EQUITY STRATEGY REVIEW
MARCH 2022

Emerging Markets Equity

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Emerging markets have had a difficult start to the new year. The most dramatic event, a human tragedy, involved Russia's decision to invade Ukraine. This event will result in a terrible loss of life for those involved and have indirect impacts across emerging markets. Higher fuel and food costs are the most visible, with shortages also playing a role in reducing living standards in many countries. Emerging markets were also negatively impacted by the Chinese government's aggressive regulatory crackdown on internet and technology companies, as well as continued pressure on the Chinese housing market.

Rising commodity prices are the most direct impact of Russia's invasion of Ukraine. Commodity markets were already tight due to under investment since the global financial crisis more than a decade ago. The disruption of supply from Ukraine and Russia have exacerbated the imbalance, with inventory levels in key commodities falling to below average levels. Equity prices have responded with sharp outperformance for commodity producers. We have been selective within the commodity producer industries, as valuations have become elevated in many areas. Our primary overweight position is in the energy sector where we believe under investment, long project lead times and conservative capital expenditure plans provide for an elongated up-cycle. Conversely, we are under exposed to the steel sector due to generally lower barriers to increasing production.

Although emerging markets fell in aggregate during the first quarter, the returns were not uniform. In fact, a material divergence has occurred across emerging market economies; China is experiencing an economic slowdown, South East Asia is rebounding from reduced Covid-19 restrictions, Latin America is battling high inflation with large policy rate increases, the Middle East is booming with high oil prices, and Eastern Europe is coping with the Russia/Ukraine crisis. This variation in economic performance is creating potential valuation opportunities within emerging markets. One example is a recent portfolio purchase of a payment processing company in the United Arab Emirates. The company is one of the largest and fastest growing processors of electronic payments within the Middle East. We believe the company is in a strong position to benefit from the increasing use of electronic payments in these traditionally cash-based economies. A sharp sell-off in the global fintech sector, driven by the threat of higher interest rates in the U.S. and regulatory actions in China, provided us an opportunity to purchase shares at a very attractive valuation relative to its business characteristics.

Exhibit 1: Summary of Portfolio Characteristics

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	75	1,399
Active Share	73.2	--
Price/Earnings	10.9	12.7
P/E using FY1 Est	9.6	11.8
P/E using FY2 Est	8.6	11.1
Price to Cash Flow	8.6	9.2
Dividend Yield	2.9	2.5
Est 3 Yr EPS Growth	9.7	22.0
Est 5 Yr EPS Growth	13.1	18.5
Price/Book	1.4	1.8
ROE	12.3	13.2
ROA	8.3	8.9
LT Debt to Capital	22.9	23.0
Market Capitalization	96,140	81,621

As of March 31, 2022
Source: DuPont Capital

At current valuations, approximately 10x earnings and 3.5% dividend yield, our emerging markets equity strategy appears attractively valued. While there are clear negatives, a fair amount of pessimism is imbedded in current valuations and may provide upside if some of these negative headline events subside.

We have positioned the portfolio to avoid companies with poor profitability, weak balance sheets, and unsustainable business models, as we believe these types of companies will remain under pressure in the current environment of high uncertainty. The characteristics of the portfolio are good profitability, strong balance sheets, and reasonable long-term growth profiles trading at attractive valuations.

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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: