Value Creators - U.S. Large and Mid Cap

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During the third quarter, US and global equity markets continued to rebound from the pandemic-induced lows of March. Continued fiscal and monetary stimulus from governments and central banks globally have dampened the economic impact, allowing businesses to stabilize and begin the recovery process toward normalization. We would note, however, that the return to "normal" for many industries comes with a level of uncertainty and unpredictability that is much higher relative to any other time in recent history. We also believe select industries are likely to emerge from the crisis with a "new normal" that is vastly different from what was likely pre-pandemic.

Within the Value Creators strategies, we place a heavy emphasis on developing our bottom-up security analysis views based on long-term "normalized" or mid-cycle business conditions. As such, we are focused on being cognizant of the risks of any "new normal". Clearly, much depends on the speed, effectiveness, durability, and global distribution of a successful COVID vaccine. However, given the unprecedented circumstances surrounding its development and our lack of expertise around vaccines in general, we do not expect to be able to predict the progress, timing, or effectiveness of the inevitable medical solution with any degree of certainty. What we do have conviction in is that given the pandemic's depth and duration to date, it is more likely than not that some industries have experienced permanent structural changes as a result of the crisis.

On the negative side, we see what is most likely a permanent reduction in aggregate demand amongst certain bricks-and-mortar retailers, business travel, airlines, aerospace and commercial real estate. We expect that the longer the duration of the pandemic, the more entrenched some behaviors will become, like virtual calls in lieu of in person business meetings/conferences (Zoom, Teams, Skype, Facetime, etc.) or work-from-home as part of regular business operations, and the deeper the adjustment towards a new normal will be.

On the positive side, we think the pandemic is likely to drive a sustainably higher demand for e-commerce, digital consumer and business engagement, home improvements, and high quality connectivity for consumers and businesses alike.

We continue to evaluate investment opportunities through this lens, considering a new normal that incorporates such structural changes.

During the second quarter, the Value Creators portfolios generated positive absolute and relative performance. The Large-Cap Value Creators portfolio outperformed its benchmark by 270 basis points, returning 11.63% vs. 8.93% for the S&P 500.

Exhibit 1: Value Creators Portfolio Characteristics (as of 9/30/20)

	Value Creators - US Mid Cap	S&P 400	Value Creators - US Large Cap	S&P 500
Debt Level				
Debt/Capital	73.5	98.1	47.5	49.2
Debt/Equity	132.9	178.0	120.7	158.6
Debt/EBITDA	2.6	3.4	2.0	2.4
Growth				
Dividend Growth 5 year	16.5	10.0	14.1	11.7
EPS Growth 3 year	22.7	19.3	25.9	21.2
EPS Growth 5 year	19.3	12.8	15.3	13.5
EPS Est Growth 3-5 Year	9.8	10.3	13.3	11.1
Dividend Payout Ratio	20.3	46.1	25.3	54.3
Profitability				
Return on Equity	27.3	14.7	27.7	23.8
Return on Assets	13.9	6.9	11.4	9.0
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	26.0	32.9	30.2	28.5
Price/Cash Flow	15.5	9.1	18.6	13.2
Price/Book	5.1	2.1	5.7	3.6
Price/Sales	5.3	4.3	6.8	6.0
Dividend Yield	0.9	1.9	0.8	1.7

As of September 30, 2020
Source: DuPont Capital, FctSet

The Mid-Cap Value Creators portfolio outperformed its benchmark by 445 basis points, returning 9.22% vs. 4.77% for the S&P 400.

In both portfolios, we made very modest adjustments during the quarter. In both portfolios, we diversified our defense holdings modestly, and tactically shifted some consumer staples positions toward targeted consumer discretionary companies. This was driven by our valuation discipline and our longer term views for each investment.

In aggregate, the securities in the portfolios have above average business model durability. Quantitatively, both the mid– and large-cap portfolios possess better-than-benchmark return characteristics as measured by Return on Equity. We believe this factor, combined with durable earnings growth and resultant cash flows, will be key drivers of superior long-term value creation within the portfolio over time.

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: