

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.

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 - 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 International

For the quarter, the strategy performance was strong and compared favorably to the broader international markets. The emerging market positions performed the best as the trade negotiations between the United States and China improved.

Economic data show several countries have struggled to improve GDP over the last year as the trade negotiations ebb and flow. Germany (0.6%), France (1.0%) and Italy (0.0%) have kept the overall Eurozone growth confined to a meager 1.1%. We anticipate growth will pick up in the latter half of 2019 and into 2020. Once the trade negotiations are complete, we expect to see initial orders from China pick up with revenues and earnings following about six to nine months later.

Positive and Negative contributors

Technology was the largest contributor as Accenture, Alibaba, MercadoLibre, Spotify and Tencent all rebounded after the fourth quarter decline. Technology has been a positive contributor for several years and we expect that to continue as corporations look to reduce costs and consumers spend more on technology products and purchase more items on-line.

Finance was helped by Aon Corporation and Toronto Dominion Bank. An underweight position in European banks also helped as a slow economy, several scandals and over-levered balance sheets have plagued the group.

The trade negotiations negatively impacted a few industrial firms as European economic conditions languished. Shares of Siemens, Ryanair and Kubota all underperformed as demand for their products and services moderated. Successful trade negotiations will eventually lead to improved orders and eventually positive revenues and earnings.

What's new:

We increased commodity exposure with two new positions this quarter. Commodities are a good barometer for global economic conditions and our expectation for an acceleration in activity led us to increase the weighting.

BP PLC is a leading energy exploration company that will benefit as oil prices move back into the mid-60s and as the company reduces debt from recent acquisitions and restructuring.

BHP Billiton, based in Melbourne Australia, is a leading producer of copper and iron ore. Demand for natural resources will increase as the global economy accelerates later this year and into 2020.

We added to the emerging market exposure by purchasing shares of the iShares MSCI India ETF which broadly invests in the country. India has tremendous potential with the world's second largest population (1.3 billion), an increasing middle class and a democratic government.

Our exposure to the Japanese markets was increased by adding **Softbank Group** late in the quarter. Softbank is a leading telecommunications and technology company around the world. Their Vision Fund has investments in Uber, WeWork, DoorDash and several other technology and business product companies. Softbank was also an early investor in Alibaba.

The iShares MSCI ACWI ex U.S. ETF was added to invest cash as we search for promising new investment ideas outside the U.S. It is a broad based index invested in developed and emerging market countries outside of the United States.

Other changes:

Elbit Systems was reduced after a strong run over the last few years. We felt it best to reduce the individual security exposure and diversify the proceeds. It remains a leading defense, homeland security and commercial aviation company in Israel and retains a great deal of potential.

MercadoLibre was reduced after increasing nearly 70% this year. MercadoLibre's online sales and electronic payment systems have been well received in South America and Latin America. Besides its own business success in the region, they are also garnering attention more widely with PayPal having recently taken an equity position.

International Equity Strategy

March 31, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.3%
Free Cash Flow Yield	1.9%
Price / Book	6.0x
Debt / Equity	0.7x
Forward Price / Earnings	16.5x
Price / Earnings Growth	1.8x

Top Ten Holdings

Position	Allocation %
Aon Plc.	5.5
Accenture Plc.	4.8
Diageo Plc.	4.8
iShares MSCI ACWI ex US	4.8
AstraZeneca Plc.	4.6
Kao Corp.	4.4
Nice Holdings, Inc.	4.3
Open Text Corp.	4.2
Elbit Systems Ltd.	3.8
ICON Plc.	3.7

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	13.0
Consumer Staples	16.9
Energy	5.5
Financials	12.3
Health Care	8.3
Industrials	13.7
Information Technology	16.0
Materials	4.5
Real Estate	0.0
Communication Services	6.8
Utilities	0.0
Cash	3.0

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.