

### 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 enjoyed a very good quarter.

### What helped:

During the quarter, returns were driven by some long-held names in the portfolio. **Apple** posted excellent Q2 results. Still primarily a hardware company, their services segment continues to grow, representing an increasing percentage of company revenues, and servicing nearly 300 million paying subscribers for one of their many services (App Store, Apple Music, iCloud, and Apple Pay).

**Berkshire Hathaway** posted strong results after a 70% jump in operating income on strong insurance results. Cash now exceeds \$100 billion. With few places to deploy such resources, the company has finally decided to return a portion of its excess capital to shareholders.

**Walmart** and **Kohls** both reported very strong earnings for Q2. These results are encouraging as they continue to validate our belief in the U.S. consumer and our view that retailers who manage inventory well, differentiate instore experiences, and master multi-channel customer interactions, can still win in the age of Amazon. Both companies increased their online sales more than expected.

**Zimmer Biomet** released results that confirm the turnaround we anticipated continues under new leadership. We liked what we heard so much we increased our position. Similarly with **Alaska Air**, who has addressed industry-specific headwinds and made progress with the integration of Virgin Air.

### What hurt:

**Chevron** struggled as energy prices plateaued, but with pricing rising again they are positioned to reap the benefits. **State Street** struggled after acquiring a data analytics firm for \$2 billion, a decision which some saw as excessively priced and a less than ideal fit for their trust business.

### What's new:

During the quarter we initiated a position in **Huntington Ingalls**, a shipbuilder for the U.S. military. Originally spun off from Northrop Grumman in 2011, it is the largest military shipbuilder in the U.S, and the only builder of nuclear-powered supercarriers. With an expected increase in military spending, and a Navy target to grow their fleet from 278 ships to 355, Huntington will be a prime beneficiary of those dollars as they are allocated.

We also added two utility positions. **Exelon Corp** is a holding company located in Chicago, with regulated utilities serving 10 million customers in Illinois, Pennsylvania, Maryland, Delaware New Jersey and Washington, D.C. They are also the largest operator of nuclear power plants in the U.S.

**NextEra** is the largest regulated utility in Florida, serving nearly 10 million customers across the state, and is also among the world's largest producers of wind and solar power generation.

And we increased our positions in Healthcare by adding to **Johnson & Johnson**, and added to Consumer Discretionary by increasing our position in **Mondelez**.

### What's out:

During the quarter we exited entirely our position in **Eagle Materials** following weakness we mentioned in our last commentary, freeing up cash to deploy elsewhere.

We also reduced our position in **Blackrock**. One of the best performing financial names in the portfolio, the news of Fidelity's move into zero-expense ETF's may affect share values, so we decided to trim the position.

We had a number of other positions which have advanced materially and trimmed some of these to reduce exposure, including **Apple**, **Textron** and **Microsoft**.

# All Cap Value Equity Strategy

September 30, 2018

## Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	1.9%
Free Cash Flow Yield	5.7%
Price / Book	2.8x
Debt / Equity	0.9x
Forward Price / Earnings	15.9x
Return on Equity	14.8%
Return on Capital	7.2%

## Top Ten Holdings

Position	Allocation %
Cicso Systems Inc.	4.3
JPMorgan Chase & Co.	4.3
Berkshire Hathaway, Cl B	3.9
Wal-Mart Stores	3.8
Anthem Inc.	3.8
Johnson & Johnson	3.6
Zimmer Biomet	3.5
Amgen Inc.	3.4
The Boeing Company	3.3
CME Group Inc.	3.3

## Sector Weightings

Sector	Portfolio %
Consumer Discretionary	2.1
Consumer Staples	9.5
Energy	8.9
Financials	18.2
Health Care	19.6
Industrials	11.4
Information Technology	15.0
Materials	0.0
Real Estate	0.0
Communication Services	3.0
Utilities	4.3
Cash	8.0

## Capitalization Profile

	Portfolio %
Giant	46
Large	49
Mid	5
Small	0
Median market cap	\$67.0B

## 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.