



Broadleaf Partners, LLC

Growth Equity Portfolio Second Quarter Review June 30, 2022

Performance Commentary

	<u>Q2 2022</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	-20.3%	-25.8%	-18.6%	13.6%	17.4%	15.8%	11.5%
S&P 500	-16.1%	-20.0%	-10.6%	10.6%	11.3%	13.0%	9.1%

The market experienced a significant decline during the second quarter and the BGEP was no exception. While all stocks were generally down in the quarter, the shares of growth companies generally suffered more than their value counterparts.

Over the intermediate and long term periods, the Broadleaf Growth Equity Portfolio has continued to outperform the passive indices and our peer group, including five year performance numbers that are well into the top decile of a few growth manager databases we track.

Thank you for your continued interest in and 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

It is no great secret that this hasn't been a great year for the markets. The media is pretty worked up today in accurately saying that it is, in fact, one of the worst starts to a year in recent decades. Inflation, concerns over the war in Ukraine, Fed rate hikes and fears of heretofore unpricked asset bubbles imploding have all contributed to the angst we all feel from Wall Street. Mind you, this is all in spite of decent employment on Main Street and far fewer concerns regarding COVID, which not too long ago was the worry and media message du jour, ad nauseam.

In times like these there often isn't much to say other than pointing out the fact that the markets have seen these issues and crises before. Inflation, recession, wars and rumors of war, Fed rate hikes, the fear of popping and actually popping asset bubbles, and pandemics – nothing is new

under the sun. In spite of these real and present fears, investors with time horizons of greater than 3 to 5 years have by and large been VERY WELL rewarded historically for remaining disciplined, not allowing their emotions to get the best of them and, at the very least, not doing anything rash.

What can you, our valued clients, expect of us? First, we will lean on our decades of investment experience to uncover growth opportunities where we identify them, and two, we will rely on our sell discipline to exit names where we paid too much in the hope of preventing bearable losses from becoming catastrophic. As your fiduciary, we know we won't win every battle, but our goal is always to survive the war.

As for the growth opportunities going forward, we suspect they won't solely source from the Innovation Cycle and growth at any price type names, but increasingly from the Economic Cycle as well, where perhaps the long term undercapitalization of some sectors will demand new growth investments to temper some of the inflation we may be currently witnessing. Innovation, to be sure, is always investable, but may no longer be the only game in town. Our Credit Cycle work suggests some areas have experienced Fund Flows Gone Wild in recent years, and will take considerable time to become long term alpha generators once again. We will pick our spots carefully.

We suspect that the Fed "put" – the idea that the Fed will always stand ready to cut rates as soon as any evidence of recession surfaces could be on pause for a while. As long as inflation remains high and employment healthy, the Fed is unlikely to rescue the markets as they have perhaps done in recent decades. If broad based unemployment starts to rear its head - and not simply from the overcapitalized SPAC, Silicon Valley, and "Peloton" crowds - perhaps the Fed "put" will be back, but we'll hold our breath in the meantime.

Higher inflation may persist due to effects of the war – NATO forces being built up will only antagonize Russia further, even if it is the right thing to do – and policy decisions that do not encourage new supply as a response to higher prices. We can't bridge the gap to new energy sources nor the products powered by them by simultaneously legislating the death of the old. Short of a government takeover of the fossil fuel sector and thus the socialization of long term losses in favor of important climate change goals, very few fiduciaries can legally be expected to invest in new capacity where there is a de facto intent to put them out of business over time. Quite frankly, we see it is as simple as that. Inflation represents the new externality – the unmeasured system based costs – of current policy initiatives.

We still like Innovators and we are committed to growth in this environment, but we also think growth at a reasonable price approach remains a prudent path. In an environment where adequate financing may be far more difficult to raise to fund the next disruptive idea or the stock options of less than well "cash" comped employees, companies may have to rely on the mother's milk of all financing, internally generated free cash flow, or to use a dirtier word, "profits". The ability to pay dividends and buy back stock may become increasingly relevant in distinguishing the haves from the have nots.

We could envision a scenario where rates continue to increase further than perhaps many expect, simply because inflation may remain higher than it has been in recent decades, although perhaps not as high as the past year. As long as employment doesn't crater, a shallow

recession may not be enough to get the Fed to take its emphasis off its inflation mandate. In this regard, we may be lucky that our Fed has a dual mandate – employment and inflation – as many monetary policy boards only have an inflation mandate.

Many have decried in recent years the injustices of wealth and income inequality. The markets and capitalism (which includes government) are often the best, albeit in no way perfect, means of achieving newly desired equilibriums that reflect sustainable demand. Adam Smith’s invisible hand could very well be at work today, reducing high priced employment in areas that have been overcapitalized and perhaps overhyped in recent years to the benefit of some sectors and areas of employment that have been undercapitalized, overlooked and sometimes even ostracized. If we are serious about a more inclusive economy, perhaps, indeed, we should broaden our definitions.

Buckle up, but don’t lose faith! Over time, the markets will once again find their groove, rewarding long term investors for their patience.

Portfolio Characteristics

Portfolio Statistics	
Avg. Wtd. Market Cap.	\$195.3B
Median Market Cap	\$101.2B
Forward P/E Ratio	19x
Median P/E Ratio	24x
Free Cash Flow Yield	4.4%
Median Return on Equity	26.5%
Beta	1.27
Portfolio Yield	.9%
3yr Avg Rev Growth	14.1%
3yr Avg EPS Growth	24.6%

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 \$195.3 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 \$345.2 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 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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