



Broadleaf Partners, LLC

Growth Equity Portfolio Fourth Quarter Review December 31st, 2015

Performance Commentary

	<u>Q4 2015</u>	<u>2015</u>	[----- <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>	<u>10 Years</u>	-----] <u>Since</u> <u>Inception</u>
Broadleaf	7.2%	7.3%	16.7%	12.6%	8.2%	8.9%
S&P 500	7.0%	1.4%	15.1%	12.6%	7.3%	7.4%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.5%	8.5%	8.6%

Our portfolio and the stock market bounced back aggressively in the fourth quarter following the Chinese Yuan induced swoon during the third. We finished the full year in positive territory, substantially ahead of our comparative indices and peer group.

While there has been much gnashing of teeth over the narrowness of the market's gains this year and in particular, the contribution of the FANG stocks (Facebook, Amazon, Netflix and Google), we refuse to apologize for actually having the gall to own these names in 2015 and for some far earlier. It's always easy to see what worked in the rear view mirror, but far harder to discern what's ahead. Remember this next time someone gives you excuses or even worse, makes you feel like an apology is due for actually winning.

Let's be clear. We are not afraid to part ways with our long term winners when we think the time is right; we've done that repeatedly in the past and will do it in the future. A strong selling discipline is key to our investment process, and has been instrumental in driving our superior long term results. My business partner, Bill Hoover, likes to say that buying stocks is easy; knowing when to sell is much harder. I agree.

On a 3, 5 and 10 year basis, our results are in the top third of our peer group and since inception, we've outperformed the market by nearly 2.5% annually, net of fees.

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

Two weeks ago we published our [2016 Investment Playbook](#) in which we reviewed last year's results and also offered the following three predictions for 2016.

- 1. Lower for Longer.** Everyone, including ourselves, wants to bottom tick the energy, materials and to a lesser extent, industrial sectors. Having fallen so much, we all wonder when it will be time to buy. While there will be trading opportunities in the sector throughout 2016, we frankly don't think the stocks have yet seen their bottom. China, oil, and commodity sectors all experienced bubbles of one type or another in recent years, and bubbles often take far longer to bottom and work out than most expect. Currency differentials will only worsen these trends. According to our work, the energy sector was down roughly 50% from its highs during the Great Recession; it is down about 40% from its highs right now, but the bankruptcy process has hardly started perhaps due to protective hedges in place for most of 2015. While it may not be comparable, past bubbles in housing and tech saw average peak to trough declines of 80%! While we have a great deal of respect for a few management teams in these beaten down sectors, Lower for Longer is a process that takes time, far more than a single year or even two.
- 2. Fed induced jitters continue to affect the market, but company fundamentals start to matter more.** The Fed's historical involvement in the markets is finally turning. While I don't know if they will raise rates once, twice or three times in 2016, I do believe that the economy will be strong enough, particularly on the consumer side, to withstand such hikes. The market will have some fits and starts, but as the emphasis on the Fed recedes into the background, individual company earnings reports should get greater attention. Index investing will no longer shine in an environment where everyone doesn't get a trophy. Speaker of the House Paul Ryan will also continue to make great strides with Congressional fiscal policy, lightening the Fed's burden in a slow growth world.
- 3. The stock market finishes 2016 on a surprisingly strong note.** While I won't give an exact figure, after a lackluster 2015, I tend to think the markets will do far better than most expect and perhaps in a manner that isn't necessarily to everyone's liking. For sure, the 2150 level on the S&P 500 has been very difficult to crack throughout 2015, but we suspect we will finally get through there and then some, in spite of the lack of participation in later stage sectors like materials, energy and industrials. Just as occurred following the 1994 Fed hikes, the stock market's gains are likely to become narrower in the months, quarters and perhaps even years ahead, with fewer companies and sectors driving the overall market's gains, especially given our Lower for Longer views. While we will have to be mindful about bubbles in the growth sectors of the market, continued strong results from these areas in a 2% type GDP economic environment will provide for another strong year. For 2016, at least, the discrepancy will likely continue.

Portfolio Characteristics

Top Five Portfolio Holdings

Facebook
Home Depot Inc.
Adobe Systems
Amazon.com
Roper Technologies

Sector Concentrations

	<u>Broadleaf</u>	<u>S&P 500</u>
Technology	34.7%	20.7%
Cons. Disc.	29.7	12.8
Healthcare	14.5	15.2
Financials	7.9	16.5
Industrials	4.4	10.0
Cons. Staples	6.6	10.1
Energy	0.0	6.5
Utilities/Tel	0.0	5.4
Materials	0.0	2.8
Cash	2.2	

Portfolio Statistics

Avg. Market Cap.	\$103.0B
Median Market Cap	\$50.0B
Forward P/E Ratio	23.8x
Free Cash Flow Yield	3.1%
Return on Equity	23.8%
Beta	.95
Portfolio Yield	0.6%
3yr Avg Rev Growth	24.4%
3yr Avg EPS Growth	19.6%

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 \$103.0 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 \$166.7 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.

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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