



# Broadleaf Partners, LLC

## Growth Equity Portfolio First Quarter Review March 31, 2024

	<u>Q1 2024</u>	<u>Trailing 12 Months</u>	[-----Annualized-----]				<u>Since Inception</u>
			<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	
Broadleaf	15.5%	39.2%	12.2%	18.9%	17.2%	18.7%	13.0%
S&P 500	10.6%	29.9%	11.5%	15.1%	13.0%	15.6%	10.3%

### Performance Commentary

In the first quarter, the BGEP maintained its strong momentum, building on the results of 2023 with impressive absolute and relative performance. Notably, the BGEP continues to surpass the S&P 500 over both intermediate and long-term periods, aligning with its objectives of outperforming the S&P 500 throughout a complete market cycle.

*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 - Authored by Doug MacKay

Normally I spend a few paragraphs in these updates discussing the factors that influenced the quarter and our outlook for the markets. If you are reading this for the first time, I'm going to exercise executive privilege this go around and discuss something other than our recent quarter's performance, although I will touch on our outlook a tad at the end.

I have a routine for managing money. Each morning begins putting first things first in spiritual disciplines, knowing that just as I brought nothing into this world, neither can I take anything from it. While I try to excel at managing money, the experience of touching a few hot stoves in my career has taught me that it is a grave mistake to hitch my self-worth to something that doesn't last, including my portfolio and yours. As a competitive guy, I also know this is a tall order to keep and generally not something the marketing department of a larger company would publish even though I believe it to be true.

Our church has been doing a sermon series on the Beatitudes and the [Theology of Happiness](#) this year. The sermon two weeks ago focused on Jesus' words from the [Beatitudes](#), "Blessed are the Peacemakers." It kindled the memory of a book I read last year called [Wanting](#), and

that took me down a wormhole pondering the reasons for some of the major shifts we've seen in our economies over the centuries.

The book *Wanting* delves into the theory of mimetic desire espoused by [Rene Girard](#), a late 20<sup>th</sup> century philosopher and professor from Stanford. Mimetic desire is the idea that human beings are hardwired to mimic or imitate one another from infancy. Part of this may be for our survival early on in life and we often engage in this imitation without even questioning the underlying reasons or desires.

Inevitably, mimetic desire leads us to want the same things others do, perhaps because a parent did them, Kim Kardashian modelled them, or some YouTuber influenced us to give it a try. Ultimately, we may end up competing for or clashing over things we may have no inherent personal interest in, but only because others are chasing them, so we do too.

One way of resolving such conflicts, among many, is a [scapegoat](#), a biblical term, in which two sides displace the pressures of their conflict on a third party in exchange for temporary peace. Past examples of scapegoats might include Jesus as the scapegoat for our sins and the Jews for Germany's economic problems at the advent of World War 2. Modern day scapegoats for partisan conflicts in the United States could include Russia, China, or the emerging idea of [Khanservatism](#) in antitrust policies. Essentially, whether or not the third party or scapegoat is guilty doesn't matter as much as they absorb the costs of our discord and in the process, establish temporary peace.

Thirty years ago, the capitalist system in the United States started a relentless march towards outsourcing its manufacturing to China. Over two-hundred years ago, the Industrial Revolution started in Great Britain, unleashing further mass migration and colonization of America. These key revolutions in globalization and industrialization seem inevitable from the perspective of history, reflecting mimetic desires or in laissez-faire economics, Adam Smith's invisible hand.

While most would say we are better off, these shifts weren't without their externalities, or costs borne by outsiders to the current majority-led system – economic scapegoats, if you will. Regardless of one's political beliefs, many would agree our manufacturing based middle class has been hollowed out compared to what it was decades ago, and our geopolitical risks are higher with respect to our national defense today. During the industrial revolution, slavery, colonization and its displacements, and the environment may have all served as key scapegoats enabling progress. These scapegoats may be rearing their heads as hot button political issues today, the costs perhaps not fully atoned for in spite of temporary peace.

Today, artificial intelligence is gaining critical mass; the advent of C3PO and R2D2 may be at our door. It feels as though the technology is reaching its pivotal point and, like the internet twenty-five years ago, could result in massive sea changes to how we do things. We may soon desire things we didn't know we'd want before, an impetus Steve Jobs referenced in giving birth to the iPhone. The siren song of mimetic desire can be seen in the advancement of AI related themes in the stock market. Whether or not we like it may not matter, perhaps even for decades. "Progress" is on the move. Who will be the scapegoats thirty years from now? What are the societal shifts not yet visible?

History shows that bubbles sometimes form during periods like these. And when bubbles form, they sometimes pop. Regardless of what happens in the short run, bubbles often point to where we are headed and what we, as a society, may be leaving behind - the horse, the buggy, canal boats and trains, the internal combustion engine automobile. My personal experience with past bubbles reminds me to be a faithful steward of the trust we've been given; to take risks but also to manage them well.

We see a bullish outlook on the horizon. In spite of the progress we've made in the last two quarters, we've only just recaptured the highs of two years ago, and many stocks are not yet fully participating. Some will catch up, but some may be left behind as society undertakes a generational shift. Since we wrote our 2024 Investment Playbook, the improvements in inflation that we saw in 2023 have paused, suggesting that the Fed will likely be patient as well. In this type of an environment, earnings will be crucial and likely bear more fruit for investors than a focus on rates and the Fed. Politics will draw our attention to the negatives as the year progresses, so discernment will be crucial.

And to that end, we intend to keep first things, first!

### **Portfolio Characteristics**

<b>Portfolio Statistics</b>	
Avg. Wtd. Market Cap.	\$315.8B
Median Market Cap	\$132.2B
Forward P/E Ratio	45x
Median P/E Ratio	38x
Free Cash Flow Yield	2.4%
Median Return on Equity	27.1%
Beta	1.21
Portfolio Yield	.3%
3yr Avg Rev Growth	23.2%
3yr Avg EPS Growth	30.1%

### **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. 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 provide equity like returns and 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 had been \$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 \$503 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 and to outperform the S&P 500 over a three to five-year time horizon or full market cycle. 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 fifteen 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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