



# Broadleaf Partners, LLC

Growth Equity Portfolio  
 First Quarter Review  
 March 31, 2019

## Performance Commentary

	<b>Q1 2019</b>	<b>Trailing 12 Months</b>	<b>[----- 3 Years</b>	<b>Annualized 5 Years</b>	<b>10 Years</b>	<b>-----] Since Inception</b>
<b>Broadleaf</b>	18.7%	17.5%	21.4%	15.6%	18.7%	10.9%
S&P 500	13.7%	9.5%	13.5%	10.9%	15.9%	8.7%

After a difficult fourth quarter for the stock market last year, the first quarter of 2019 proved to be a kind one for the Broadleaf Growth Equity Portfolio, which posted a gain of 18.7% net versus 13.7% for the S&P 500.

In a day and age where it is accepted wisdom that active managers cannot outperform the S&P 500 over long periods of time, we're proud to be able to say that we have done just that. Whether you're talking about our results since inception nearly fourteen years ago or over a three, five or ten year period, our annualized results have soundly beaten those of the S&P 500 on a net of fees basis.

So, what's the secret?

First, you must try.

Each day we step into the batter's box with the intent of beating the markets for the long haul in a day and age where most have given up even trying. You can't win if you don't even try. It's just that simple. And second, we adhere to a time tested process and strategy we've honed through nearly thirty years of good and bad times, seeking to turn daily practices and rituals into long term muscle memory.

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**

As is often the case, the stock market followed up one of its worst fourth quarters on record with one of its best first quarters on record, offering further proof that sometimes the market goes up and sometimes it goes down. If you've got a long term investment horizon and can handle the short term volatility, it's often best to turn off the financial news and not be surprised by much.

The biggest driver of the stock market rebound in the first quarter was likely the opposite of what drove it down last quarter. First, the Federal Reserve became more dovish, believing that no additional rate hikes in 2019 or 2020 are necessary to sustain domestic growth with limited inflation, particularly against a backdrop of weak global growth. And second, this new Fed guidance reduced the odds of a Fed policy mistake and potential recession, a concern that plagued the market in December of last year. While trade issues with China aren't completely settled, the administration continues to work towards a mutually agreeable resolution favorable to the United States.

In general, our portfolio's strong first quarter results were supported by gains from positions within the industrial, technology and communications services sectors, offset to a small degree by weakness within the defensive healthcare sector. Several new stock holdings to the portfolio also boosted results.

While we could envision a short term run for cyclicals from here (financials, energy and materials) similar to what occurred in 2016, we continue to emphasize innovators in the Broadleaf Growth Equity Portfolio, holdings that can grow sales and profits for the longer haul, even if interest rates and economic growth remain lower for longer.

You may have noticed that we are no longer listing our top five portfolio holdings or sector concentrations as has been the case in these quarterly performance updates for the past fifteen years. After careful consideration and given the increased competition for alpha and the rise of passive index funds, we no longer believe sharing such proprietary information with the public at large makes good business sense.

In terms of what the rest of 2019 might bring, we continue to stand by the outlook piece that we published in January - [Broadleaf Partner's 2019 Investment Playbook](#). As we all know, things can change – sometimes quickly and unexpectedly – but so far, we can't complain.

## **Portfolio Characteristics**

<b>Portfolio Statistics</b>	
Avg. Market Cap.	\$ 233.4B
Median Market Cap	121.5B
Forward P/E Ratio	28.8x
Median P/E Ratio	30.2x
Free Cash Flow Yield	3.3%
Return on Equity	28.5%
Beta	1.11
Portfolio Yield	.8%
3yr Avg Rev Growth	20.3%
3yr Avg EPS Growth	35.5%

## **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 \$233.4 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 index 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 \$230.3 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 index is based on total returns which includes dividends. While we believe this is an appropriate benchmark 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.*

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