Growth Equity Portfolio
Second Quarter Review
June 30, 2024

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	Q2 2024	Year to Date	Trailing 12 Months	3 Years	5 Years	10 Years	15 Years	Since Inception
Broadleaf	8.3%	25.1%	39.4%	10.8%	19.6%	17.8%	17.6%	13.3%
S&P 500	4.3%	15.3%	24.6%	10.0%	15.1%	12.9%	14.8%	10.4%

Performance Commentary

In the second quarter, the BGEP maintained its momentum, putting together a strong relative and absolute 1st half of 2024. Notably, the BGEP continues to surpass the S&P 500 over both intermediate and long-term periods, aligning with its objectives of outperforming the S&P 500 throughout a complete market cycle.

Fund Inception 8/18/05. Portfolio performance reflects Broadleaf's Growth Equity Composite, described more fully under the caption "Performance Disclosures." You are urged to read that information in its entirety in connection with any evaluation of Broadleaf's performance statistics. All figures are shown net of actual fees. Any assumed fees have been calculated on a pro forma basis, reflecting the highest fee levels that Broadleaf would charge clients per our disclosures in Part II of our Form ADV.

Market Review & Outlook - *Authored by Pete MacKay*

A lot has been written thus far about the current AI Boom and how it mirrors the Tech Boom of the late 1990s/early 2000s. Wall Street Strategists and Media pundits debate whether we are doomed to repeat the subsequent blow up and market reset of the early 2000s. Having a father whose investing career germinated during the turn of the millennium, I am reminded almost every day of the risks that come with investing around hype cycles. I am also reminded of the massive opportunities that new technologies bring (the Internet eventually figured it out!). The current market has fueled contentious debates in many of our morning meetings, as we debate the merits and the shortcomings of the technology known by many as AI.

One thing that we do agree on is that this is a trend worth investing in. With that, we will take a look at some of the similarities, and some of the differences between today and the late 90s/early 00s eras.

Similarities:

1. A Star is Born.

No company captures the imaginative potential of the AI Boom quite like Nvidia. Nvidia designs and sells GPUs, which historically have been used for gaming, or any sort of computing that is graphics-intensive (the G in GPU stands for graphics). Recently, some very smart folks figured out that these powerful chip systems are also incredibly useful for training AI models. Large language models like ChatGPT and Meta AI are run on thousands of GPUs. As Nvidia has a relative stranglehold on this market, and its primary customers are a lot of the big tech names that just so happen to have rather deep pockets, Nvidia has made a name for itself in public markets as the company to own if you want to own a piece of the AI boom.

During the Dot Com Boom, Cisco Systems was the darling of the NASDAQ. In a similar capacity, Cisco's products were the critical infrastructure components for the fledgling internet upstarts such as Pets.com, Garden.com, and a humble online bookstore known as Amazon.com. Cisco experienced a similar level of early success, and early investors in the company were handsomely rewarded.

Few companies in the history of investing have made their way into cocktail party conversations, but Nvidia and Cisco certainly have.

2. "Shovels and Pickaxes" - A Gold Rush

This cliché uttered today was also heard around Wall Street 25 years ago. This saying originated during the 1850s during the California gold rush. The excitement of finding gold drove hundreds of thousands of people to California in the hopes of striking it rich. The folks who traveled across the country soon found that panning for gold is hard work. Many would be gold miners went for broke – now thousands of miles away from home.

With this realization that many did not strike it rich in the search for gold, it became a popular saying that the savvy businessman would rather sell shovels, pickaxes, and jeans to those who are off to mine for gold, as it offers a more stable source of income than the boom or bust prospects miners experienced. The pickaxes of today are the semiconductors, networking equipment, and energy solutions that are critical for the infrastructure of the modern-day datacenter. This echoes the sentiment of the early 2000s, in which tech hardware equipment was a necessary investment to form the backbone of the Internet.

In theory, this is a fantastic business proposition – and the companies selling the shovels and pickaxes in AI are generating gobs of cash. However, it is tough to sell a pickaxe to a miner who can't afford to buy a sandwich, so eventually AI will need to prove it is monetizable for the companies investing so much to build out these datacenters. Nvidia claims that for every dollar spent on their equipment, companies can expect to receive or save five dollars in revenues or cost savings. We feel confident that this will happen, but any hiccups along the way could prove to be a major headache for investors.

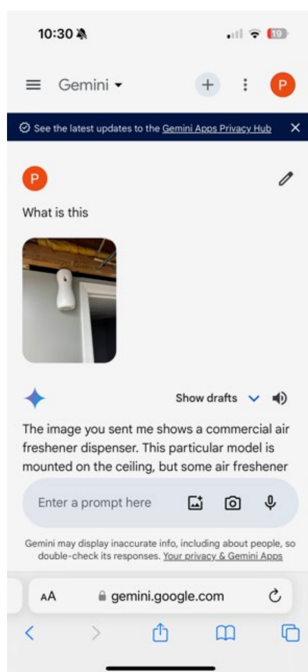
While few struck it rich panning for gold in California, the Gold Rush eventually resulted in California becoming one of the richest states in the country. Similarly, the Dot Com bust/boom

was a foreshadowing of the next great technological revolution, but few would have imagined the road it took to get there.

3. Uncertain use cases – but amazing technological potential

While the prospect of AI is incredibly exciting, and even awe inspiring, it remains to be seen how it will impact our daily lives, or how it will make us more productive at work. The same was true of the early days of the internet. AI today can likely be thought of as a better way to search - many of the co-pilots today can point a human towards a solution, but it cannot implement the solution. Without a human with expertise, this is likely just further useless information until AI can more readily prompt itself towards implementing actual solutions as opposed to making suggestions. Perhaps AI is best thought of as a very bright intern. You know that there is a lot of potential there, but there is a lot of on the job training and time investment that needs to happen up front.

My wife and I recently bought our first home. I have been taking advantage of Google's Gemini to snap pictures of things and have it help us find our bearings with a lot of the new mechanical equipment. Oftentimes, we file this information in the good to know category, but we still have to call the experts to help us out. A homeowner with a few more years of experience could probably point us in the right direction here, although YouTube has been an amazing resource too!



Differences:

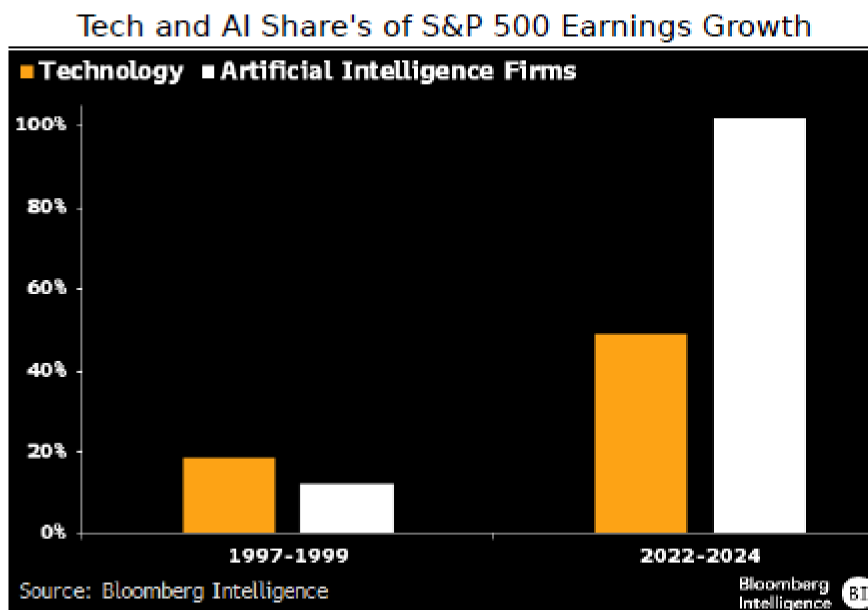
1. AI Companies are Driving the Strongest Earnings Trends

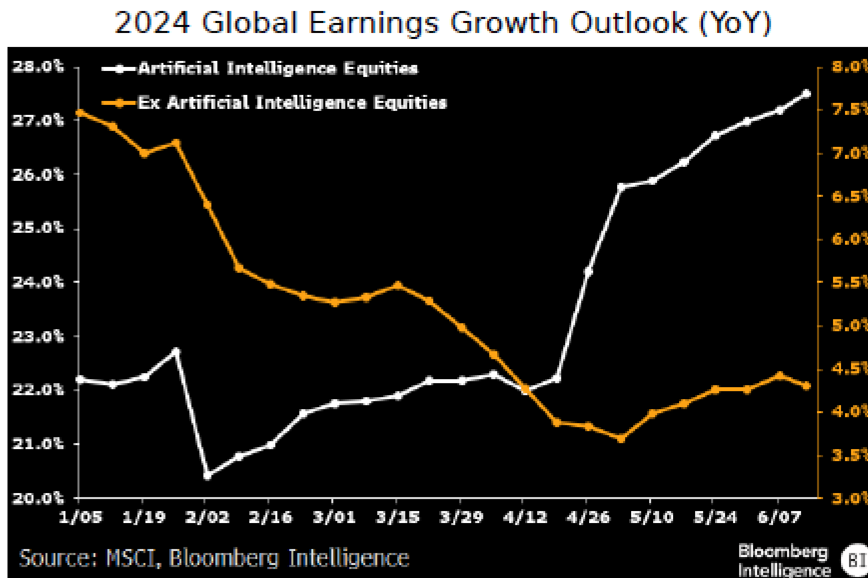
The 1990s were an amazing time for the US Economy. Tax cuts, productivity growth, and free trade in the post-soviet era ushered in broad-based economic and earnings growth. Fiscal austerity brought upon by President Clinton and a Republican congress resulted in the only

