



## Broadleaf Partners, LLC

### Growth Equity Portfolio

### Second Quarter Review

June 30, 2009

#### Performance Commentary

	<u>Q2 2009</u>	<u>Year to Date</u>	<u>3 Years (Annualized)</u>	<u>Since Inception (Annualized)</u>
Broadleaf	25.8%	17.5%	-6.9%	-1.9%
S&P 500	15.9%	3.2%	-8.2%	-5.1%
Russell 1000 Growth	16.3%	11.5%	-5.5%	-3.6%

*(Fund Inception 8/19/05. 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 assumed 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 stock market enjoyed a solid rebound from extraordinarily depressed levels during the second quarter, deriving a great deal of counterintuitive strength from "less bad" economic news at a time when Great Depression fears were being priced into the markets. Now that this probability has waned, investors feel a little more comfortable and mutual [fund flows](#) for many equity asset classes have turned positive.

Consistent with prior economic recoveries, early cyclical stocks shined during the quarter while defensive areas that held up better during the downturn lagged. Our decision to emphasize cyclical plays over defensive plays certainly contributed to our strong relative performance results. While all areas did well, our overweight positions in the discretionary space and technology industry generated the greatest relative gains for the portfolio.

Since inception we are meeting the primary objective of the portfolio by outperforming the S&P 500 on a net of fees basis by more than 3% per year. As the economic recovery continues, we are confident that we will capture additional alpha for our clients.

#### Market Review & Outlook

A key economic statistic we will be watching to gauge the resilience and durability of the recovery is the nation's [ISM Manufacturing Survey](#). Yesterday morning, July 1<sup>st</sup>, the survey reading came in at 44.8, up from the prior month and basically inline with expectations. This survey is as strong a leading indicator for the economy and the stock market as any we follow. In general, a survey reading above 50 indicates the economy and production levels are expanding. So, while the economy is likely still contracting, it is at a lower rate than it had been. As long as the number stays below 57, we believe it makes sense to stay focused on the cyclical areas of the market that stand to benefit from recovery tailwinds as opposed to defensive areas that may play catch up once we've fully recovered.

Consumer confidence readings, on the other hand, ticked down in June to 49 from 55 in May and were below expectations. Higher gas prices and views on jobs being hard to get likely set the reading back a tad, even though it remains substantially above the all time low reading of 25 during the fall months. Fortunately, this series hasn't been a very good leading indicator for the economy or the stock market, so its level and direction is not as much of a concern.

The unemployment rate will likely increase in coming months but at a slower pace. We have long believed that the rate will peak in the 10% vicinity from its current level of 9.5%. While this may be bad news for those that are unemployed and looking for work, the indicator has usually been lagging in nature and reflective of the past rather than the future. Historically, stocks have often performed well during economic recoveries even as the rate of unemployment increases.

As you enjoy the 4th, take a minute to remember this country's revolutionary roots. Thugs and despots always stand in the way of freedom the world over. Unfortunately, it is almost a universal truth that the only way to gain freedom is to go through those that stand in its way.

In spite of all the well intentioned efforts to spread democracy and capitalism worldwide, it will only flourish if those who are poised to benefit the most from it also bear its costs and have a majority stake in the game. In an odd sense, this may be one of the few areas where traditional conservatism seems to be more liberal in its orientation. Welfare based independence simply doesn't and can't work over the long haul.

This is still the best country in the world, bar none. Sure, others are catching up, but I know of few Americans who are actually emigrating elsewhere. As other countries open up, competition increases and consumers on a worldwide basis benefit from improved standards of living. As China leads the worldwide economic recovery, perhaps we would be wise to recognize the role that broader based capitalism may have played in keeping a second Great Depression at bay.

Enjoy your 4th of July, be thankful for your independence, and remember above all, it wasn't free. Would you still fight for yours today?

### **Portfolio Characteristics**

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

Gilead Sciences  
Express Scripts  
Charles Schwab  
Fluor Corporation  
Celgene

### **Portfolio Statistics**

Avg. Market Cap.	\$18.8B
Median Market Cap.	\$16.4B
Forward P/E Ratio	17.0x
Free Cash Flow Yield	4.9 %
Consensus Growth Rate	15.7%
Return on Equity	23.7%
5 Year Beta	1.24x

### **Sector Concentrations**

	<u>Broadleaf</u>	<u>S&amp;P 500</u>
Technology	23%	18%
Industrials	15%	10%
Healthcare	15%	14%
Cons. Disc.	14%	9%
Financials	13%	14%
Energy	9%	12%
Consumer Staples	3%	12%
Utilities/Telecom	3%	8%
Materials	3%	3%

### **Organizational Review**

Our assets under management have grown considerably since our last update, to approximately \$41 million. These gains have been a function of our strong performance results as well as [Bill Hoover's](#) decision to join our firm as its new President.

As we approach the five year mark for the Growth Equity Portfolio, Bill will be instrumental in taking our firm's business development efforts to the next logical step in its evolution, while Jeff and I continue our focus on investment strategy and portfolio implementation.

In addition to securing additional office space in the [Brewster Mansion](#) in downtown Hudson, we will soon be expanding our administrative staff to support our continued growth.

### **Investment Style**

The Broadleaf Growth Portfolio employs an all-cap, concentrated growth style, holding approximately thirty equity positions from a cross section of economic sectors. Sector exposures typically reflect the outcome of our bottoms up stock selection process, which is strongly influenced by our assessment of the economy and other long term trends. Innovative new ideas and themes are of particular interest to us and our all-cap approach provides us with the flexibility to invest anywhere we find it. Currently, the portfolio is biased towards large cap stocks with an average market capitalization of \$19 billion. 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.

### **Investment Objective**

The portfolio's goal is to outperform the S&P 500 and Russell 1000 Growth indices 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. 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 \$41 million. Prior to January 5<sup>th</sup>, 2005 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 and Russell 1000 Growth Index have 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, while the Russell 1000 Growth is a broad based index reflecting the performance of a growth investing style bias. Both indices are based on total returns which includes dividends. 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 nearly four years. You are cautioned that information concerning comparative performance over a limited period may bear no relationship whatsoever to performance over a longer period. 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 State of Ohio. The firm maintains a complete list and description of composites, which is available upon request.*

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