MITCHELL
CAPITAL MANAGEMENT

International Equity Strategy

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 returned 2% for the quarter, or -1% for the year. This reverses negative performance through June and outperforms its global benchmark.

It is no surprise that investors are mainly concerned with the outcome of trade negotiations worldwide, and principally between China and the U.S. Trade risks are more heavily priced into international than U.S. equities, so any positive resolutions should allow prices to reset higher. Until those issues are successfully negotiated, a cloud over international markets will likely remain.

A recession in South Africa, unrelated currency crises in Turkey and Argentina, a continued broad-based weakening in economic data, and trade issues kept international market performance subdued for the quarter, relative to the U.S.

It doesn't help that following the international economic growth we saw last year, 2018 has been a different story. We continue to see a slowdown in production numbers across the globe coupled with a lackluster consumer environment. This is made all the more curious, happening at the same time as the U.S. reports the highest consumer confidence levels seen in 18 years. On top of these factors, Federal Reserve interest rate policies and a stronger dollar only contribute to the gap.

In the face of these apparent hurdles, we remain committed to global equities. The performance differential between U.S. and international equities has grown wider over the last several years. It can remain divergent for some time, but they will eventually revert. Consumers are not likely to stay tightfisted long; even foreign central banks are beginning to relax their own quantitative easing programs. We expect the gap to close by either a slowing of U.S. markets, or a pickup internationally, the latter of which may be occurring as we closed out the quarter. Either way, maintaining an allocation provides the diversification benefits investors need.

What helped:
Strong earnings reports from **Taiwan Semiconductor, Aon PLC** and others led performance. **Adidas** delivered a strong quarter as the brand continues to grow globally and management continues to expand margins. **Elbit Systems** bounced back from prior period underperformance as the business exceeded expectations across their air and land systems segments, while also seeing benefits from a recent acquisition.

What hurt:
Detractors continued to be primarily centered in Asia with Chinese technology stocks continuing to underperform. Early in the summer, Chinese holdings such as **Tencent** and **Alibaba** reported strong Q2 earnings, but the overhang from trade worries choked off any advancement. They were joined by the additional weakness at **New Oriental Education** on fears that recent regulatory changes to the for-pay education system in China will hurt the company's stellar growth trajectory.

We continue to like the businesses we own in Asia and understand that the backdrop of trade tensions between the U.S. and China, as well as specific policy promoted by foreign governments, may continue to negatively impact our holdings until resolutions are found.

What's in:
After a strong earnings report, we added to our position in **AstraZeneca.** The company has long planned for the expiry of a handful of lucrative patents. They managed towards this by stocking their pipeline with treatments developed both inside and outside the company.

On balance, they have established the foundation for a long runway of successful treatments for diabetes, lung cancer, asthma and other ailments that will pay off nicely over the long term. Temporary weakness due to broader headlines unrelated to their business provided the opportunity to take a bigger position.

What's out:
We reduced exposure to **Kubota**, a Japan-based supplier of tractors and construction equipment and long-time holding. Competitive pressures from Deere & Company and Caterpillar are causing some share loss. We maintain a small position as we think the competitive pressures are only temporary.

International Equity Strategy
September 30, 2018

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	1.8%
Free Cash Flow Yield	1.9%
Price / Book	3.6x
Debt / Equity	0.8x
Forward Price / Earnings	18.6x
Price / Earnings Growth	1.9x

Top Ten Holdings

Position	Allocation %
Aon Plc.	5.4
KAO Corp.	5.2
Accenture Plc.	5.0
Elbit Systems Ltd.	4.9
AstraZeneca Plc.	4.5
Diageo Plc.	4.4
Taiwan Semiconductor	4.3
Open Text Corp.	4.2
ICON Plc.	4.0
Nice Holdings, Inc.	3.9

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	11.9
Consumer Staples	9.6
Energy	3.6
Financials	12.6
Health Care	8.5
Industrials	15.1
Information Technology	19.9
Materials	2.4
Real Estate	0.0
Communication Services	8.4
Utilities	0.0
Cash	8.0

Capitalization Profile

	Portfolio %
Giant	28
Large	43
Mid	15
Small	14
Median market cap	$31.8B

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.