# Broadleaf Partners, LLC

## Growth Equity Portfolio
## Second Quarter Review
## June 30, 2023

| | | | | [---Annualized | | | | ---] |
|---|---|---|---|---|---|---|---|---|
| | Q2 2023 | Year to Date | Trailing 12 Months | 3 Years | 5 Years | 10 Years | 15 Years | Since Inception |
| Broadleaf | 8.2% | 15.4% | 19.9% | 10.6% | 14.9% | 16.5% | 12.7% | 12.0% |
| S&P 500 | 8.7% | 16.9% | 19.6% | 14.6% | 12.3% | 12.9% | 10.9% | 9.7% |

### Performance Commentary

Broadleaf saw another solid quarter of absolute growth, its third in a row. In contrast to 2022, in which stocks reacted quite violently to headlines, markets have largely taken the biggest concerns of 2023 in stride. Markets have shaken off worries related to the debt ceiling, banking crisis, and continued calls for recession, allowing for consistently positive results and surprisingly low volatility.

*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*

While economic uncertainty still exists, the market continued to climb during the second quarter, led by the largest weights in the indices. The climb has been largely characterized by narrow participation, as a small subset of stocks has outperformed the average stock by a wide margin. Encouragingly, market gains have broadened out more recently, reflecting a belief that a soft landing is not only possible, but even probable. While we are not completely discounting the potential for a recession, this year's strong results have exposed those investors who have been largely underweight risk assets.

As investors have waited on a recession that has yet to arrive, the tech companies where earnings weakness and layoffs have been the most "recession-like" have also proven themselves more adaptable and resilient than the dot com generation decades ago, thanks to aggressive "right-sizing", more reasonable starting valuations, and now, the explosive growth potential associated with AI (artificial intelligence).  While we have learned to be suspicious of "next" new things based on decades of investing in the innovation cycle, we also know that some ideas stick, and when they do, they often roar. The more we read, learn, and see about AI, the more our confidence grows that this may be more than just a shot in the arm to a sector that has been on the sick bed following its unsustainable pandemic-era revenue and earnings binge.

We will be the first to admit that AI is not necessarily anything new, which, in fact, is one of the reasons we are less suspicious of this “next” new thing. Machine learning has been around for well over a decade. However, similarly to how the Blackberry was the predecessor to the iPhone, new tech often needs a coming-to-Christ moment for true value to be both recognized and then realized. That moment likely occurred with the introduction of ChatGPT late last year and is now continuing via the billions of dollars of CapEx spending to train new language learning models.

While the long-term applications of artificial intelligence are largely unknown (although we do like the R2D2 and C3PO visual), there are strong indications that the earliest usages of AI will be implemented through the largest cloud companies such as Microsoft, Amazon, and Google. Artificial intelligence at this stage has given a huge bid to some of the semiconductor, networking equipment, and other hardware technology companies that are the boots on the ground facilitators of this new emerging technology.

For these subsectors of the tech space, the massive CapEx spending on AI may insulate them from any near-term economic uncertainty, if and when that occurs. This potent combination of growth and defense is what made names like Apple, Google, and Facebook such good investments in the 2010s, affording them premium multiples. This is classic innovation cycle behavior – companies that aren’t completely immune from economic uncertainty – but far less so given the untapped market opportunity.

Key to an economic soft-landing is a continued glide path of falling inflation that allows the Fed to carry out fewer rate hikes even as employment remains robust. If the Fed ultimately doesn’t have to break the economy to rein in inflation, the market should broaden out. For what it is worth, we think getting down to the strictly stated goal of 2% inflation is less important than having a predictable and stable level of inflation that makes it easier for businesses to operate. If that more stable level is 3%, it likely doesn’t make sense to throw the economy into a recession just to chase an arbitrary goal. Stability and continuity are what is likely needed most right now, in all areas of the economy.

In the near-term, a soft landing could hurt innovation cycle names if fast money moves out of innovation to fund the broader opportunity in economic cycle names. But, further market gains can also be accomplished by investors putting cash to work that had been waiting on a recession that never comes (It wasn’t so long ago that money markets and cash were the hottest investment ideas). We have not abandoned the idea that economic growth in the future can be broader at the sector level due to the de-globalization themes we have stressed over the past couple of years, but we have also gained greater conviction that pressing innovation cycle names seems right given the rise of AI.

We maintain a pretty humbling spreadsheet that is filled with nearly two decades worth of data of all the stocks that we have bought and sold. While there are a lot of successes, there are also a lot of glaring failures. In reviewing the past, something we always do, some of our best decisions have come from admitting we were wrong about a sale and buying back a stock that we sold too early. The ultimate outcome of the last few years has yet to play out, but we have returned to a lot of familiar faces lately, recognizing that last year was likely more anomaly than normality. We wouldn't change anything we have done if we could do it all over again given how strange it has been, but in a similar fashion, we also will not be afraid to press our bets as new information comes to pass and as our instincts direct.

Before 2021, we might have had to rob a graveyard to find anyone on Wall Street who had experience in navigating an inflationary environment. For most, including ourselves and the Fed, the outlook has been as clear as mud. Relying on our three cycles of value has been instrumental in helping us navigate uncharted territory. While the battle of fighting inflation isn't over yet, given the recent improving trends and the rise of AI, we have pressed innovation cycle names while tapping the brakes on companies more dependent on the economic cycle, and perhaps on inflation, as hinted at in our most recent piece, The Last Mile.

We believe the Fed will make additional rate hikes, but as long as inflation continues to move in the right direction, such hikes may not hurt long-duration equities as much as they did in the last couple of years. More importantly, many innovators have stabilized their profits by making adjustments to their cost structure to align themselves with post-pandemic realities that had uniquely affected the sector. Now, the Artificial Intelligence growth opportunity offers hope that the sector can return to leadership rather than being replaced by something else.

## Portfolio Characteristics

| Portfolio Statistics | |
|---|---|
| Avg. Wtd. Market Cap. | $232.2B |
| Median Market Cap | $116.5B |
| Forward P/E Ratio | 29x |
| Median P/E Ratio | 29x |
| Free Cash Flow Yield | 2.8% |
| Median Return on Equity | 27.2% |
| Beta | 1.13 |
| Portfolio Yield | .6% |
| 3yr Avg Rev Growth | 18.6% |
| 3yr Avg EPS Growth | 16.8% |

## 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. Currently, the portfolio has an average market capitalization of $232.2 billion. 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 $414.0 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.*

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