



Investment Brief

Introducing The Jensen Value Fund

What's our thinking behind the new fund?



In December 2009, Chuck Jaffe wrote in *The Wall Street Journal's* Fund Track column that "More than 2,000 [mutual] funds were liquidated or merged out of existence in 2009; the biggest pruning of the fund industry in years. The extinct are a mix of the uninspired, the mediocre, marketing failures and big mistakes, plus a few good ideas that didn't click."

Days later, at the dawn of the new decade, Jensen Investment Management was hard at work preparing for the March 31, 2010 launch of a new fund, the Jensen Value Fund. After our long history of focusing on the single quality growth strategy that underpins The Jensen Portfolio mutual fund, and against the backdrop of many failed concepts in the fund industry, our fellow shareholders are warranted in asking, "Why this fund and why now?"

For over 20 years, the sole focus of Jensen Investment Management has been on the management of equity portfolios that are derived from a select universe of companies that have produced a long-term record of persistently high returns on shareholder equity. To date we have focused on a Quality Growth equity discipline that has exemplified Jensen's commitment to investing in these "high Return on Equity" companies, and has been available to investors through separate accounts and The Jensen Portfolio mutual fund.

Capturing a Subset

The Jensen Value discipline was created to capture a subset of Jensen's universe of high-quality companies typically not included in the Quality Growth strategy. The Value strategy was created when we at Jensen undertook a study in 2006 to better understand our universe of qualifying companies, how historically each stock had performed over long periods, and how we might improve the firm's existing Quality Growth investment process. In addition to instituting enhancements for managing our Quality Growth strategy, we found that an investment strategy could be created whose goal was to capture the benefits of quality companies with more traditional 'value' characteristics.

After a considerable amount of additional research and preparation, two accounts were funded in late 2007 to be managed using this new value-oriented strategy, which became known as the Jensen Value discipline. After managing these separate accounts for more than two years, Jensen launched a mutual fund version of the strategy, the Jensen Value Fund.

The creation of a new investment strategy, and therefore a new product, is not one that we take lightly. Throughout our history we have always considered how we may better serve investors, keeping in mind the premise under which Val Jensen founded our firm -- The world doesn't need another investment advisor... unless it can offer something different.

Offering a Unique Value Exposure

We believe that the Jensen Value strategy offers a distinctive value exposure. As the advisor to both The Jensen Portfolio and Jensen Value Fund, we select from the same universe of high Return on Equity companies. The traditional definitions of "growth" and "value" investing deliver divergent groups of stocks, judged by such measures as price-to-earnings, price-to-book value and earnings growth. The emphasis on seeking quality companies with the most persistent business performance for The Jensen Portfolio leads us to mostly large capitalization companies. The primary emphasis on stock valuation for the Jensen Value Fund is expected to result in a mix of small, medium and large capitalization companies with the greatest concentration in mid-caps.

At Jensen, we have always believed in "eating our own cooking" and have a significant portion of our personal assets invested alongside our fellow shareholders in both of the Jensen Funds. We

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believe the Jensen Value Fund offers important diversification benefits, and that our research into this strategy and years of analyzing our universe of quality, high Return on Equity companies may help us avoid the ranks of “uninspired” offerings.

We invite you to find additional information about the Jensen Value Fund at www.jenseninvestment.com.

Inside C.H. Robinson Worldwide: Efficiently Navigating the Transportation Industry

As we at Jensen Investment Management scour our investable universe of companies for new ideas, there are common themes that run throughout the companies that are included in The Jensen Portfolio. One of those themes is the potential for market leadership. When a company has achieved market leadership, it has the ability to influence pricing and other market dynamics that can enhance value creation. As we have discussed in past articles, value creation within the business should lead to wealth creation for the business and its owners – the shareholders of a public company.

Recently we invested in C.H. Robinson Worldwide (CHRW), a company that has long been a market leader in third-party logistics – specifically domestic full truckload brokering. It is also Jensen Investment Management’s first investment in a transportation company.

Founded over one hundred years ago as a produce sourcing company, C.H. Robinson has evolved into a leading transportation services company. It is now one of the largest third-party multimodal (multiple modes of transport) logistics providers in the U.S. with additional operations in Europe, Asia, and South America.

C.H. Robinson does not own any transportation assets. The company provides freight transportation primarily using contracted trucks, but also trains, ships and airplanes. The company utilizes an autonomous network of branch offices across the U.S. to service clients’ shipping needs and provides additional services such as supply chain analysis, freight consolidation, core carrier program management, and information reporting. The company also continues to operate a fresh produce sourcing and marketing business as well as an IT services company that provides software and card services for truckers and trucking company operations.

