

# Jensen Quality Growth Fund



Class I Shares JENIX

## Year in Review: 2020

U.S. equity markets are poised to post strong returns in 2020. On a year-to-date basis through November 30th, the total returns for the S&P 500 and Russell 1000 Growth Indices were 14.02% and 33.89%, respectively. Remarkably, market appreciation in this period was achieved despite a brief bear market episode early in the year. Accordingly, as measured by the CBOE Market Volatility Index, volatility spiked in the first quarter of 2020 and remained elevated relative to recent history for the remainder of the period.

**After a transitory but severe stage of negative sentiment from mid-February to mid-March, investors were willing to optimistically 'look through' a sharp decline in earnings and host of uncertainties, focusing instead on the forward-looking implications of economic stimulus and progress on solving the COVID-19 pandemic as follows:**

- Monetary Easing:** The U.S. Federal Reserve ('Fed') cut the Fed Funds rate twice during March, lowering the rate from a range of 1.50% - 1.75% at the start of the year to 0.00% - 0.25% at the end of March. Additionally, the Fed reinstated quantitative easing in which it buys debt securities on the open market. These activities aided in lowering interest rates, spurring a sharp recovery in auto buying and a spike in housing market activity.
- Fiscal Stimulus:** The U.S. government passed stimulus legislation in March and April totaling nearly \$3 trillion, or approximately 14% of 2019 U.S. gross domestic product. The relief packages included vaccine research funding, extended unemployment benefits, and direct cash payments to businesses, individuals and families. These programs 'backstopped' the U.S. economy, allowing it to quickly recover from the most negative effects of initial pandemic mitigation measures.
- Vaccine Development:** The first coronavirus vaccine, developed in collaboration by Pfizer and BioNTech, was approved in the United Kingdom in early December, and U.S. approval is expected by month-end. At the time of this writing, there are approximately 20 vaccine candidates in late-stage development. The speed and coordination involved in COVID-19 vaccine development is unprecedented as the process typically requires multiple years of research and testing.

Performance (09/30/20)  
Jensen Quality Growth Fund:  
Class I Shares: 1 year 15.25%, 3 year 14.99%, 5 year 16.07% and 10 year 13.85%.

S&P 500 Index: 1 year 15.15%, 3 year 12.28%, 5 year 14.15% and 10 year 13.74%.

Russell 1000 Growth Index:  
1 year 37.53%, 3 year 21.67%, 5 year 20.10% and 10 year 17.25%.

The I Shares annual operating expense ratio is 0.60%.

*Performance data quoted represents past performance; past performance does not guarantee future results. Performance figures shown for periods over one year are annualized. 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. To obtain updated performance information that is current as of the most recent month end, please call 1.800.992.4144 or visit [jenseninvestment.com](http://jenseninvestment.com).*

## Jensen Quality Growth Fund Relative Earnings Performance<sup>1</sup>

Estimated Earnings Growth	2016	2017	2018	2019	YTD		
					2020	CAGR	Std Dev
Jensen Quality Growth	6.6%	9.7%	18.0%	6.3%	-10.1%	5.5%	9.2%
S&P 500 Index	5.8%	17.2%	21.8%	3.6%	-28.6%	-0.1%	18.7%

As summarized above, we estimate that over the past nearly five years, earnings-per-share growth for companies held in the Fund continued to increase at a faster rate and with lower volatility when compared to the companies that comprise the S&P 500 Index. We attribute this track record to our focus on sustainable, resilient business models.

## Jensen Quality Growth Relative Performance and Key Holdings – 11/30/20

On a year-to-date basis through November 30<sup>th</sup>, 2020, the Fund's I share class (JENIX) produced a total net return of 14.10%, roughly in-line with that of the S&P 500 Index's net return of 14.02% and lagged the exceptional performance of the Russell 1000 Growth Index by 18.30%. We were pleased to capture slightly more than 100% of the S&P 500 Index's return for the period but are disappointed in the Fund's underperformance relative to Russell 1000 Growth Index. Our analysis of relative performance attribution for this period highlights the following:

### 2020 Top Individual Relative Stock Contributors:

Issue Name	Total Return - YTD	Portfolio/Benchmark Weight		
		JENIX	S&P 500	Russell 1000 Growth
United Parcel Service	51.06%	3.21%	0.33%	0.46%
Nike	33.95%	3.99%	0.49%	0.79%
Accenture	20.21%	4.45%	0.50%	0.85%

**United Parcel Service (UPS)** is a leading global shipping and logistics company. In 2020, the company's shares benefited from a surge in deliveries due to higher e-commerce shipments as consumers increasingly shopped online due to pandemic mitigation efforts. Importantly, UPS demonstrated pricing power and better-than-expected margins despite the higher costs associated with home-based deliveries. We trimmed the Fund's position in UPS shares in the second half of the year to take profits and due to concerns regarding continued profitability challenges.

**Nike (NKE)** is a global apparel, footwear and sports equipment company. In 2020, Nike shares reacted favorably to better-than-expected financial results, the resilience of the company's e-commerce business, and the announcement of plans to reduce costs while emphasizing direct-to-consumer sales. We added to the Fund's position early in the year reflecting our confidence in the company's competitive advantages and growth prospects.

**Accenture (ACN)** is a global management and information technology consulting company. In 2020, shares advanced due to demand resiliency despite pandemic-related disruptions to customers. We added to the Fund's position early in the year due to a perceived market overreaction during the bear market period.

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<sup>1</sup> Source: Refinitiv Eikon. Portfolio figures based on yearly weighted-average portfolios. YTD 2020 EPS growth calculated as rate of change between first nine months of 2020 and 2019. Source for S&P Earnings – S&P Indices: 11/27/20.

**Earnings Growth is not a measure of the Fund's future performance.**

## 2020 Top Individual Relative Stock Detractors:

Issue Name	Total Return - YTD	JENIX	Portfolio/Benchmark Weight	
			S&P 500	Russell 1000 Growth
Amazon	71.45%	0.00%	4.16%	7.01%
Omnicom Group	-19.46%	1.33%	0.05%	0.03%
Becton Dickinson	-12.79%	6.27%	0.27%	0.02%

**Amazon (AMZN)** is a leading e-commerce and cloud services company. In 2020, AMZN share price appreciation mirrored a spike in demand for online shopping and cloud-based information technology platforms. We recognize Amazon's present business strength and strong recent financial results. However, the company does not qualify for our investable universe due to historically inconsistent profitability. We will continue to tangentially monitor Amazon but do not expect it to be a viable investment candidate in the near term.

**Omnicom (OMC)** is a marketing and communications holding company with operating groups located throughout the world. The company's shares declined in 2020 due to a sharp slowdown in advertising and event spending related to COVID-19 mitigation measures, exacerbating longer-term disruption from ongoing industry upheaval. After having gradually reduced the position in recent periods due to fundamental concerns, we liquidated the Fund's holding in Omnicom shares late in the year.

**Becton Dickinson (BDX)** is a global medical device and life sciences equipment company. Its share price declined in 2020 due to a pair of adverse regulatory actions and the company's decision to dilute shareholders by issuing equity. Unfortunately, these factors more than offset positive developments including the launch of a COVID-19 testing platform and multiple large orders for needles and syringes to be used for delivery of the coronavirus vaccines. Becton remains a core Fund holding, but we are continuing to monitor improvements in business execution.

## 2020 Sector Trends

Sector	S&P 500 Sector Total	JENIX	Portfolio/Benchmark Weight	
	Return - YTD		S&P 500	Russell 1000 Growth
Financials	-7.50%	0.00%	10.70%	2.51%
Energy	-36.49%	0.00%	2.83%	0.13%
Utilities	-0.22%	0.00%	3.22%	0.01%
Real Estate	-3.63%	0.00%	2.83%	2.14%

The Fund's relative investment performance benefited from 0% weightings in the Financials, Energy, Utilities, and Real Estate sectors. Very few companies in these sectors qualify for our investable universe due to inconsistent and/or low profitability.

## 2020 Quality Trends<sup>2</sup>

Fund/Index	Avg Weight - YTD		YTD Return		
	High Quality	Low Quality	High Quality	Low Quality	Total
Jensen Quality Growth	67.68%	32.32%	8.04%	27.91%	14.10%
S&P 500 Index	37.20%	62.80%	11.83%	15.55%	14.02%
Russell 1000 Growth Index	33.12%	66.88%	17.58%	41.51%	33.89%

<sup>2</sup> Quality Analysis is based on S&P Quality Rankings which rates stocks on earnings and dividend consistency.

Performance from Refinitiv Eikon. Jensen considers any stock ranked A- or higher "High Quality", and any stock rated B- and below or unrated as "Low Quality."

Low quality stocks outperformed high quality stocks in 2020, which represented a headwind to the Fund's relative performance due to its significant overweight in high quality stocks. We attribute this performance trend to the market's focus on the forward-looking macroeconomic implications of policy actions and vaccine progress, rather than individual business fundamentals and security-specific valuation.

### 2020 Growth Trends<sup>3</sup>

EPS Growth Category	JENIX	Total Return - YTD	
		S&P 500	Russell 1000 Growth
Quintile 1 - Lowest Growth	19.68%	4.09%	14.49%
Quintile 2	6.79%	1.47%	23.85%
Quintile 3	4.12%	6.57%	21.47%
Quintile 4	32.39%	28.83%	31.66%
Quintile 5 - Highest Growth	10.22%	38.09%	75.21%

Stocks with high expected earnings growth outperformed stocks with more modest growth expectations, creating a headwind to relative Fund performance. The Fund has exposure to stocks in all the growth quintiles, but is underweight both benchmarks in stocks in the highest growth categories. This difference is a function of our investment philosophy which balances attractive long-term growth prospects with reasonable stock price valuation.

