

Implications of Index Concentration on Equity Market Return Patterns

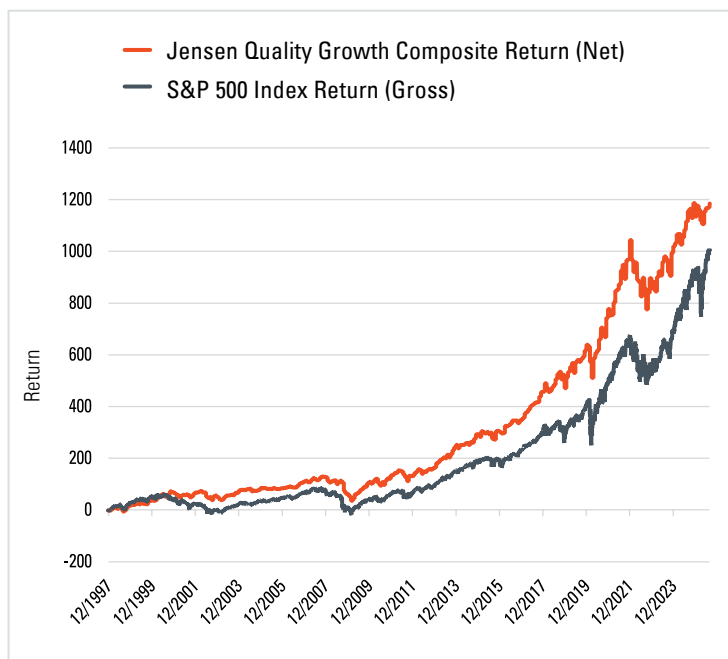
Over more than three decades of practicing quality investing, we have navigated multiple economic cycles and observed the rise and decline of numerous market narratives. Throughout these periods, we have remained steadfast in our investment discipline—focusing on businesses that demonstrate sustained, superior returns on shareholder equity. Although past performance does not indicate future results, this commitment to patience and conviction has, in large measure, been rewarded over time. Nonetheless, there have been extended intervals—such as the present—when even the most disciplined quality-growth investor may find conviction tested. We believe that historical patterns, while not predictive, can provide valuable context for understanding the current market environment.*

Stock market concentration has played a pivotal role in the bull market that commenced in early 2023. However, this period of lopsided S&P 500 Index (“Index”) returns is not unprecedented in recent history. In fact, we have observed three previous instances of strong market returns that were associated with a top-heavy S&P 500 Index during the past 30 years. In each case, the bull market cycles linked with Index concentration were subsequently followed by market pullbacks.

Chart 2 on the following page shows the contribution of the 10 largest index weights to annual S&P 500 Index performance during positive return years since 1991. Prior to this most recent period of Index concentration (2023-present), there were three similar periods shown in the chart: 2007, 2020-2021 and 1998-1999.

In the late-1990s and mid-2000s cycles, the Jensen Quality Growth Strategy underperformed the Index during the market appreciation period but significantly outperformed during the period in the subsequent

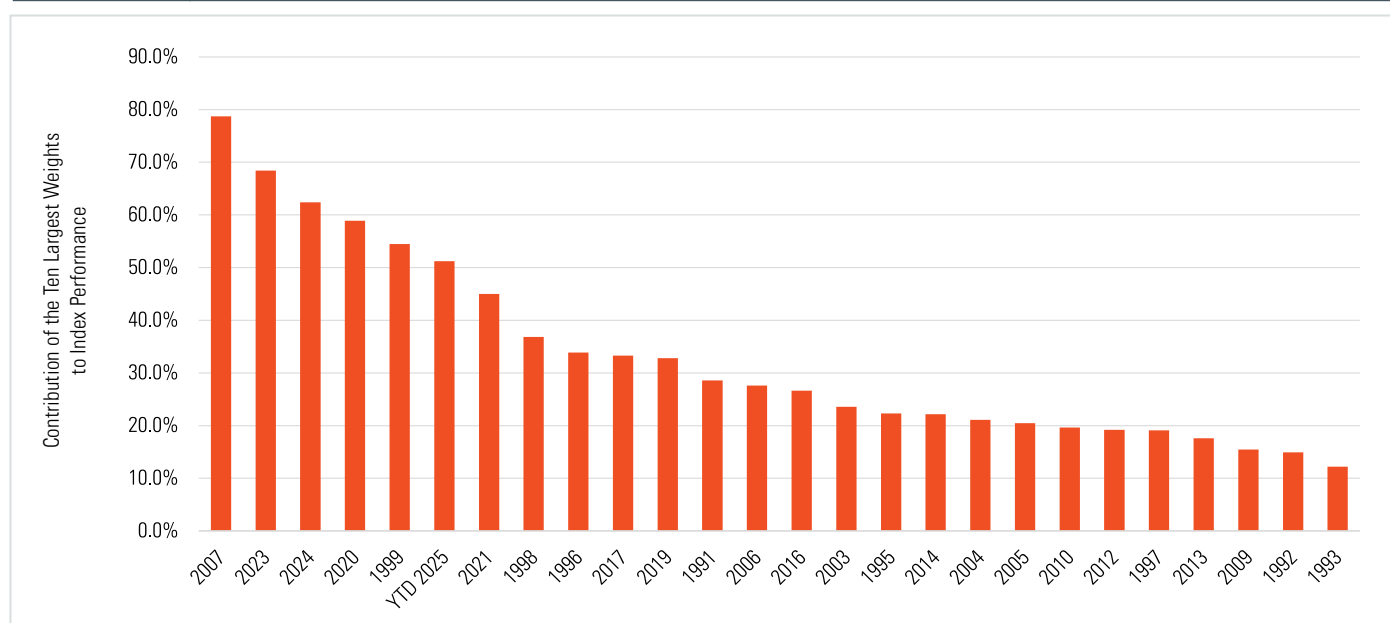
Chart 1 | 1998-Present: Long-Term Focus¹



*Jensen Quality Growth Equity Composite (Net of Fees as of September 30, 2025): 1 Year 3.25%, 5 Year 10.63%, 10 Year 13.24%.
S&P 500 Index (Gross of Fees as of September 30, 2025): 1 Year 17.60%, 5 Year 16.47%, 10 Year 15.30%.

¹ Source: YCharts, data as of August 31, 2025.

Chart 2

Annual S&P 500 Index Contribution of 10 Largest Weights In Positive Performance Years²

decline. The 2020-2022 cycle was shorter and performance trends were less dramatic, with the Quality Growth Strategy slightly outperforming the Index over the entirety of the cycle.

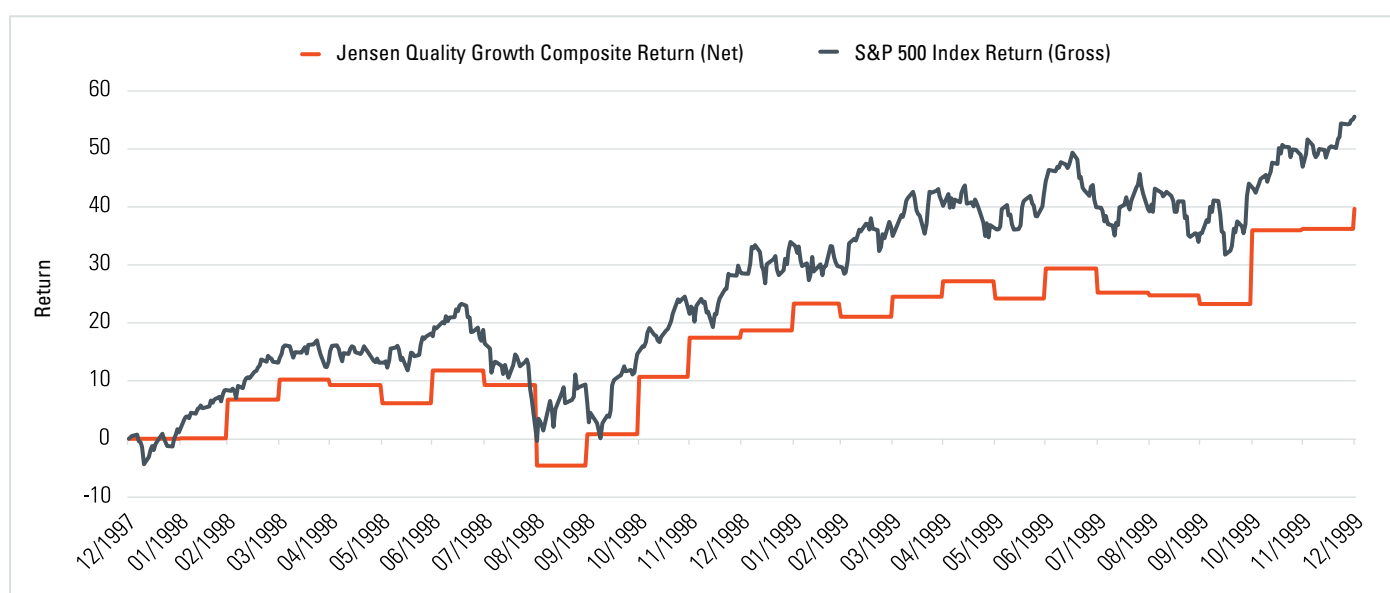
1998-1999: Dot-com Bubble

This era of strong market returns coincided with the global adoption of the internet, related investment technology investments and a multitude of dot-com startups. During this period, the S&P 500 Index produced a total return of 55.63%, led by shares in Qualcomm (QCOM: +2,690% in this

period), Amazon (AMZN: +1,416%), Apple (AAPL: +683%), Oracle (ORCL: 653%) and Cisco Systems (CSCO: +477%). Additionally, stock price valuations soared with the trailing price-to-earnings multiple for the S&P 500 Index peaking at more than 30x trailing earnings in 1999, a near 44% increase from its level two years prior.³

The Jensen Quality Growth Strategy underperformed the Index by 15.87%, which we attribute primarily to lower relative weightings in the large technology stocks listed in the previous paragraph.

Chart 3

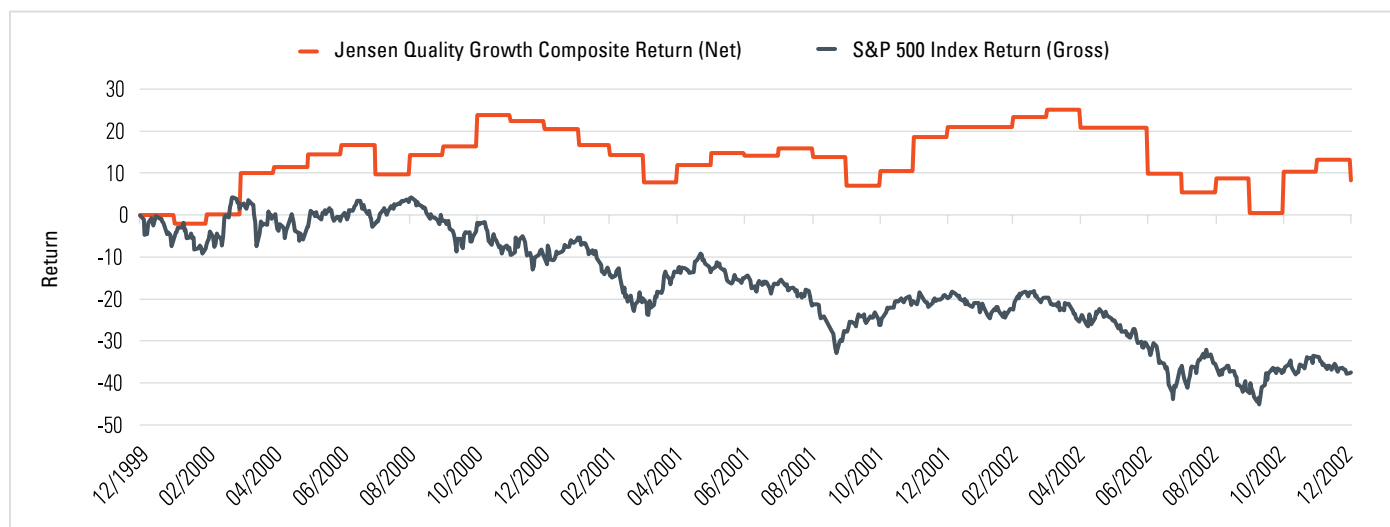
1998-1999: Dot-com Bubble⁴

² Source: Strategas Research, data as of September 30, 2025.

