DuPont Capital

EQUITY STRATEGY REVIEW
SEPTEMBER 2021

US Small Cap, Structured Equities

Caleb Piper, CFA, Portfolio Manager and Senior Investment Analyst

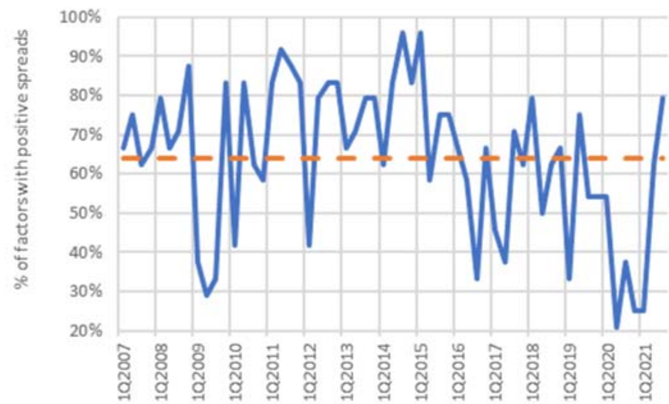
There is little doubt the Covid-19 pandemic has affected us all in profound ways we never previously dreamed possible. Restrictions galore, coming at us from every angle, have changed the daily fabric of our lives, from where we work, how we shop, how and where we spend our free time, and even how we interact with our loved ones. It feels like life's greatest anomaly has been sprung upon us like a bear trap in the middle of the night (though I'm sure any history buff would disagree), and all we desire now is a return to the normal that we probably treated with contempt and took for granted.

Transitioning into the investment paradigm, the parallels to the 2020 factor landscape are uncannily similar. While we have previously commented on some of the struggles both Value and Quality factors experienced in 2020, the depth of underperformance across all our factor universe was truly an anomaly. Of the 24 factors we employ in our multi factor framework, 21 had negative returns on a spread basis (top quintile minus bottom quintile) in 2020. If this wasn't bad enough, going back to 2007, a total of 10 factors returned their worst year in 2020, with another 7 factors turning in their second worst year. That is a total of 17 factors, or 70% of our factor library, performing in the very bottom of the historical distribution. And this from a group of factors that has an average historical yearly win rate of almost 70% over that same time period. So, what do we long for? A return to normal of course!

While it rarely is the case, the fear is always—does this become the new normal? Thankfully, the third quarter seems to have confirmed the answer to that question. Exhibit 1 plots the win rate of our factor library on a quarterly basis (defined as the % of factors with a positive spread during the quarter). The second quarter saw the win rate return to the historical average with the third quarter providing more follow through, rising to a 79% win rate.

We also looked at the return magnitude relative to history and came to a similar conclusion. To do this, we ranked the quarterly performance spread of each factor compared to its own return history going back to the beginning of 2007 (59 quarters). To simplify the results, we condensed our factor library down into our 4 factor families—Value, Growth, Sentiment, and Quality. Exhibit 2 shows a snapshot of the results for the fourth quarter of 2020 compared to the most recent quarter. The fourth quarter shows again just how poor 2020 was. The best performing factor group was Value at 16% (or 7th worst quarter out of 59) with the other factor groups putting up their second or third worst quarter since 2007. Thankfully, the third quarter was a breath of fresh air with both Value and Growth performing in the 90th percentile of history and the other factor groups returning positive spreads for the quarter. In fact, the third quarter of this year was the first quarter since 4Q18 where all four factor groups showed a positive spread. We would say, it's good to be back to normal!

Exhibit 1: Factor Library Win Rate



Source: DuPont Capital, Barra

Exhibit 2: Percentile Rank of Factor Spread Performance Since 2007

Factor Family	4Q 2020	3Q 2021
Value	16%	90%
Growth	2%	90%
Sentiment	2%	60%
Quality	3%	57%

Source: DuPont Capital, Barra

So where to from here? We believe the inflation outlook is key. Given the numerous bottle necks in supply chains globally, we believe supply constrained inflation pressure is here to stay in the median term. Thus, with a robust aggregate demand and rising rate backdrop, we believe the outlook for value to continue working remains robust, especially for earnings and cashflow related measures. We favor strong earnings revisions and continue to diversify our weights amongst the quality factors within our multi-factor model framework.

Chestnut Run Plaza ◆ Building C735 ◆ 974 Centre Road ◆ Wilmington, DE 19805 ◆ (302) 477-6000

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: