (%)	11.8	9.0
Debt/ Equity	101.5	152.2
Debt/ EBITDA (%)	1.9	2.2
EPS Growth (3 Year)	20.3	17.4
Estimated EPS Growth (3-5 Years)	14.5	12.4
Dividend Growth (5 Year) (%)	17.6	12.9
Payout Ratio	27.1	47.2
Weighted Avg. Market Cap (\$ billions)	\$270.2	\$249.7
Number of Securities	53	505
Tracking Error (1 Year)	2.8%	---
Active Share	70.8%	---

As of September 30, 2019.

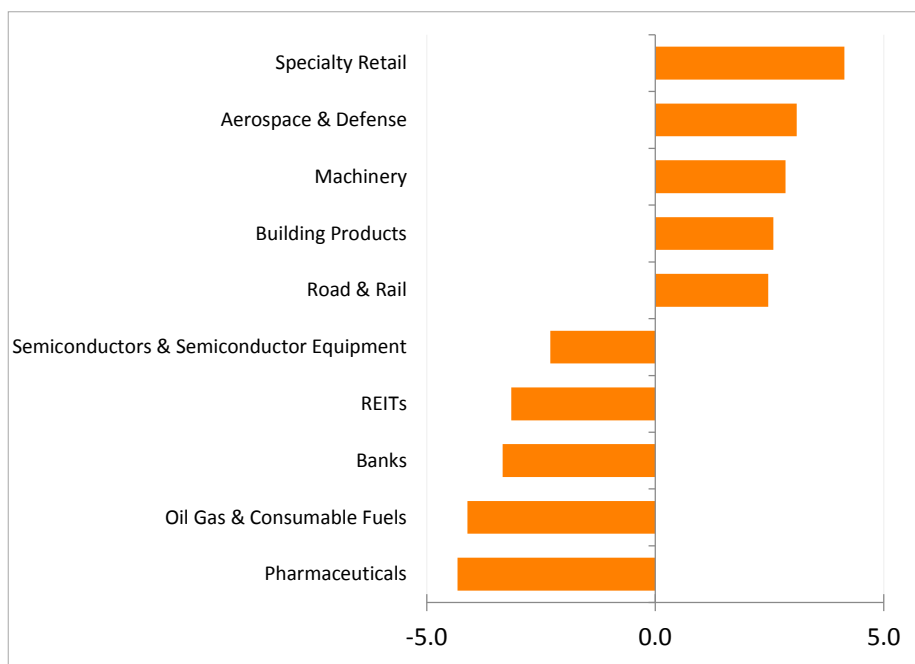
<sup>1</sup>Represents the DuPont Capital representative account, which is the account with the longest tenure in the composite.

<sup>2</sup>Source: DCM, FactSet

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# US LARGE CAP - VALUE CREATORS: POSITIONING OVERVIEW

## Top 5 & Bottom 5 Industry Weights



## Top Ten Over Weights

Security	Over Weight %
Dollar General Corporation	2.53
Brown-Forman Corporation Class B	2.42
Fidelity National Financial, Inc.	2.41
Visa Inc. Class A	2.35
AMETEK, Inc.	2.15
Danaher Corporation	2.00
TransDigm Group Incorporated	1.95
A. O. Smith Corporation	1.90
TJX Companies Inc	1.88
Home Depot, Inc.	1.77

As of September 30, 2019. Source: DCM, FactSet, Bloomberg.  
 Represents the DuPont Capital representative account, which is the account with the longest tenure in the composite.  
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# PERFORMANCE AS OF SEPTEMBER 30, 2019

## US Large Cap - Value Creators vs. S&P 500 (Inception Date: January 1, 2017)

	3 Months	1-Year	2-Year	Since Inception
DCM US Large Cap - Value Creators Composite (Gross of fees)	2.63	10.24	15.62	17.56
DCM US Large Cap - Value Creators Composite (Net of fees)	2.50	9.69	15.05	16.98
S&P 500	1.70	4.25	10.87	13.15
Relative Return (Gross of fees)	0.93	5.98	4.75	4.40

As of September 30, 2019

Source: DCM

Performance results reflect the reinvestment of dividends and other earnings.

Benchmark return computed using same inception date. Returns are annualized for periods over one year.

Past performance does not guarantee future results. Investing involves risk.

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# PERFORMANCE IN DIFFERENT MARKET ENVIRONMENTS

## US Large Cap - Value Creators vs. S&P 500 (Inception Date: January 1, 2017)

	Positive Market	Negative Market	Total # of Months
Portfolio Outperforming	23	3	26
Portfolio Under-performing	5	3	8
Total # of Months	28	6	34
	Upside Capture	Downside Capture	
	1.25	0.88	

As of October 31, 2019

Source: DCM

Performance results reflect the reinvestment of dividends and other earnings.

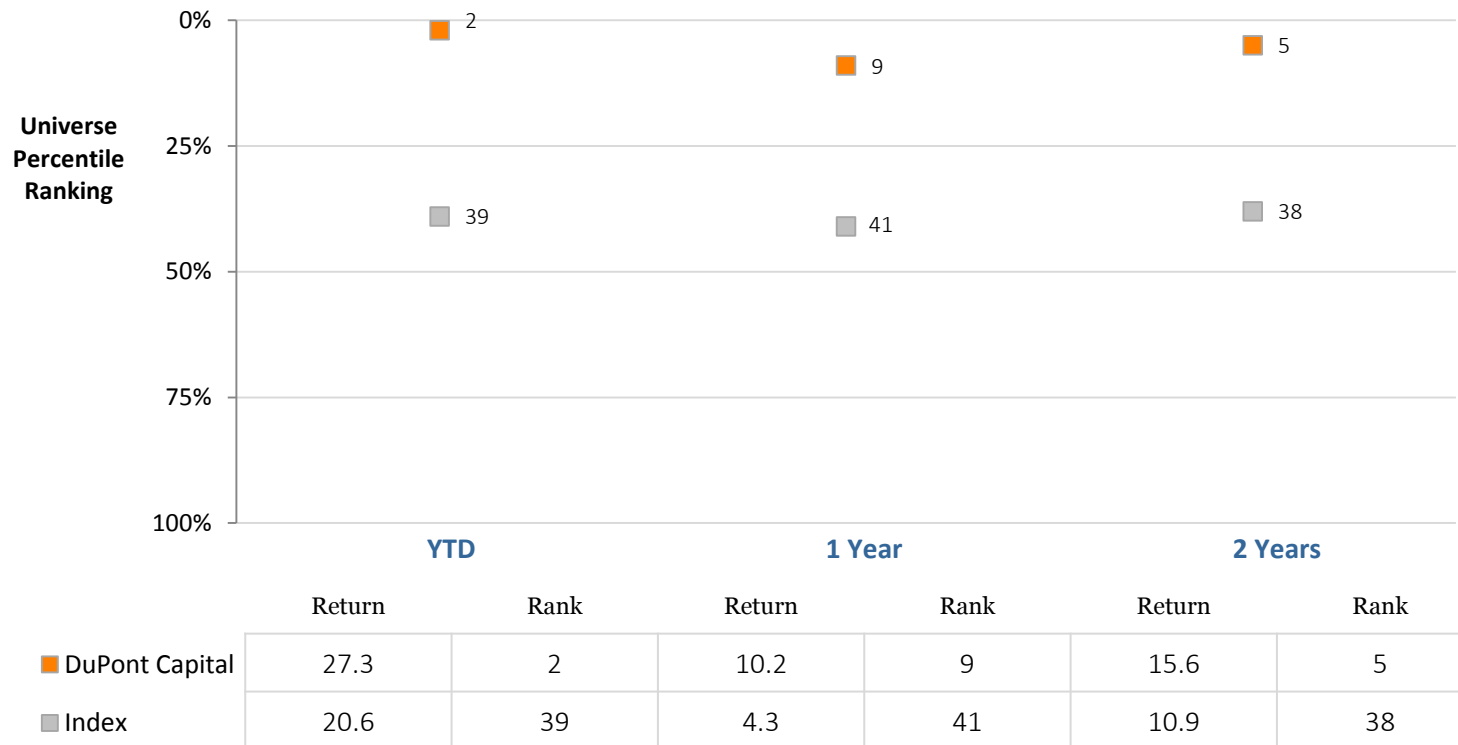
Benchmark return computed using same inception date. Returns are annualized for periods over one year.

Upside / Downside Capture calculated as Average of Monthly Return of the Portfolio/Return of the S&P500 in months with either a positive or negative Benchmark return.

Past performance does not guarantee future results. Investing involves risk.

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# UNIVERSE COMPARISON – LARGE CAP - VALUE CREATORS



As of September 30, 2019.

Source: eASE Analytics System (eVestment Alliance) / utilizing DuPont Capital reported gross returns. Please see page 18 for a comparison of gross and net of fees performance.

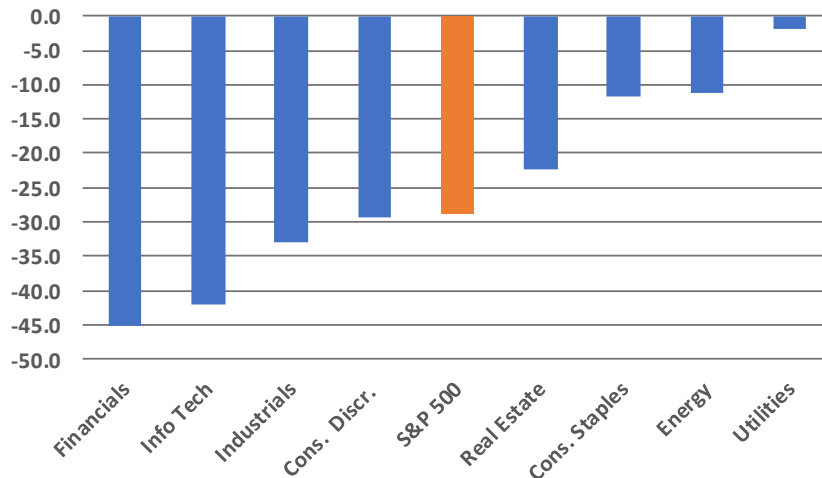
As of 09/30/2019, the universe is comprised of performance returns submitted by 236 managers with 407 separate account, mutual fund, and commingled products. eA Universe Construction Methodology for eA Large Cap Core Equity – US Equity products that primarily invest in a mixture of growth and value large capitalization stocks. Common benchmarks for this universe include the Russell 1000 and S&P 500.

Performance results reflect the reinvestment of dividends and other earnings.

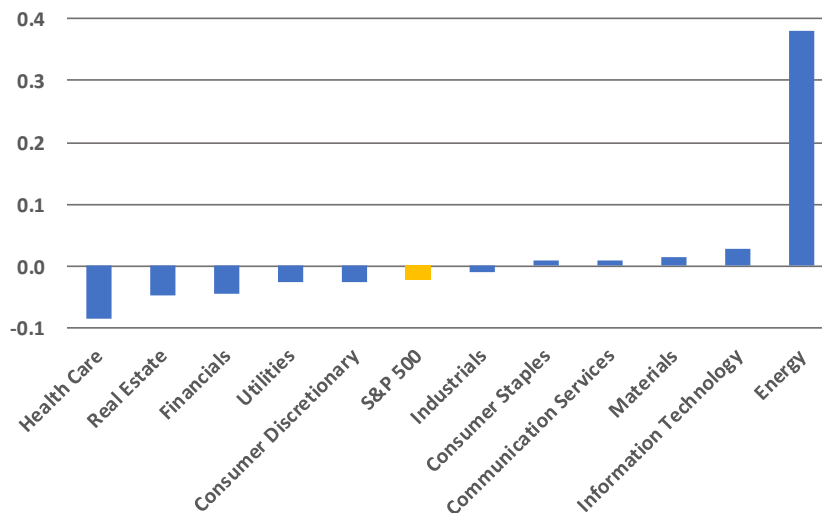
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# POTENTIAL HEADWINDS

## Median Illiquidity Exposure



## Median Energy Shock Exposure

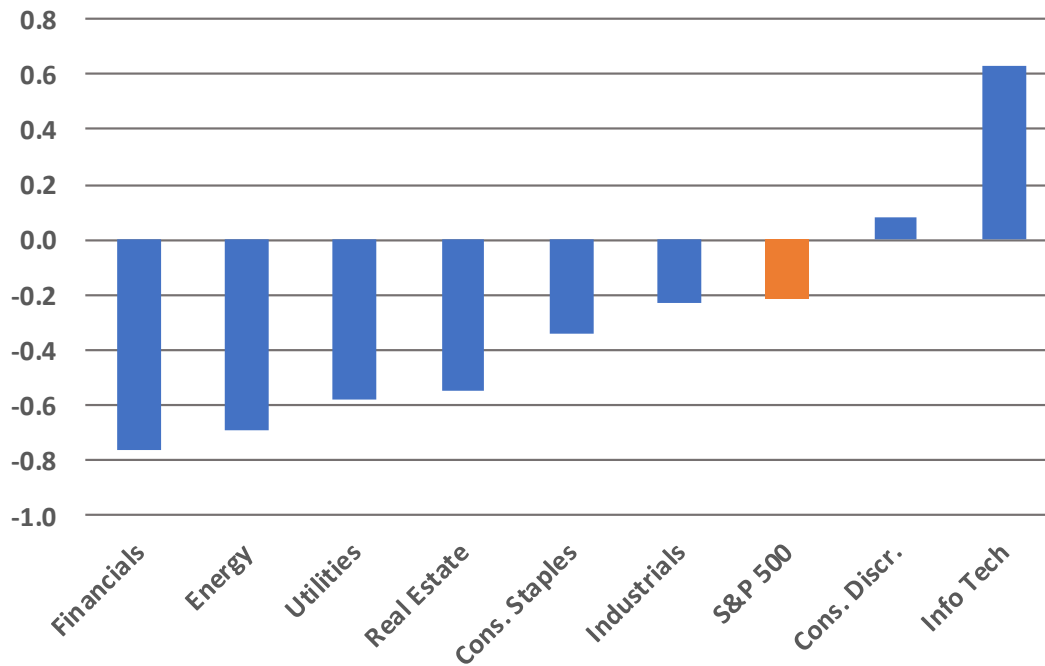


- ❖ Given the structural sector over- and underweights in the portfolio, we would expect the portfolio to face headwinds in the following scenarios.
- ❖ A broad liquidity event generally leads energy and utilities to outperform. We would most likely not be able to compensate this effect with our sector and stock selection.
- ❖ The same would be true in the case of an Energy shock.
- ❖ Given our long term outlook for both sectors, this is a risk we are willing to take on.



# POTENTIAL HEADWINDS

Median Growth Value Exposure



- ❖ Given the structural sector over- and underweights in the portfolio, we would expect the portfolio to face headwinds in case of a deep value rally.
- ❖ In this market environment, we would most likely not be able to compensate this effect with our sector and stock selection.
- ❖ Given the long term structural trends we are seeing in the real economy and financial markets, we expect these effects to be temporary in nature.
- ❖ We expect to deliver results for the patient investor based on the company characteristics and quality of the management teams we invest in.

Median Raw Beta Exposures from Citigroup GRAM risk model

Data as of 07/31/2019

Source: Citigroup, DCM

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# OUTLOOK AND CONCLUSION

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- ❖ The strategic use of cash exceeding a company's organic growth needs can have a significant impact on the long-term value of an investment.
- ❖ We believe the market underestimates the significant impact strong capital allocation policies can have on the long-term value of a company.
- ❖ A focus on quality, value, and sustainability helps to improve risk adjusted returns and increases the potential to outperform the benchmark.
- ❖ Because of its exposures and profile, we believe this strategy is very well positioned to capitalize on the long term structural trends we see in the real economy and in financial markets.

# DUPONT CAPITAL US LARGE CAP - VALUE CREATORS COMPOSITE

Year	Gross Return (%)	Net Return (%)	Benchmark Return (%)	Composite 3-year Std Deviation (%)	Benchmark 3-year Std Deviation (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$ millions)	Total Firm Assets (\$ millions)
2018	-1.8	-2.3	-4.4	N/A	N/A	≤ 5	N/A	270	26,318
2017	24.7	24.1	21.8	N/A	N/A	≤ 5	N/A	156	28,640

- DuPont Capital Management (DCM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. DCM has been independently verified for the periods January 1, 1993 through December 31, 2018.
- Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. DCM US Large Cap - Value Creators composite has been examined for the periods January 1, 2018 through December 31, 2018. The verification and performance examination reports are available upon request.
- DCM is an investment adviser registered under the Investment Advisers Act of 1940. DCM is a wholly owned subsidiary of Corteva, Inc. Registration does not imply a certain level of skill or training.
- DCM US Large Cap - Value Creators (inception date – 01/01/2017) includes all accounts that are primarily invested in U.S. Large cap equity securities utilizing a value-based strategy. Investments are focused in companies having a favorable competitive environment, excellent management teams, superior fundamental outlooks, and return incentives well-aligned with shareholders. Through in-depth fundamental research supplemented by quantitative screening, the portfolio targets investments possessing these characteristics which we believe have the greatest potential to generate superior per share value creation throughout economic cycles.
- The composite benchmark is the S&P 500® Index, which is based on the market capitalizations of 500 large companies of the U.S. stock markets. The returns for this index do not include any transaction costs, management fees or other costs. You cannot directly invest in this index. Benchmark returns are not covered by the report of independent verifiers.
- Performance results reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars. Composite returns are calculated net of non-reclaimable withholding taxes. Gross-of-Fees returns are presented before management and custodial fees but after all trading expenses. Net-of-Fees returns are calculated monthly by deducting 1/12th of the highest applicable fee rate in effect for the respective time period from the gross composite return. The DCM US Large Cap - Value Creators fee schedule is as follows: 0.50% first \$25 million, 0.45% next \$25 million, 0.40% next \$50 million, 0.35% thereafter.
- The ex-post three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. For those periods with less than 36 monthly returns, "N/A" is noted.
- Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For those periods with five or fewer accounts included in the entire year, "N/A" is noted as the dispersion is not considered meaningful.
- DCM uses temporary accounts (rebalance accounts) to temporarily hold significant cash flows until they are invested according to the composite strategy or disbursed. DCM defines a significant cash flow for this composite as an external cash flow within a portfolio equal to or greater than 10% of the portfolio's beginning of day market value.
- Past performance is not indicative of future performance. It should not be assumed that results in the future will be profitable or equal to past performance. These performance disclosures apply to all of the DCM investment performance data presented herein.
- This composite was created in April 2019. A list of composite descriptions is available upon request as are policies for valuing portfolios, calculating performance, and preparing compliant presentations.

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DuPont Capital Management  
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