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

Our International strategy ended the quarter slightly better than our benchmark. International markets underperformed their U.S. counterparts amidst a much weaker growth environment.

The list of issues impacting global markets currently includes: unresolved trade disputes which are impacting manufacturing and confidence across the globe; the outcome of BREXIT and the U.K. leadership comedy show second only to the U.S. Congress; growing tensions with Iran and increasing strikes on regional shipping and oil facilities; the latest collapse of Argentina's economy as the population turns its favor in upcoming elections to the ticket hosting a former President indicted in 11 corruption cases.

There are more, but this short list serves to remind us that even while the US economy is the bright spot in global growth and stability, there are events and circumstances outside of our control and borders that continue to add to uncertainty and risk when investing overseas.

What helped:
While the strategy was down for the quarter, we had a number of stocks providing a positive return to offset those that were slightly negative. This includes **Taiwan Semiconductor**, which saw a boost to its price as investors were willing to bid up the industry early, before the environment actually bottomed and growth resumed. We are awaiting earnings results from this segment of the market to validate the price action seen year-to-date and shed light on a key economic driver that could indicate where the global economy may be headed.

What hurt:
In the quarter, our strategy was hurt by exposure to Materials, Communication Services, and Energy. Our investment in **Spotify** fell more than the market following weaker earnings. And **Softbank Group** fell after a revaluation of their private investments following a string of lackluster initial public offerings (IPO) in which they were a key investor. Notably starting with Uber, coupled with the eventual cancellation of WeWork's IPO, investors have begun to question whether there is something systemically wrong with the IPO process and current valuations being paid in the private market for companies that show little to no sign of an ability to generate profits. We believe that these concerns ebb and flow over time and that the company is worth more than market values.

What's new:
Linde PLC is an industrial gases and engineering company that designs, engineers, and builds equipment to produce industrial gases primarily for internal use. It also offers gaseous medication and related medical products and devices for patients and medical staff. We like how the superior financial strength that followed the merger with Praxair enables their diversified global business operation and supports share gains and performance.

SAP SE (SAP) is a enterprise application software and service provider. The Company operates through two segments: Applications, Technology & Services and SAP Business Network. In tandem with the decline in their on-premise legacy software business, SAP is investing heavily in cloud-based services and has created strong exposure to many new growth opportunities. Cloud-based business models are less common in internationally based businesses and SAP gives the portfolio exposure to a key asset which its overseas competitors lack.

Schneider Electric SE is a French company that specializes in electricity distribution, automation management, and produces installation components for energy management. The Company has five divisions: Energy and Infrastructure; Industry; Buildings; Data Centers and Networks; and Residential. Schneider offers compelling exposure to their business segments, carries an expected growth rate of 10% and is priced more attractively than peers.

SolarEdge Technologies, Inc. offers an inverter solution for a solar photovoltaic (PV) system that converts solar-generated electricity into usable electric current. They are based in Israel and are working to tap international and commercial markets.

What's out:
KBC Group, Siemens AG, and **Spotify Technology** were all sold in the quarter. Each one experienced periods of underperformance and ultimately violated our sell discipline. With no visible catalysts to justify an investment thesis we decided to find companies with better prospects.

International Equity Strategy
September 30, 2019

Strategy Characteristics

Characteristic	Portfolio
Dividend Yield	2.0%
Free Cash Flow Yield	2.9%
Price / Book	4.3x
Debt / Equity	0.6x
Forward Price / Earnings	20.0x
Price / Earnings Growth	4.2x

Sector Weightings

Sector	Portfolio %
Consumer Discretionary	10.5
Consumer Staples	9.0
Energy	5.5
Financials	9.9
Health Care	9.2
Industrials	8.2
Information Technology	22.6
Materials	5.4
Real Estate	0.0
Communication Services	7.1
Utilities	0.0
Cash	12.6

Top Ten Holdings

Position	Allocation %
iShare MSCI ACWI ex US	9.5
Aon Plc.	5.7
Accenture Plc.	5.4
AstraZeneca Plc.	5.1
Nice Ltd.	5.0
Elbit Systems Ltd.	4.9
Diageo Plc.	4.8
Adidas Ag.	4.6
Open Text Corp	4.4
KAO Corp	4.2

Capitalization Profile

	Portfolio %
Giant	33
Large	47
Mid	20
Small	0
Median market cap	$46.0B

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.