MITCHELL
CAPITAL MANAGEMENT

All Cap Value Equity Strategy

Philosophy

MCM's All-Cap Value Equity investment process focuses on identifying high quality companies experiencing below average margins and valuations, while exhibiting improving fundamentals, strengthening cash flows and a visible catalyst to return margins to historical averages. Through our proprietary quantitative screening, fundamental research and traditional valuation techniques, we seek total returns through capital appreciation and dividends.

Objective

The strategy seeks to achieve a consistent return primarily through dividend income and price appreciation. Our style is designed to meet a variety of investment objectives as we employ prudent diversification and diligent stock selection to outperform the Russell 3000 Value Index, net of fees.

Strategy

The Value Equity Strategy is our own unique blend of incorporating top-down macroeconomic analysis with bottom-up stock selection. Under the top-down viewpoint, we evaluate the current economic environment, monetary and fiscal policies, and secular trends to identify the sectors or industries that are most likely to outperform the market. From the bottom-up viewpoint, we start with an investable universe of more than 10,000 companies. This list is reduced to 50-100 companies through a rigorous series of proprietary quantitative screens that consider improvements in revenue and earnings, leverage and valuation relative to industry or sector averages. We are open to all market capitalizations, but most candidates will be larger than $500 million. After this screening, companies undergo a thorough analysis focusing on qualitative factors such as catalysts for further operational improvements, market position, proprietary advantages, management capabilities and insider ownership before investing. The strategy can hold international issuers, but will be comprised predominantly of domestic companies.

Team

Jonn Wullschleger, CFA - PM, Principal
with Mitchell since 2000
analyzing equities since 1991

Rich Jones - PM, Principal
with Mitchell since 1995
analyzing equities since 1978

Brandon Reed, CFA - Equity Analyst
with Mitchell since 2016
analyzing equities since 2014

What sets this strategy apart?

Long-term management team with ownership in the firm and investments in the strategy

Commitment to established and successful process

Flexibility allowing for responsiveness to changes in economic environment

MCM All-Cap Value

The **MCM All-Cap-Value** strategy put in a strong relative first quarter, slightly down vs. a decline of nearly 3% for its relevant benchmark.

As we close out the first quarter the underlying fundamentals that drove returns in 2017 are still present. However the noise of last year has increased in both validity and frequency which should continue to be met with the caution from investors we saw during Q1. This sets the stage nicely for our approach to value investing. We are both happy with how the portfolio is currently positioned, and with how growing concerns in the market create both underappreciated and unloved opportunities in our investment universe.

During the market's melt-up in January, we took the opportunity to reduce two of our larger positions in **Boeing** and **Caterpillar**. Entering 2017 we felt the market was vastly under-appreciating the earnings power of both companies for various reasons. Each had a business model and improved fundamentals that we felt would lead to higher valuations once appreciated by the market. Caterpillar reached that point, so we sold them entirely. Boeing has progressed, but we think there remains unrecognized potential.

Other exits during the quarter include **AT&T**, **Qualcomm**, **AIG** and **Metlife**. AT&T is going to face indefinite bureaucratic headwinds around its attempted acquisition of Time Warner. In 2017 we bought Qualcomm, believing growth potential was awaiting new steps by management. The blocked sale to Broadcom, which we felt would accelerate that change in direction after so many problems with their licensing business, eliminated that catalyst.

Using cash from these sales, we increased our exposure to the following names.

Zimmer Biomet
Zimmer Biomet is a medical device company that has been dealing with the fallout of missteps made by previous management. These include stumbles in the Biomet acquistion from 2015, FDA compliance issues at a manufacturing facility, and inventory management struggles, each of which have reflected in financial results. In December, 2017 the company named a new CEO with a history of success at rival device makers.

The company will not be out of the woods for at least the next few quarters. It is this exact type of story where a market leader has found itself in an unloved relationship with the market that we find opportunity. We think the fundamental backdrop for succeed is solid and await developments as the new CEO begins his work.

Danaher
Danaher is poised to continue being valued in an improving light towards other life-science and tools peers. With the continued strong growth in their life sciences, industrial, environmental segments and an expected growth in dental coming soon, Danaher is proving to be a diversified, reliable growth company in a lower growth world. Making smart acquisitions and better diversifying the business, plus smart operational management driving margins higher should all help to attract investors looking for reliability.

We also initiated investments into the two following companies.

Kohls
We see Kohl's as possessing a well-run, focused brick & mortar operation with a vastly expanding multi-channel presence. The recent partnership to sell goods through Amazon reflects the aggressive approach of Kohls as they combat retail's "Amazon threat" by bringing their competitor closer. With a strong balance sheet, abundant cash flow and tailwinds from a strong economy, we see Kohls as a great value at current levels.

Eagle Materials
Our investment in Eagle materials will benefit from construction, new housing, rebuild from disasters and normal wear and tear. There are only a handful of dominant players in the aggregates/cement space and with a significant backlog of work to be done across the country, we believe Eagle remains a key beneficiary

Despite the delays in getting shovel ready projects going over the past year, we've seen hiring pick up in the construction space to start 2018, and anticipate a dryer weather environment to allow Eagle to reach its potential.

All Cap Value Equity Strategy
March 31, 2018

Strategy Characteristics

Characteristic	Portfolio	Index
Dividend Yield	1.9	2.3
Free Cash Flow Yield	5.3	4.1
Price / Book	2.4	3.1
Debt / Equity	0.8	1.0
Forward Price / Earnings	15.4	17.5
Return on Equity	13.6	16.2
Return on Capital	7.0	8.0

Sector Weightings

Sector	Portfolio	Index
Consumer Discretionary	5.9	10.3
Consumer Staples	7.8	9.6
Energy	7.1	8.4
Financials	27.0	23.1
Health Care	15.4	12.8
Industrials	10.8	10.8
Information Technology	12.4	9.2
Materials	3.7	4.1
Real Estate	0.0	4.5
Telecommunications	0	2.8
Utilities	1.5	4.4
Cash	8.4	0.0

Top Ten Holdings

Position	Allocation
JPMorgan Chase & Co.	4.4
Blackrock, Inc.	4.1
Wal-Mart Stores	3.7
Microsoft Corp.	3.6
Berkshire Hathaway, Cl B	3.6
PNC Financial Services Group	3.4
Anthem Inc.	3.4
Cisco Systems Inc.	3.3
Boeing Co.	3.2
CME Group Inc.	3.1

Capitalization Profile

	Portfolio
Giant	47
Large	47
Mid	6
Small	0

About Mitchell Capital Management

Mitchell Capital Management (MCM) was founded in 1987 and is an SEC Registered Investment Advisor. The firm manages portfolios and provides investment solutions for an array of investors nationwide, including individuals, foundations, union pension plans, retirement plans, endowments and associations. MCM has always been employee owned and intends to stay that way. Our fiduciary culture means our clients are the first priority in each decision we make.