



# Broadleaf Partners, LLC

## Growth Equity Portfolio Second Quarter Review June 30, 2017

### Performance Commentary

	<u>Q2 2017</u>	<u>Year to Date</u>	<u>1 Year</u>	[----- <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>	[----- <u>10 Years</u>	-----] <u>Since</u> <u>Inception</u>
Broadleaf	6.0%	16.6%	24.7%	11.2%	14.2%	8.8%	9.1%
S&P 500	3.1%	9.3%	17.9%	9.6%	14.6%	7.2%	8.2%

Growth stocks continued their strong first quarter run during the second quarter, bringing the year to date net of fees results to 16.6% for the Broadleaf Growth Equity Portfolio. This year is a perfect example of mean reversion, as last year's strong relative outperformance for value stocks has given way to the same in 2017 for growth companies.

Our annualized returns are ahead of the market's results on a one, three, ten and since inception basis, and according to Morningstar would place us in the top quartile of large cap growth funds over similar time periods. Our five year results continued to lag those of the S&P 500 slightly over the same time period.

*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. The fund's peer group is Morningstar's large cap growth category.*

### Market Review & Outlook

The market continued its bifurcated behavior of the last two and a half years, with growth stocks taking the lead in 2017 once again, after having lagged in 2016.

By our observation, the rise of exchange traded funds has exacerbated considerable moves in sector bets as market participants debate over whether or not the economic recovery of the last nine years will become a classic one in the sense of top lines driving strong incremental margins and the accompanying animal spirits of the eighties and nineties decades, or if we will continue to avoid such patterns and remain in a lower for longer environment more common to the Obama years.

The behavior of the market in the month of June shifted to the pro-cyclical, pro-reflation camp, and by our work, may have coincided with a fading of the Trump/Comey drama and perhaps

concerns of impeachment or, at the very least, a fatal blow to the Trump agenda. In particular, the short run performance patterns of the market appear to be coming down to a massive tug of war between bank stocks and the so called FANG stocks. While the winning side may shift from time to time, we find it hard to believe that innovation and the creative, albeit sometimes painful, “remaking” of the economy can or will be undone anytime soon. Adam Smith’s invisible and relentless hand is busy at work.

We continue to believe that the economy will grow but that for a variety of reasons, economic cycles are likely to be less pronounced than those of recent decades, given a change in consumer behavior with regards to debt and a host of reasons linked to the likelihood of lower for longer interest rates and transformational technological change. In a period where growth is lower, there may be more scares given a closer proximity to zero GDP growth, but the good news is that it may make the asset bubbles that caused the tech wreck and housing issues of the last two decades more unlikely. In an era of low growth, the markets can do very well and those that can grow independently of the economy are likely to be bid up. This, of course, will be the key risk to monitor for us as growth managers.

We would also note that one of the biggest contributors to the overheating economies of the past has been the fact that they would become resource constrained as operating rates reached levels that exceeded the ability of fixed assets and labor to produce, thus giving rise to pricing power, inflation, and a temporary notion of scarcity. One overlooked benefit that a “sharing economy” may have introduced to the markets could be a step up in resource utility as assets which were once constrained in the economy at a given level of growth are no longer. The financial model of the economy at large may have witnessed a permanent shift in break- evens.

Companies don’t have to add to fixed costs as they are able to share them more variably, just as consumers don’t have to spend their time waiting in shopping lines, but can throw their order in the digital que and go on to what they’d rather be doing.

And as Mom always said, time is money, an idea worth chewing on.

### **Portfolio Characteristics**

#### **Top Five Portfolio Holdings**

Facebook  
Apple  
Amazon  
Microsoft  
Google

<b>Sector Concentrations</b>		
	<u>Broadleaf</u>	<u>S&amp;P 500</u>
Technology	45.2 %	22.4%
Cons. Disc.	20.0	12.3
Healthcare	10.7	14.5
Industrials	9.9	10.3
Cons. Staples	8.2	9.0
Financials/RE	4.2	17.4
Energy	0.0	6.0
Utilities/Tel	0.0	5.3
Materials	0.0	2.8
Cash	1.8	

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$158.4B
Median Market Cap	92.6B
Forward P/E Ratio	24.8x
Free Cash Flow Yield	3.9%
Return on Equity	31.4%
Beta	1.02
Portfolio Yield	0.9%
3yr Avg Rev Growth	14.2%
3yr Avg EPS Growth	22.2%

### **Investment Style**

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately 25-30 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 \$158.4 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 outperform the S&P 500 index over a three to five-year time horizon or full market cycle. 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 was \$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 \$175.7 million. Prior to January 5<sup>th</sup>, 2006 the firm did not have any investment advisory clients. As a result, composite data prior to March 31<sup>st</sup>, 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. The S&P 500 is a broad based index reflecting the performance of the equity market in general. The index is based on total returns which includes dividends. While we believe this is an appropriate benchmark 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 five 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 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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