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

During the third quarter, our Value strategy made significant headway vs. the market returning just over 3%. In addition, after trailing growth markets for most of the year, value outperformed growth in the quarter as economic uncertainty increased. Our approach to value, focusing more on quality and cash flow than simply seeking traditional cheapness or a strong dividend, provides plenty of opportunity. We are not predicting the long-term comeback of value over growth, but we do believe that diversification is prudent to smooth out investment returns, and being intentional about what value stocks you own offers investors exposure to good investment stories.

What helped:

Target moved over 20% higher in the quarter as the company delivered blockbuster results amid a broader retail train-wreck within the department stores and mall-based operators. Target has built not only a leading brick and mortar operation, but an omni-channel presence filled with products that consumers want, supported by healthy margins at competitive prices. Target's brand image is equally strong as shoppers continue associating themselves with the retailer.

In Health Care, **Zimmer Biomet, CVS**, and **Bristol-Myers Squibb** were large contributors. Each is undergoing their own growth story and offer better price values relative to competitors. Each are fixing company-specific problems that had once plagued them: Zimmer Biomet with product recalls, inventory issues and reduced demand; CVS with the acquisition of Aetna and slowdown in the front of the store, and Bristol-Myers with the acquisition of Celgene. Each example gives us confidence that, at current levels, the investment thesis and performance has yet to fully play out.

What hurt:

We saw weakness in our Industrial and Energy holdings. These results were less stock specific and more in-line with what the broader market experienced as investors saw an acceleration of concerns regarding global output and growth which tends to adversely impact these two sectors of the market.

What's new:

We repurchased shares of **CVS** as the stock continued to lag the market following its purchase of Aetna despite the fact that management has given increased clarity about what this new entity will look and feel like. We expect to benefit from our long-term investment thesis at its current valuation.

Bristol-Myers Squibb's purchase of Celgene, which we have owned before, created a more diversified portfolio and pipeline. The company screens attractively within our proprietary investment algorithms and we established a position at a price we feel more fully protects us from the risks inherent to the pharmaceutical space.

Emcor is an electrical and mechanical construction and facilities operator mainly in the United States with small exposure to the United Kingdom. By both designing and implementing various electrical and mechanical systems, in addition to then supporting the ongoing operation and maintenance of buildings and facilities, Emcor has created exceptional leverage for generating revenue both through equipment sales and service streams. We believe this investment story is underappreciated by the markets and should continue to provide long-term results above what the market provides.

KBR offers consulting services and support programs for projects in defense, aviation, and the energy sectors. They recently underwent a seismic shift in the structure of the business where a new management team restructured the company and divested a number of less profitable operations. While this resulted in a resetting of revenues and earnings, we believe the firm is now positioned for a greater level of predictable, scalable growth in the segments it operates at much lower valuations than peers.

What's out:

During the quarter, we reduced our position in **Cisco** and took an opportunity on strength to reduce our Utilities exposure. We had been reducing our **Blackrock** position during the year as the company suffers from similar ailments to the rest of the asset management industry. Valuation was compelling, but we cannot identify what catalysts might allow them to change course and execute a stronger price level. **Cognizant** was sold as it no longer screens favorably inside of our investment model and subsequently broke our investment sale discipline.

All Cap Value Equity Strategy
September 30, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.1%
Free Cash Flow Yield	2.6%
Price / Book	4.1x
Debt / Equity	1.4x
Forward Price / Earnings	15.0x
Return on Equity	22.3%

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	4.0
Consumer Staples	12.6
Energy	7.1
Financials	19.8
Health Care	18.1
Industrials	6.3
Information Technology	15.8
Materials	0.4
Real Estate	0.4
Communication Services	6.9
Utilities	5.2
Cash	3.4

Top Ten Holdings

Position	Allocation %
iShares Core S&P US Value	10.0
JPMorgan Chase & Co.	4.3
Berkshire Hathaway Inc. - Cl B	3.7
Zimmer Biomet Holdings Inc.	3.5
Wal-Mart Inc.	3.5
Cisco Systems Inc.	3.4
Microsoft Corp.	3.4
Danaher Corp.	3.4
Walt Disney Co.	3.3
Johnson & Johnson	3.2

Capitalization Profile

	Portfolio %
Giant	45
Large	42
Mid	8
Small	5
Median market cap	$88.2B

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.