



Broadleaf Partners, LLC

Growth Equity Portfolio Fourth Quarter Review December 31, 2014

Performance Commentary

	<u>Q4 2014</u>	<u>2014</u>	<u>3 Years (Annualized)</u>	<u>5 Years (Annualized)</u>	<u>Since Inception (Annualized)</u>
Broadleaf	2.6%	11.8%	19.6%	14.7%	9.1%
S&P 500	4.9%	13.7%	20.4%	15.5%	8.0%
Russell 1000 Growth	4.8%	13.1%	20.3%	15.8%	8.9%

The Broadleaf Growth Equity Portfolio gained a solid 2.6% during the fourth quarter, bringing its full year return to 11.8%. While lagging the overall market's return for the year, our results on a one, three and five year basis remain in the top half of our peer group and are in solidly positive territory. Our results since inception - nearly ten years ago - remain ahead of the indices on a net of fees basis.

While we hate making excuses, actively managed funds have had an unusually difficult time beating the overall market indices over the past few years; to say the S&P 500 has had a hot hand would be an understatement. The popularity of indexing is likely a reflection of three factors – low interest rates, general risk aversion in an atypical recovery, and the proliferation of exchange traded funds. With nearly 36% of the S&P 500 members now paying a yield higher than the ten year treasury (a figure that rarely exceeded ten percent in recent decades), investment dollars have chased dividend stocks perhaps out of mere necessity.

As growth investors, our primary focus isn't income generation, but long term profit growth and stock price appreciation. With defensive, slower growth, dividend paying sectors like utility stocks topping recent performance charts, we've missed out on some of the largest gains in the market. And while we expect interest rates to remain low, we also suspect that many growth companies with stable businesses and ample cash flows will ultimately follow Apple's lead by offering more competitive yields in the future.

Regardless of whether or not a company pays a dividend today, profits will always be the "mother's milk" of the stock market. On that note, we're confident we're invested in the right long term areas.

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

We offered an extensive market review and outlook in our recently published [2015 Investment Playbook](#), but would summarize the highlights as follows:

1. While the Fed will likely increase interest rates in 2015, the economy should be strong enough to absorb it.
2. Energy prices, like interest rates last year, may stay lower for longer, a net benefit for US consumers in an improving job market.
3. A continued bid for the US dollar in a weaker global environment will tend to favor developed over developing markets once again, but also domestic operations over multinational ones because of these currency effects.
4. Inflation should remain subdued thanks to trends in commodity prices, emerging market economies and the productivity of assets associated with the “sharing” economy. Non- inflationary driven growth tends to be a favorite type of growth for the stock market. Stocks should once again outperform bonds.
5. What could go wrong? Financial contagion related to the rapid decline in energy prices and weak overseas economies could affect the U.S. economy. Just as our domestic housing problems affected other areas of the world during the Great Recession, we can’t rule out the potential for overseas problems to similarly affect us via financial contagion. While we believe our exposures are adequately contained and reserved against, it is a risk worth monitoring.

For additional details on our outlook, including a few from the sector and stock specific levels, please see our [2015 Investment Playbook](#).

Portfolio Characteristics

Top Five Portfolio Holdings

Apple
Facebook
Nike
Polaris Industries
Walt Disney Co

Sector Concentrations

	<u>Broadleaf</u>	<u>S&P 500</u>
Technology	28.6%	19.7%
Cons. Disc.	28.4	12.1
Healthcare	15.9	14.2
Industrials	13.6	10.4
Financials	7.4	16.7
Cons. Staples	3.5	9.8
Energy	0.0	8.4
Utilities/Tel	0.0	5.5
Materials	0.0	3.2
Cash	2.6	

Portfolio Statistics

Avg. Market Cap.	96.3B
Median Market Cap	39.2x
\$Forward P/E Ratio	26.3x
Free Cash Flow Yield	2.4%
Consensus Growth Rate	19.7%
Return on Equity	21.2%
Beta	.97
Portfolio Yield	0.7%

Investment Style

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately thirty 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 \$96.3 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 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. (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 \$157.1 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 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 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.

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