EQUITY STRATEGY REVIEW
SEPTEMBER 2021

- The fallout from the pandemic is creating visible pressure points in the global economy due to a string of issues across production, procurement, logistics, and more.
- Given the extent of disruption we are seeing globally, we expect inflationary pressures will persist in the near term and continue to hold influence over market performance and leadership.
- The silver lining to the current supply chain constraints is a more protracted economic recovery with demand essentially pushed out instead of pulled forward.
- Against this backdrop, we see scope for Cyclicals and Value-oriented areas of the market to run further favoring Europe and Japan over the US and small and mid caps.
- Caution on China is warranted as there is risk of a broader slowdown.
- Though inflation will likely last longer than we initially expected, we continue to see it as a temporary phenomenon and we continue to favor high quality businesses in structurally advantaged areas of the market longer term.

MARKET OBSERVATIONS

Lode Devlaminck, Managing Director, Equities

The fall out of the Pandemic is creating visible pressure points in different sectors and parts of the world with a potential short to medium impact on global equity markets and market leadership.

SUPPLY CHAIN DISRUPTIONS AND SHORT TERM EARNINGS TRENDS

Corporate earnings and management decisions are being affected by a string of disruptions in areas like procurement (chip shortages, etc.), production (supply chain disruptions caused by COVID-19 resurgence), sales, logistics (shortage of containers, port congestion, rising logistics costs), and higher raw material costs.

A recent survey from Citi [Exhibit 1] tries to frame out which processing and assembly industries are being impacted the most and what areas of the supply chain are the most impactful.

Citi's Japanese analysts scored each item on a scale of 0 to 5 based on the degree of impact on marginal profit at the company or business unit level. Pricing was also scored from 0 (no price pass through) to 5 (high degree of price pass through) and was treated as an offset to cost. The industries with the highest total score are the ones experiencing the biggest disruption. It is important to note that, while higher levels of disruption may lead to negative short-term earnings revisions, it doesn't necessarily mean that the earnings are fully lost, but more likely pushed out to a later date. While this exercise was conducted for Japan, we believe its conclusions carry global relevance.

One of the most recent and influential supply chain disruptions is the global chip shortage. The pandemic dampened semiconductor demand in 2020, but severe winter storms in Texas and a factory fire at Renesas led to shortages. The supply chain was subsequently seriously aggravated by backed-up downstream processing in regions like Malaysia when the spread of the Delta variant triggered plant shutdowns.

One of the highest profile victims of this shortage is the auto sector, which saw its IHS Markit light vehicle production forecast slashed by a substantial 6.2% for 2021 and 9.3% for 2022 mid-September. Prompted chiefly by the ongoing semiconductor shortage, market outlooks for adjacent sectors, mainly technology fields like smartphones, PCs, and TVs, have also been revised down. Snags like rising raw material prices and port backlogs are also being cited as factors that will affect earnings in many industries in 2021.

The upstream sectors of electronic components and chemicals have been less affected by COVID-19, which we believe is due to the relatively small scale of the supply chains that companies manage directly.

RISING RATES, A STEEPENING YIELD CURVE, AND THE DIFFERENT FLAVORS ON THE ROTATION TRADE

The silver lining to supply chain bottle necks is that the economic recovery is being stretched out (demand being pushed out rather than pulled forward). Continued economic strength and more sustained inflation than originally expected puts central banks under pressure to very gradually reduce their accommodative stances. The US Fed has clearly indicated tapering is on the table before year end while several emerging market countries have already started raising rates. The ECB and the BOJ may be the two major exceptions and likely have a bit more time on their hands.

As the market incorporates more term premium into the Fed taper announcement, and the market looks more favorably at both rates and economic growth (i.e. the Fed is not making a mistake), the yield curve is likely to steepen a little further. This would also be consistent with the historical steepening that is observed into year-end in recent years (average of 15 bps and 22

EXHIBIT 1: S&P 500 QUARTERLY EPS GROWTH EVOLUTION

Sector	Procurement	Production	Sales	Logistics	Materials	Pricing	Total
Auto / Auto Parts	1.7	2.6	1.6	2.3	3.1	-3.5	7.8
Industrial / Consumer Electronics	1.5	1.9	2.0	1.3	1.4	-1.4	6.7
Machinery	1.1	0.8	1.2	1.4	1.8	-0.6	5.6
Precision Instruments	1.5	1.6	1.3	1.5	1.4	-2.1	5.2
Electronic Components	0.1	0.6	1.4	0.8	1.6	-0.8	3.8
Chemicals	0.3	0.4	0.7	1.1	3.0	-2.1	3.4
Health Care							3.0
Food / HPC	0.0	0.1	1.7	0.3	1.2	-1.2	2.2

