



Growth Equity Portfolio  
Fourth Quarter Review  
December 31, 2018

### Performance Commentary

	<u>Q4 2018</u>	<u>2018</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>Annualized Since Inception</u>
Broadleaf	-14.9%	4.7%	12.4%	11.3%	15.9%	9.7%
S&P 500	-13.5%	-4.4%	9.3%	8.5%	13.1%	7.8%
Russell 1000 Growth	-15.9%	-1.5%	11.2%	10.4%	15.3%	9.2%

It's not much of a secret that the stock market was pummeled during the fourth quarter, with our portfolio declining in a similar fashion. Weakness was generally broad based across almost all sectors of the economy as concerns of recession mounted in the face of continued Fed Rate increases. Given our substantial lead earlier in the year, the Broadleaf Growth Equity Portfolio nevertheless finished in positive territory for 2018, up 4.7% net of fees, and well ahead of our benchmarks.

Over nearly all periods tracked –short, intermediate, long term and since inception – the Broadleaf Growth Equity Portfolio continues to outperform its benchmarks on a net of fees basis, placing us in the top decile/quartile of our long term peer group rankings.

Thank you for being a client and friend of Broadleaf Partners – we couldn't do it without you!

*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 market's performance in the fourth quarter was brutal, and while the week after Christmas saw a mild Santa Claus rally, it wasn't enough to bring full year returns for the indices back into positive territory.

We can dream up all sorts of reasons for the fourth quarter correction, but the major risks have been widely known and publicized all year. Rate increases by the Fed, trade concerns out of Washington, and slowing growth in global economies didn't affect the market outside of the housing and auto sectors for most of the year, but did quite suddenly in the fourth quarter, when just about everything was hit hard.

While we will have more to say about 2018 and the year ahead in our regular forecast piece later this month, the most relevant question for stock market investors today as we enter 2019 is whether or not the recessionary risks to our domestic economy are realized or the economy simply slows, as was the case in 2011 and 2015.

At this point, we believe the domestic economy has sufficient momentum to endure slowing growth elsewhere. To be sure, our domestic economy will slow in 2019, but a recession is not in our base case scenario. We do believe, however, that the Fed will need to pause the pace of rate hikes in 2019, just as they did in 2015 given heightened global risks and their potential to impact domestic employment and inflation.

With no recession, 2019 could end up being a fantastic year for the stock market, just as 2016 was relative to 2015, but perhaps even more so given the negative performance results this year. While it may take some time for the recession fears to recede, the markets could be setting themselves up for another continued multi-year run, similar to what we saw following the market weakness in 1994, 2011 and 2015.

Investors should continue to focus on innovators – those that can generate growth regardless of the economy – but a transition to defense and safety could prove a head fake and short lived.

## **Portfolio Characteristics**

### **Top Five Portfolio Holdings**

Microsoft  
Alphabet  
Apple  
Amazon  
Salesforce

<b>Sector Concentrations</b>		<b>Portfolio Statistics</b>		
	<u>Broadleaf</u>	<u>S&amp;P 500</u>		
Technology	41.4%	20.1%	Avg. Market Cap.	\$ 190.5B
Comm Svcs	12.7	10.1	Median Market Cap	89.2B
Healthcare	12.4	15.4	Forward P/E Ratio	25.8x
Cons. Disc.	9.0	9.9	Median P/E Ratio	21.8x
Industrials	8.7	9.2	Free Cash Flow Yield	4.2%
Financials	8.1	13.3	Return on Equity	27.9%
Cons. Staples	2.0	7.4	Beta	1.19
Real Estate	1.7	3.0	Portfolio Yield	.9%
Materials	1.5	2.7	3yr Avg Rev Growth	19.3%
Energy	0.0	5.3	3yr Avg EPS Growth	26.1%
Utilities/Tel	0.0	3.4		
Cash	2.5	.2		

## Investment Style

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately 25-35 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 a weighted average market capitalization of \$190.5 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 \$201.63 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 not 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.*

**For Additional Information Contact:**

Doug MacKay, CFA  
CEO & Chief Investment Officer  
(O) 330.650.0921  
[dmackay@broadleafpartners.com](mailto:dmackay@broadleafpartners.com)

Bill Hoover  
President & COO  
(O) 330.655.0507  
[bhoover@broadleafpartners.com](mailto:bhoover@broadleafpartners.com)