EQUITY STRATEGY REVIEW
APRIL 2021

Value Creators - U.S. Large and Mid Cap

Kevin Fogarty, CFA, Portfolio Manager and Senior Equity Analyst

In the first quarter of 2021, equity prices continued their recovery from pandemic-induced lows albeit at a slower pace than that of the previous quarter. The S&P 500 returned 6.2% while the S&P 400 midcap index returned 13.5%. Our Large Cap and Mid Cap portfolios underperformed during the quarter returning 4.3% and 4.9% respectively.

The market has experienced a large dispersion of returns over the last several months. The returns of the Energy and Financial sectors significantly outpaced the broader indices. The S&P 500 Energy Sector returned over 30% driven by higher oil and natural gas prices. The S&P 500 Financial Index returned 15.6% driven by higher interest rates and abating concerns over COVID-19 related loan losses. Lower quality businesses continued to outperform during the quarter as well. We generally characterize lower quality businesses as having some combination of inferior normalized returns on capital, weaker free cash flow generating abilities, and/or riskier balance sheets. Overall, these return dispersions negatively impacted our relative performance given our underweight in both energy and financials, as well as our focus on higher quality companies.

Despite the recent strong performance in energy equities, we are maintaining the underweight in the sector. Historically, energy firms tend to earn lower returns on invested capital, have higher leverage/default risk, and lower free cash flow generation. Moreover, we see potential long-term disruption in the energy sector that could lead to secular declines in demand. We see few compelling investment opportunities in the energy sector for this reason.

Opportunities within the Financial sector have been somewhat more compelling in recent months. We have become more constructive on select individual banks as we see improving returns on capital, relatively low valuations, and long-term efficiency gains from technology. We believe that digitalization will continue to lower operating expenses and deposit costs as customers continue to migrate away from branches to digital applications while forgoing interest on deposits for increased functionality and convenience. Additionally, over the next five years, we believe these banks will return significant capital to shareholders as reserves are released from expected pandemic related loan losses that were never realized and increased capital generation via higher net interest margins.

Exhibit 1: Value Creators Portfolio Characteristics (as of 3/31/21)

	Value Creators—US Mid Cap	S&P 400	Value Creators—US Large Cap	S&P 500
Debt Level				
Debt/Capital	61.0	39.1	46.4	47.8
Debt/Equity	228.6	328.5	173.2	205.22
Debt/EBITDA	4.2	3.9	2.7	3.0
Growth				
Dividend Growth 5 year	12.8	7.34	12.9	10.2
EPS Growth 3 year	10.5	11.2	19.0	22.4
EPS Growth 5 year	17.3	11.4	21.3	17.4
EPS Est Growth 3-5 Year	15.9	14.8	18.0	14.5
Dividend Payout Ratio	38.4	226.9	50.4	63.7
Profitability				
Return on Equity	18.7	10.8	23.9	22.9
Return on Assets	10.2	4.9	10.3	8.5
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	20.3	18.5	23.5	20.1
Price/Cash Flow	19.3	13.1	19.6	16.2
Price/Book	4.4	2.7	5.1	4.2
Price/Sales	5.4	4.9	6.9	6.4
Dividend Yield	0.8	1.2	0.8	1.5

As of March 31, 2021
Source: DuPont Capital, FactSet

We continue to favor, at sensible valuations, investments in companies with durable franchises that generate significant free cash flow, which management is willing and able to allocate in ways that generate shareholder value. These investments should compound value at higher rates of return over time. Given our focus on Quality, periods of short-term underperformance, as in the most recent quarters, are to be expected. Though we believe our approach will outperform the broader markets over the longer-term.

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.

For additional information, please contact:

Mr. William Smith
Managing Director
Business Development and Client Service
(302) 477-6204
Bill.Smith@dupontcapital.com

Important Disclosures: