International Equity

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The events of 2020 have wreaked economic havoc across the globe to such an extent that they have now derailed one of the most venerable and resilient macro growth trends of recent decades. In early September, second quarter GDP data confirmed that Australia had recorded its first recession since 1990-91. To put that into context, almost 32% of the country's population are younger than 25 years old, meaning that well over a third of those Down Under have never experienced a recession. The Australian Prime Minister at the time, Bob Hawke (contemporary of Reagan, Thatcher and Gorbachev), died only last year at the age of 89.

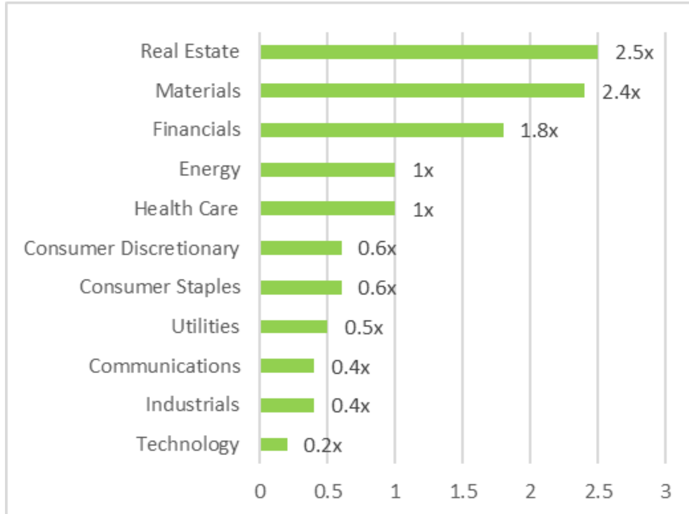
The April-June quarterly contraction of 7% compares favorably to the downdrafts suffered by other developed nations (U.S -10%, France -14%, UK -20%), but underscores the global extent of the fallout from the pandemic. Where contagion from the Asian meltdowns of the late '90s and the Great Financial Crisis failed to trigger a recession, COVID's far-flung effects have succeeded.

An economy that has been built upon abundant natural resources and the mercantile activity surrounding them is reflected in the composition of the local stock market. The Australian component of our MSCI benchmark is dominated by Financials and Materials (31% and 20% respectively), far higher than the equivalent weights of the MSCI World ex US index (17% and 8%). Additionally, the Australian Financial and Materials sectors are dominated by the "Big 4" banks (Commonwealth, Westpac, NAB and ANZ) and the major mining conglomerates (BHP, Rio Tinto, Fortescue and Newmont), creating two rather homogenous blocks within their respective sectors. In terms of concentration, their relative weights are around 2x-2.5x the broader international universe.

From a top-down, asset allocation perspective, Australia is a cyclical/value-centric market, with diversifying international characteristics of fairly significant size (Australia represents 6% of our international universe). That, however, is not the perspective that our investment process pursues.

Instead, our company-specific approach to identifying advantageous industry structures, end market trends and strategic business models reveals that Australia offers its fair share of internationally competitive and dynamic businesses across a range of niche sub-sectors. Due to the relatively small domestic market, there are companies within Health Care, Industrials, and Building Materials that have had little option but to expand their addressable market opportunities via export-driven growth for their innovative products or technologies. In many respects this "early-globalization" attribute is shared with smaller, scientifically inclined European nations, like Sweden and Switzerland, that also feature many multinationals in similar industries. In fact, we at DuPont Capital are direct beneficiaries of intellectual capital exported directly from Australia.

EXHIBIT 1: RELATIVE SECTOR WEIGHTS - MSCI AUSTRALIA / MSCI WORLD EX. US



Source: DuPont Capital, MSCI, Bloomberg

Prime examples of Australian-domiciled but category-leading and growth advantaged companies that we hold in our portfolios include James Hardie and Goodman Group. The former dominates the fiber cement industry, a niche the company effectively created and still retains an almost 90% market share. It continues to reap the benefits of continuous innovation in materials technology, which is reflected in their products' functionality, durability, versatility and pricing. The company has established a stronghold in the US market (70% of revenues), which enables it to accrue economies of scale across production and distribution, while forging key partnerships throughout the construction food chain. Additionally, there remains ample scope to gain market share versus more traditional external building materials in both new-build and renovation markets due to compelling efficiency and environmental dynamics.

Goodman is a specialty property developer, focusing on industrial distribution and logistics assets. The Real Estate sector is another one where Australia is notably overweight (7% weighting versus 3% for International overall). However, many of the constituents are focused on the urban domestic and the office and institutional sectors. In contrast, Goodman, has cast its net well beyond its

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traditional hubs of Sydney and Melbourne to establish a global footprint of targeted prime locations across Asia, Europe, and the U.S. The relentless trends in e-commerce penetration and more complex industrial fulfilment needs underpin long-term demand growth, particularly in densely populated and expensive real estate markets. Goodman's discipline in identifying prime locations and domain expertise in tackling the most challenging regulatory and technical elements in transforming brownfield sites has reinforced the company's preferred partnership status among both customers (including Amazon) and co-investors. Risks are mitigated both by solid leasing commitments and customer-led prospects in its owned portfolio and diversified partnerships across the managed assets portfolio.

Other sectors where the real-world barriers to success are far steeper than the theoretical barriers to entry include medical therapeutics. A case in point is integrated biopharma firm CSL, which specializes in producing and distributing blood plasma products and therapies. Due to research intensity, regulatory requirements and patient safety protocols the global industry structure is quasi-oligopolistic in nature and characterized by high and stable margins. Longer-term demand is supported by demographics and the potential to address unmet medical needs and conditions. Naturally, such high-quality businesses attract premium valuations, but the market can often underestimate the longer-term compounding power of such self-sufficiently successful businesses. We continue to find the plasma market an attractive place for investment.

Looking at the relative earnings dynamics of the Australian market over the coming years, we can see that stripping out the monolithic blocks of Resources and Banks provides a potential smoother and pro-cyclical trajectory [Exhibit 2]. While commodity prices and demand stimulus from China offer the Resources names relative near-term earnings resilience, the Market ex Resources and Banks is poised to deliver better, albeit flat earnings dynamics by the middle of next year. Banks, which are liable to remain impacted by tighter regulation, should also see less acceleration. Overall, if able to generate mid-20% earnings growth in 2021/2022, the "other" tranche of the market should be able to fully recover pre-pandemic earnings power, outpacing the miners and the moneymen from a CAGR perspective.

EXHIBIT 2: ASX200 CONSENSUS BOTTOM-UP EPS GROWTH ESTIMATES

	FY19	FY20 (f)	FY21 (f)	FY22 (f)	FY19-22e
Market	3.1	-17.5	-2.3	16.9	-1.9
Resources	21.4	-2.7	-9.2	-0.3	-4.2
Market ex. Resources	-4.1	-21.9	0.3	22.8	-1.3
Banks	-9.2	-31.5	12.7	16.1	-3.6
Market ex Resources, Banks	-1.2	-15.8	-6.1	26.9	0.1

Source: IBES, S&P, MSCI, Citi

For reference, consensus Street estimates over the same time horizon expect James Hardie to be earning 39% more per share in FY22 compared to FY19 (a CAGR of 12%). Meanwhile, Goodman is projected to experience equivalent bottom line EPS growth of 35% and CSL 24%.

At a time when market narratives globally are dominated by digital disruption and other high-tech imperatives, the Australian market, with a meager 2% direct exposure to the Technology sector, may understandably not be at the forefront of investors' minds.

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: