Emerging Markets Equity

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Each December we are often asked "what is your outlook for next year." Despite the uncertainty in forecasting the future, most years it is easy to give an answer that suggests returns somewhere around historical averages. This is not one of those easy December forecasts; there are multiple crosscurrents that could take the market to extremes.

The unprecedented simultaneous monetary tightening by global central banks has been the leading story in the second half of 2002 and will likely continue to exert a dominant influence in 2023. The sharp reversal in financial liquidity is sure to put more borrowers into stressed situations before central banks achieve their inflation goals. Additionally, the fiscal stimulus provided so prolifically during the Covid years is now turning into frugality. The contraction of both monetary and fiscal policy bodes ill for economic growth in the coming year, causing many prominent economic forecasters to suggest a global recession is inevitable.

For emerging markets, economic growth in China is the most important variable and it is not good. A combination of restrictive Covid-19 policies and a weak real estate market has pushed Chinese economic growth to multi-decade lows. The poor economic growth backdrop couple with deteriorating relations with the U.S. has caused international investors to decrease their investments in China. However, each of these factors are well known, understood, and therefore likely accounted for in equity market valuations. We also believe there are reasons why each of these headwinds may become less bad as we head into the new year. China has finally loosened its restrictive Covid-19 policies, multiple property support measures have been announced, and there are some signs of stabilizing relations with the U.S. A positive change in these factors coupled with pent-up savings in China could create a powerful boost to the Chinese economy and emerging markets in aggregate.

During the quarter we continued to take advantage of equity market volatility to purchase high-quality companies with good growth prospects at very attractive valuations. Among the new purchases were a Greek gaming company and a Chinese snack food manufacturer. We also significantly increased our position in one of China's leading e-commerce platforms. The Greek gaming company has been able to use its dominant lottery and on-premises gaming business to fund both growth in online gaming and generous shareholder returns. Temporarily high input costs and Covid-19 associated disruptions provided a good valuation entry point into a leading Chinese snack food manufacturer that has historically earned very good returns on capital. Uncertainty regarding the status of Chinese ADRs and other sentiment driven factors caused one of China's leading ecommerce platforms to fall sharply. This sharp price decline gave us an opportunity to increase our position at extremely attractive valuations, we have since reduced the position as the share price recovered.

Our 2023 forecast is for volatility to remain elevated. Our bias is to be more positive on China than most investors but carry a more cautious view on the aggregate emerging equity market given the pace of monetary tightening. That said, we are finding very good opportunities at the stock level that lead us to expect a positive medium-term return outlook for emerging markets. We have been able to add companies with strong returns on capital, strong free cash flow generation, and good growth prospects and reasonable valuations. We will continue to look for this favorable blend of characteristics in managing the portfolio for long-term success.

Exhibit 1: Summary of Portfolio Characteristics

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	89	1,375
Active Share	77.5	--
P/E using FY1 Est	8.6	10.1
P/E using FY2 Est	8.0	10.6
Price to Cash Flow	7.7	13.0
Dividend Yield	3.3	3.1
Est 3 Yr EPS Growth	13.6	22.3
Est 5 Yr EPS Growth	8.7	13.8
Price/Book	1.3	1.6
ROE	15.5	15.5
ROA	5.6	5.3
Total Debt to Capital	28.8	29.2
Market Capitalization	102,921	94,182

As of December 31, 2022
Source: DuPont Capital, Capital IQ

EQUITY STRATEGY REVIEW

OCTOBER 2022

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: