## Value Creators - U.S. Large and Mid Cap

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In the first quarter of 2023 equity prices went on a rollercoaster ride, rising sharply in January, then falling over -2% in February, only to recover another 3%+ in March. Much of the volatility was driven by expectations surrounding how soon the US Federal Reserve may end the current rate hiking cycle. The inflation rate has begun to slow, although systemic inflation can be notoriously sticky. This, in combination with persistently low unemployment and regional bank failures has led to a myriad of mixed signals from a macroeconomic perspective. Additionally, while Russia's incursion into Ukraine continues, China's relaxation of its zero-Covid policy has allowed the broader international markets to largely re-open, marking the final legs of the global Pandemic recovery.

### Large Cap Portfolio

During the quarter, the S&P 500 rose 7.50%. The Large Cap Value Creators outperformed the benchmark. The portfolio was positively impacted by overweight positions in the so-called "FANG" names, including Facebook (Meta), Amazon, and Google (Alphabet), as the well-known mega-cap technology names meaningfully recovered off their 4Q 2022 lows. The portfolio also benefited from underweight positions in the Oil & Gas and Big Pharma industries. Offsettings came from positions in the dollar stores (Dollar General and Dollar Tree), as well as a general underweight position in Semiconductors, specifically NVDA.

Over the past three months, we made modest adjustments to the portfolio. Taking advantage of the fallout from the US regional bank volatility, we added to the portfolio's Bank of America holdings and initiated a position in PNC. We believe PNC is a well-run, conservative, super-regional bank that was unfairly beaten up and blindly compared to the lesser-managed regionals (SIVB, FRC, etc.). We also initiated positions in Domino's Pizza (DPZ) and FactSet Research Systems (FDS). While in two very different industries, both are asset-light franchises whose stocks have seen significant weakness recently, resulting in a very attractive long-term risk/reward profile. We were quite familiar with both as we've held each of them in the Value Creators Mid Cap portfolio in the past. We trimmed positions in multiple names to fund the above additions, principally because we felt the risk-reward was greater for the companies mentioned above. Names we trimmed included Trane Technologies, IQVIA, Euronet Worldwide, and IAC Inc.

The recent events in the Financial sector are not only a reminder of current inflationary pressures, but also general macroeconomic uncertainty. Thus, we continue to pay close attention to companies that have proven franchise durability and the capability to quickly adjust to changing conditions, all while making investments we believe will enhance their longer-term competitive positions. The portfolio holds companies with above average free cash flow generating power, which we believe is an increasingly important value driver in these uncertain times.

**Exhibit 1: Value Creators Portfolio Characteristics** (as of 3/31/2023)

| | Value Creators- US Mid Cap | S&P 400 | Value Creators- US Large Cap | S&P 500 |
|---|---|---|---|---|
| **Debt Level** | | | | |
| Debt/Capital | 85.1 | 44.2 | 55.2 | 48.5 |
| Debt/EBITDA | 4.5 | 5.9 | 2.3 | 2.7 |
| **Growth** | | | | |
| Dividend Growth 5 year | 14.7 | 8.5 | 12.5 | 10.3 |
| EPS Growth 3 year | 18.5 | 29.8 | 16.7 | 16.4 |
| **Profitability** | | | | |
| Return on Equity | 23.8 | 16.2 | 24.9 | 22.2 |
| Return on Assets | 9.5 | 6.0 | 10.1 | 7.7 |
| **Valuation** | | | | |
| Price/Earnings using FY2 Est (ex Negatives) | 16.9 | 12.6 | 20.7 | 16.9 |
| Price/Cash Flow | 25.3 | 14.9 | 28.8 | 21.3 |
| Price/Book | 3.2 | 2.2 | 4.7 | 3.8 |
| Price/Sales | 1.8 | 1.1 | 3.1 | 2.3 |
| Dividend Yield | 0.9 | 1.8 | 0.8 | 1.7 |

As of March 31, 2023
Source: DuPont Capital, Capital IQ

### Mid Cap Portfolio

During the quarter, the S&P 400 rose +3.81%. The Mid Cap Value Creators portfolio outperformed the benchmark. Over the past three months, the portfolio benefited from its underweight positions in the Oil & Gas and Banking industries. Commodity prices declined throughout most of the quarter driving weakness in many of the US-based E&Ps and associated servicers. While the portfolio's positioning in select regional banks was a net negative to performance, the impact was more than offset by a general underweight in banks, as well as positions in strong financial franchises such as MSCI (Capital Markets) and Primerica (Insurance). These gains were offset by our holdings in Ross Stores and an underweight positioning in Semiconductors, as the industry rallied on the idea that the current short-cycle trough is nearing.

During the quarter, we made moderate adjustments to the portfolio to better align it to the benchmark, and to take advantage of the near-term volatility in Financials. As is the trouble with a longer term investment horizon, it is not uncommon for holdings to graduate out of the S&P 400 after a period of strong growth. There have been multiple holdings we have bought at sub-$20B market caps which grew earnings and cash flows materially over a few short years, subsequently landing in the $30B-$40B+ range. While we view this as an enviable position to be in, we nonetheless must make adjustments to maintain our Mid Cap focus. We therefore traded out of a handful of these "graduates" and into peers which we believe encompass similar traits. These replacements included DOV for AME, SAIA for ODFL, and MGY for OXY. Additionally, with our long-term horizon and the material volatility surrounding mid-cap financial institutions specifically, we made multiple changes to our financial holdings, adding to COLB, WSFS, and ABCB while initiating new positions in FITB and RF.

While it appears inflation has come off its peak, recent events highlighted how the macroeconomic world can affect the microeconomics of individual companies. It also reminds investors that stocks in the Mid Cap universe can move quicker and with greater magnitude than those in the Large/Mega Cap spaces. For these reasons, we ardently focus on companies with durable franchises and proven management teams who are experienced at making value creating investments. Free cash flow generation is important in good times, but an absolute requirement in weaker times. We welcome periods of volatility in the short-term as it often provides attractive opportunities.

## 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: