DUPONT CAPITAL

EQUITY STRATEGY REVIEW
JULY 2020

EMERGING MARKETS EQUITY

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Federal governments and central banks worldwide have reacted quickly with forceful fiscal and monetary policy in response to the COVID-19 pandemic. These policies are intended to supplement incomes and funnel liquidity into banks and financial markets to prevent a sharp credit contraction. So far, these policies have been successful in thwarting a worst-case scenario from an economic perspective. These strong actions, in addition to proactive healthcare measures, allowed emerging equity markets to regain their footing and rebound during the second quarter.

Country level performance generally experienced a reversal from the first quarter. South Africa, Indonesia, and Brazil were among the hardest hit equity markets during the first quarter, but rebounded the most this quarter. Each of these countries has a higher than average industrial commodity dependence within its economy and lower sovereign credit strength. Recovering commodity prices and easing credit stress allowed them to rebound strongly off the bottom.

Unlike country returns, sector returns did not experience a reversal in relative performance. The healthcare and technology sectors continued to outperform, and the financial sector continued to lag behind. The continued outperformance of these sectors is likely due to the unknown duration of the current pandemic. The healthcare and technology sectors will be less negatively impacted, and may even be aided by a continuation of the current crisis. Conversely, the financial sector will experience higher losses if this pandemic continues to linger. The unknown duration is also heavily influencing style returns with growth continuing to outperform. There was a reversal in commodity sectors, which tracked the improvement in oil and industry commodity prices.

We were able to find a number of interesting investment opportunities during the quarter. One such purchase was Kimberly Clark de Mexico. Kimberly Clark de Mexico is the largest producer of sanitary products in Mexico. The company's business lines have a steady growth profile and a dominant market share. We believe the company is well managed, as evidenced by its strong returns and historical capital discipline. The shares were trading at an attractive valuation despite these strong characteristics due to concerns regarding Mexican economic growth and currency valuation, which we felt were over-exaggerated. Another purchase during the quarter was Sinopharm Group. Sinopharm Group is a pharmaceutical and medical device distribution company. The company has experienced consistent and profitable growth over the past ten years, along with the overall growth in the Chinese healthcare market. Changes within the Chinese healthcare billing/payment procedures created uncertainty in investor's minds and depressed the company's valuation. We believe investors underappreciate the company's long-term growth prospects and ability to effectively navigate these changes.

EXHIBIT 1: SUMMARY OF PORTFOLIO CHARACTERISTICS

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	71	1,385
Active Share	68.6	--
Price/Earnings	10.0	14.6
P/E using FY1 Est	11.2	15.0
P/E using FY2 Est	9.4	12.3
Price to Cash Flow	7.9	9.5
Dividend Yield	3.3	2.6
Est 3 Yr EPS Growth	33.9	32.7
Est 5 Yr EPS Growth	15.2	17.4
Price/Book	1.2	1.6
ROE	11.9	10.5
ROA	8.7	7.7
LT Debt to Capital	19.7	22.4
Market Capitalization	91,549.8	82,678.3

As of June 30, 2020
Source: DuPont Capital

The near-term economic outlook is very different across emerging markets. Economic activity is returning to normal in countries such as China, South Korea, and Taiwan that were the first to experience and exit the COVID-19 pandemic. Economic growth has been slower to recover in countries such as Brazil, Mexico, and India that are still experiencing high levels of COVID-19 cases. The valuation backdrop for emerging markets accounts for that uncertainty, we believe. Valuation metrics within emerging market equites appear very attractive relative to long-term averages, which should provide a favorable starting point for returns going forward. The funds valuation metrics are lower than the benchmark with better financial characteristics. We believe this will lead to favorable performance as we exit this global healthcare crisis.

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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: