



Broadleaf Partners, LLC
Growth Equity Portfolio
Third Quarter Review
September 30, 2011

Performance Commentary

	<u>Q3 2011</u>	<u>YTD</u>	<u>Last 12 Months</u>	<u>3 Years (Annualized)</u>	<u>5 Years (Annualized)</u>	<u>Since Inception (Annualized)</u>
Broadleaf	-12.8%	-8.2%	0.2%	5.8%	2.3%	3.4%
S&P 500	-13.9%	-8.7%	1.1%	1.2%	-1.2%	0.9%

The stock market took a severe beating in the third quarter, declining by nearly 14%. Continued concerns about Europe and political and economic uncertainties in the United States made the stock market’s third quarter chart look like a fast twitch cardiogram. However, it has been the more recent and less public news that China may be facing its own set of economic problems that put a final nail in the coffin of any hoped for or quick recovery.

In what could perhaps best be described as a narrow victory, the Broadleaf Growth Equity portfolio nevertheless managed to outperform the S&P 500 during the third quarter and, in spite of its 12.8% decline, 88% of our large cap growth peers tracked by Morningstar did even worse. Our relative outperformance during the quarter was largely the result of strong stock picks within the consumer discretionary and financial sectors, along with some gains from new positions established in the consumer staples arena.

Over the long term – three years, five years and since inception – the Broadleaf Growth Equity portfolio has continued to outperform its primary benchmark – the S&P 500 – by an average of over 300 basis points annually.

(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

Reviewing the market's historical returns, I was somewhat surprised to see that the last time the S&P 500 had a double digit quarterly decline was in June of 2010, just five quarters ago. Following an 11.4% decline, the market then rebounded nicely, gaining 11.3%, 10.8% and 5.9% over the ensuing three quarters. While the circumstances feel different this time around, it is helpful to remember that it almost always feels different.

For me, the question isn't so much whether or not we will eventually experience a market recovery – we will – but whether or not additional declines from here are likely. From the market's April peak through yesterday October 3rd, the S&P 500 has fallen nearly 19%. While greater declines are possible, these typically only occur when the economy is in a recession, and in these cases, have averaged declines of 35% during the postwar period.

At this point, while the macroeconomic data increasingly points to the likelihood of a recession, the data, at least in my opinion, is not yet conclusive. I believe the domestic economy has entered a prolonged period of "slow growth for as far as the eyes can see," a rate of growth that lends itself to "stall speed" thinking where we are always and everywhere just an inch away from a negative year over year growth rate.

This "New Normal", marked by low nominal rates of growth and a higher than usual unemployment rate, heightens anxiety levels simply because it isn't what we're used to. Better leadership in Washington could help, but nothing will cure us like the passage of time and a good old fashioned work ethic.

In an environment where the economic cycle is muted and the credit cycle is largely dead, the role of the innovation cycle becomes paramount in generating growth for American business. As we've commented repeatedly, we want to emphasize companies in the portfolio that can grow their revenues and earnings in spite of the economy or the availability of capital investment. In recent years, Apple has been the perfect example of this type of company. A new Nifty Fifty group of high growth, highly valued companies will likely appear, providing solid returns to those that own them, but also potentially ushering in the next asset bubble a few years down the road.

Portfolio Characteristics

Top Five Portfolio Holdings

Amazon.com
Apple Computer
Google
W W Grainger
Qualcomm

Portfolio Statistics

Avg. Market Cap.	\$42.9B
Median Market Cap	\$15.4B
Forward P/E Ratio	16.3x
Free Cash Flow Yield	4.3%
Consensus Growth Rate	17.4%
Return on Equity	22.1%
Beta	1.1
Portfolio Yield	1.0%

Sector Concentrations

	<u>Broadleaf</u>	<u>S&P 500</u>
Technology	24.3%	19.4%
Cons. Disc.	23.4%	10.7%
Industrials	16.0%	10.3%
Financials	10.9%	13.6%
Cons. Staples	9.2%	11.7%
Energy	5.9%	11.6%
Healthcare	5.6%	12.1%
Materials	2.1%	3.4%
Utilities/Tel	0.0%	7.3%
Cash	2.6%	

Organizational Review

While it was a difficult quarter for the markets, Broadleaf continued to grow, taking on additional clients and investing in new infrastructure projects to facilitate our firm's next stage of growth. In addition to upgrading our server infrastructure to a cloud based platform, we will also be launching our redesigned website and blog in the fourth quarter. Please watch for it!

Investment Style

The Broadleaf Growth Equity Portfolio employs a concentrated growth style of investing, holding approximately thirty 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 \$43 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 \$100,000. (Prior to 6/30/2009, the minimum account size necessary for composite inclusion had been \$250,000. Historical results have not been updated retroactively to reflect this change, but will reflect the change from 6/30/09 forward.) 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 \$87 million. Prior to January 5th, 2006 the firm did not have any investment advisory clients. As a result, composite data prior to March 31st, 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.

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