



Jensen Quality Growth Fund Quarterly Update: 1Q 2026

Hosted by Allen Bond, CFA, *Managing Director, Head of Research & Portfolio Manager*, and Jannis Fingberg, CFA, *Portfolio Manager*

ALLEN BOND: My name is Allen Bond. I am a portfolio manager on the Jensen Quality Growth Strategy. I'm joined on the webinar today by my colleague, Jannis Fingberg. For the call, I will begin with a brief overview of our firm and investment philosophy. Jannis will then cover quarterly performance trends and portfolio changes. I will then conclude our prepared remarks with some comments on market trends and our outlook. Finally, we will conduct a Q&A session at the end of the call. And as a reminder, you can submit questions at any time into the webinar portal.

On this slide, we show a brief overview of Jensen Investment Management. Jensen is an employee-owned investment management company that is solely focused on quality investing strategies. The company was founded in 1988 by Val Jensen. Today, we manage about \$5 billion in assets across three strategies.

The first is Jensen Quality Growth. It is a large cap equity strategy focused on the long-term ownership of high-quality, value-creating businesses. It was launched with the founding of our firm in 1988 and has been available in mutual fund form since 1992. It is our flagship strategy, accounts for the vast majority of firm assets, and is the focus of the call today.

Secondly, we have Jensen Quality Mid Cap. It is a mid-cap equity strategy focused on investing in mid-sized high-quality businesses with a bit more focus on stock price valuation. The Strategy's composite was launched in 2008. The mutual fund was launched in 2010, and the Strategy was essentially rebooted in 2017 by adding more focus on fundamental business research similar to that of the Quality Growth Strategy. Today, the Mid Cap Strategy is very similar to Quality Growth, but with a focus on mid-size businesses.

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And lastly, we have Jensen Global Quality Growth. It is very much an extension of the Quality Growth Strategy, but with an expanded investible universe that includes businesses that are domiciled overseas. The mutual fund was launched in April of 2020 and recently achieved its six-year investment performance track record.

This slide shows an overview of our investment philosophy and objectives. As you can see, there is a lot here. I think the simple way to sum it up is that we seek to invest for the long-term in businesses that grow and create value. As a result, we focus our research on factors that are linked with sustainable business value creation. These include competitive advantages, free cash flow, and business model consistency. We also want to identify growth drivers, not always explosive growth, but steady and predictable growth. We also pay attention to stock price valuation and the price that we pay for the stocks that we own.

To that end, we maintain discounted cash flow models on all the stocks held in the portfolio and only invest when shares trade below our estimate of intrinsic value. The importance of valuation for us is twofold. First is to provide a margin of safety that helps to manage against longer term pricing risk.

And second is that if we pay a fair price for a stock, it maximizes the chances of traction between business results and share price appreciation over the long term. The result, in our view, is a portfolio of high quality and fairly valued stocks.

I will now turn the call over to Jannis to discuss quarterly investment performance and portfolio changes.

JANNIS FINGBERG: Thanks, Allen. The first quarter was a difficult one. The Fund returned minus 10.33% versus minus 4.33% for the S&P 500 Index, a shortfall of almost 600 basis points. And that weakness also carried through the trailing year numbers. As investors in the Fund ourselves, we are not happy with the performance and feel frustrated about it as well. However, stepping back, the long-run record reflects what the strategy is designed to do – compound capital in businesses with durable competitive advantages – and we continue to evaluate every position against that standard. The next several slides will walk through what drove the quarter and the changes we made in response.

This slide helps frame the market backdrop. Style Analytics decomposes the U.S. market into vectors, and Q1 showed a sharp rotation away from the attributes our portfolio is built on. If you look at the growth and quality trends, you see sales growth was the worst performing factor in the market. Earnings growth, sales growth stability, low gearing, all printed negative. Momentum and certain value measures led. In short, the market rewarded attributes that are largely absent from our process and penalized the ones central to it. That's a style headwind rather than a thesis breakdown, and we assess each holding on its own merits rather than on vector rotation.

Turning to attribution. For a bottom-up manager, selection is where we expect to add value, and in the first quarter, selection was the source of the shortfall. Sector effect was minus 86 basis points and security selection was minus 494 basis points. The slide also shows contribution to total return, which is how we've historically presented attribution. On that basis, Microsoft, Intuit, Broadridge, Alphabet, and Eli Lilly were the largest detractors, while KLA was the largest contributor. It is worth complementing that view with a look at the relative contribution, how each name contributed to the gap versus the benchmark. On that basis, the picture is more balanced across our detractors, and KLA's positive contribution is larger than the total return figure suggests since we were overweight in the name and it outperformed.

Several detractors clustered around a single narrative that dominated the quarter. Software multiples compressed tied to artificial intelligence (AI) disruption concerns and a broader re-examination of how AI capability releases affect incumbent enterprise software economics. That's a cluster of positions meeting a specific market move, and the portfolio activity you'll see on slide 10 reflects work we have been doing against that backdrop.

At the sector level, Industrial selection cost 254 basis points and Healthcare selection another 117. Our zero weight in Energy where the sector returned 38% on the back of the Brent oil price spike cost an additional 114. On the positive side, beyond KLA, Motorola Solutions, Waste Management, and Procter & Gamble also contributed.

Moving on to the next slide. In terms of the top contributor, KLA was our top contributor for the quarter, and it's a useful name to spend a moment on. KLA dominates process



control and semiconductor manufacturing with over 56% of global market share, roughly six times the next competitor. Process control is the inspection and metrology layer of the fabrication process (“fab”). And as chip architecture grows more complex, advanced packaging, high-bandwidth memory, leading-edge logic, and the share of fab spending allocated to process control rises structurally.

KLA benefits regardless of which architecture or customer wins. Fundamentally, the business is also less cyclical than the broader semiconductor group. Service revenue was about \$2.7 billion last fiscal year, growing at 13% to 15%, with a target to nearly double by 2030. Gross margins are consistently above 60%, the highest in the equipment space. And at its recent investor day, management laid out a path to roughly \$26 billion in revenue at 45% to 47% operating margins by 2030. Capital return remains very disciplined. Over \$2.8 billion returned to shareholders in the last 12 months on \$4.8 billion of operating cash flow.

Moving on to our biggest absolute detractor for the quarter, Microsoft. Microsoft was the largest detractor. Several concerns pressured the stock. First, commentary around cloud capacity reallocation towards first-party AI workloads was read by the market as a near-term cap on reported external cloud growth. Second, the evolving OpenAI relationship was an active overhang. OpenAI’s expanding roster of cloud and funding partners raised questions about how much of the AI value chain Microsoft ultimately captures.

Third were broader AI announcements during the quarter. Agentic capabilities and new model releases fed a wider debate about how AI affects incumbent enterprise software economics. Microsoft sits at multiple points along those debates. The fundamentals, however, remain strong. Microsoft’s enterprise stack, operating system, productivity, identity, security, and cloud are deeply integrated. AI monetization, while early, is happening in multiple layers: infrastructure and Copilot, as two examples. Commercial price increases of 5% to 33% are scheduled to take effect in July. The company generated over \$136 billion in operating cash flow last year on roughly 0.7 turns of leverage. It remains our second largest position.

Moving on to the portfolio changes in the first quarter. So, on portfolio activity, we exited Automatic Data Processing (ADP) during the quarter, completing a reduction we had

proactively begun already in 2025. The decision reflected our reassessment of the competitive setup in payroll and human resources services as AI-enabled workflows evolve.

We added meaningfully to two names: Broadcom, where we continue to see a broadening AI infrastructure opportunity across networking, silicon, and custom XPU programs. And Veeva Systems, a vertical SaaS leader in life sciences that is operating in a regulated industry with deeply integrated workflows. We also trimmed Intuit substantially during the quarter. The position now stands at less than 1% of the portfolio down from 3.1% at year-end. The reduction reflects both performance and our ongoing evaluation of how AI-enabled competition reshapes the tax and small business software landscape. And with that, back to Allen, please.

ALLEN: Thank you, Jannis. This slide shows an overview of our thoughts on key market trends. At a very high level, we expect market volatility to continue due to heightened macroeconomic and geopolitical uncertainty. Specifically, these uncertainties include investor sentiment regarding the impact of agentic AI, higher energy prices as a result of the conflict in Iran, and question marks about monetary easing paths due to stubborn inflation. The “SaaS-pocalypse” trade, which we define as the selloff in software as a service (SaaS) and business services stocks due to fears of disruption from agentic AI models, was a powerful force in the first quarter, which Jannis alluded to. This resulted in steep multiple compression from both software and business services stocks. The Quality Growth Strategy maintains exposure to these stocks due to longstanding high quality business attributes and, frankly, business fundamentals that continue to be outstanding, but we did meaningfully reduce these positions in 2025.

Looking forward, we expect this debate about terminal value will continue and that investor sentiment will ebb and flow. From our standpoint, we seek to tune out the noise and focus instead on business fundamentals with a particular focus on the resiliency of competitive advantages.

Next, shares of memory-focused semiconductor and semiconductor equipment companies were sharply higher in 2025 than in the first quarter of 2026. At a high level, memory chips are used to store, retrieve, and process data in digital applications. The price of these chips spiked in late 2025 due to the growing understanding of the need for



memory and AI model training and inference resulting in sharply higher prices. Our portfolio exposure to this trend is limited to KLA Corporation, which Jannis addressed. We estimate this company derives about 40% of its sales from memory applications.

