US Small Cap, Structured Equities

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Updates. When I was growing up, updates were something you got on the latest news, or the updated status of a loved who was sick—basically a new piece of information on something of importance to you. Today, when I receive an update, it's usually of the information technology variety—a software update. And they usually come in a forced or coerced nature, like when your banking app refuses to work unless you update it, or when your computer threatens to automatically reboot every 15 minutes to update its bios software, throwing you into an "I need to save everything now" panic. Today, we would like to deliver an old fashioned information update on factor drawdowns.

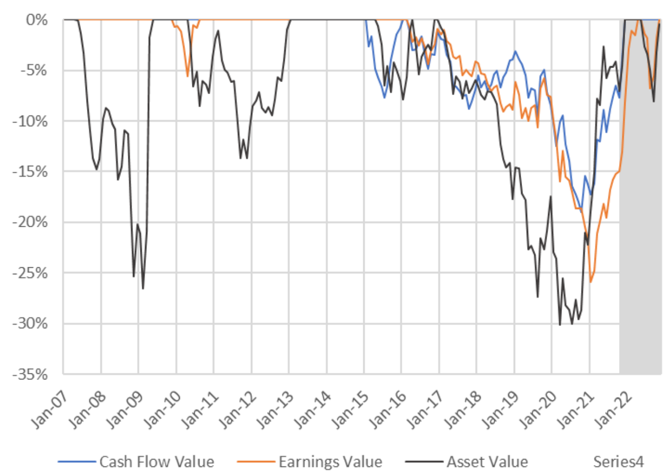
In the piece we wrote a year ago, we discussed the concept of factor drawdowns and the historical insight they can give into future factor performance. We defined a drawdown simply as performance from a high to the subsequent low. Factors are selected because they exhibit positively sloping spread (the spread being the difference between the performance of the best quintile of stocks minus the worst quintile of stocks), so drawdowns tend to be short lived and "filled" quite quickly. Exhibit 1 shows drawdowns greater than 5% in magnitude, with updated data shaded in grey. Please note that there was a benchmark change for the small cap product, moving from the Russell 2000 index to the MSCI U.S. Small Cap index. This slightly altered the universe so the historical factor history has marginally changed.

Our previous conclusion was that given Cash Flow Value and Asset Value factors had almost completed their recovery, the Earnings Value factors were expected to follow shortly. As can be seen, this was accomplished in quite speedy fashion.

We also note that almost all Value factor performance drawdowns tend to take long periods of time to materialize relative to their recoveries, which are quite short and sharp in nature. Almost all drawdowns show this asymmetry pattern where the performance recover is 3 or more times quicker than the performance drawdown. This relationship, however, does not hold when we look at the rest of the factor investment universe.

In Exhibit 2, we have condensed the rest of our factor universe into three factor families—Growth, Sentiment, and Quality. While we do see drawdowns being filled, we do note that the drawdown vs. recovery pattern tends to be opposite to Value's experience. These factors tend to experience more sudden and quick performance drawdowns, but their subsequent recoveries tend to be more drawn out and prolonged. Interestingly, the Sentiment factor has historically been the slowest to recover, but during this recovery it has been the fastest. Digging under the hood, the Price Momentum factor has been the biggest driver of the differentiated recovery and we believe this is more a function of the speed of the market's rebound this recovery versus past recoveries.

Exhibit 1: Value Composite Drawdowns Greater than 5%



Source: DuPont Capital, Barra, Russell, MSCI

Exhibit 2: Factor Drawdowns Greater than 5%

Source: DuPont Capital, Barra, Russell, MSCI

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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