We believe C.H. Robinson is a good fit for The Jensen Portfolio. In our view, it has solid and sustainable competitive advantages, it is a financially strong company, and it has proven itself to be a market leader.

Humble Beginnings in North Dakota

Charles Henry Robinson started the company in 1896 as a wholesale produce brokerage house. Just after the transcontinental railroad tracks were laid in North Dakota, Robinson and his wife moved to Grand Forks. Robinson, a native New Yorker, anticipated that settlers in the Dakota Territory would need produce and other merchandise for their new homesteads.

Robinson died in 1909 and his wife sold the company to Robinson’s two partners, Fred and Willis Nash. The Nash brothers eventually moved the company to Minneapolis, where the company is still headquartered today.

Over the next several decades, C.H. Robinson built out its national footprint. By 1987, the company had grown to 50 branches and doubled to 100 branches just 11 years later. By 2006, branches had doubled yet again to more than 200. Along the way the company added a variety of related services. C.H. Robinson became a publicly traded company in 1997.

Why Jensen Likes C.H Robinson

We are excited to add C.H. Robinson to The Jensen Portfolio. We believe its sustainable competitive advantages, financial horsepower, and growth potential make it a strong addition.

“Asset Light” Business Model

Without being encumbered by owning a large trucking fleet, C.H. Robinson does not have to maximize fleet utilization like a traditional trucking company would need to. Therefore, it can meet its customers’ needs by finding the best balance of service and cost by utilizing the competitive trucking market while being better able to preserve its brokerage fee. To grow the business, limited capital is needed to expand. Primary costs are leased office space, some furniture, telephones and computers. These are all costs that are minimal and can scale with a business as it grows. Capital costs include the build out of its proprietary IT system (described later) and tuck-in acquisitions that enhance the company’s product offerings.

Branch Network

C.H. Robinson's branch network is larger than any third-party logistics competitor in the North American market. This enables C.H. Robinson to compete in many local markets with national and corporate resources and scale. While truckers can work with any broker, they like working with ones that can help maximize their profits. To do so, a truck driver needs to minimize the number of trips made without a load, and always work to find a return trip shipment known as a back haul. With C.H. Robinson, drivers have a higher likelihood of being able to schedule a back haul than with the other, more regionally focused companies.

Leveraging Technology

C.H. Robinson developed its own proprietary IT system to manage its business. Speed, and the ability to execute brokered deals while maximizing profits, are the keys to its success. Additionally, collecting market data from the branches at a local level and aggregating it on a national level gives C.H. Robinson an edge. It would be difficult for competitors to create competing IT systems as well as the appended branch network to create a national market position.

Strong Financials

Because of its strong market performance and "asset light" business model, C.H. Robinson is a highly profitable company. Annual net revenue growth as a percentage has been at least high single digits for the 3-, 5-, and 10-year periods ended 2008, with an operating margin exceeding a 35% average. It generated in excess of 12.5% annual free cash flow growth for the same 3-, 5-, and 10-year periods. The company has no debt and a market capitalization of roughly \$10 billion. Because investment needs in its business are minimal, the company is active in returning cash to shareholders via a dividend with a (current yield of 1.7%) and through share buybacks.

Entrepreneurial Management Structure

The biggest expense for C.H. Robinson is employee costs. Most of its nearly 7,400 employees are focused on servicing clients. C.H. Robinson designed its compensation structure to be highly variable and change with the dynamics of the business. This aligns employees' compensation with the current profitability and growth of the company and ensures that their incentives are aligned with the company's. This structure is especially helpful during downturns when employee compensation adjusts downward. This helps to buoy the bottom line and dampen the potential variability in the company's earnings.

Key Competitive Advantages

Network Effect

Barriers to entry are small for new entrants in the truck brokerage business. Anyone with a computer and a telephone can compete with C.H. Robinson. However, it is the only company serving the entire country and that network serves as a barrier against new entrants and regional competitors. To gain a national foothold, a competitor would have to expend serious resources to gain the scale C.H. Robinson has achieved with its branch network and IT systems. The company continues to expand its network and as it adds more offices, it further enhances its formidable footprint.

