MITCHELL
CAPITAL MANAGEMENT

All Cap Growth Equity Strategy

Philosophy

MCM's All-Cap Growth Equity investment process focuses on identifying high quality companies with earnings growth potential. Through our proprietary quantitative screening, fundamental research and traditional valuation techniques, we seek total returns primarily through capital appreciation and secondarily through dividend payments.

Objective

The strategy seeks long-term capital appreciation by owning equity securities of domestic companies. Our style is designed to meet a variety of investment objective as we seek to provide consistent growth of principal and to outperform the Russell 3000 Growth Index, net of fees.

Strategy

The Growth 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 include earnings growth, cash flow and financial condition. 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 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 All-Cap Growth

The **MCM All-Cap Growth** strategy advanced for the year, as earnings grew faster than expected and the impact of tariffs and trade concerns became better known. Market breadth returned as all sectors posted positive returns in the quarter. We expect the market to continue its upward climb because consumers remain strong, interest rates are still historically low and valuations remains fair. Let's take a look at the portfolio more specifically.

1) Energy opportunity - We took advantage of a decline in oil prices to add two energy companies to the portfolio. **Diamondback Energy** is one of the largest oil and natural gas produces in the Permian Basin in West Texas. It plans to become even larger after announcing a deal to buy Energen, another large driller, which will offer more ways to benefit from higher energy prices.

EOG Resources is a more geographically diverse oil and natural gas producer. It owns properties in the U.S., Canada, China, the U.K. and offshore operations in Trinidad. We expected oil prices to rebound as worldwide economic growth increases demand for oil and natural gas, and supply constraints continue.

2) Communication Services – During the quarter we added **Netflix**. We have long liked their business model and were waiting for an opportunity to step in. While the company invests heavily in content development, they are highly sensitive to subscriber growth, despite it being notoriously difficult to estimate on a quarterly basis. An opportunity presented itself after second quarter subscriber growth fell below expectations. We like the company for the long term as it continues to create content for markets outside the U.S. such as the EU, India and Spanish speaking markets, and feel their subscriber growth retains much potential.

3) Consumer Discretionary - VF Corporation is a leading apparel manufacturer with brands including The North Face, Timberland and Vans. VF recently announced plans to spin out their jeanswear and VF outlet businesses into a separate, publicly traded company. This will allow them to focus on the active wear category, one of the fastest growing apparel groups and popular with younger generations.

4) Technology Changes – We reduced exposure to the semiconductor industry by trimming positions in Monolithic Power and MKS Instruments. The semiconductor industry is one of the most volatile technology industries so we decided to bring the exposure lower. We increased the software, service and device weighting by adding Microsoft and Apple, two of the largest index components.

5) New Healthcare Investments – in the quarter we initiated a new position in **Laboratory Corporation of America**. LabCorp operates one of the largest clinical laboratory networks in the world and processes 2.5 million lab tests weekly. LabCorp offers the scale and innovation demanded more and more by the testing industry and we expect them to benefit from that growth.

We also increased our position in **PRA Health Sciences**. PRA is a Clinical Research Organization (CRO), which provides drug development solutions to the pharmaceutical and biotechnology industries on a contract basis. This is a rapidly growing market as drug/device developers look to better manage their own cost structures.

Additionally, **Aetna**, the portfolio's largest healthcare position, will soon be acquired by CVS Corporation so we are reviewing candidates for replacement.

6) Financial Exposure – Late in the quarter, we added **Intercontinental Exchange Group**. ICE operates regulated exchanges, clearing houses, and listings venues for financial and commodity markets in the United States, the United Kingdom, Continental Europe, Asia, Israel, and Canada.

7) Sales

We sold **Eagle Bancorp** as competition for new commercial real estate loans increased in the Washington DC market, and the flattening yield curve makes it harder for them to increase their net interest margin.

E-Trade was also reduced as Fidelity is becoming more aggressive in attracting new accounts, suggesting challenging industry conditions ahead that will suppress earnings for smaller participants.

All Cap Growth Equity Strategy
September 30, 2018

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	0.6%
Free Cash Flow Yield	3.8%
Debt / Equity	0.6x
Forward Price / Earnings	21.9x
Price / Earnings Growth	1.5x

Top Ten Holdings

Position	Allocation %
Amazon.com, Inc.	5.5
Visa Inc.	4.5
Alphabet Inc.	4.0
Thermo Fisher Scientific Inc.	4.0
Insperity, Inc.	3.7
Aetna Inc.	3.5
Adobe Systems Inc.	3.5
PRA Health Sciences	3.5
Honeywell Intl Inc.	3.4
EPAM Systems Inc.	3.3

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	14.8
Consumer Staples	3.3
Energy	1.9
Financials	5.6
Health Care	19.0
Industrials	14.8
Information Technology	25.5
Materials	2.6
Real Estate	0.0
Communication Services	11.9
Utilities	0.0
Cash	0.6

Capitalization Profile

	Portfolio %
Giant	37
Large	37
Mid	22
Small	4
Median market cap	$41.2B

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.