The next point is on energy prices. As we all know, they moved dramatically higher toward the end of the first quarter due to production and transportation disruption stemming from the conflict in Iran. As a reminder, the Quality Growth Strategy does not have exposure to energy stocks. That is because none of these stocks pass our quality screen due to exposure to volatile commodity prices and capital-intensive business models.

Lastly, a quick comment on U.S. monetary policy. The U.S. Federal Reserve appears to be stuck in a holding pattern. If we look at the dot plots, we analyze verbiage from recent Fed speakers. They indicate a desire for lower rates, but that notion is being held back by stubborn inflation and uncertainty surrounding the ultimate price impact from higher oil prices.

So, in this chart, we illustrate the impact of the SaaS-pocalypse trade by showing the distinction between expected earnings growth, which is the orange line, and the trend in valuation multiples, which is the blue line for software stocks in the S&P 500 Index. And as you can see, earnings growth among these companies is actually expected to accelerate in 2026. However, valuation multiples have collapsed due to the terminal value concerns that we discussed due to the fear of severe business disruption from the development of agentic AI tools, such as Claude Cowork. The implication being that market participants are looking past the expected growth in 2026 to an impending decline somewhere in the future.

From our standpoint, we certainly recognize these concerns. However, our focus remains on individual businesses, in particular, which may be more a threat, and which may prove to be more resilient. And as Jannis has alluded to, we have made portfolio changes to reflect these views.

In this slide, we show exposure to stocks held in the Quality Growth Strategy that we believe were impacted by the selloff in the first quarter. They include both vertical software and business services companies. As you can

see, at the end of 2024, these stocks comprised more than 32% of the portfolio. However, as part of our ongoing and forward-looking assessment of competitive advantages, we reduced this exposure over the course of 2025 by more than 12 percentage points. And as you can see in the table, the shares of these companies were collectively punished by the market in the first quarter.

In our view, these stock price drawdowns were largely indiscriminate as they pertain to underlying business models. As a result, we added to positions in cases where our analysis indicates business resilience. These include Veeva Systems, which benefits from a combination of an entrenched market position and regulatory hurdles that create formidable entry barriers. And Verisk, which possesses valuable and proprietary data that is used day-to-day in customer workflows. On the other hand, we reduced or eliminated positions in which we perceive less resilience. These included ADP and Intuit. Going forward, we will continue to closely monitor developments in this space with our focus being on long-term business prospects rather than short-term investor sentiment.

This slide shows the price of DRAM. DRAM is a type of semiconductor used in computers, smartphones, and servers to temporarily store data for quick access, and it is typically used as a proxy for memory chip pricing. As you can see, the price of DRAM skyrocketed in late 2025 and has stayed at high levels into early 2026. As I discussed, higher prices are driven by the demand for memory chips for AI applications, both model training and inference, that are stretching current supply limitations.

This table shows Quality Growth exposure or lack of exposure to the memory market. There are several key points to highlight from this table. First, this group of semiconductor and semiconductor equipment stocks that are levered to the memory market were significantly higher in 2025 than in the first quarter of 2026. As we mentioned, the only Quality Growth holding with meaningful exposure to this space is KLA Corporation. And again, as we mentioned, we estimate that about 40% of its sales are derived from the production of memory chips. As you can see, KLA shares were also meaningfully higher in both 2025 and the first quarter of 2026. And, in fact, it was the Quality Growth portfolio's top performing stock in both periods.



Our exposure here is intentional. We've analyzed many businesses with exposure to the memory market, and what we have found is that the memory market is somewhat commoditized and is therefore subject to rapid price changes. And likewise, the businesses that are overly leveraged in this space often suffer from volatile and unpredictable financial results. In our view, KLA is the highest quality business in this group based on its dominant market position in a critical stage of semiconductor manufacturing for all types of computer chips. Moreover, as Jannis mentioned, a meaningful portion of its revenue comes from recurring service fees. The result is that KLA enjoys industry leading margins and more stable financial results. Going forward, we will continue to monitor KLA and other higher quality businesses in this space with an eye towards developments with longer term implications and potential investment opportunities.

This next slide shows the trend in spot oil prices over the past year as of the end of March. And as you can see, the price spiked higher late in the first quarter in conjunction with the escalation of the conflict in Iran.

This slide shows why. Why are oil prices higher? The reality is Iran responded to this military escalation by severely restricting passage through the Strait of Hormuz, which is a key logistical point that impacts 20 to 25% of global oil delivery. And as you can see on this chart, those actions resulted in significantly lower oil tanker crossings from mid-March through the beginning of April.