### Market Cycle View

Total Return (net)*	'Peak-to-Peak'	'Peak-to-Trough'	'Trough-to-Peak'
	2/19/20 - 11/27/20	2/19/20 - 3/23/20	3/23/20 - 11/27/20
Jensen Quality Growth (JENIX)	11.01%	-30.47%	59.67%
S&P 500 Index	8.99%	-33.79%	64.61%
Russell 1000 Growth Index	21.00%	-31.46%	76.54%

We define a full market cycle as one market peak to the next. The Fund's relative performance in this period is illustrated in the table above. After more than twelve years, the previous market cycle ended in February 2020. The new cycle is still in a nascent stage, but we are pleased directionally with the Fund's track record of preserving capital in the down period relative to the benchmarks.

<sup>3</sup> Source: Refinitiv Eikon

## Outlook<sup>4</sup> and Portfolio Positioning: 2021



Earnings for S&P 500 Index companies are expected to increase 37% in 2021 after declining 23% in 2020. At a high level, the 2021 rebound presumes successful progress on COVID-19 vaccine approvals and deployment on a global scale. Further, analysis of sector forecasts suggests 2021 earnings growth is dependent on reflation in energy prices, consumer spending, and industrial activity concurrent with accelerating growth for companies in the technology and healthcare sectors.

Making a detailed outlook for 2021 is challenging, but there are some positives for next year, including relatively healthy household balance sheets, pent-up consumer demand, and a steadily recovering job market. However, we expect the path could be volatile due to the uncertain pace of economic recovery primarily driven by the timing of vaccine distribution and any further economic stimulus.

Our focus remains on the long term and building a portfolio of high-quality stocks trading at reasonable valuations. In 2020, we opportunistically used heightened market volatility to improve the Portfolio in both categories. Most notably, we executed eleven wholesale Portfolio changes, initiating positions in Automatic Data Processing, Equifax, Starbucks, Home Depot, and Waste Management while liquidating long-term holdings Waters Corp, Ecolab, Raytheon Technologies, Emerson Electric, Oracle, and Omnicom. Our valuation models indicate that, in totality, these changes increased the Fund's growth outlook while maintaining what we believe to be an adequate margin of safety.

We also selectively added to existing positions in which we perceived a disconnect between long-term business fundamentals and short-term market sentiment.

We increased the position in Stryker Corporation, a leading producer of orthopedic implants and hospital equipment, after its share price declined sharply on fears that COVID-19 related hospital safety protocols would result in a slowdown of surgical procedures. However, over the long term, we believe growth will likely snap back as Stryker's innovation leadership should allow for further share gains and that the temporary

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<sup>4</sup> Source: S&P Indices: 11/27/20.

reduction in hospital volume has resulted in pent-up demand for the company's products.

Another example is Procter & Gamble. After significantly trimming the holding in recent years due to elevated valuation and sluggish growth, we took advantage of a perceived disconnect between the share price and business value to more than double the Fund's position in the company's shares in 2020. Our valuation models at the time of purchase implied that recent acceleration in top-line and margin momentum was not being fully credited in the stock price.

### **Unwavering Investment Philosophy**

In closing, the Investment Committee at Jensen Investment Management remains confident in the strategy and process guiding our management of the Fund. Our goal remains the construction of a portfolio of companies positioned to grow and accrue business value. We seek to participate in this value creation as investors via the long-term ownership of fairly priced, high quality stocks. Our focus remains on identifying businesses with sustainable competitive advantages, resilient financial results, and attractive long-term growth opportunities. We believe these attributes allow companies to generate business returns consistently above their cost of capital, ultimately resulting in shareholder value creation.

**The Fund's investment objective, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by visiting [www.jenseninvestment.com](http://www.jenseninvestment.com), or by calling 800.992.4144. Read it carefully before investing.**

*The Jensen Quality Growth 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. 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. Mutual fund investing involves risk, and principal loss is possible.*

**Margin of Safety:** Is a principle of investing in which an investor only purchases securities when their market price is significantly below their intrinsic value. .

**CAGR** (Compound Annual Growth Rate): Compound annual growth rate (CAGR) is a metric that smooths annual gains in revenue, returns, customers, etc., over a specified number of years as if the growth had happened steadily each year over that time period.

**Earnings Per Share (EPS):**The net income of a company divided by the total number of shares it has outstanding. **Earnings growth is not a measure of the Fund's future performance.**

**Russell 1000 Growth Index:** Measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Index is unmanaged, and one cannot invest directly in the Index.

**S&P 500 Index:** A market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Index is unmanaged, and one cannot invest directly in the Index.

**S&P Quality Rankings:** S&P analyzes about 4,000 stocks traded on the NYSE, AMEX and Nasdaq exchange based upon each firm's per-share earnings and dividend records, then recalculates "core earnings" by backing out certain items (extraordinary items, discontinued operations, impairment charges, etc.) Figures are also adjusted for changes in rates of earnings/dividend growth, stability over a long-term trend and cyclical. S&P then divides stocks into a quality category matrix, rating each stock from A+ to D, basing ratings upon each individual company's growth and stability of earnings and dividends.

**Standard Deviation:** A statistical measure of the historical volatility of the pooled investment vehicle over a specific time period.

**CBOE Market Volatility Index:** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

**+ Please [click here](#) for current fund holdings.** Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk. The information provided herein represents the opinions of Jensen Investment Management, and is not intended to be a forecast of future events or a guarantee of future results, and does not constitute investment advice.



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