EQUITY STRATEGY REVIEW
JULY 2021

Value Creators - U.S. Large and Mid Cap

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In the second quarter of 2021, equity prices continued their recovery from the pandemic lows as the vaccine rollout accelerated and economies continued to reopen. The S&P 500 returned 8.55% while the S&P 400 midcap index returned 3.64%. Our Large Cap and Mid Cap portfolios outperformed during the quarter returning 10.57% and 7.66% respectively (gross of fees).

During the quarter, the market continued to experience a large dispersion of returns. In a reversal from the prior quarter, higher quality companies were in favor while more speculative and lower quality cyclical companies underperformed. Both our large and mid-cap portfolios benefited from the shift in leadership during the quarter. Markets have been volatile since the onset of the pandemic at the beginning of 2020, and have remained so through the current recovery. We are not surprised by this as the global economy has experienced one of the most dramatic economic shocks and subsequent recoveries since the Great Depression and world wars. “Mr. Market” has continued to cycle through its manic and depressive stages throughout this period. We have remained steadfast in our process, which favors investing in businesses with long-term above average returns on capital, high free cash flow generation and durable competitive advantages.

The value creators team spends considerable time assessing franchise quality. Key attributes we seek are a favorable competitive environment, high barriers to entry, a differentiated value proposition, and secular growth in earnings per share potential. We favor companies with historical track records that are consistent with these attributes or have a high likelihood of achieving these characteristics. Such companies have strong “moats” that insulate the businesses from external threats. In many cases, the “moats” are strengthening when we detect positive operating leverage or increasing incremental returns on invested capital. We prefer companies where we have greater confidence in our ability to forecast competitive industry dynamics and the long-term economics of the business. In addition to franchise quality, we assess management’s ability and willingness to allocate capital in a value-accretive fashion. We prefer management teams that think and act like owner-operators. We appreciate a long-term perspective as opposed to focusing on myopic quarterly performance expectations often laid out and pressured by short-term Wall Street expectations.

During the quarter, we identified a few compelling long-term investment opportunities meeting the aforementioned criteria. In the large-cap portfolio, the principal changes were addi-

Exhibit 1: Value Creators Portfolio Characteristics (as of 6/30/21)

	Value Creators—	S&P 400	Value Creators—	S&P 500
Debt Level				
Debt/Capital	62.8	39.5	45.2	46.9
Debt/EBITDA	4.1	3.9	2.7	2.9
Growth				
Dividend Growth 5 year	14.3	6.9	13.1	10.2
EPS Growth 3 year	11.5	10.6	20.2	22.8
EPS Growth 5 year	18.4	11.3	22.0	18.1
EPS Est Growth 3-5 Year	15.3	16.4	20.6	17.3
Dividend Payout Ratio	19.8	211.6	22.7	45.1
Profitability				
Return on Equity	17.9	11.1	26.1	25.5
Return on Assets	10.6	5.2	11.9	10.1
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	20.7	17.5	24.3	20.6
Price/Cash Flow	21.0	14.0	20.4	16.4
Price/Book	4.7	2.8	5.6	4.4
Price/Sales	15.9	5.5	7.7	7.2
Dividend Yield	0.7	1.2	0.7	1.4

As of June 30, 2021
Source: DuPont Capital, FactSet

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tions to Copart, IHS Markit, and Google – all durable franchises with excellent management whose shares became more attractive during the quarter. In the mid-cap portfolio, we added Liberty Broadband and Costar. In both portfolios, we funded the additions by reducing the positions of more cyclical franchises whose valuations had become stretched.

We continue to favor, at sensible valuations, companies with durable franchises that generate significant free cash flow with management teams that successfully allocate capital to generate LONG-TERM shareholder value. These investments should compound value at above average levels over time. Although we expect periods of both positive and negative short-term volatility vs. the benchmark, we believe this approach will outperform the broader markets over the long-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.

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Important Disclosures: