EQUITY STRATEGY REVIEW
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Emerging Markets Equity

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Emerging market economic growth continued to recover in the third quarter despite widespread COVID-19 infections within most countries. Strong fiscal and monetary policy responses have allowed both economic growth and equity markets to recover. Emerging markets were also assisted by a steady improvement in Chinese economic growth. China was the first country impacted by COVID-19, but has since virtually eliminated the virus from local transmission, which has allowed economic activity to return to near normal levels. Given China's size, the positive impacts on emerging markets should not be understated.

Sector performance was similar to the first half of the year with technology leading and financials lagging. The earnings outlook for the technology sector continues to reflect near-term growth expectations, while earnings for financials are more dependent on improved economic growth. Therefore, the relative performance of these two sectors is most likely contingent on the evolution of COVID-19. A vaccine, a standardized treatment protocol, or a substantial decline in virus transmission would likely cause a reversal in relative performance. The consumer discretionary sector showed an improvement in relative performance, led by the automobile and appliance industries. Low interest rates and greater spending on durable goods versus services has caused a sharp rebound in demand in these industries.

Country returns were heavily influenced by sector composition. Taiwan and India outperformed due to a high representation of technology stocks within their country benchmarks. The South Korean market was also helped by its exposure to technology stocks, as well as its large global auto manufacturers. Turkey's failure to address long-standing economic imbalances sparked concern among investors and caused shares in that market to fall making it the worst performing country within emerging markets.

We added a few new companies to the portfolio during the period that have very strong business characteristics but trade at a discounted valuation relative to their peers. Chinasoft International, a software service company, was added to the portfolio during the period. The company has historically shown consistent growth with good returns on capital. However, the shares trade at a discount to peers due to its somewhat high customer concentration risk, which we believe is overstated. We also added a new position in Hypera Pharmaceuticals, the largest Pharmaceutical company in Brazil. The company went through a corporate restructuring over the past few years, which we believe is now behind them and will allow the company to focus on future growth.

Exhibit 1: Summary of Portfolio Characteristics

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	73	1,387
Active Share	67.3	--
Price/Earnings	11.5	16.6
P/E using FY1 Est	12.3	16.0
P/E using FY2 Est	10.1	13.1
Price to Cash Flow	8.9	10.4
Dividend Yield	3.2	2.3
Est 3 Yr EPS Growth	32.3	32.3
Est 5 Yr EPS Growth	14.7	17.3
Price/Book	1.3	1.8
ROE	10.9	9.6
ROA	9.1	7.8
LT Debt to Capital	18.3	22.1
Market Capitalization	131,168.3	113,681.5

As of September 30, 2020
Source: DuPont Capital

Our base case scenario calls for a continuation of economic recovery across emerging markets. China, South Korea, and Taiwan have largely addressed the COVID-19 pandemic and are returning to normal economic activity. India and South East Asia are still battling hard against the virus, but a further curtailment of economic activity is not likely. COVID-19 cases in South Africa and Latin America appear to be on the decline and restrictions are being lifted in those countries. A vaccine or broadly effective treatment would accelerate these trends, though we do not expect this to occur until the first half 2021.

We believe market performance over the remainder of the year will reflect the progress on a COVID-19 vaccine or broadly effective treatment. Positive developments in either of these two areas would likely have a favorable impact on market returns and potentially trigger a sharp reversal within market style categories. Conversely, failure to produce either would most likely cause emerging market equities to fall and current style leadership dynamics would persist. We are optimistic that the tremendous financial, intellectual, and productive capacity currently being employed will be successful and allow emerging markets to continue their rebound.

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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