Source: Citi Japan Equities (September 27, 2021). "Assessing Short-term Issues Impacting Japanese Stocks"

Note: Scoring is based on input from Citi's Japanese analysts. Procurement, Production, Sales, Logistics, and Materials scores range from 0 (no impact) to 5 (high impact). Pricing scores range from 0 (no price pass through) to 5 (high degree of price pass through). The total represents the sum of the scores with the highest scores indicating industries most impacted by supply chain disruptions.

bps steepening in 2-year and 10-year respectively over the last five years). The unusually large move witnessed in the last days of September (slightly over a three-standard-deviation move based on rolling one-year volatility) has historically also signaled a continuation of a selloff in bonds in the near term.

The takeaway from the last FOMC meeting was overwhelmingly positive for equities. Powell's message of a sequencing that allows inflation to continue while simultaneously trimming easy financial conditions, forms a runway for cyclicals and more value-oriented segments to outperform at least in the short to medium term.

Indeed, Energy and Financials, the two sectors that historically demonstrated the greatest sensitivity to rising rates, became the top performing sectors towards the end of Q3. Other potential beneficiaries of this shift may be more highly levered companies , which, during periods of higher inflation, would see liabilities shrink in real terms relative to cash flows in real terms. Inflation beneficiaries, which were a great theme in the beginning of the year [Exhibit 2], could come back into favor.

Small and mid-cap companies can be seen as another flavor of the rotation trade given their valuation discount to large caps, their positive correlation to COVID cases, and signs of a cyclical rebound in SMID Returns on Equity (ROE) and margins, in contrast to large cap ROE's and margins which are at historic highs.

Exhibit 3 shows the rebound in EBIT margins for major sector groups in the US. The Tech+ sector with the likes of Microsoft, Apple, Google, Facebook, and Amazon has a disproportionate weight in US Large Caps. While margins have been going up in this segment as in others, the rebound off the trough in Q1 of 2020 is clearly not as outspoken as with the cyclicals and financials.

Looking at it from a geographic perspective, this market rotation leads to a preference for more rate and value sensitive regions like the Eurozone and Japan. Exhibit 4 shows equity market sensitivity to the US 10-year yield. Because of their composition (higher exposure to financials and cyclicals, low exposure to technology), Japan and the Eurozone are the only two regions that show a positive correlation to US rates.

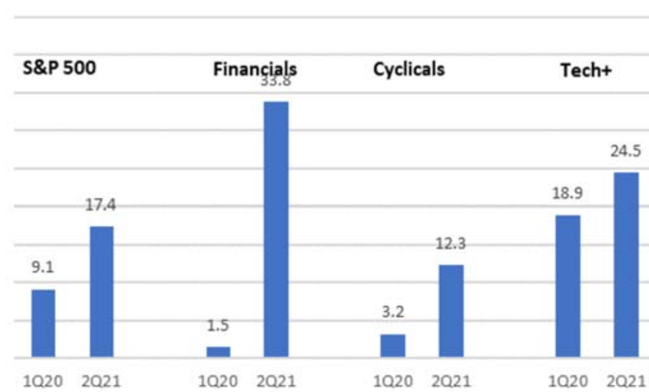
China Growth Under Pressure

Although recent headlines have primarily been focused on the fallout of Evergrande, markets need to remain mindful of a broader slowdown in China. This is especially true against a stringent fiscal backdrop and potential indirect impacts of a deterioration of the property sector. Economic activity in China was already trending weaker months ahead of the most recent Evergrande news, as evidenced by Citi's Economic Surprise Indices for the region turning negative (Exhibit 5 on next page).

EXHIBIT 2: YEAR-TO-DATE PERFORMANCE OF LONG AND SHORT INFLATION STOCKS VS. S&P 500

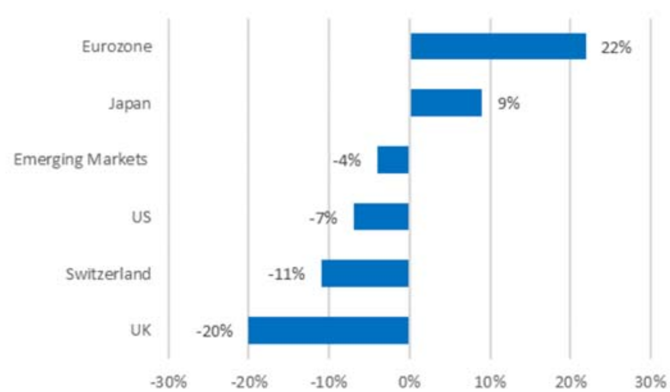
Source: Citi

EXHIBIT 3: EBIT MARGINS: Q1 2020 VERSUS Q2 2021



Source: Credit Suisse (data as of dates noted in chart)

EXHIBIT 4: REGIONAL CORRELATION TO US 10Y BOND YIELD



Source: JP Morgan Cazenove (October 4, 2021). "Equity Strategy"
Note: Based on monthly returns from start of 2000 to September 2021

The combination of the PBoC 's stance that "China will not resort to flood-like stimulus" and the draconian regulatory crackdown that is ensnaring wide swaths of China's economy does not foster a strong environment to turn around a slowing economy. The base scenario of a managed restructuring at Evergrande with some spillover, is leading to a cut to China GDP growth forecasts (e.g. Citi revised their growth forecast from 5.5% to 4.9% for 2022E). The pressure on growth will likely trigger some restrained policy easing, including a modest interest rate cut.

To make things worse, China is facing a power crunch as a result of a coal shortage. Coal production was not able to keep up with a 16% increase in power consumption YTD through July vs. the same period in 2020 (driven by the post Covid economic recovery). Despite the push towards renewables, coal still accounts for 2/3 of China's electricity, but a decade-long push to manage capacity has limited the development of new mines. The impact has been compounded by a number of mine accidents in August, which led to escalated safety checks and challenges for mines to raise output. The recently announced increase in coal capacity will take time to materialize due to safety and environmental regulations.

KEEP AN EYE ON THE LONG TERM

It is impossible to gauge if and how long any rotation will continue, but higher base effects, high debt levels, technological innovations, and aging demographics do not change our long-term outlook for lower trend growth, inflation and interest rates. While the market seems more focused on the cyclical rebound in margins highlighted in Exhibit 3, we think the market ultimately focuses on the absolute level and sustainability of margins and operating performance.

One way of identifying better quality companies is to analyze their ESG credentials. A recent meta-study conducted by NYU Stern found a positive correlation between operational company performance to positive ESG characteristics [Exhibit 6]. One of their conclusions was that sustainability initiatives at corporations appeared to drive better financial performance due to mediating factors such as improved risk management and more innovation.

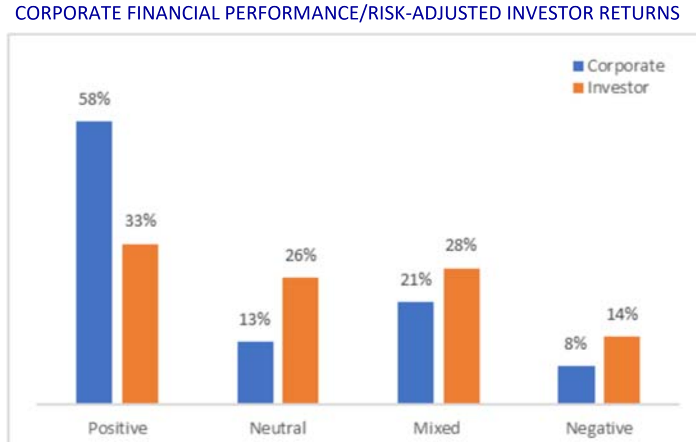
CONCLUSION

- More sustained inflationary pressures than originally expected (at least) temporarily shifts some of our preference from US Large caps to International Equities and Mid and Small Caps.
- The silver lining to the supply chain disruptions is that the economic recovery is basically being stretched out.
- We would remain underweight China on the back of slower economic growth and regulatory uncertainty.
- While it is difficult to gauge how long the market rotation can last, we view it as temporary in nature. The long-term preference for higher quality business models (lower risk, better pricing power, better sustainability, better margin structures) remains unchanged.

EXHIBIT 5: YTD CITI ECONOMIC SURPRISE INDEX: CHINA AND US

Source: Citi

EXHIBIT 6: RELATIONSHIP BETWEEN ESG METRICS AND CORPORATE FINANCIAL PERFORMANCE/RISK-ADJUSTED INVESTOR RETURNS



Source: Whelan, Atz, van Holt, and Clark (August 2021). "ESG and Financial Performance: Uncovering the Relationship by Aggregating evidence from 1,000 Plus Studies Published between 2015 – 2020"
Note: Data based on 245 studies published between 2016 and 2020

Preliminary Performance (gross/net) as of September 30, 2021

U.S. Equity	% QTD	% YTD	% 1yr	% 3yr	% 5yr	% 10yr	% 15yr	Inception
DCM Value Creators—US Large Cap* *(inception date – 01/01/2017)*	(0.0)	15.3	26.7	20.3	—	—	—	20.9
Net of Fees	(0.1)	14.8	26.1	19.7	—	—	—	20.3
S&P 500 Index	0.6	15.9	30.0	16.0	—	—	—	16.9
DCM Value Creators—US Mid Cap* *(inception date – 01/01/2017)*	(0.1)	12.8	28.9	12.4	—	—	—	14.5
Net of Fees	(0.3)	12.3	28.2	11.8	—	—	—	13.9
S&P 400 Index	(1.8)	15.5	43.7	11.1	—	—	—	12.0
DCM Small Cap Equity* *(inception date – 04/01/1999)*	(2.4)	18.8	54.5	9.0	13.1	14.5	9.4	11.1
Net of Fees	(2.6)	18.1	53.2	8.1	12.1	13.5	8.5	10.2
Russell 2000 Index	(4.4)	12.4	47.7	10.5	13.4	14.6	9.2	9.3
DCM Merger Arbitrage* *(inception date – 06/01/2015)*	(0.4)	5.7	14.1	6.9	5.4	—	—	5.2
Net of Fees	(0.5)	5.3	13.5	6.4	4.8	—	—	4.6
3 Month T-Bill	0.0	0.0	0.1	1.1	1.1	—	—	0.9
DCM Merger Arbitrage Enhanced* *(inception date – 03/01/2020)*	(1.1)	9.2	25.4	—	—	—	—	17.8
Net of Fees	(1.3)	8.7	23.8	—	—	—	—	16.6
3 Month T-Bill	0.0	0.0	0.1	—	—	—	—	0.2

Non-U.S. Equity	% QTD	% YTD	% 1yr	% 3yr	% 5yr	% 10yr	% 15yr	Inception
DCM Emerging Markets Equity* *(inception date –10/01/1999)*	(7.2)	2.7	21.4	6.2	8.6	4.8	6.2	9.2
Net of Fees	(7.5)	1.8	20.0	4.9	7.4	3.5	4.9	7.9
MSCI EM Index	(8.1)	(1.2)	18.2	8.6	9.2	6.1	5.7	7.9
DCM International Equity* *(inception date – 01/01/2017)*	0.3	9.6	25.8	8.7	—	—	—	10.7
Net of Fees	0.1	9.1	25.1	8.1	—	—	—	10.1
MSCI World ex-US Index	(0.7)	9.2	26.5	7.8	—	—	—	9.6
DCM Global ex-US Small Cap Structured* *(inception date –01/01/2015)*	(0.9)	10.8	30.8	11.6	12.6	—	—	10.2
Net of Fees	(1.1)	10.1	29.7	10.7	11.6	—	—	9.3
MSCI AC World ex USA Small Cap Index	(0.0)	12.2	33.1	10.3	10.3	—	—	9.1

*Gross of Fees
**The International Equity Composite Index has changed historically as follows: 01/01/17 MSCI EAFE Index, 01/01/20 MSCI World ex-US Index.
Net returns are calculated using highest fee on ADV. Returns greater than one year are annualized. Please see the last page for important performance disclosures.

Value Creators - US Large and Mid Cap

Kevin Fogarty, CFA, Portfolio Manager and Senior Equity Analyst

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.

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

Exhibit 7: 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

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

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.

International Equity

Andrew Smith, CFA, Associate Portfolio Manager and Senior Equity Analyst

The series of supply chain disruptions that have impacted various end markets over the course of the year have become a noteworthy consideration in equity investors' assessment of post-pandemic recovery prospects and inflation risks. The interplay of deferred demand with labor market bottlenecks and weather-related production upheavals has provided an additional layer of uncertainty around companies' operating leverage. The trade tensions of prior years had already highlighted the degree to which a multi-decade wave of intricate globalization had stretched many supply chains geographically. Currently the focus is more on the ability of these diffuse, long distance networks to react to shifting or volatile patterns of consumption. It is the potential duration, as much as the severity, of these supply side struggles that has given investors most pause for thought.

The ability to manage complexity—both strategically from an organizational perspective and with flexibility at the operational level—is a hallmark of many high quality or best in class companies. This is especially true of the businesses whose very purpose is to act as productivity-providing and cost-saving intermediaries in the areas of commercial services and distribution. The ability, through focused expertise and scale advantages, often in fragmented end markets, to simplify, safeguard, and supplement operational factors for a broad array of customers can be a lucrative business model. The end result, from a financial viewpoint, is often investible companies that boast healthy and sustainably compounding returns on capital, along with high levels of cash conversion.

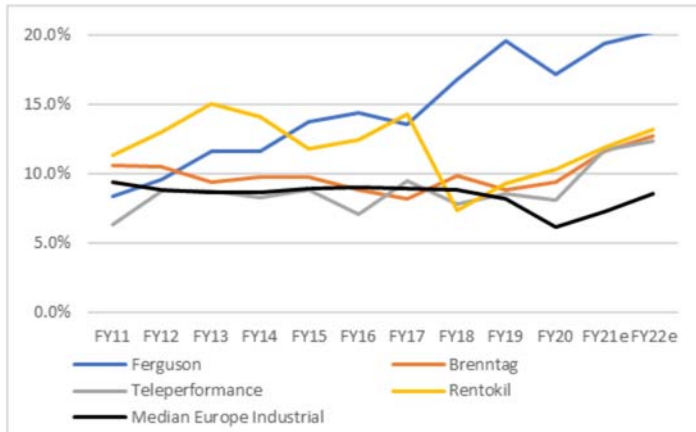
Examples of "complexity champions" within our portfolio include plumbing and heating products wholesaler Ferguson, diversified chemicals distributor Brenntag, customer service outsourcer Teleperformance and pest control/sanitation specialist Rentokil. These companies are leaders in their fields and offer appreciable and cost-effective productivity solutions specific to their categories. For example, in chemical distribution the "value added" proposition does not just stop at reliable and timely supply of feedstocks and materials. Embedded services include customized batching and blending to meet customer-specific production needs thereby reducing working capital requirements and safety/certification overheads on a permanent basis.

Scale, of course, always matters within a sector context. Investors love an oligopoly and while, at first glance, the all-weather solutions providers may not appear to enjoy dominant market shares on traditional metrics, the extent to which they are privileged by relative size should not be ignored. The initial barriers to entry at the local level in such end markets are quite low and many small privately held, family firms can thrive by fishing in small but stable profit pools. However, such "mom and pop" entities rarely have the capital or risk tolerance to expand beyond their own back yards. In many cases, as technologies shift and inter-generational ownership changes, they eventually provide M&A opportunities for the established players to accelerate their own growth via bolt-on deals.

Looking forward, it appears likely that the competitive moats will only become wider as the fruits of full digitization—an investment that only the largest operators in their specific end markets can afford—emerge. We expect a widening gap between the digital haves and have nots in many service industries, and the prime movers are already exhibiting the ability to accelerate market share gains as a result. Existing scale advantages and network effects are likely to be enhanced by AI-enabled optimization tools and real-time digital integration with key customers. So while the likes of Teleperformance and Rentokil may only have market shares of <10% in their primary end markets, the fact that much of their competition is so fragmented means that in effect they bring a gun to a knife fight from financial and operating perspectives. Likewise, Ferguson's ability to provide multi-channel (i.e. both instore and online) fulfilment to tradesmen and homebuilders over the past 18 months has seen them outgrow a resilient market for plumbing fixtures and enjoy cross-selling gains within heating/ cooling equipment.

Given that the dynamics of such businesses lend themselves to recurring and profitable capital allocation profiles with Returns on Capital Employed [Exhibit 8] that are consistently above the median level seen among the broader industrial/cyclical cohort in Europe. With inherent and hard-earned advantages that have structural and digital opportunities to become self-reinforcing over the next few years, the healthy ROCE trajectories appear poised for re-acceleration versus the broader market—irrespective of lingering economy-wide supply chain scrutiny.

EXHIBIT 8: RETURNS ON CAPITAL EMPLOYED (%)



Source: Redburn Ideas

Emerging Markets Equity

Erik Zipf, CFA, Head of Emerging Markets Equity

The MSCI Emerging Market Index gave back most of its year-to-date gains during the third quarter. A combination of moderating growth in China, strict regulatory actions, and tighter central bank monetary policy caused Chinese equity markets to fall. Most other emerging market country returns were positive but not enough to compensate for a weaker China.

We believe the interplay between favorable global economic growth and the inevitable tightening of monetary policy is driving volatility within emerging markets. China may be a preview of what is to come for other equity markets across the globe. China's growth rebounded sharply during the second half of 2020 after exiting Covid-19 restrictions, which was fueled by accommodative monetary policy. The Chinese central bank has been removing that accommodative monetary policy this year, while economic growth is moderating toward more normal levels. The combined effect has been increased volatility in Chinese credit and equity markets.

Moderating economic growth and less central bank liquidity should help restore rationality to equity markets, particularly in China. We believe companies with poor profitability, weak balance sheets, and unsustainable business models will face more scrutiny in this environment. We also believe the excessively high valuations applied to many new business models will be questioned.

Portfolio positioning was little changed during the quarter. We took advantage of equity market weakness to add a new company within the Chinese social media industry and incrementally added to a few existing positions. We also trimmed a few companies where we felt the market was beginning to price-in unsustainability high profitability expectations.

Overall, the portfolio remains relatively neutral from a country and sector perspective, while the underlying characteristics are higher profitability, stronger balance sheets and similar growth profiles at a lower valuation relative to the MSCI Emerging Market Index.

Exhibit 9: Summary of Portfolio Characteristics

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	72	1,418
Active Share	72.5	--
Price/Earnings	10.1	13.7
P/E using FY1 Est	9.7	12.4
P/E using FY2 Est	8.7	11.9
Price to Cash Flow	8.2	10.2
Dividend Yield	2.9	2.2
Est 3 Yr EPS Growth	13.5	15.5
Est 5 Yr EPS Growth	16.1	14.6
Price/Book	1.4	1.9
ROE	13.2	12.8
ROA	7.5	7.2
LT Debt to Capital	20.2	21.4
Market Capitalization	102,504	89,231

As of September 30, 2021
Source: DuPont Capital

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.

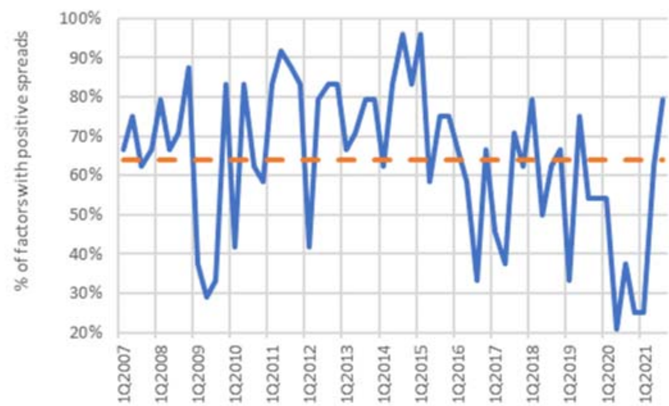
Transitioning into the investment paradigm, the parallels to the 2020 factor landscape are uncannily similar. While we have previously commented on some of the struggles both Value and Quality factors experienced in 2020, the depth of underperformance across all our factor universe was truly an anomaly. 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 10 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 11 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!

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.

Exhibit 10: Factor Library Win Rate



Source: DuPont Capital, Barra

Exhibit 11: 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

MERGER ARBITRAGE

Harris Arch, CFA, Portfolio Manager and Senior Equity Analyst
Dan Moore, CFA Portfolio Manager, Merger Arbitrage

Most of the performance declines in the quarter were related to "mark to market" losses as merger arb spreads continued to widen after the termination of the Aon/Willis Towers Watson merger on July 26th. While this deal attracted heightened regulatory scrutiny, as the second and third largest insurance brokers were planning to merge, many arbs believed that appropriate divestitures could provide a path to approval. In fact, the deal had already received European Commission approval, as well as other jurisdictions, and the merger parties had an agreement to sell certain Willis assets to Arthur J Gallagher & Co. for $3.5 billion, conditional upon the Aon/Willis deal closing. We believe the Aon/Willis deal break led to arb investors either reducing or completely selling out of certain pending deals that might pose regulatory approval hurdles from the Department of Justice, Federal Trade Commission, or State Administration for Market Regulation in China. Since June 2015 when DCM began managing merger arb, we have witnessed periods of arb derisking such as this before and they often happen in quick succession.

In our SPAC positioning, we are finding opportunities to buy SPACs at prices below cash trust value on Day 1 of the IPO. Due to the pullback in funding for SPAC IPOs, many deals are aided by contributions from "anchor investors," who receive founder shares in exchange for their investment (usually 4.9% or 9.9% of the offering). In recent weeks, these IPOs have traded below the initial offering price on the first day as anchor investors reduce their stake while still receiving the founder warrants. This provides an attractive opportunity for us to initiate positions below cash in trust, while still receiving warrants and the potential for upside if a deal is well received. If not, there is always the opportunity to redeem at trust value, which is often higher than the initial purchase price of recent SPAC IPOs.

GLOBAL SMALL CAP (EX. US), STRUCTURED EQUITIES

Juncai Yang, CFA, Portfolio Manager and Senior Investment Analyst

The Global Ex US small cap strategy underperformed the benchmark by 88 bps for the quarter.

Based on Barra risk model, alpha impacts from industry and quant factor exposures were positive while impacts from country and non-barra factors were negative.

In the factor space, negative exposure to residual risk and positive exposure to momentum added alpha, while positive exposure to size and beta subtracted alpha. Relative performance from both value and growth were neutral.

We remain primarily focused on risk management. We continue our efforts on research of non-barra factors/drivers and try to avoid skewed shape of factor exposures or significant concentrations.

Within the portfolio, we still prefer good quality value with good sustainable growth in the long term. We are cautious on momentum and beta in the short 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:

Composite Performance - Disclosures

1. DCM is an investment adviser registered under the Investment Advisers Act of 1940. DCM is a wholly owned subsidiary of Corteva, Inc. 2. Performance results reflect the reinvestment of dividends, income and other earnings 3. Gross-of-Fees returns are presented before management and custodial fees but after all trading expenses. Net-of-Fees returns are calculated by deducting the highest applicable fee rate in effect for the respective time period from the gross return. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolios size. DCM's fees are available upon request and also may be found in Part II of our Form ADV. 4. Securities and other instruments in which the composite invests may be denominated or quoted in currencies other than the U.S. dollar (Base Currency). Changes in foreign currency exchange rates can affect the value of an investor's account. This risk, generally known as "currency risk," means that a strong U.S. dollar (Base Currency) will reduce returns for investors while a weak U.S. dollar (Base Currency) will increase those returns. 5. Past performance is not indicative of future performance. It should not be assumed that results in the future will be profitable or equal to past performance. These performance disclosures apply to all of the DCM investment performance data presented herein.

Composite Descriptions:

DCM Small Cap Equity (inception date – 04/01/1999) includes all accounts that are primarily invested in U.S. small cap equity securities utilizing a value-based strategy. This strategy, which is industry neutral, utilizes a multi-factor model that includes proprietary estimates of normalized earnings, normalized cash flow, sustainable growth, and quality. The composite benchmark is the Russell 2000® Index.

DCM Value Creators - US Mid Cap (inception date – 01/01/2017) includes all accounts that are primarily invested in U.S. mid cap equity securities utilizing a value-based strategy. Investments are focused in companies having a favorable competitive environment, excellent management teams, superior fundamental outlooks, and return incentives well-aligned with shareholders. Through in-depth fundamental research supplemented by quantitative screening, the portfolio targets investments possessing these characteristics which we believe have the greatest potential to generate superior per share value creation throughout economic cycles. The composite benchmark is the S&P 400 Index.

DCM Value Creators - US Large Cap (inception date – 01/01/2017) includes all accounts that are primarily invested in U.S. Large cap equity securities utilizing a value-based strategy. Investments are focused in companies having a favorable competitive environment, excellent management teams, superior fundamental outlooks, and return incentives well-aligned with shareholders. Through in-depth fundamental research supplemented by quantitative screening, the portfolio targets investments possessing these characteristics which we believe have the greatest potential to generate superior per share value creation throughout economic cycles. The composite benchmark is the S&P 500 Index.

