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 - PM
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 returned a positive quarter, slightly more than its relevant benchmark. For the year it earned positive returns while the benchmark was negative.

During the second quarter, portfolio returns were driven primarily by two sectors; Consumer Discretionary and Energy, with smaller contributions from the rest. On balance, market returns favored growth names, which continued an outlook that began last year. Elevated demand and tight supply management sent oil prices to their highest levels in three years, and oil-related equities rose too. Meanwhile the Consumer Discretionary sector benefited broadly from an emboldened consumer following the passage of tax reform in the U.S., as well as growing wages.

Missing throughout 2017 and into 2018, was any appearance of strength from more defensively positioned sectors. This is largely explained by a resurgence in sales and earnings growth at U.S. companies overshadowing a desire for dividends and downside protection.

This reversed rather abruptly in the second quarter as rate-sensitive sectors such as Real Estate and Utilities came alive again. Some of this had to do with the flattening yield curve driving investors to higher dividend paying stocks. But a desynchronizing global growth story, concerns of trade wars and elevated volatility also started to negatively impact sentiment and portfolio positioning.

We think this is here to stay. We cannot predict when and how which 'style' will outperform the other, but over the past 15 years, the race between growth and value is pretty even. Value isn't dead, only dormant. It pays to be diversified.

Given our position this late in the cycle, the continuation of momentum into defensive, value-oriented portfolio names is likely to continue. With that in mind, we added to a handful of attractively valued companies that helped enhance the defensive, non-cyclical characteristics of the portfolio, including **Chevron**, **Walt Disney**, **Sysco**, **Amgen**, **Medtronic**, and **Cisco**.

We sold positions whose value had reached our targets, or whose fundamental prospects have become less attractive than in prior periods, including **Reliance Steel & Aluminum**, **Exxon Mobil**, and **Dorman Products** .

Financials

Of the predominantly value sectors, financials delivered the lone negative return for the quarter, including a thirteen day period of negative returns in June, a first in history. A rising rate environment, like the one in which we now find ourselves, typically favors financial names such as banks. Higher rates allows them to earn higher capital returns amid what is usually a strengthening economy.

However, the flattening yield curve makes it less profitable for banks to lend longer-term and pay on short-term deposits. Sometimes this view extends to the sector as a whole even if the company does little or no lending.

Our research suggested financials with heavy exposure to this source of income were not the 'value' they appear, so we sold our position in **PNC Financial Services.** The remainder of our financial names are better suited to make money regardless of how yields curves are shaped and remain solid performers.

We added one new name during the quarter

Cognizant Technologies

Companies continue to update their legacy IT platforms in an ever expanding technological landscape that now includes artificial intelligence, machine learning and the 'cloud', among others. Cognizant helps with those decisions and analytical exercises, they aid in modernizing that technology to digitize their business, and advise clients on how best to utilize the new technology and secure it.

The shift towards digital, machine learning, etc, is not abating and requires adoption to compete at any size. Cognizant combines this narrative by trading at 16x forward earnings while generating healthy cash flows and delivering operating leverage.

All Cap Value Equity Strategy
June 30, 2018

Strategy Characteristics

Characteristic	Portfolio	Index
Dividend Yield	1.9%	2.5%
Free Cash Flow Yield	5.5%	4.4%
Price / Book	2.7x	2.0x
Debt / Equity	0.9x	1.2x
Forward Price / Earnings	15.3x	14.3x
Return on Equity	14.4%	10.0%
Return on Capital	7.2%	4.0%

Sector Weightings

Sector	Portfolio %	Index %
Consumer Discretionary	5.3	8.6
Consumer Staples	8.4	6.9
Energy	9.5	10.9
Financials	21.3	23.7
Health Care	17.4	13.1
Industrials	10.9	8.2
Information Technology	16.8	9.9
Materials	1.8	4.1
Real Estate	0.0	5.5
Telecommunications	0.0	3.4
Utilities	1.5	5.7
Cash	7.1	0.0

Top Ten Holdings

Position	Allocation %
JPMorgan Chase & Co.	4.3
Cisco Systems Inc.	4.2
Blackrock, Inc.	4.2
Microsoft Corp.	4.1
Anthem Inc.	3.8
Wal-Mart Stores	3.7
Textron	3.6
Berkshire Hathaway, Cl B	3.6
Apple Inc.	3.5
Phillips 66	3.4

Capitalization Profile

	Portfolio %
Giant	47
Large	48
Mid	5
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.