MITCHELL CAPITAL MANAGEMENT

International Equity Strategy

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

The Mitchell Capital International strategy had a very good second quarter, beating both U.S. and international indices.

What helped:
The industrial, Materials, Consumer Discretionary and Technology holdings performed well last quarter. Industrial and Material names received a boost when the European Central Bank talked about potential monetary easing to help out the sluggish European economy.

Adidas and **MercadoLibre** led the Consumer Discretionary sector as both reported stronger than expected earnings. Adidas has been introducing new products and designs which helped them increase market share. MercadoLibre, an internet based retailer and payments processor in Central and South America, continued to see strong growth across its business lines. Additionally, PayPal took an equity stake in the firm.

Technology holdings were led by **Nice, Open Text** and **Accenture**. Nice's financial crime and customer engagement software continues to sell well as customers look to better manage customer relationships and cut down on fraudulent transactions. Transition to cloud based software has helped Open Text steadily build its customer base and reduce costs for that customer. Accenture's digital outsourcing expertise is driving revenue and earnings growth.

What Hurt:
The two primary detractors were the energy stocks and the Chinese holdings. 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 the supply/demand imbalances normalize. OPEC members have agreed to keep production low through the rest of 2019 which should help reduce inventory levels.

The Chinese investments were volatile throughout the quarter as trade negotiations fluctuated between the US and China. **Alibaba, Tencent, Taiwan Semiconductor** and **SoftBank Group** all lagged the international markets. It's our opinion that the US and China will come to an agreement later this year which should take a negative away from the Chinese holdings.

What's new:
This quarter was another relatively muted quarter for transactions as we added one new position. In a first for the portfolio, we built broad exposure to India through the use of an ETF. We believe India and its democratized society will prove to be a culmination of a number of investment narratives we are following in both the Developed International Markets as well as our own.

Mechanically speaking, we have not found any companies whose shares trade in the U.S. with the specific characteristics we seek. This is something we encounter with countries along the frontier-emerging-developing economy spectrum and the use of an ETF can serve a specific purpose in the portfolio.

What's out:
We exited two positions in the quarter; Ryanair and Baidu. While both companies have underperformed our expectations recently, we decided to sell them when their deteriorating fundamentals began to directly challenge our investment theses for the companies.

Ryanair had been creating their own problems by poorly negotiating new contracts with pilots and attendants across their EU service area. While we felt that their position as the preeminent low-fare provider and low-cost operator would ultimately weather the cost of higher labor contracts, the ongoing macro slowdown in the Eurozone specifically, as well as additional headwinds from Brexit, proved too heavy a burden to manage successfully. We believe these factors will continue to pressure shares to multi-year lows and feel there are better opportunities elsewhere to deploy capital.

In selling **Baidu**, we simply could not see a path forward for meaningful share price appreciation. If the U.S. and China fail to come to any trade agreement, shares of Baidu could move higher. Google is unable to operate in China and Baidu is China's leading alternative. Utilizing a similar valuation approach to that use on the U.S. tech giant, Baidu's stock trades well below peers at ~13x. However, its model is showing decelerating growth and we cannot see how their business can develop to capture share growth that other Chinese tech stocks (i.e., Tencent, Alibaba, etc) have available in a hyper-competitive market.

International Equity Strategy
June 30, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.1%
Free Cash Flow Yield	2.4%
Price / Book	4.3x
Debt / Equity	0.6x
Forward Price / Earnings	27.1x
Price / Earnings Growth	4.2x

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	14.8
Consumer Staples	9.8
Energy	6.4
Financials	14.5
Health Care	9.4
Industrials	13.1
Information Technology	17.3
Materials	5.3
Real Estate	0.4
Communication Services	5.2
Utilities	0.5
Cash	3.3

Top Ten Holdings

Position	Allocation %
iShare MSCI ACWI ex US	6.5
Aon Plc.	5.7
Diageo Plc.	4.8
Accenture Plc.	4.8
Nice Holdings Inc.	4.7
Adidas AG	4.6
AstraZeneca Plc.	4.5
Open Text Corp.	4.4
ICON Plc.	4.1
Elbit Systems Ltd.	4.1

Capitalization Profile

	Portfolio %
Giant	40
Large	40
Mid	17
Small	3
Median market cap	$37.7B

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.