



# Broadleaf Partners, LLC

## Growth Equity Portfolio Second Quarter Review June 30, 2020

### Performance Commentary

	<u>Q2 2020</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	29.9%	15.3%	30.0%	25.5%	17.94%	17.92%	12.3%
S&P 500	20.5%	-3.1%	7.5%	10.7%	10.7%	14.0%	8.7%

The markets enjoyed a significant rebound off the coronavirus inspired lows of the first quarter, gaining nearly 21% in the second. The Broadleaf Growth Equity portfolio continued to gain ground on the index, up just shy of 30% in the second quarter.

Over the short, intermediate and long term (now approaching fifteen years), the Broadleaf Growth Equity Portfolio has continued to outperform the passive indices as well as our growth oriented peer group. Our disciplined investment process and the results that flow from it are proof that active management can still shine in a world hell-bent on low-cost, passive approaches.

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 markets just enjoyed one of their best quarters on record following what had been one of the worst and against a societal and news backdrop that has felt completely unhinged, 24/7.

Wow, just wow.

And yet, at the same time - and I'm not quite sure why -

Blah, blah, blah.

Similar to last quarter's commentary, we'll share some bullet points of our best thinking at the moment, on a few things we've been thinking about.

- The stock market and the economy, which it leads, appear to be recovering at a more rapid and V shaped clip than most envisioned. This morning's purchasing managers' indices (PMI's) confirmed among those on the front lines of placing new business orders that the economic engine is being re-primed and that we are in expansion territory. We'll take it.
- The current market recovery feels too soon, but when compared against the magnitude of gains coming out of past recessions, is par for the course, both in overall length and strength and in spite of headlines that seem otherworldly. What typically happens from here, historically speaking, is some sideways action and consolidation for 2-3 months, followed by continued gains 3-12 months down the road. Time will tell, but that's been the historical path. We'll take it.
- To be sure, there is plenty to worry about and we're not quite sure that the government stimulus hasn't simply kicked the can of some important business and economic decisions down the road for another day. A large swath of companies and industries, post PPP support, will have to come to grips with what the right size might be for their operations going forward and whether or not layoffs and the unpaid employees that usually come with them are inevitable.
- The path of the virus and the actions we choose to take will play a major role in the path of growth, along with how quickly new and existing industries can take advantage of providing for new world realities associated with Work from Home initiatives and trends. Investors should be careful of extrapolating the recent results of WFH companies, as some demand may have simply been pulled forward, and the stocks' prices along with it.
- This election is going to be as brutal as they come, but hopefully, we'll have the distraction of our sports back even though they may not be what we're used to. Historically speaking, elections do matter in the short run to the markets— two to three months – but over the longer haul, who is in office hasn't mattered much in terms of finding positive investment opportunities. When it comes to your investing behavior, we recommend checking your political stripes at the door.
- While we would be the first to downplay the preeminence of valuation in our investment decisions particularly in a prolonged era of zero interest rates (some of our best long term ideas have always looked the most expensive), there are a few areas of the market that remind us of the dot com era where easy money found no shortage of new business ideas at absurd valuations and hoped for total addressable markets. (TAM's). Fortunately, this subset of companies is narrow at this point and not as broad based as it was back then, but the caution is worth mentioning and we're certainly monitoring it and the relative opportunities.

- We have been relatively quiet during this upswing, but in the middle of the downturn we published more than a few pieces to stay in front of you, our clients. We hope those pieces were helpful, but we'd like to revisit two main points. One, if you found yourself worried about your cash needs a couple of months ago in the thick of the downturn, now would be a better time to address them. Please touch base with Bill if you think some reallocation makes sense within your portfolio. And second, while we repeatedly mentioned that we thought the buyers would look smarter than the sellers during the early weeks of the pandemic, we didn't think an answer would manifest itself so soon. We still don't, and perhaps it still hasn't. As promised then, we're focused on a long term investment horizon and plan to write an update detailing the outcome of this period in five years. Investing with us isn't a good idea if you're not of a similar, long-term mindset.

### **Portfolio Characteristics**

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$239.9B
Median Market Cap	120.7B
Forward P/E Ratio	34x
Median P/E Ratio	34x
Free Cash Flow Yield	3.2%
Return on Equity	31%
Beta	1.03
Portfolio Yield	.5%
3yr Avg Rev Growth	19.5%
3yr Avg EPS Growth	30.8%

### **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 \$239.9 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 \$294 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.*

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