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 - PM
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

The first quarter of 2019 offered investors the best quarterly performance since 2009. Our Value strategy trailed its benchmark, though still delivered respectable absolute performance. Investors quickly repriced markets for a simple deceleration of growth rather than an imminent recession. With sentiment becoming more positive through the first quarter, companies with higher growth prospects were favored over more defensively positioned companies, leading Growth to outperform Value. However, looking back to the market peak in September, 2018, the two style performances have been roughly equal.

We continue to see mixed messages as U.S. yields remain extremely low in the face of global growth concerns. Lower yields have allowed certain sectors like Utilities, Consumer Staples, and REITs to perform quite well, even as Technology stocks broadly outpace the market.

Closing out 2018, we made several changes to the portfolio that aided performance during the quarter. The majority of our decisions are positively contributing to the portfolio, and we are encouraged with how our positions responded to both the market sell-off and subsequent recovery. We believe our Value strategy should act as a ballast to clients' Growth allocation and will continue to manage it with a focus on business strength and defensible valuations. These priorities will better minimize downside risk while allowing participation in market rallies like the one in which we currently find ourselves.

With our view that the market will continue to remain mixed from a leadership standpoint, our portfolio is positioned with overweights to a blend of both value and growth sectors. Our largest overweights are to the Technology, Utilities, and Consumer Staples sectors with our largest underweights in Real Estate, Materials, and Consumer Services.

What's new:
Having exited our position in State Street during Q4, and reducing our positions in Blackrock and CME Group, we looked to reallocate assets to more attractive areas of the Financial Sector.

We like the moves **American Express** has made to compete and grow revenue in what is an extremely attractive payments industry. We believe investments in rewards and new categories will ultimately grow wallet-share and think current valuations are attractive supported by stable credit measures.

Bank of America is one that we believe will work over a longer period of time as the market ultimately rewards the company for building an efficient and defensible business on strong operating leverage and capital returns. Banks have been out of favor for the better part of a year on slowing growth concerns and the current yield environment, which we do not believe is over. At current valuations, and supported by a business model that can deliver across economic cycles, we used the underperformance as a chance to establish what we hope will be a long-term core holding of the strategy.

Lastly, we took a position in **T-Mobile** on what we view is a still underpriced growth story driven by share gains from competitive pricing and better overall network quality. Market share growth emphasized by initiatives to enhance a customer's lifetime value create a sustainable growth story in what is a more defensively positioned sector of the market. While there is ongoing uncertainty regarding the closure of T-Mobile's merger with Sprint, we believe that the combined entity will only enhance T-Mobile's growth initiatives as they can hold firm on pricing while still delivering a better-than-average network experience.

What's out:
Our one outright sale in the quarter was **Alaska Air**, reminding us of just how difficult it is to make money owning the airlines. Alaska was a turbulent position for our strategy from the beginning as what appeared to be a compelling investment on a strong US consumer ended up being mired by elevated competition, lower close-in fares and concerns around the true level of growth available to the company.

While recent revenue increases and effective cost controls appeared to be indicative of Alaska's growth story finally taking flight, the stock and industry continue to underperform and ultimately led us to exit our position for opportunities elsewhere.

All Cap Value Equity Strategy
March 31, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.1%
Free Cash Flow Yield	5.0%
Price / Book	2.6x
Debt / Equity	1.6x
Forward Price / Earnings	16.3x
Return on Equity	16.2%
Return on Capital	12.1%

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	4.5
Consumer Staples	14.8
Energy	7.7
Financials	17.7
Health Care	12.7
Industrials	8.2
Information Technology	15.9
Materials	0.0
Real Estate	0.0
Communication Services	5.3
Utilities	6.4
Cash	6.8

Top Ten Holdings

Position	Allocation %
Cisco Systems Inc.	4.8
iShares Core S&P US Value	3.8
JPMorgan Chase & Co	3.8
Berkshire Hathaway	3.6
Johnson & Johnson	3.6
Zimmer Biomet Holdings	3.4
Danaher Corp.	3.2
Microsoft Corp.	3.2
Pepsico Inc.	3.1
Wal-Mart Inc.	3.0

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.