³ Source: S&P Indices, data as of March 14, 2024.

⁴ Source: YCharts, data as of March 22, 2024.

Chart 4

2000-2002: Dot-com Bust⁵

2000-2002: Dot-com Bust

The three years from 2000-2002 were marked by a series of bankruptcies among unprofitable startup businesses and multiple accounting scandals. In this period, the S&P 500 Index produced a total return of -37.61%, weighed down by share price declines from some of the same companies that led the previous market rally. These included Qualcomm (-79%), Cisco Systems (-76%), Amazon (-75%) and Apple (-72%).

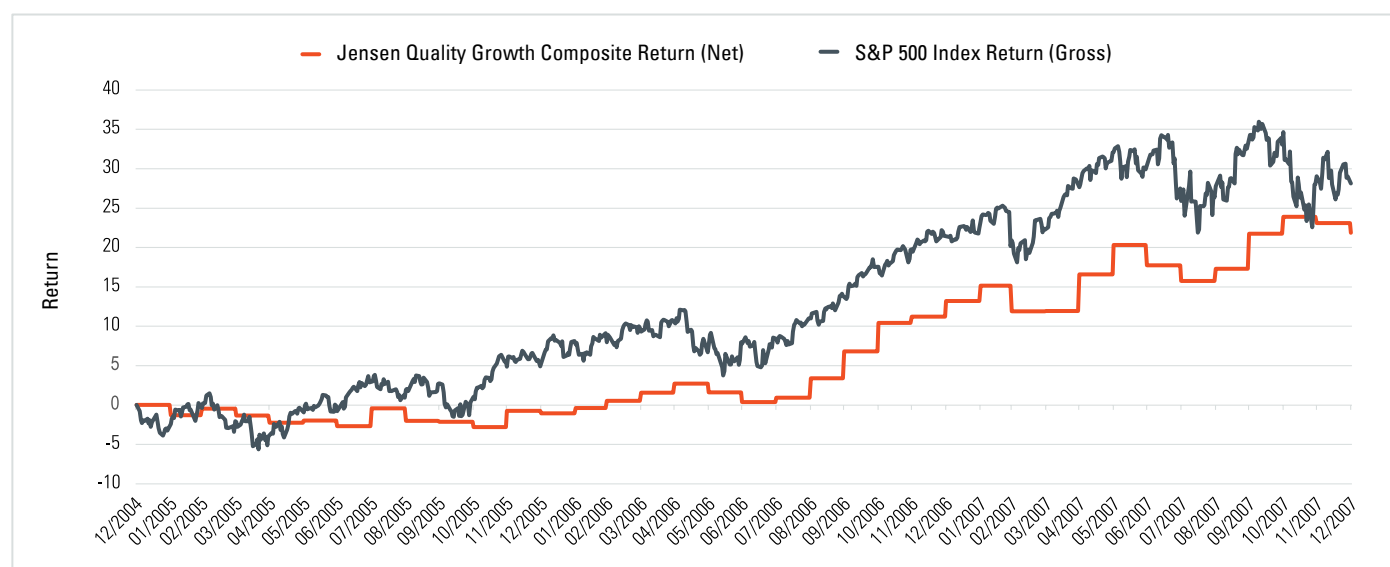
The Jensen Quality Growth Strategy outperformed the Index by 45.91%, primarily due to less exposure to Technology sector stocks.

2005-2007: Lending Bubble and Peak Oil

The three years from 2005-2007 were characterized by a rapid increase in home prices,⁶ reckless lending practices⁷ and increased financial leverage through the use of collateralized debt obligations.⁸ Over the course of this period, the S&P 500 Index appreciated 28.16%, led by Energy sector stocks such as Marathon Oil (MRO: +224% in the period), Valero Energy Group (VLO: +209%) and Occidental Petroleum (OXY: +164%).

