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 Mitchell Capital All-Cap Value strategy had a solid second quarter. The Financial, Consumer Staples and Communication Services sectors led the strategy while the Energy, Healthcare and Utilities sectors held the strategy back.

What helped:
Financial stocks were led by **American Express** and **CME Group**. A strong consumer, solid job growth and modestly increasing wages encouraged consumers to increase spending, benefiting credit card companies like American Express. Stock market volatility supported business at CME Group as investors attempted to hedge market reactions to trade negotiations, additional tariffs and Federal Reserve policy.

Consumer Staple companies like **Wal-Mart, Mondelez** and **PepsiCo** benefited from investors' appetite for historically stable investments with good dividend yields. Each of these companies is a global market leader with the ability to modestly raise prices and introduce new services and products.

Disney propelled the Communication Services sector by announcing its movie streaming strategy which included a subscription price substantially below Netflix. New movies and solid results at theme parks also helped Disney deliver a solid earnings report. **T-Mobile** also performed well as subscribers grew and a potential merger with Sprint drew closer.

What hurt:
Energy shares were hurt by falling oil prices, increased inventories and the re-announced IPO for Saudi Aramco. Oil prices should rebound later this year as supply/demand imbalances normalize. Healthcare shares remained under pressure due to potential drug price legislation and the "Medicare for All" propositions by the Democratic Presidential hopefuls. The strategy remains underweight health care as proposed drug price legislation may curtail payments.

Utilities also underperformed despite falling interest rates and attractive dividends. Additionally **Boeing** has struggled as they deal with lawsuits, software changes and production cuts due to the recent tragic airplane crashes.

What's new:
We added two new names to the strategy during the quarter. Both companies were once part of our Growth strategy during times when growth was more robust for their respective businesses but now find themselves offering differing opportunities.

We added a position in **Pioneer Natural Resources** to better diversify our holdings in the energy sector. Our goal was to broaden exposure away from the integrated operators and refiners with an exploration and production investment. Pioneer operates mainly in the Permian Basis of West Texas.

After being out of the name for more than a year, we built a position in **Skyworks Solutions** due to its now extremely depressed valuation and broad exposure to technology and data demands of the future. Looking beyond trade tensions with China, we believe Skyworks exposure to the global build-out of 5G and the Internet of Things (IoT) ecosystem will allow the firm to grow well in excess of the stocks' currently implied negative growth rate.

What's out:
After a long and successful run, we sold our position in **Anthem**. We like how well the business is run and their value proposition for consumers. More than offsetting those attributes was the increased scrutiny of the insurance landscape and our view that the stock was priced for perfection.

Our sale of **Kohl's** was difficult as the stock had worked well for some time. However, they too succumbed to the same problems facing retail in general: trade wars, rising costs and less clarity about consumer demand following a strong 2017-18. We chose to reallocate proceeds to two other current names, **Target** and **Wal-Mart**, that have better executed steps to compete more effectively in a digital world. They face the same problems but have embraced the challenges more effectively and have allocated appropriate resources.

Finally, we exited **Marathon Petroleum** in order to better diversify our energy holdings. While we still maintain exposure to the refining, we remain focused in on Phillips 66.

All Cap Value Equity Strategy
June 30, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.1%
Free Cash Flow Yield	3.3%
Price / Book	3.5x
Debt / Equity	1.2x
Forward Price / Earnings	15.7x
Return on Equity	20.2%

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	4.0
Consumer Staples	13.3
Energy	7.5
Financials	20.7
Health Care	11.2
Industrials	8.6
Information Technology	17.4
Materials	0.4
Real Estate	0.4
Communication Services	6.4
Utilities	6.7
Cash	3.4

Top Ten Holdings

Position	Allocation %
iShares Core S&P US Value	9.9
Cisco Systems Inc.	4.5
JPMorgan Chase & Co.	4.1
Berkshire Hathaway	3.8
Pepsico Inc.	3.6
Wal-Mart Inc.	3.6
Walt Disney Co.	3.5
Microsoft Corp.	3.4
Danaher Corp.	3.3
Johnson & Johnson	3.2

Capitalization Profile

	Portfolio %
Giant	38
Large	51
Mid	8
Small	3
Median market cap	$81.8B

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.