

### Philosophy

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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

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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.

### Strategy

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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?

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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 International

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

The fourth quarter in international markets finished out much like the first three had before it. While our quarterly results finished roughly in-line with the benchmark, the decline was actually less than that experienced by U.S. markets, a noted shift from the massive underperformance of international equities during the prior three quarters. We attribute the relative outperformance to a segment of the global market that had simply already suffered from the headwinds and growth concerns that had finally made their way to the U.S.

### **Strong dollar:**

A stronger dollar has been putting pressure on foreign economies (especially developing) that are carrying US denominated debt on their balance sheets. As the dollar strengthens vs. the local currencies, their ability to service debt is diminished and has added financial strain to select countries.

### **Weak economies:**

Weak economic data in some of the biggest economic engines such as China and Germany, have led many to believe global trade disputes and very limited pro-growth agendas across the globe are finally leading ill-prepared countries into a downturn. This applies to many developed and developing economies alike.

While U.S. growth is strong and the US Tax Cut and Jobs Act boosted sentiment at home, internationally the picture isn't as rosy. Despite these conditions, pockets of strength exist where companies rely less on country specific growth, and more on their competitive positioning in industries that are thriving irrespective of their country of domicile.

### **Political unrest:**

Political and economic instability, sometimes both, has grown in areas like Turkey, Argentina, South Africa and India. This has led many to step back and reassess the risk of missteps in key countries leading to contagion in others. We've touched on this before and it continues to

be an area of concern.

### **Parallels to 2016:**

We believe that global equity markets are at a similar fork in the road that we found ourselves heading into 2016. Global growth (excluding the U.S.) was weak and weakening, the U.S. economy was bucking that trend and ultimately culminated in a global recovery and the synchronized growth enjoyed throughout 2017.

With global economies unsettled in their own outlooks and lacking policy clarity, we seek evidence of data stabilization that can inform the decision-making process. Company-specific factors will carry more influence in determining winners and for long-term investors, valuations are more compelling than we have seen since the Global Financial Crisis. The companies in your portfolio are both attractively priced, yet still poised to create meaningful returns for shareholders over the coming years because of their competitive advantages.

Should trade concerns abate and economic data at the very least stabilize, we would expect international markets to perform quite favorably, continuing the recent relative performance we saw in the fourth quarter.

### **What's out:**

During the quarter we exited one Chinese based company that had broken our internal sell discipline. After concerns cropped up regarding top-line growth in the education preparation industry, **New Oriental Education** struggled to perform. When factoring in the overall weakness in Chinese equities, we were forced to exit the position.

We additionally reduced our position in **Taiwan Semiconductor Mfg.** The stock has performed quite well for us since purchase and broad concerns regarding the global semiconductor cycle began cropping up.

In the same vein, we exited our position in **Atlas Copco**, a Swedish-based company which, among other things, had exposure to semiconductor end markets. Weakness at a few key competitors led to a reassessment of our investment thesis for the shares which culminated in our exit.

# International Equity Strategy

December 31, 2018

## Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	1.8%
Free Cash Flow Yield	1.8%
Price / Book	3.0x
Debt / Equity	0.8x
Forward Price / Earnings	16.5x
Price / Earnings Growth	1.7x

## Top Ten Holdings

Position	Allocation %
Aon Plc.	5.8
KAO Corp.	5.4
Elbit Systems Ltd.	5.1
Diageo Plc.	5.0
AstraZeneca Plc.	5.0
Accenture Plc.	4.7
Nice Holdings, Inc.	4.3
Open Text Corp.	4.2
ICON Plc.	4.0
Adidas AG	3.7

## Sector Weightings

Sector	Portfolio %
Consumer Discretionary	9.7
Consumer Staples	10.5
Energy	3.3
Financials	13.0
Health Care	9.0
Industrials	13.8
Information Technology	17.5
Materials	2.4
Real Estate	0.0
Communication Services	8.0
Utilities	0.0
Cash	12.8

## Capitalization Profile

	Portfolio %
Giant	13
Large	63
Mid	24
Small	0
Median market cap	\$33.1B

## 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.