Composite Descriptions (continued):

DCM Merger Arbitrage (inception date – 06/01/2015) includes all accounts that invests in pending merger and acquisition deals, seeking to capture the spread between the target's current price and the deal price upon close. The strategy invests in both cash and stock deals. The strategy also invests in Special Acquisition Companies ("SPACs"). The strategy portfolio weightings are dependent on the risk and return characteristics of the pending deal and SPAC opportunities. The strategy makes use of leverage by borrowing securities for shorting from the Prime Broker. The gross leverage of accounts in the composite may be up to, but not exceed, 200% of capital. The composite benchmark is the 3 Month T-Bill.

DCM Merger Arbitrage Enhanced (inception date – 03/01/2020) includes all accounts that invests in pending merger and acquisition deals, seeking to capture the spread between the target's current price and the deal price upon close. The strategy invests in both cash and stock deals. The strategy also invests in Special Acquisition Companies ("SPACs"). The strategy portfolio weightings are dependent on the risk and return characteristics of the pending deal and SPAC opportunities. The strategy makes use of leverage by borrowing capital and borrowing securities for shorting from the Prime Broker. The net leverage of accounts in the composite may be up to, but not exceed, 300% of capital. The composite benchmark is the 3 Month T-Bill.

DCM Global Ex -US Small Cap Structured Equity (Inception Date – 01/01/2015) includes all accounts invested in global small cap (Ex-US) securities that utilize a quantitative value-based strategy that ranks stocks based on several measures of value, sentiment and improving risk. Portfolio optimization influences stock weighting. This strategy is industry and country neutral. The composite benchmark is the MSCI ACWI Ex-US Small Cap Index.

DCM International Equity (inception date –01/01/2017) includes all accounts that are primarily invested in non-US equity securities. Portfolio holdings include equity securities from developed and on occasion emerging markets. This strategy uses a bottom up fundamental approach investing in stocks that trade at a discount to their intrinsic value, supplemented by measures of business quality and improving fundamentals. The composite benchmark is the MSCI World Ex-US Index. Effective 01/01/2020, the benchmark changed for this composite to the MSCI World Ex-US Index from the MSCI EAFE Index.

DCM Emerging Markets Equity (inception date –10/01/1999) includes all separately managed and sub-advised accounts that are primarily invested in equity securities incorporated in emerging market countries. The strategy invests primarily in ordinary shares; however, it can also invest in American Depository Receipts (ADR), Global Depository Receipts (GDR) and US dollar-denominated equity securities. This is a value-based strategy which seeks to broadly diversify holdings across emerging market countries, striving to overweight companies that are attractively priced (low price-to- earnings, price to book and/or price to cash flow ratios) relative to other companies in the index. The composite benchmark is the MSCI Emerging Markets Index.

Benchmark Descriptions:

The Russell 2000® Index is based on 2,000 small-cap companies in the Russell 3000® Index. The index returns are calculated on a total return basis with dividends reinvested. The returns for this index do not include any transaction costs, management fees or other costs.

The S&P 400 Index is a market-capitalization-weighted index of 400 U.S. publicly traded companies with mid-range capitalizations. The returns for this index are calculated on a total return basis with dividends reinvested, however do not include any transaction costs, management fees or other costs.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The returns for this index are calculated on a total return basis with dividends reinvested, however do not include any transaction costs, management fees or other costs.

3-Month T-bills are issued by the U.S. Government and mature every three months.

MSCI ACWI (All Country World Index) Ex-US Small Cap Index, which captures small cap representation across 22 of 23 developed markets countries (excluding the US) and 27 emerging markets countries. With 4,246 constituents, the index covers approximately 14% of the global equity opportunity set outside the US. This index is net total return which reinvests dividends after the deduction of withholding taxes. The returns for this index do not include any transaction costs, management fees or other costs.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. This index is net total return which reinvests dividends after the deduction of withholding taxes. MSCI uses the maximum withholding tax rate applicable to institutional investors. The returns for this index do not include any transaction costs, management fees or other costs.

The MSCI World Ex-US Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US. This index is net total return which reinvests dividends after the deduction of withholding taxes. The returns for this index do not include any transaction costs, management fees or other costs.