



Third Quarter 2012 Review

September 30, 2012

Performance Commentary

	<u>Q3 2012</u>	<u>YTD</u>	<u>Trailing 12 Months</u>	<u>3 Years (Annualized)</u>	<u>5 Years (Annualized)</u>	<u>Since Inception (Annualized)</u>
Broadleaf	5.1%	15.6%	24.2%	12.5%	3.0%	6.1%
S&P 500	6.4%	16.4%	30.2%	13.2%	1.1%	4.6%
Russell 1000 Growth	6.1%	16.8%	29.2%	14.7%	3.2%	5.8%

In spite of well publicized worries over a dysfunctional government, the impending fiscal cliff, and slower earnings growth, the markets did what they usually do during such periods by confounding the experts. During the third quarter, the S&P gained more than six percent.

The Broadleaf Growth Equity Portfolio (BGEP) gained a solid 5.1% on considerable strength from the technology sector. Relative to the index, stock picks within the health care and consumer discretionary sectors were a weight on results.

Since inception over seven years ago, the BGEP has gained 6.1% net of fees, exceeding the 4.6% annual gains for the S&P 500 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.)

Market Review & Outlook

Three key factors may have influenced the stock market to positive results during the third quarter. While hotly debated, the Fed's announcement that they would go [All In](#) to support the sluggish economy and lackluster employment certainly helped, but so has a budding recovery in the housing market. Contrarians might also note that bearish sentiment remains at high levels, as reflected by historically low net equity exposures among hedge funds.

While there are many issues to worry about, we won't dwell much on those factors since they've been getting plenty of press. Instead, we'll spend a few minutes mentioning a few positives right now, which are likely being overlooked.

According to [Francois Trahan](#), a leading investment strategist, results for both the ISM manufacturing survey and consumer confidence not only beat expectations, but beat the expectations of every economist surveyed – more than seventy in both cases. The ISM Index moved above 50 for September, the level generally consistent with an expansion in the manufacturing economy, and consumer confidence hit post-recession highs. While the economic outlook may not be outstanding, expectations appear too pessimistic.

The housing market appears to be on the mend. While lower interest rates have helped, shrinking supplies of new homes and new household formation trends have been a recent catalyst for the sector. Perhaps time, above all things, has helped. With improvement in the housing market, prices should firm and eventually improve, helping appraisal values. As appraisal values improve, refinancing activity should pick up, leading to improving free cash flow levels for American consumers.

While the world is far from an ideal place, history shows that the stock market has done quite well while initial unemployment claims are falling, homebuilder and consumer confidence levels are rising, and leading economic indicators are improving, as is the case today. In spite of significant skepticism, we wouldn't be surprised to see continued strength in the stock market as 2012 comes to a close.

Portfolio Characteristics

Top Five Portfolio Holdings

Google
 Apple Computer
 Whole Foods Market
 American Tower Corp
 MasterCard

Sector Concentrations

	<u>Broadleaf</u>	<u>S&P 500</u>
Cons. Disc.	22.9%	11.0%
Technology	27.8	20.1
Financials	10.4	14.6
Healthcare	8.2	12.0
Industrials	12.6	9.8
Cons. Staples	5.0	10.9
Materials	4.1	3.5
Energy	6.9	11.3
Utilities/Tel	0.0	6.8
Cash	2.1	

Portfolio Statistics

Avg. Market Cap.	\$61.1B
Median Market Cap	\$21.2B
Forward P/E Ratio	16.4x
Free Cash Flow Yield	4.6%
Consensus Growth Rate	17.1%
Return on Equity	19.0%
Beta	1.2
Portfolio Yield	0.7%

Organizational Review

Broadleaf's assets under management (AUM) grew to a record \$118 million during the quarter. Strong absolute performance results, a significant new client win, and additional contributions from current customers all contributed to the gains in AUM.

After seven long years that included a Great Recession, we know that success in the business is neither quick nor easy. Our primary focus remains the management of our client investment portfolios on a day to day basis, not expanding our firm's AUM. If we do a good job for our clients, we know the rest will take care of itself. To those that have placed your trust in us, thank you; to those who are thinking about it, give [Bill Hoover](#) a call!

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 \$61 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 \$100,000. (Prior to 6/30/2009, the minimum account size necessary for composite inclusion had been \$250,000. Historical results have not been updated retroactively to reflect this change, but will reflect the change from 6/30/09 forward.) 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 \$118.2 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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