The Jensen Quality Growth Strategy underperformed the Index by 6.28%, which we attribute primarily to low exposure to Energy sector stocks.

Chart 5

2005-2007: Lending Bubble and Peak Oil⁹

⁵ Source: YCharts, data as of March 22, 2024.

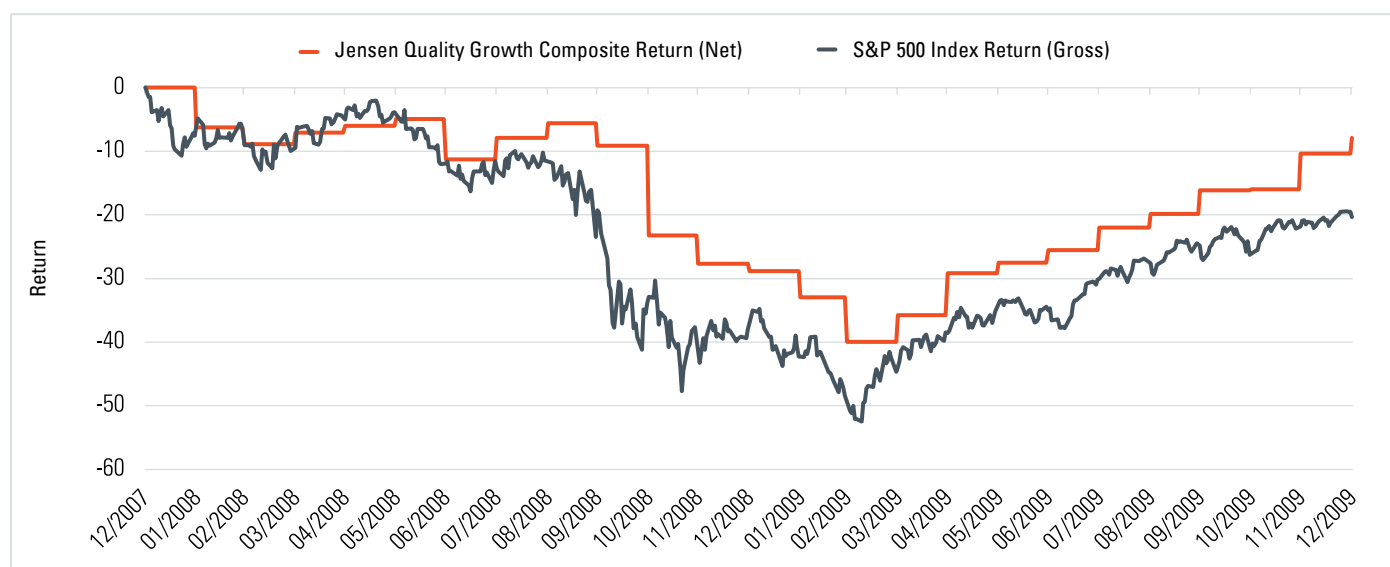
⁶ Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org>.

⁷ Source: Duca, John V., "Subprime Mortgage Crisis," Federal Reserve History, November 22, 2013, <https://www.federalreservehistory.org/essays/subprime-mortgage-crisis>.

⁸ Source: "Crisis and Response: An FDIC History, 2008-2013," FDIC, June 12, 2023, <https://www.fdic.gov/bank/historical/crisis/chap1.pdf>.

⁹ Source: YCharts, data as of March 22, 2024.

