

**VALUE CREATORS - U.S. LARGE AND MID CAP**

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In the first quarter of 2022 equity prices were volatile and overall declined sharply, driven principally by adverse geopolitical events with Russia invading Ukraine. The S&P 500 declined -4.60% while the S&P 400 midcap index sank -4.88%. The Large Cap and Mid Cap Value Creators portfolios trailed the benchmarks during the quarter with the large cap returning -5.74% and the mid-cap portfolio returning -8.18%. During the quarter, the energy and commodities sectors rallied, driven largely by the war-induced sanctions placed on Russia, which represents 12% of global oil supplies. In addition, Russia and Ukraine are significant producers of key industrial metals and grains. The value creators portfolios are underweight commodities and energy companies, which drove quarterly underperformance.

A second driver of quarterly underperformance was the de-rating and multiple compression of some longer duration yet high-quality franchise companies in the portfolios due to the increasing prospect of rising interest rates. Both of these factors combined to create performance headwinds during the first quarter.

Offsetting these headwinds, we benefited from our overweight positions in aerospace and defense. Defense shares had been trading at very attractive valuation levels for the past several quarters and offered favorable risk reward, despite slowing fundamentals and weak FY22 outlooks reported by

the US defense industry earlier in the quarter. However, the late February Russian attack on Ukraine served to change this very quickly. The defense companies rapidly re-rated as they had been trading at historically low relative multiples as well as the rising prospects for increased global defense spending, especially in Europe. Regardless of precisely how or exactly when this conflict is resolved, we think this will lead to a structurally higher shift in defense spending among NATO countries, as well as globally.

During the quarter, we made some modest adjustments to the portfolios. In the large-cap portfolio, we initiated a position in Adobe. Adobe is an excellent franchise whose valuation has been under pressure due to a weakening outlook and disappointing 4Q results. We believe this has created a positive risk-reward for patient long-term investors. We also initiated a position in General Dynamics, shifting our defense positioning from L3Harris which had significantly outperformed. We see superior long-term risk-reward at General Dynamics whose core defense portfolio (combat vehicles/marine/government IT) plus its dominant high-ROIC Gulfstream business jet franchise should continue to improve its fundamentals in the next few years.

Similarly, in the mid-cap portfolio, we added to our positions in CoStar, Domino's Pizza, and TriNet. Each of these companies is dominant in their industry niche, has a strong competi-

EXHIBIT 1: VALUE CREATORS PORTFOLIO CHARACTERISTICS (AS OF 3/31/2022)

	Value Creators- US Mid Cap	S&P 400	Value Creators- US Large Cap	S&P 500
<b>Debt Level</b>				
Debt/Capital	62.9	38.5	45.6	45.1
Debt/EBITDA	3.4	3.4	2.4	3.4
<b>Growth</b>				
Dividend Growth 5 year	15.4	6.5	12.3	10.0
EPS Growth 3 year	15.8	19.1	27.2	23.5
EPS Growth 5 year	16.4	15.0	21.4	19.8
EPS Est Growth 3-5 Year	14.6	15.7	16.6	13.9
<b>Profitability</b>				
Return on Equity	17.5	17.7	26.7	26.3
Return on Assets	12.7	8.0	13.9	12.3
<b>Valuation</b>				
Price/Earnings using FY2 Est (ex Negatives)	18.0	14.0	22.1	18.6
Price/Cash Flow	17.8	10.1	21.2	15.8
Price/Book	4.8	2.6	5.6	4.3
Price/Sales	5.5	4.2	6.7	6.5
Dividend Yield	0.6	1.3	0.6	1.4

As of March 31, 2022  
Source: DuPont Capital, FactSet

tive position, but is suffering from near-term slowing of fundamentals which has created an improved risk-reward. We prefer to exercise our patience when we believe we will be well compensated for it over the longer term. We are cognizant this involves possibly accepting some near-term pain of negative company specific sentiment, however this is precisely what creates the opportunity in our view.

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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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