This table illustrates recent stock price trends for prominent oil and gas companies. And as you can see, Energy sector shares on average were up nearly 40% in the first quarter. This table also shows the lack of energy exposure in the Quality Growth portfolio. This lack of exposure is intentional and is a fallout of our quality discipline. No Energy sector companies pass our quality screen due to inconsistent financial results and exposure to commodity prices and capital intensity. We highlighted Sherwin-Williams on this table. In our estimation, it is the Quality Growth portfolio holding most negatively exposed to oil prices. Case in point, our analysis indicates that about 70% to 75% of the company's cost of goods sold is energy-related in the form of raw materials such as resins and solvents that are used to manufacture paint. However, as you can see, shares were only down marginally in the first quarter.

The reason in our view is the power of Sherwin-Williams' business model. Sherwin dominates the North American market for professional painters due to its industry-leading service and logistics capabilities. Moreover, the cost of paint comprises only a small fraction of the total cost of a paint project. Therefore, Sherwin has tremendous pricing power and can raise prices when input costs increase and often maintains this higher pricing when conditions normalize, which leads to margin improvement over time. Going forward, we will continue to monitor developments in the energy market with an emphasis on potential long-term impacts for portfolio companies.

Lastly, and somewhat relatedly, a few thoughts on Fed policy and the impact for the stock market. As you can see, the Fed is gradually lowering short-term rates, but this activity has been on hold for the past four months or so since the most recent rate reduction to a range of 3.5% to 3.75% in December of last year. Based on language from recent Fed speakers, the Federal Open Market Committee would like to further reduce rates in 2026 but is being held back by stubborn inflation and concerns about further inflationary pressure from the disruption in oil prices.

However, in our estimation, market participants at the beginning of the year expected more aggressive rate cuts and are now coming to the realization that rate cuts are more likely to be in line with current dot plot projections that imply zero to one rate cuts in 2026.

On the next two slides, we illustrate the current tug of war between the dual Fed mandates, which are price stability and full employment. This slide shows the trend in U.S. employment gains over the past five years based on data from ADP. As you can see, employment gains have moderated dramatically since the post-pandemic spike in 2022. In our approximation, employment appears to be stuck in somewhat of a rut. Jobless claims remain low, which suggests limited layoffs, but overall employment growth has been tepid at best. In totality, slowish employment trends are likely to encourage more dovish monetary policy actions.

This slide shows the trend in inflation over the past five years, and as you can see, inflation was relatively low until the post-pandemic supply chain shock pushed higher in 2022. It has since moderated, but it has remained



meaningfully above pre-pandemic norms. This trend, potentially exacerbated by the recent surge in energy prices, is a key reason in our view for the current wait-and-see approach from the Federal Open Market Committee.

So, stepping back, we expect these uncertainties to continue. These include AI's ultimate impact on software, the resolution or the escalation of geopolitical conflicts, particularly in the Middle East, and the relationship between inflation and employment. With that backdrop, we believe our long-term, quality-focused investing discipline is more relevant than ever. Our focus continues to be on the bottom-up construction of a portfolio of high-quality stocks backed by resilient business models, pricing power, and high returns on capital.

In conclusion, we thank all our clients for their support and confidence in the Quality Growth Strategy. We truly appreciate it and do not take it for granted.

Definitions

Basis Point: A value equaling one one-hundredth of a percent (1/100 of 1%).

Brent Crude Spot Price: The current market price for immediate delivery of Brent crude oil sourced from the North Sea. It reflects real-time supply and demand conditions in the physical oil market, as opposed to futures prices for delivery at a later date.

Discounted Cash Flow (DCF): A valuation method used to estimate the value of an investment by projecting its future cash flows and discounting them back to present value using a required rate of return (discount rate).

Dynamic Random Access Memory (DRAM) Spot Price: The current market price for immediate (or near-term) purchase and delivery of DRAM chips, as opposed to contract prices negotiated in longer-term supply agreements. Spot prices are typically more volatile and reflect real-time supply and demand conditions in the memory market.

Earnings Growth: The annual rate of growth of earnings typically measured as Earnings Per Share Growth.

Federal Open Market Committee (FOMC): The policymaking body of the U.S. Federal Reserve responsible for setting short-term interest rates and guiding monetary policy to achieve its dual mandate of maximum employment and stable prices.

Free Cash Flow: Equal to the cash from operations of a company less capital expenditures.

Margin of Safety: A value investing tenet that provides a buffer against unpredictable loss by encouraging investors to purchase securities only when they trade below intrinsic value by a sufficient margin.

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.

The Jensen Quality Growth Fund's investment objective, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus for each fund contain this and other important information about the investment company, and they may be obtained by visiting www.jenseninvestment.com or by calling 800.992.4144. Read it carefully before investing.

The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

Mutual fund investing involves risk. Principal loss is possible. The prices of growth stocks may be sensitive to changes in current or expected earnings, may experience larger price swings and may be out of favor with investors at different periods of time.

Visit www.jenseninvestment.com to view the Jensen Quality Growth Fund's current performance, including the 5-year upside/downside capture. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. All returns include the reinvestment of dividends and capital gains.

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