DuPont Capital

EQUITY STRATEGY REVIEW
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International Equity

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The UK market has become a relative backwater for new listings in the most recent market cycle. This trend was accentuated by a couple of corporate announcements during the most recent quarter. Firstly, semiconductor designer Arm Holdings – an innovative UK success story originally from the “silicon fen” area around Cambridge – selected New York over London as the listing location for its pending de-merger from Japanese conglomerate Softbank. More recently, the management of one of our portfolio’s holdings, construction products specialist CRH, shared plans to shift their primary listing to the US. While this move aligns with the company’s revenue and operating profit profiles, which are predominantly North American, we can also discern a calculated attempt to benefit from the structurally higher valuation multiples that prevail in the US.

Compositionally, the multinationals in cyclical/value or low volatility sectors dominate the UK market. The five largest London-listed constituents in our benchmark are a global pharmaceutical giant (AstraZeneca), two integrated oil majors (Shell and BP), a consumer conglomerate with well over half of revenues generated directly in emerging markets (Unilever) and a financial behemoth that is attempting to reinvent itself from its previous, self-styled status of “the world’s local bank” (HSBC). In total, the Technology sector accounts for less than 1% of the MSCI UK index, and the largest media/communications company, Vodafone, has become moribund after losing more than half its value over the past decade; hardly glowing references for the vitality of the UK market. The largest domestically focused business, Lloyds Bank, ranks 16th by size, only three places above the apparently unfashionable London Stock Exchange Group itself.

As bottom-up investors, we operate a benchmark-aware rather than benchmark-centric investment process. It is important to be aware of the full opportunity set of companies that international markets provide, but absolute size, per se, is not a characteristic that we target in isolation. Nor are market-weighted, aggregate valuations a primary input in our assessment of stock-specific investment theses and fundamental risk/reward probabilities.

In fact, as the UK example above suggests, the geographic listing of a firm is not necessarily an indicator or determinant of its fundamental growth profile , especially if that growth is inherently or thematically global or exogenous in nature.

Currently, we confront and calibrate a similar country-level consideration in our portfolio. On the face of it, our 20% weight in French-listed companies (vs 11% for the benchmark) could represent undue concentration of risk in the construction process. A double overweight exposure to France at a time when civil unrest and industrial action is resurgent across the country would be cause for concern if the holdings were undiversified or disproportionately sensitive to domestic sentiment or activity.

Instead, our nine French holdings span an array of structurally attractive and geographically diverse end markets. For example, the production profile for Airbus (a de facto duopolist in civil aviation alongside Boeing) is determined by global air traffic recovery and fleet replacement cycles. Due to the disruptions of

EXHIBIT 1: PAST THREE YEARS WEEKLY PRICE RETURN CORRELATIONS – 3/2020-3/2023

	Air Liquide	Airbus	CapGemini	Essilor Luxottica	LVMH	Pernod Ricard	Sanofi	Schneider Electric	Veolia
Air Liquide		0.39	0.49	0.46	0.54	0.48	0.28	0.57	0.49
Airbus			0.34	0.48	0.48	0.25	0.19	0.46	0.58
CapGemini				0.66	0.64	0.52	0.04	0.75	0.51
EssilorLuxottica					0.66	0.53	0.12	0.64	0.53
LVMH						0.65	0.10	0.70	0.62
Pernod Ricard							0.10	0.49	0.35
Sanofi								0.05	0.19
Schneider Electric									0.66
Veolia									
Average Pairwise Correlation	**0.46**	**0.40**	**0.49**	**0.51**	**0.55**	**0.42**	**0.13**	**0.54**	**0.49**

Source: DuPont Capital

2020/21, the aerospace cycle is currently far less synchronized with other industrial end markets. Airbus' weekly returns over the past three years have a correlation of less than 0.5 with the likes of other French industrial champions, including Air Liquide and Schneider Electric (Exhibit 1 on previous page).

Among the pairs of French companies exhibiting the highest correlations, few are uncomfortably high. Both Schneider and IT consultant CapGemini are beneficiaries of accelerating digitization, hence a correlation of 0.75, but each company is addressing corporate customer needs in parallel, not interdependent, ways. Their portfolios of products and services are relevant to a range of end markets and can be tailored to fit local requirements or standards accordingly. Likewise, the high-end consumer branded companies LVMH and Pernod Ricard have above average directional correlation but not to an excessive degree.

Another element of our diversification-by-design that stands out is the benefit that can come from combining companies undergoing "Underappreciated Change" alongside "Steady Growers" or "Quality Compounders". Pharmaceutical firm Sanofi is a case in point, as its investment thesis is predicated more upon self-help measures around improving their innovation efficiency and capital allocation. The management team still has plenty of skeptics to win over but the stock's undemanding valuation profile and lower economic sensitivity give it a return profile that is differentiated from its compatriots. We have also recently established a position in water and waste utility group Veolia, in the belief that the synergies that can accrue from its transformative acquisition of domestic rival Suez will provide an idiosyncratic and improving returns profile. If this proves to be the case then the stock's correlation with other French holdings may decouple even further.

Overall, we are confident that our aggregate tilt toward French stocks, which has been running at or above these levels since early to-mid 2021, does not generate excessive or unrewarded risk at the overall portfolio level. Quantitative risk models confirm the factor magnitudes and ensure that interactions across and within countries do not have unintended consequences. Ultimately, though, diversification across fundamental lines, not necessarily geographic ones, has proven to be a reliable determinant of performance.

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, and scientists. We believe their global expertise creates a portfolio implementation edge that benefits our clients.

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Important Disclosures: