



Uncompromising Quality.

Jensen Quality Growth Equity Composite Commentary

2nd Quarter 2010

Performance Summary

After the significant rally from the market lows of March 2009, a series of macro concerns during the second quarter of 2010 drove the U.S. equity market into negative territory for the year-to-date. Worries ranging from rising government debt to persistently high unemployment weighed on the minds of investors and the May 6 “flash crash” only heightened their angst. The resulting flight to safety drove down interest rates and ten-year Treasury rates fell below 3%.

The Jensen Quality Growth Equity Composite (“Composite”) outperformed both the S&P 500 and the Russell 1000 Growth Indices during the second quarter. While the performance of the portfolio lagged the index during much of the quarter, as macro concerns mounted and the market’s drop subsequently followed, the merits of quality businesses at reasonable valuations helped the portfolio return to above-benchmark returns.

Helping this performance was stock selection in the Materials, Consumer Staples and Industrial sectors, while company selection in the Information Technology sector detracted from performance. At the company level, Ecolab was the top contributor to the portfolio’s performance, while Microsoft was the greatest detractor.

Shares of Microsoft fell during the quarter as investors lost faith in the economic turnaround as well as hopes for spending by both businesses and consumers. Exiting a recession, businesses generally spend on Information Technology because of the measurable improvements in productivity and the ability to maintain lean staffing levels. Adoption of Windows 7 has been slower than anticipated at the enterprise level as a result of the weak economy. Yet the silver lining remains. For many businesses still relying on the decade-old Windows XP, an upgrade is inevitable. Growth should also be driven by the strong product cycles of Microsoft’s server products and the launch of Office 2010. The robust free cash flow that these franchises provide enables Microsoft to continue developing areas such as online, consumer products and its cloud computing venture, Azure, which may represent the next major growth area for the company.

Portfolio Changes

There were no positions added to or sold from The Composite during the quarter. There were, however, numerous changes to the weightings of The Composite holdings based upon Jensen’s conviction to the businesses and the prices of their stocks. Most significantly, positions were increased in Adobe Systems, T. Rowe Price and Medtronic, all long term holdings of The Composite. These and other holdings have been increased in recent weeks, giving us what we believe to be an excellent opportunity to buy quality growth franchises at discounts to their full value.

The Jensen Outlook

Going forward, we likely face a subdued recovery. Investors have swung from high risk to low risk assets and will likely reconsider their decisions, for better or worse, in a more active fashion. While low interest rates have helped favor lower-quality companies, we believe that leadership should return to quality businesses with strong balance sheets, growing free cash flows and the financial flexibility to prosper. Looking specifically at our composite businesses, performance is improving, revenues are increasing and margins are strong. Earnings are generally ahead of

expectations. Despite the market turmoil we have not seen many of our portfolio companies lowering expectations for the quarter ending June 30. Quality businesses are flush with cash and, in many cases, are making compelling acquisitions to help fuel future growth, buying back shares and returning capital to shareholders in the form of growing dividends.

Performance data shown represents past performance; past performance does not guarantee future results and other calculation methods may produce different results. There is the possibility of loss of principal value. Accounts in the Composite are non-diversified, meaning that they may concentrate their assets in fewer individual holdings than a diversified product, and therefore are more exposed to individual stock volatility than a diversified product.

[>Please click here for current Composite performance.](#)

The S&P 500 Index is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. These indexes are unmanaged, and you cannot invest directly in an index.

Portfolio holdings %'s are for a representative account managed by Jensen Investment Management. Our views expressed herein are subject to change and should not be construed as a recommendation or offer to buy or sell any security, and are not designed or intended as basis or determination for making any investment decision for any security. Our discussions should not be construed as an indication that an investment in a security has been or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of any security discussed herein. Any securities holdings discussed herein do not represent an account's entire portfolio, and represent only a small percentage of, or may not be included in, any account's portfolio holdings.

[>Please click here for past specific recommendation for the Composite for the period June 30, 2009 through June 30, 2010.](#)

Return On Equity: (ROE) Is equal to a company's after-tax earnings (excluding non-recurring items) divided by its average stockholder equity for the year.

Free Cash Flow: (FCF) Is equal to the after-tax net income of a company plus depreciation and amortization less capital expenditures.