

Philosophy

MCM's International Equity Strategy investment process focuses on identifying high quality companies with earnings growth potential based outside the U.S. Through quantitative screenings, investigative research and valuation analysis, we seek returns through long-term capital gains.

Objective

The strategy seeks long-term capital appreciation by owning equity securities of non-U.S. based companies. Our style is designed to meet a variety of investment objectives as we seek to provide consistent growth of principal and to outperform the MSCI All-Country World ex US Index, net of fees.

Strategy

The International Equity Strategy is an all-cap approach to investing that focuses on a bottom-up research. We start with an investable universe of 3,000+ companies that trade in the US equity markets using American Depositary Receipts (ADR). This list is reduced to 50-100 companies through a rigorous series of proprietary quantitative screens that include earnings growth, cash flow and financial condition. Most candidates will be larger than \$500 million. After this screening, companies undergo a thorough analysis focusing on qualitative factors such as growth potential, market position, proprietary advantages, management capabilities and insider ownership before investing.

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 International

The **MCM International Equity** strategy was positive for the quarter compared to most international indices that were down.

The international portfolio performance was led by the consumer discretionary and healthcare holdings while a few Chinese domiciled companies declined as trade discussions turned negative. **Adidas** continued to perform well as its new products took market share from Under Armour and new products in Europe and Russia also took off. **Mercadolibre**, the Amazon/Ebay/PayPal of Latin America, performed well as revenue grew 70% and margins recovered after offering free shipping six months ago. **Astra Zeneca** and **ICON PLC** boosted the healthcare performance as Astra Zeneca saw some new drug approvals and ICON saw its backlog grow for pharmaceutical clinical development.

Our Chinese holdings were mixed but on average were a drag on the portfolio. Trade negotiations and increased investment spending weighed on **Baidu**, **NetEase** and **New Oriental Education**. We believe the US and China will come to an acceptable trade negotiation over the next few months and the long term investment opportunity is still intact for these companies and recent pullback may give us some opportunities to increase our exposure.

We added to several existing holdings whose outlooks improved in the quarter.

Omron

Omron manufactures sensing and control products used in factory automation, consumer electronics and automobiles. Automation represents 80% of their profits and will be this Japan-based company's biggest driver, growing at 20% per year.

As the automobile becomes ever more electronic, Omron's business in components should increase. This includes power windows and power seat switches, keyless entry systems and push button engine start systems. Their sales to the Chinese auto industry should be an area of strength, where there are twice the number of licensed drivers than cars.

KBC Group

KBC Group is Belgium's largest bank. They possess attractive capital returns and profitability along with exposure to concentrated but profitable markets in Belgium, Czech Republic and Ireland.

The company reported record low loan loss provisions in their recent release, and an overcapitalized balance sheet should give dividend increases strong consideration.

Our equity model provided several new names that will benefit from the broad-based growth outside the U.S.

Alibaba

Alibaba is a leading provider of e-commerce and cloud operations in over 200 countries. Headquartered in China, they are the largest on-line retailer in their country and they look to increase their addressable markets through increased product offerings and globalization.

We see Alibaba as a global internet giant. In the U.S., the top 100 retailers account for over 40% of our retail market sales. In China, their top 100 brick-and-mortar retailers represent only 7% of their overall retail sales. With no clear leaders, Alibaba is poised to dominate this market place.

Banco Macro

Banco Macro is one of the largest banks in Argentina. They are profitable, efficient and are the best capitalized bank in the country. The political and economic outlook for Argentina has improved, which should lead to attractive loan growth for the leading bank.

Credit penetration in Argentina, measured as total banking loans to GDP, remains one of the lowest in the world, suggesting this will continue to see steady growth. As a large domestic bank, they are well positioned to capitalize on these opportunities. And like the U.S., Argentina just approved a new corporate tax rate, reducing from 35% to 30% over 2018-19, then moving to 25% in 2020.

International Equity Strategy

March 31, 2018

Strategy Characteristics

Characteristic	Portfolio	Index
Dividend Yield	1.5	3.0
Free Cash Flow Yield	3.0	4.2
Price / Book	3.7	1.7
Debt / Equity	0.7	1.5
Forward Price / Earnings	17.4	13.3
Price / Earnings Growth	1.4	1.4

Top Ten Holdings

Position	Allocation
Kubota Corp.	4.4
Aon Plc.	4.3
Elbit Systems Ltd.	4.3
KAO Corp.	4.3
Accenture Plc.	4.1
Taiwan Semiconductor Mfg.	4.0
Ryanair Holdings Plc.	4.0
NetEase Inc.	3.9
Adidas AG.	3.8
Open Text Corp.	3.8

Sector Weightings

Sector	Portfolio	Index
Consumer Discretionary	7.3	11.3
Consumer Staples	10.0	10.0
Energy	0.0	6.7
Financials	12.9	23.0
Health Care	6.0	7.7
Industrials	16.2	11.6
Information Technology	29.2	11.8
Materials	2.3	7.8
Real Estate	0.0	3.3
Telecommunications	0.0	3.9
Utilities	0.0	2.9
Cash	16.1	0.0

Capitalization Profile

	Portfolio
Giant	38
Large	42
Mid	20
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.