



# Broadleaf Partners, LLC

## Growth Equity Portfolio First Quarter Review March 31, 2020

### Performance Commentary

	<u>Q1 2020</u>	<u>Trailing 12 Months</u>	<u>[------ 3 Years</u>	<u>Annualized 5 Years</u>	<u>10 Years</u>	<u>-----] Since Inception</u>
Broadleaf	-11.3%	4.9%	17.2%	12.8%	13.5%	10.5%
S&P 500	-19.6%	-7.0%	5.1%	6.7%	10.5%	7.5%

While the markets experienced one of the steepest and most rapid declines in the history of quarterly numbers, the Broadleaf Growth Equity portfolio has continued to outperform relative to the S&P 500 and our growth oriented peers.

On a net of fees basis, our results in both bull markets and now bear markets continue to add value above and beyond our peer group and the passively managed indices. We strive to outperform our benchmarks on a net of fees basis and have done just that over the one, three, five, ten and nearly fifteen year periods. Accomplishing this feat is not easy and many would be surprised to see the extensive investment discipline we practice on a daily basis in pursuit of excellence.

We suspect our stellar results are as much a function of what we do not own as what we do own, particularly in the recent downturn. Both are active decisions. To no small extent, we suspect it is also because we spend far more time and effort managing the portfolio for your benefit relative to our marketing efforts on growing our firm. We have faith that if we keep our priorities straight, growth of the firm will be a natural outcome of a job well done.

Thanks for your continued support of Broadleaf Partners!

*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

The review and outlook section of this quarterly portfolio update looks a little different than most. We've used bullet points, summarizing our best thinking at the moment, on a few things

we're thinking about. If you are a client and would like to dig into the details behind our thought process more fully, feel free to call us at your convenience.

- Our economy is likely in a recession or will be soon. In terms of the stock market, this may be a moot point since we are already experiencing a swift and sudden bear market. The recession will likely persist for as long as the Coronavirus threat keeps the economy shut down. Watch for declines in new daily cases for a period of at least two weeks to suggest that an “all clearer” signal from the government may be at hand. This is our preferred [site](#) for daily updates.
- It will take time for the markets and the economy to mend themselves and as such, we are not expecting a quick, V-shaped recovery, even though we would certainly welcome one. While it is true that the shutdown has largely been self-imposed and one might think a quick recovery would be at hand once un-imposed, it is equally true that even without government mandates, all would not be normal in the economy today.
- The government's response to the crisis has been unprecedented, both with respect to monetary policy from the Federal Reserve and fiscal policy from our elected officials. These measures, while warranted today, will bring their own set of questions and conclusions down the road, once things have normalized and the dust has settled. Now is not the time to question or second-guess, but to be kind and realize everyone is dealing with heightened levels of uncertainty.
- Whether we have seen **the** bottom or just **a** bottom in the stock market in recent days is anyone's guess. My job is **ALWAYS** to focus on the longer term, three to five years out. From this vantage point, I strongly believe that all shots taken at the basket today and, in recent days, will look smart, even if you don't get that “perfectly timed” shot.
- Everyone's need for cash is different and depends on their unique set of circumstances. If fear is keeping you up at night, raising some cash may bring temporary relief. But if you are simply hoarding cash beyond your short term needs like some have been doing with toilet paper, you may simply be exchanging one flavor of anxiety for a future one. You will know if that is true when the market experiences a violent upward move and you begin to question what you might have done. Assess your actual needs carefully.
- The winners and losers in the financial markets may look different as we emerge from this period of time. Leadership shifts have been common at both the sector and company levels after other historical bear markets. We suspect this common phenomenon is not solely because new trends emerge, but also because corporate America rarely wastes a crisis to accelerate changes that may not have been as palatable, culturally speaking, during the good times. Our portfolio already reflects this type of thinking, and will continue to do so as we move forward.
- I have a note in my calendar to write an update five years from now, looking back on this period, with of course, the benefit of hindsight. We have emerged from every bear market in the past, moving on to eventual new highs. I'd bet this time will prove no

different and look forward to the day when I might have the opportunity to write about it.

## **Portfolio Characteristics**

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$ 234.4B
Median Market Cap	100.1B
Forward P/E Ratio	30.3x
Median P/E Ratio	27.1x
Free Cash Flow Yield	4.3%
Return on Equity	30.1%
Beta	1.03
Portfolio Yield	.7%
3yr Avg Rev Growth	17.2%
3yr Avg EPS Growth	26.7%

## **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 an average market capitalization of \$234.4 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 over a three to five-year time horizon or full market cycle, utilizing a growth oriented investment style. 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 \$237 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 has 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. The S&P 500 Index is based on total returns which includes dividends. We monitor the performance of our growth style of investing by comparing our results to those of other large cap growth peers. 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 ten 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)