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.

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

Mitchell Capital All-Cap Value

For the quarter, the strategy was down, but compared favorably to the broader value markets.

We attribute our strong relative results to positioning changes made across the second half of 2018. As we have discussed in each letter this year, the Value investing style has been gaining momentum, following a multi-year period of underperformance compared to Growth, lagging by double-digits just last year.

Global trade tensions, a weakening global economic environment, and the achievability of US earnings in 2019 all drove the fourth quarter market decline. Those same factors are leading investors towards buying predictability, cash flow and stability at a discount. Growth stocks continue to trade at a premium over value stocks, even after the recent downturn. We believe that premium will continue to converge towards historical averages.

Additionally, we remain optimistic about how our portfolio is constructed for this currently uncertain investment environment. Our rigorous focus on owning strong cash flow businesses with predicable earnings power, while remaining cognizant of valuations, has greatly contributed to 2018 results and will continue as we move through 2019.

What's new:

We initiated new positions in **Target** and **CVS/Aetna**, companies we have monitored for some time, and took the opportunity when markets reset. Our knowledge about Aetna's business supported our view that the combined CVS/Aetna would bring needed change to the healthcare ecosystem. We think the company has all of the tools needed to deliver that change and create strong returns for shareholders.

With their in-house offerings and multi-channel service, Target is successfully competing with both brick-and-mortar and e-commerce. These points of contact are driving special brand loyalty when retailers most need to differentiate.

We also took new positions in **Pepsico** and **Verizon**. These holdings were established based on their strong cash flow business models and relatively stable earnings profiles, at what were relatively opportunistic prices given the market turbulence. Conversely, while Pepsico is not revolutionizing its industry to the extent CVS/Aetna hopefully will, we believe the business model is one of stability and is worth owning in this currently volatile and uncertain market at the appropriate valuation.

We increased our exposure to **Cognizant Technology Solutions.** Cognizant was added to after quarterly results and projections for revenue growth disappointed vs. expectations, however our research suggests the revenue and earnings growth story was well intact over a multi-year period. When combined with the company's strong financial position, it is a company we want to be invested in.

We also increased our Utility exposure by adding to **Duke Energy**, **Exelon Corp**, and **Nextera Energy**. One of the few sectors that produced positive returns for the quarter, utilities offer visible business models and attractive cash profiles.

What's out:

Fedex was sold after an internal review of our initial investment thesis yielded less favorable projections. With economic data slowing outside of the US, labor costs rising and uncertainty regarding both global trade and a looming threat of Amazon building its own shipping fleet, the prospects for growth appeared murkier than ever. Fortunately we came to this conclusion prior to management taking down guidance citing a handful of things stemming from observations made above.

We also exited **State Street**, which until the announced acquisition of Charles River Development had been a good stock for us. The acquisition was not well received, believing State Street overpaid for a company that would only marginally help growth. Additionally, as we continue to see fees coming down and competition for assets increase, State Street's core business has come under increased scrutiny. An excellent operational, cost control program and attractive valuation were not enough to overcomes these headwinds.

All Cap Value Equity Strategy
December 31, 2018

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.3%
Free Cash Flow Yield	5.0%
Price / Book	2.6x
Debt / Equity	0.9x
Forward Price / Earnings	14.1x
Return on Equity	16.2%
Return on Capital	7.5%

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	3.6
Consumer Staples	12.8
Energy	7.9
Financials	16.2
Health Care	21.0
Industrials	8.1
Information Technology	14.6
Materials	0.0
Real Estate	0.0
Communication Services	4.7
Utilities	6.5
Cash	4.6

Top Ten Holdings

Position	Allocation %
Cicso Systems Inc.	4.7
Wal-Mart Stores	4.2
Anthem Inc.	4.1
Berkshire Hathaway, Cl B	4.1
JPMorgan Chase & Co	4.1
CME Group Inc.	4.0
Johnson & Johnson	3.7
Amgen Inc.	3.5
The Boeing Company	3.2
Walt Disney Co	3.1

Capitalization Profile

	Portfolio %
Giant	50
Large	46
Mid	4
Small	0
Median market cap	$68.4B

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.