budget surpluses in over a generation. Relative global stability was made possible by newfound trade agreements and a general sense of optimism. In not trying to romanticize the times, and purely looking at the data, consumer sentiment was at all-time highs, and there were growth opportunities in many corners of the market – not just in technology firms, which potentially hastened the eventual crash.

Fast forward to today, and the global economic picture remains a tricky one. If you surveyed 100 people on the current economic picture, you might get 100 different answers, some of which might be politically motivated. Inflation remains a sore subject, global growth has slowed, and protectionist ideals are gaining steam in an election year. Fiscal stimulus continues to prime the pump, resulting in around a trillion dollars being added to the deficit every 100 days. Consumer sentiment remains depressed, and deglobalization led by re-shoring initiatives paints a picture of a much different economic era than the strong trend towards globalization seen at the turn of the millennium.

This year, growth has narrowed to a smaller subset of companies, and relative opportunities are waning as pricing power fades. While a global economic bounce remains attainable, US tech firms continue to offer the best relative growth opportunities for investors in an environment in which growth is increasingly scarce.





2. The Credit Cycle – A Dead IPO Market

During the Dot Com bubble, newly formed internet companies were going public before they even had revenues, raising billions of dollars with more of an idea than an actual business. The IPO market was booming, exposing public markets investors to the volatility of non-earners (and oftentimes companies without sales!).

While there is fast money out there today, the IPO market has been relatively dead, even in the tech world. A lot of the funding for the newest Artificial Intelligence platforms is happening in the private markets, which are often only accessible for the wealthiest of investors. OpenAI, the founder of household name ChatGPT, sold half of itself to Microsoft as opposed to going public. This choice of selecting a deeply embedded tech partner, as opposed to testing the waters as an independent company feels like a stark contrast to the environment a few years ago in 2021. While we might choose to speculate that being private protects a company from additional regulations, transparency requirements, and stresses of seeing daily price fluctuations, it is hard to believe that the current public market environment would be unfavorable to the OpenAI's of the world.

While we are not arguing that public markets investors are insulated from AI-related risks, many of the public companies who are most aggressively investing in AI were fantastic companies before AI became such a buzzword (albeit 2022 was a tough one!). While money will always chase returns, the late 90s remain more comparable to the SPAC-driven pandemic years of 2020 and 2021. The scrutiny that large public companies have on them will demand a return on investment sooner rather than later, creating a potential bifurcation of AI companies in the public and the private markets.

3. Tech Employment – Coming off a Reset

Employment in the tech sector has remained depressed since the start of 2023. In a period of higher interest rates, many tech firms who had over-hired were forced to right size their operations and profit optimization became a fancy buzzword. While showing early green shoots in 2024, tech employment has lagged the rest of the economy in what has been a strong period for employment. What remains unclear is whether these tech companies are unlocking productivity with new AI advances, or whether they are simply reallocating resources to their most important projects in a leaner environment.

This is in sharp contrast to the employment boom experienced in tech during the late 90s. A lot of the new startup firms of the Internet mania were hiring at a rapid clip. When the tech bubble burst in 2000, many people lost their jobs at Internet or tech start-ups, with the unemployment rate increasing from around 4%, up to about 6%. This shakedown in employment was enough to give the entire economy a cold, resulting in a few stagnant years of broad stock market performance.

While AI could potentially represent employment risk in the form of job displacement (we are not too worried about that yet), it seems unlikely that an AI hiccup would lead to any sort of significant job loss. New company formation in AI remains comparatively subdued to the dot com bubble, and many of the big tech firms hiring in AI have already undergone a significant reduction of their workforces. The past few years have given economists fits – and as we have mentioned before is likely best characterized as different rolling recessions working their way through different sectors of the economy at different periods of time. We wouldn't be surprised to see this continue, although we are also seeing signs of business cycle normalization as higher interest rates continue to bring inflation down.

We hope that you enjoyed reading our thoughts. Please feel free to reach out with any suggestions, comments, or criticisms. We are always open to learning new things, and understanding different perspectives is critical to our work as growth investors.

Portfolio Characteristics

Portfolio Statistics	
Avg. Wtd. Market Cap.	$407.0B
Median Market Cap	$122.9B
Forward P/E Ratio	48x
Median P/E Ratio	39x
Free Cash Flow Yield	2.4%
Median Return on Equity	29.8%
Beta	1.19
Portfolio Yield	.2%
3yr Avg Rev Growth	23.0%
3yr Avg EPS Growth	25.4%

Investment Style

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately 25-35 equity positions from a cross section of economic sectors. Morningstar would classify us as a large cap growth manager, but we will invest in select small and midsize companies as unique opportunities avail themselves. Sector exposures are strongly influenced by our views on three determinants of investment value, which we define as the economic cycle, the innovation cycle, and the credit cycle. Individual securities are ultimately selected on the basis of their long-term growth potential, profitability, and intrinsic value as measured by their free cash flow generating characteristics. Innovative new ideas and themes are of particular interest.

Investment Objective

The portfolio's goal is to provide equity like returns and to outperform the S&P 500 over a three to five-year time horizon or full market cycle, utilizing a growth oriented investment style. The portfolio is suitable for investors seeking an exposure to a concentrated investment style which may be more volatile than the market as a whole. Investors should consider it as a portion of their investment portfolio within the context of their overall asset allocation and related investment goals.

Performance Disclosures

Results reflect the actual performance of Broadleaf's Growth Equity Composite. Performance data is shown net of advisory fees and trading costs. Broadleaf may charge different advisory fees to clients based on several factors, but primarily based on the size of a client's account. Broadleaf's basic fee schedule is available on its Form ADV, Part II. Results reflect the reinvestment of dividends and distributions, if any. Leverage has not been utilized. The U.S. Dollar is the currency used to express performance.

Broadleaf's growth Equity Composite includes all fully discretionary accounts utilizing our growth equity style of investing with a minimum initial account size of $250,000. (From firm inception to 6/30/2009 our minimum account size for composite inclusion was $250,000 and from 6/30/2009 to 6/30/2013, the minimum had been $100,000. Historical results have not been updated retroactively to reflect changes in account minimums, but are reflected on a going forward basis.) To be included in the composite, an account must have been under management for at least one full quarter. If a significant cash flow in an underlying composite account during the quarter causes it to deviate from our intended growth style, we will remove the account for the period in which the significant cash event occurred. A significant cash flow is currently defined as 10% or more.

Total firm assets at quarter end were $524 million. Prior to January 5th, 2006 the firm did not have any investment advisory clients. As a result, composite data prior to March 31st, 2006 only reflects the performance of Doug MacKay's personal retirement account.

The S&P 500 Index has been used for comparative benchmark purposes because the goal of the stated strategy is to provide equity-like returns and to outperform the S&P 500 over a three to five-year time horizon or full market cycle. The S&P 500 is a broad based index reflecting the performance of the equity market in general. The S&P 500 Index is based on total returns which includes dividends. We monitor the performance of our growth style of investing by comparing our results to those of other large cap growth peers. While we believe these are appropriate benchmarks to use for comparison purposes, it should be expected that the volatility of the Broadleaf Growth Equity Portfolio may be higher due to its concentrated nature.

Performance information since inception reflects actual performance of the composite over a period of greater than fifteen years. You are cautioned that information concerning comparative performance over this period of time may bear no relationship whatsoever to performance over other time periods. This information should not be regarded as in anyway representing the likely future performance of the portfolio in absolute terms or in comparison to the indices. Investment in securities, including mutual funds, involves risk of loss. Past performance is no guarantee of future returns.

Broadleaf Partners, LLC is a registered investment advisor with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request.

Performance information contained in this document including any reference to the purchase or sale of a security, or a strategy, is not intended to constitute personalized investment advice. Personalized investment advice is always dependent on individual factors, involves risk and is not a guarantee that any investment will produce favorable results.

For Additional Information Contact:

Doug MacKay, CFA
CEO & Chief Investment Officer
(O) 330.650.0921
dmackay@broadleafpartners.com

Bill Hoover
President & COO
(O) 330.650.0921
bhoover@broadleafpartners.com