



Broadleaf Partners, LLC

Growth Equity Portfolio Third Quarter Review September 30th, 2016

Performance Commentary

	<u>Q3 2016</u>	<u>Year to Date</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	7.4%	0.2%	7.5%	9.7%	14.6%	8.3%	8.3%
S&P 500	3.9%	7.8%	15.4%	11.2%	16.4%	7.2%	7.6%
Russell 1000 Growth	4.6%	6.0%	13.8%	11.8%	16.6%	8.9%	8.6%

We enjoyed a nice third quarter rebound following the second quarter, Brexit-induced swoon. The market's returns were relatively narrow; technology as a whole did very well and select positions within the health care and consumer discretionary sectors helped our portfolio relative to the market.

On a year to date basis, we are finally back into positive territory, after what was one of the market's worst starts to the year in decades. A hoped for cyclical rebound in many of the market's more value oriented sectors initially drove the markets off the February lows, with the strength broadening out to the market's growthier areas in more recent months.

While our long term numbers remain respectable relative to our peers and our benchmarks, we recognize we have continued ground to make up and are optimistic that we will do so given the environment we foresee and the positioning of our portfolio.

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

When I first started in this business nearly thirty years ago, my boss recommended that I read **A History of Interest Rates**, a book by Sydney Homer that discusses the two-thousand year history of interest rate trends. While my lifestyle is indeed fast-paced, exciting and the envy of many ☺, let's just pretend I read the book so you didn't have to.

In all honesty, however, I'm glad I did.

The takeaway from reading the book some twenty-five years ago, more than any other, was that the norm for interest rates is in low single-digit territory rather than the aberration of the past forty to fifty years where rates moved from 2% to 20% and back on down again.

Essentially, the risk free rate of return over time has typically been closer to a return free rate of return over time. This makes sense; as mom always told me, you can't get something for nothing and, if you don't take a risk, you shouldn't get much of a return.

Why is this important to how we view the world today? Because contrary to popular belief, we don't think a lower for longer call on interest rates, inflation or GDP is either bearish or bullish but, quite simply, normal.

In a slow nominal and real growth world, returns are likely to be more subdued than they've been in recent decades. With a market starved for income yield, slow growth companies that provide consistent dividends will help to fill the gap in income needs for retired baby boomers and insurance companies facing paltry fixed income returns. And let's face it; the bond market has just come off an outrageous historical run.

More than anything, we believe that those companies that can grow earnings along with their top line, will prove to be a scarce commodity in coming years, providing a decent underlying, long term bid for their equities and thus, relative return prospects.

Many are pining for greater government policy action to help boost the economy. While some measures may help, history has shown that governments rarely create growth, but simply pull future growth forward to today.

Over the last twenty years, we've seen great growth driven by new innovations, but we've also pulled a great deal of it forward by poor policy choices and business decisions, public and private.

Lower for longer may not be as fun, but it may prove far more sustainable. Just be glad you didn't read **The History of Interest Rates**.

Portfolio Characteristics

Top Five Portfolio Holdings

Facebook
Amazon.com
Apple
Alphabet
Adobe Systems

Sector Concentrations		
	<u>Broadleaf</u>	<u>S&P 500</u>
Technology	38.2 %	21.2%
Cons. Disc.	22.6	12.5
Industrials	13.4	9.7
Cons. Staples	11.1	9.9
Financials	6.5	15.9
Healthcare	6.0	14.7
Energy	0.0	7.3
Utilities/Tel	0.0	5.9
Materials	0.0	2.9
Cash	2.2	

Portfolio Statistics	
Avg. Market Cap.	\$127.3B
Median Market Cap	\$66.1B
Forward P/E Ratio	23.2x
Free Cash Flow Yield	4.6%
Return on Equity	35.9%
Beta	.96
Portfolio Yield	0.9%
3yr Avg Rev Growth	10.7%
3yr Avg EPS Growth	31.2%

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 \$127.3 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 \$158.6 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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