



# Broadleaf Partners, LLC

## Growth Equity Portfolio First Quarter Review March 31, 2017

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### Performance Commentary

	<u>Q1 2017</u>	<u>1 Year</u>	[-----] <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>	<u>10 Years</u>	-----] <u>Since</u> <u>Inception</u>
Broadleaf	10.0%	16.6%	10.4%	11.6%	8.5%	8.8%
S&P 500	6.1%	17.2%	10.4%	13.3%	7.5%	8.1%
Russell 1000 Growth	8.9%	15.8%	11.3%	13.3%	9.1%	9.1%

Unlike last year which was one of the worst starts for the market in recent memory, 2017 has started out on a strong note. The Broadleaf Growth Equity portfolio gained nice ground on the indices during the first quarter of the year, up 10% net of fees. Since inception and over the past ten years and three years, the portfolio's results have matched or exceeded those of the S&P 500 on a net of fees basis, while intermediate results over the past five have lagged.

The popular indexes have been the "five star" managers in recent years, largely due to what we believe is almost always a nearly universal catalyst -- "fund flows gone wild." Money has flocked to these vehicles due to their simplicity and low cost, exacerbated further by the on again and off again exposures available to traders through the proliferation of increasingly exotic exchange traded funds.

In the rush to index investing, many have seemingly given up on capitalism. Investors are actively choosing to be average rather than fighting for something more, something both excellent and praiseworthy. To be sure, the performance of the popular averages have been a hard hand to beat over the past five years, but we shall see, as we always do, how they fare going forward.

The future does not always look like the recent past, indeed.

*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**

We didn't write an intra quarter update as we usually do, primarily because we didn't feel like we had anything intelligent to say. Mom recently reminded me over the phone a few weeks ago, that you have to "make hay while the sun shines" and at least in the first quarter, the sun sure shined!

The markets have certainly benefitted from the Trump "trade" and hoped for reform in both health care and tax policy. Yet, experience has repeatedly taught me to never invest on the basis of politics but on the basis of long term economics. Over the long run, the markets tend to follow the money - the real, hard-earned profit dollars. Watch not what people say, but what they do. Everything else is indeed just a "trade."

The economy has continued to do well, albeit at a slow and steady pace. Employment has improved and Americans are buying houses and cars again – not in the debt fueled ways of recent decades, but at a pace that we hope is more traditional and sustainable -- in line with their income growth.

At this stage, the soft measures of the economy – survey data, consumer confidence readings, etc. – have gone parabolically to the positive, but oddly enough, so have some measures of investor and business uncertainty. The hard data – GDP growth, profit growth, underlying signals from the bond and stock markets – continue to suggest it may be wiser, once again, to watch what people actually do and not necessarily what they say.

Lower for longer – in GDP growth, interest rates and unemployment – isn't a bad thing. In fact, for the stock market, it can be a very good thing, particularly if it's sustainable. Economic cycles, however, tend to be shorter at rates of low nominal growth, and crisis more frequent. It may be akin to driving at temperatures close to freezing where it pays to be more careful and to avoid any animal urges.

Nearly every area of our economy is being completely remade by technology and the continued advances of computing power. For the investor, such changes warrant close scrutiny and observation, both of the ways in which industries have operated in the past and the ways they may likely do so in the future. Consumers will still consume, retailers will still retail, and the media will still report, but the value in such things will likely continue to change hands. As the writer of Ecclesiastes discovered, *"What has been, will be again, what has been done, will be done again. There is nothing new under the sun."*

## **Portfolio Characteristics**

### **Top Five Portfolio Holdings**

Facebook  
Apple  
Amazon  
Microsoft  
Google

<b>Sector Concentrations</b>		
	<u>Broadleaf</u>	<u>S&amp;P 500</u>
Technology	41.6 %	22.0%
Cons. Disc.	18.3	12.3
Industrials	13.4	10.1
Healthcare	12.5	13.9
Cons. Staples	9.7	9.3
Financials/RE	.9	17.3
Energy	0.9	6.6
Utilities/Tel	0.0	5.7
Materials	0.0	2.8
Cash	2.7	

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$126.7B
Median Market Cap	85.4B
Forward P/E Ratio	21.7x
Free Cash Flow Yield	4.6%
Return on Equity	47.1%
Beta	.92
Portfolio Yield	1.1%
3yr Avg Rev Growth	13.2%
3yr Avg EPS Growth	23.6%

### **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 \$126.7 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 \$167.5 million. Prior to January 5<sup>th</sup>, 2006 the firm did not have any investment advisory clients. As a result, composite data prior to March 31<sup>st</sup>, 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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