Switching Costs

For customers that have relatively few shipments, there are virtually no switching costs. However, for businesses where C.H. Robinson manages the shipping for a customer or enters into a contract, it is more difficult for a customer to switch to an alternative provider. This holds true for the produce sourcing side of the business as well. For example, C.H. Robinson is a large produce supplier to Wal-Mart, and it is integrated into the company's fulfillment system. It would be difficult for Wal-Mart to switch to an alternative quickly if the desire arose.

Growth Prospects

C.H. Robinson continues to expand its domestic full truckload market share. It also continues to methodically expand its office network. It enters new locations and adds offices to existing markets if profitability can be enhanced and clients can be better served. For example, the company may have an established office serving a large metropolitan area but will open a new office in another part of the city to better serve the area.

Internationally, C.H. Robinson has a presence in Europe, Asia, and Latin America. The company is measured in its approach to expanding internationally and has historically developed international market positions via tuck-in acquisitions. The company continues to seek out global opportunities that leverage its strengths while maximizing its profits and growth.

Although C.H. Robinson primarily serves the domestic full truckload market, it is developing expertise and additional transportation modes -- such as less than truckload (LTL), ocean, air, train, and intermodal (train plus truck) -- via acquisitions.





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THE JENSEN INVESTMENT BRIEF

Inside Jensen

New Professional Added to the Firm



Kim Foley
Manager, Institutional Services

Since the founding of our firm, Jensen has taken pride in providing superior service to our clients. To help ensure a high level of service to our growing base of clients, Jensen was pleased to hire Kim Foley in February as Manager of Client Services. In this position, Kim works closely with the Jensen team to provide communication and reporting to our clients, their advisors and consultants. "I'm excited to be a part of the Jensen team. I was attracted to the firm's commitment to quality investing and genuine dedication to their clients," she said.

Kim's addition allows Adam Calamar to transition into an analyst role, where he is now dedicating the majority of his time to our newly launched value strategy.

Kim brings more than nine years of experience within the investment management industry, most recently as an associate with Capital Guardian's Consultant Relations group in Los Angeles, where she provided dedicated service to institutional consulting firms. Before Capital Guardian, she served as a Senior Associate in the institutional marketing and client service group at Dimensional Fund Advisors, and spent a year as Client Service Manager at Dimensional Ltd., in London. Kim began her investment management career in fund operations at Dimensional.

She graduated with a B.A. from Portland State University and is delighted to return to the Northwest. In addition to her responsibilities at Jensen, Kim is an active member of the Professional Association for Investment Communications Resources (PAICR) and volunteers with a nonprofit organization serving homeless youths.

The investment objectives, risks, charges and expenses for The Jensen Portfolio and the Jensen Value Fund must be considered carefully before investing. The prospectuses contains this and other important information about these investment companies, and they may be obtained by calling 1.800.992.4144, or by visiting www.jenseninvestment.com. Read them carefully before investing.

Mutual fund investing involves risk. Principal loss is possible.

The Jensen Portfolio is non-diversified, meaning that it may concentrate its assets in fewer individual holdings than a diversified fund, and is therefore more exposed to individual stock volatility than a diversified fund.

The Jensen Value Fund invests in mid and smaller capitalization companies, which involve additional risks such as limited liquidity and greater volatility. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

The information provided herein represents the opinions of Jensen Investment Management, and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice. Fund holdings and sector weightings are subject to change and should not be considered recommendations to buy or sell any security.

As of 6/30/2010, the Jensen Portfolio and the Jensen Value Fund held positions in C.H. Robinson representing 2.11% and 0.00% of the portfolios, respectively. As of 6/30/2010, the Jensen Portfolio and the Jensen Value Fund held positions in Wal-mart representing 0.00% and 0.46% of the portfolios.

Diversification does not assure a profit or protect against loss in a declining market.

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.

Operating Margin: Is equal to a company's operating income divided by net sales -- a ratio used to measure a company's pricing strategy and operating efficiency.

Earnings Per Share (EPS) is the net income of a company divided by the total number of shares it has outstanding.

Earnings Per Share Growth: (EPS Growth) is the year-over-year percent change in a company's earnings per share.

Price/Book: (P/B) Ratio is calculated by dividing the current price of the stock by the company's book value per share.

Price/Earnings: (P/E) Ratio is a measure that compares the price of a stock to the earnings of the underlying company. The trailing P/E ratio is calculated by dividing current price of the stock by the company's past year earnings per share. The leading (forward) P/E ratio is calculated by dividing current price of the stock by the company's predicted future year earnings per share, as determined by market consensus.

The Jensen Funds are distributed by Quasar Distributors, LLC.

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