



Broadleaf Partners, LLC

Growth Equity Portfolio
 Second Quarter Review
 June 30th, 2016

Performance Commentary

	<u>Q2 2016</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	-0.9%	-7.4%	11.3%	9.9%	7.0%	7.8%
S&P 500	2.5%	4.0%	11.7%	12.1%	7.4%	7.4%
Russell 1000 Growth	0.6%	3.0%	13.1%	12.4%	8.8%	8.3%

The markets continued to recover from their first quarter lows, but there is no doubt that it hasn't been easy going with last week's Brexit decision the most recent speedbump in a sideways market now over eighteen months in duration.

Our results relative to the market over the last twelve months have been poor, largely as a reflection of two factors which are, admittedly, always easiest to see in hindsight. A year ago, our portfolio was among the very best performing growth portfolios in a growth starved world. In fact, according to Morningstar at the time, our portfolio would have been the **top** performing large cap growth fund for the preceding twelve months in an investment climate where few areas outside of growth funds generated positive returns. In commercial terms, perhaps we were running against some very difficult comps.

Second, the rebound in the market from the February lows has largely been driven by the economy's more cyclical sectors, a trend we just don't see as sustainable in a slow growth for as far as the eyes can see environment. While efforts at global stimulus by central banks have been in effect for most of the last seven years, they have largely been more effective at keeping a deflationary induced recession at bay rather than stimulating the type of growth historically associated with more powerful nominal economic recoveries.

While our long term numbers remain respectable, they have no doubt taken a bit of a hit given the events of the past twelve months. Our focus, however, always remains on the long run, and in a world with slow growth for as far as the eyes can see, we believe we are positioned to outperform by focusing on those that can.

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

The stock market continued its recovery off its February lows, with a strong rebound in energy prices a significant driver of the market's more cyclical sectors. In addition, the continued era of low interest rates has given a consistent bid to the historically unloved but high yielding utility and telecom sectors.

Oil, utilities, and telecom, OH MY!

Over thirty percent of the world's global sovereign debt supply is now in negative yield territory, meaning in many areas of the developed world, you now have to pay someone else to borrow your money! Given this situation, it's surprising that 1.5% U.S. Treasury yields are even that high!

While we may have needed extraordinary monetary policy efforts during the Great Recession, it now seems as though the tolerance for any negative datapoint in the economy has become absolute, a monetary policy union no-no given such a seemingly fragile backdrop. This begs the question as to whether or not an upcycle can ever be engineered in an environment where a down cycle may now strictly be forbidden.

The biggest event of the quarter, of course, was Great Britain's referendum and their decision to "Brexit" the European Union. As noted in last week's piece, [Brexit is Beautiful](#), we applauded this difficult, but brave decision by the majority of Great Britain's people as one reflective of perhaps a rising trend in an increasingly global, yet hostile, growth starved world. As one wag we know put it, with the vote to Brexit, Britain's older, working class shocked the established elite by deciding "to stomp the proverbial can rather than accept the risks of kicking it further down the road."

I have always recommended to investors that they not invest on the basis of geopolitical concerns as they are so often difficult to predict and often so fleeting in duration. Whether or not Brexit actually occurs in the next two years remains to be seen, but I don't doubt that it represents a potential watershed event in politics, suggesting that the same old approach of the last seven or eight years may be meeting its first real challenge.

Am I negative on the markets? No. Following twenty-six years in the business, I simply believe expectations for a slow growth for as far as the eyes can see environment represents the better baseline path. Truly unprecedented monetary policy experimentation, rising instances of political unrest and significant technological change lead me to focus five years down the road, to where slow but stable rates of earnings growth are likely to be the best indicators of longer term returns.

Portfolio Characteristics

Top Five Portfolio Holdings

Facebook
Amazon.com
Alphabet
Adobe Systems
Home Depot

Sector Concentrations

	<u>Broadleaf</u>	<u>S&P 500</u>
Technology	38.0	19.7%
Cons. Disc.	25.4	12.3
Cons. Staples	13.9	10.5
Financials	7.8	15.7
Industrials	10.8	10.2
Healthcare	1.7	14.7
Energy	0.0	7.4
Utilities/Tel	0.0	6.6
Materials	0.0	2.9
Cash	2.4	

Portfolio Statistics

Avg. Market Cap.	\$117.1B
Median Market Cap	\$50.5B
Forward P/E Ratio	22.6x
Free Cash Flow Yield	4.2%
Return on Equity	33.1%
Beta	1.03
Portfolio Yield	0.9%
3yr Avg Rev Growth	14.2%
3yr Avg EPS Growth	29.8%

Investment Style

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately 25-30 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 \$117.1 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 \$157.0 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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