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EQUITY STRATEGY REVIEW
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Value Creators - U.S. Large and Mid Cap

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In the third quarter of 2021 equity prices were mixed. The S&P 500 returned 0.58% while the S&P 400 midcap index fell -1.76%. Our large cap portfolio lagged its benchmark with a return of -0.01%, however, the mid-cap portfolio held up better amongst the volatility with a return of -0.13%. The mid-cap portfolio has a higher quality composition relative to its benchmark as measured by return on equity, and we believe it benefited from this quality factor during the period.

During the quarter, certain sectors continued to generate impressive results due to a continuation of secular trends that leave them less vulnerable to shifts in the pandemic or the pace of re-opening. Alphabet is perhaps the best example of this. Other sectors such as industrials and consumer sectors have experienced difficulty in offsetting rising inflation and supply chain constraints, which have not fully adjusted since the trough of the pandemic. Some of these companies saw their shares come under pressure during the quarter, providing an opportunity for long-term investors.

Inflation is a significant concern for the overall economy and can be challenging for companies to manage. In the short run, most companies are unable to fully offset inflationary pressures. A key component of the value creators strategy is to invest in durable franchises. A key measure of durability is the ability to maintain or increase prices that is commensurate with the value provided by the business. The value creators portfolios are significantly overweight companies with this pricing characteristic. However, it is important to distinguish between the short and long-term. Many of the companies we own, particularly in the industrial sector, cannot offset inflation in the short-run (e.g. a few quarters), but can offset it over time with appropriate price increases. Most companies will mathematically experience margin pressure during this process, but that overall absolute profit growth is likely to continue along the long-term trends of the franchise.

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 to generate long-term shareholder value. These investments should compound value at above average levels over time. Although there will be periods, such as recent quarters, of both positive and negative short-term volatility versus the benchmark, we believe this approach will outperform the broader markets over the long-term.

Exhibit 1: Value Creators Portfolio Characteristics (as of 9/30/21)

	Value Creators - US Mid Cap	S&P 400	Value Creators - US Large Cap	S&P 500
Debt Level				
Debt/Capital	62.3	39.7	45.3	46.3
Debt/EBITDA	4.1	4.3	2.6	2.9
Growth				
Dividend Growth 5 year	14.7	6.6	13.1	10.3
EPS Growth 3 year	11.5	11.0	20.4	23.2
EPS Growth 5 year	18.8	11.4	22.0	18.2
EPS Est Growth 3-5 Year	13.6	17.6	18.4	16.1
Profitability				
Return on Equity	15.8	10.6	28.2	27.2
Return on Assets	10.7	5.0	13.0	11.2
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	19.7	16.3	23.4	19.8
Price/Cash Flow	20.6	13.5	19.4	16.0
Price/Book	4.5	2.6	4.0	4.3
Price/Sales	15.4	5.2	7.1	7.0
Dividend Yield	0.7	1.2	0.8	1.4
Dividend Yield	0.7	1.2	0.7	1.4

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

During the quarter, our process identified some compelling long-term opportunities. In the mid-cap portfolio, we added new positions in DollarTree, Sleep Number, and Credit Acceptance Corp. We also increased our position in Tractor Supply. Many of these companies have experienced recent share price pressure due to investor concerns about the inflationary pressures and supply chain issues mentioned above. We believe these issues are more likely to be temporary and will be resolved over time. In a few cases, "Mr. Market" has presented us with an attractive buying opportunity which we took advantage of. We funded these purchases by trimming some of our life sciences holdings which have experienced significant price appreciation.

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: