



# Broadleaf Partners, LLC

## Growth Equity Portfolio Third Quarter Review September 30, 2019

### Performance Commentary

	<u>Q3 2019</u>	<u>Year to Date</u>	<u>Trailing 12 Months</u>	[----- <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>	<u>10 Years</u>	-----] <u>Since Inception</u>
Broadleaf	0.3%	24.8%	6.2%	20.9%	14.3%	14.9%	10.9%
S&P 500	1.7%	20.6%	4.3%	13.4%	10.8%	13.2%	8.8%

The third quarter proved to be another volatile one, but managed to finish slightly higher than where we were when the quarter began. Our results continue to outpace those of the S&P 500 on a net of fees basis and we rank highly among our large cap growth peers over the short, intermediate and longer terms. We thank you, our clients, for your continued support in helping you to achieve your financial goals!

*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

Despite the endless noise of a 24/7 media cycle deeply engaged in the business of emotional manipulation and the deadening drumbeat of President Trump's Twitter account often in response, the stock market remains near all time highs, employment levels are full, and the consumer remains confident.

Underneath the unrecognizable warmth of a stock market blanket near all time highs, however, may be a story of a different sort, one which has become more evident in the trading patterns of recent days.

For most of the past few years, growth stocks – those that can grow revenues and earnings in spite of the economy - have continued to shine, while the economy's more cyclical and value based sectors have lagged. In the past few weeks, however, this trend has been encountering some turbulence.

The situation reminds us of a similar one in 2015/16. In 2015, FANG stocks outperformed in a year that was plagued by European based oil market concerns that fanned the flames of

bank credit and recessionary fears and then gave rise to a value-based, cyclical stock rebound in 2016 after such fears failed to become reality. But alas, with the benefit of several years hindsight, that move to value from growth proved an unsustainable, short term trade.

Fast forward to today. After struggling with concerns over falling global interest rates, inverted yield curves, and recessionary fears all summer long, hopes for a Chinese trade deal in September served as a catalyst for another growth/value reversal as the fears of recession begin to fade.

While cyclicals and value stocks no longer have the sector weights within the more prominent indices to power the markets higher of their own accord, a compelling trading case can be made that if we don't have a recession and if a trade deal can get done, then value stocks, as was the case in 2016, could have some catching up to do, perhaps at growth stocks short term expense.

We closed last quarter's update with the following sentence, "to the extent trade war concerns abate, cyclical areas and value may find a brief reprieve, but we'd not be inclined to chase." This reality seems to be gaining some steam this quarter, which could be a headwind to growth's continued short to intermediate term outperformance.

While cyclical and value based sectors of the economy are likely strong bounce candidates in this environment, the relentless trend towards innovation across industries makes us far more willing to endure some underperformance in the short run, rather than get caught up chasing the elusively brief outperformance from sectors in longer term, secular decline.

In other words, given a choice between watching bank stock prices or bank branch closings and the race to free trading, we think the latter are a far better fundamental indicator of long term promise. As the final months of 2019 wind to a close, we'd be prepared for some bumps, but would stay focused on the longer term trends.

## **Portfolio Characteristics**

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$ 227.5B
Median Market Cap	99.5B
Forward P/E Ratio	30.6x
Median P/E Ratio	26.9x
Free Cash Flow Yield	3.5%
Return on Equity	29.1%
Beta	1.07
Portfolio Yield	.6%
3yr Avg Rev Growth	18.8%
3yr Avg EPS Growth	28.8%

## **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 a weighted average market capitalization of \$227.5 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 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 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 \$247.8 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 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 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 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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