DuPont Capital

EQUITY STRATEGY REVIEW
JANUARY 2023

Value Creators - U.S. Large and Mid Cap

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In the fourth quarter of 2022 equity prices rose materially on expectations that the U.S. Federal Reserve would slow its pace of aggressive interest rate hikes. It appears CPI has peaked and inflation is subsiding, albeit at an uncertain pace. Inflation on goods may be waning while services appear potentially stickier. Expectations of peak interest rates and even potential future reductions now dominate the conversation for CY23. Either way, the moderation in the pace of interest rate hikes was welcomed by the equity markets.

While there may be a faint, shimmering light at the end of the tunnel of rampant inflation, we are well aware that the light may in fact be the oncoming freight train of economic recession. For this reason, we ardently focus on companies that have durable franchises and proven management teams who know how to adapt near-term operations in a dynamic macro environment while continuing to make long-term value creating investments. Free cash flow generation is important in good times, but an absolute requirement in weaker times. Therefore, we welcome periods of volatile equity prices in the short-term as they often provide sharp price dislocations of those franchises who can reliably sustain high levels of free cash flow through thick and thin.

LARGE CAP PORTFOLIO

During the quarter, the portfolio was negatively impacted from its overweight position in Amazon which was hurt by prospects for slower near-term growth due to weaker consumer on-line spending and a deceleration in cloud demand for Amazon Web Services. Offsetting this were select holdings such as Mettler Toledo, Mastercard, and TJX Companies which outperformed during the quarter due to solid earnings and fundamental outlooks.

During the quarter, we made some modest adjustments to the portfolio. We initiated positions in Estee Lauder and CarMax, and boosted our position in Amazon, all of which have come under pressure due to short-term concerns and offer increasingly attractive long-term risk-reward. Estee Lauder shares underperformed significantly during 2022 due to significant slowing in its international business, especially in China/Asia, as well as pressure from the strong U.S. dollar. We believe that this slowing of fundamentals will more than likely be temporary although we do not pretend to know when the pressures might subside. We do believe it is a question of when and not if. We modestly trimmed our positions in DollarTree, Dollar General, and General Dynamics to fund the above additions principally because our estimate of risk-reward was greater in the companies we added to.

MID CAP PORTFOLIO

Over the past three months, the portfolio benefited from its overweight position in Ross Stores which may be a indicator of a relative trade down in the Consumer Discretionary space.

Exhibit 1: Value Creators Portfolio Characteristics (as of 12/31/2022)

	Value Creators-US Mid Cap	S&P 400	Value Creators-US Large Cap	S&P 500
Debt Level				
Debt/Capital	83.5	46.0	50.0	50.0
Debt/EBITDA	3.1	6.4	2.3	3.2
Growth				
Dividend Growth 5 year	14.8	7.9	12.4	10.8
EPS Growth 3 year	16.1	28.5	16.6	17.0
EPS Growth 5 year	18.5	19.7	20.0	17.0
Profitability				
Return on Equity	23.2	17.2	26.8	23.7
Return on Assets	10.0	6.0	10.1	7.1
Valuation				
Price/Earnings using FY2 Est (ex Negatives)	17.9	13.0	20.0	16.5
Price/Cash Flow	21.0	14.1	23.5	19.9
Price/Book	3.5	2.2	4.5	3.6
Price/Sales	2.0	1.1	2.8	2.2
Dividend Yield	0.7	1.8	0.8	1.8

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

We view this as another potential piece of evidence of a slowing economy as the months of high inflation start to flow through to Main Street USA. This gain was offset by continued weakness in Internet Media & Services names such as Match Group and IAC Inc as they face pressures of slowing advertising growth, increasingly strict regulatory environment around technology names, and weakening macro-economic fundamentals.

During the quarter, we made some modest adjustments to the portfolio. We added to our positions in retailer CarMax and beverage can maker Crown Holdings. We believed both names were unfairly beaten down on negative news from respective competitors. Both names have strong long-term fundamental outlooks with capable management teams in place to weather potential shorter-term macro-economic downturns. We trimmed our position in The Toro Company as the stock has had an impressive run, getting ever closer to our estimate of intrinsic value. This, in combination with the uncertainties around the U.S. Residential real estate market led to the sell decision.

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: