MITCHELL CAPITAL MANAGEMENT

All Cap Growth Equity Strategy

Philosophy

MCM's All-Cap Growth Equity investment process focuses on identifying high quality companies with earnings growth potential. Through our proprietary quantitative screening, fundamental research and traditional valuation techniques, we seek total returns primarily through capital appreciation and secondarily through dividend payments.

Objective

The strategy seeks long-term capital appreciation by owning equity securities of domestic companies. Our style is designed to meet a variety of investment objectives as we seek to provide consistent growth of principal.

Strategy

The Growth 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 include earnings growth, cash flow and financial condition. 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 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 All-Cap Growth

Our Growth strategy finished the third quarter down marginally as stock specific weakness in our industrial positions and a continued downturn in energy names offset strong performance from our technology and consumer oriented investments. The weakness in energy continues a longer-term shift in sentiment away from energy holdings as the global backdrop of supply and demand continues to be volatile. Macro risks centered on the Middle-East and ever-strengthening US supply make an already hard task of forecasting energy prices that much harder.

What helped:
MKSI, a semiconductor equipment maker, saw a huge boost to its stock as the market began repricing the industry. Investors believe the lows in demand and excess inventories are behind us and are closer to realizing long-term growth prospects. **Tyler Technologies** continued to move higher as demand for its software and cloud technology from local municipalities and districts boomed. Their offering is vital for their success and is much less tied to what happens outside of our borders.

Burlington, Nike, and **Costco** trounced earnings expectations for a variety of reasons that all point back to retailers and consumer facing brands needing to have an identity and value-proposition that commands loyalty from the consumer. Convenience is a piece of that, but brand strength and experience are also extremely important, something these three companies count as strengths.

What hurt:
Insperity has been a successful holding for several years. As its share price continued to advance we periodically reduced the position to manage risk exposure and did so again earlier this year. This quarter small business momentum, Insperity's sweet spot, appeared to plateau and the company's outlook confirmed those expectations. The stock subsequently sold-off as investors reset expectations for a more muted growth environment.

NV5 Global had a similar story to Insperity though the businesses differ with NV5 being an engineering and consulting firm where Insperity helps optimize small business operations. Forecasts for growth slowed as their customers and contacts are not immune to the uncertainties plaguing the rest of the economy. Management lowered expectations during their most recent earnings call and the stock suffered as a result.

What's new:
Aerovironment is an unmanned aircraft systems (UAS) operator that focuses primarily on the design, development, production, support, and operation of UAS and tactical missile systems that provide situational awareness, multi-band communications, force protection, and other mission effects. The company supplies UAS, tactical missile systems, and related services primarily to organizations within the United States Department of Defense.

Stryker Corporation is a medical device and technology company that develops and supplies medical professionals in the orthopedic, neurological, spinal, and surgical fields. Specific offerings include knee and hip implants, surgical devices and technology, and spinal implants. We own one of Stryker's competitors in our Value strategy and continue to like the long-term growth prospects of the space and demand needs of their end patients. Stryker specifically has an extremely attractive technology segment that assists doctors during surgical procedures and the actual implantation process.

What's out:
Charles Schwab had been a long-term winner since we purchased shares in 2016 but has recently been plagued by ongoing concerns about fees and lower interest rates. We long felt their business was primed to continue attracting assets from individuals and institutions and keep them as their platform created a sticky advisor ecosystem. They would then leverage that asset growth to drive revenues higher through their various businesses while keeping costs lower for their customers.

However, as the market became increasingly concerned about the longevity of this profitable growth, the stock weakened in tandem. While we exited the name earlier in the quarter, the recent announcement that they (and competitors) would be taking trading commissions to zero knocked the stock down further. We will wait for the dust to settle from this pricing war to reassess the company's merits.

All Cap Growth Equity Strategy
September 30, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	0.9%
Free Cash Flow Yield	3.1%
Debt / Equity	0.5x
Forward Price / Earnings	21.9x
Price / Earnings Growth	1.9x

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	13.9
Consumer Staples	4.9
Energy	0.6
Financials	3.5
Health Care	14.3
Industrials	12.7
Information Technology	30.8
Materials	0.2
Real Estate	1.6
Communication Services	11.3
Utilities	0.2
Cash	6.0

Top Ten Holdings

Position	Allocation %
iShares Core S&P US Growth	7.9
Amazon.com	5.3
Apple Inc	5.2
Microsoft Corp.	5.2
Alphabet Inc.	5.1
Thermo Fisher Scientific	2.7
Honeywell Intl	2.7
Facebook, Inc.	2.7
Hexcel Corp.	2.6
Mettler-Toledo Intl.	2.6

Capitalization Profile

	Portfolio %
Giant	47
Large	28
Mid	19
Small	6
Median market cap	$63.1B

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.