Chart 6

2008-2009: The Great Recession¹⁰

2008-2009: The Great Recession

The period from 2008-2009, known as the Great Recession, was plagued by a number of bankruptcies among investment, retail and commercial banks. These failures were largely due to excess leverage, poor loan underwriting standards and excessive reliance on credit ratings that failed to adequately measure underlying systemic risks. In this period, the S&P 500 Index produced a total return of -20.32%, which was hallmarked by the near 100% equity drawdowns in businesses directly impacted by nonperforming loan losses such as Washington Mutual (WAMUQ: -99.8% in the period) and Lehman Brothers (LEHMQ: -99.5%). However,

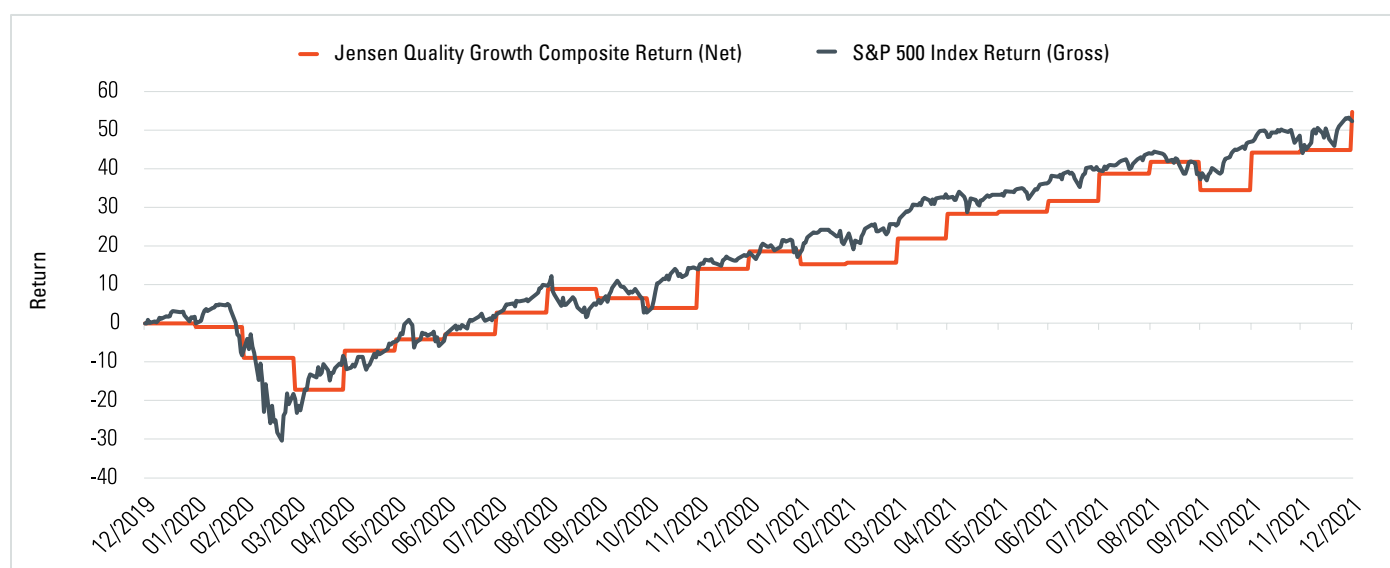
declines in General Electric (GE: -54.8%), Citigroup (C: -88.1%), American International Group (AIG: -97.4%) and Exxon Mobil (XOM: -24.1%) were the largest Index detractors.

The Jensen Quality Growth Strategy outperformed the Index by 12.46%, due primarily to lower exposure to bank and finance stocks.

2020-2021: COVID-19 Pandemic and Policy Response

2020 and 2021 were characterized by a sharp sell-off during the initial stages of the COVID-19 pandemic followed by a

Chart 7

2020-2021: COVID-19 Pandemic and Policy Response¹¹

¹⁰ Source: YCharts, data as of March 22, 2024.

¹¹ Ibid.

swift recovery aided by an unprecedented combination of monetary and fiscal stimulus. In this period, the S&P 500 Index appreciated 52.39%, led by “magnificent seven” stocks: Apple (+145.5% in this period), Microsoft (MSFT: +117.3%), Amazon (+80.45%), Nvidia (NVDA: +401.2%), Alphabet Inc. (GOOGL: +116.3%), Meta (META: +63.9%) and Tesla (TSLA: +52.1%).

The Jensen Quality Growth Strategy outperformed the Index by 2.40%, which we attribute primarily to lower relative weightings in Financials and Energy sector stocks and security selection in Communications sector stocks.

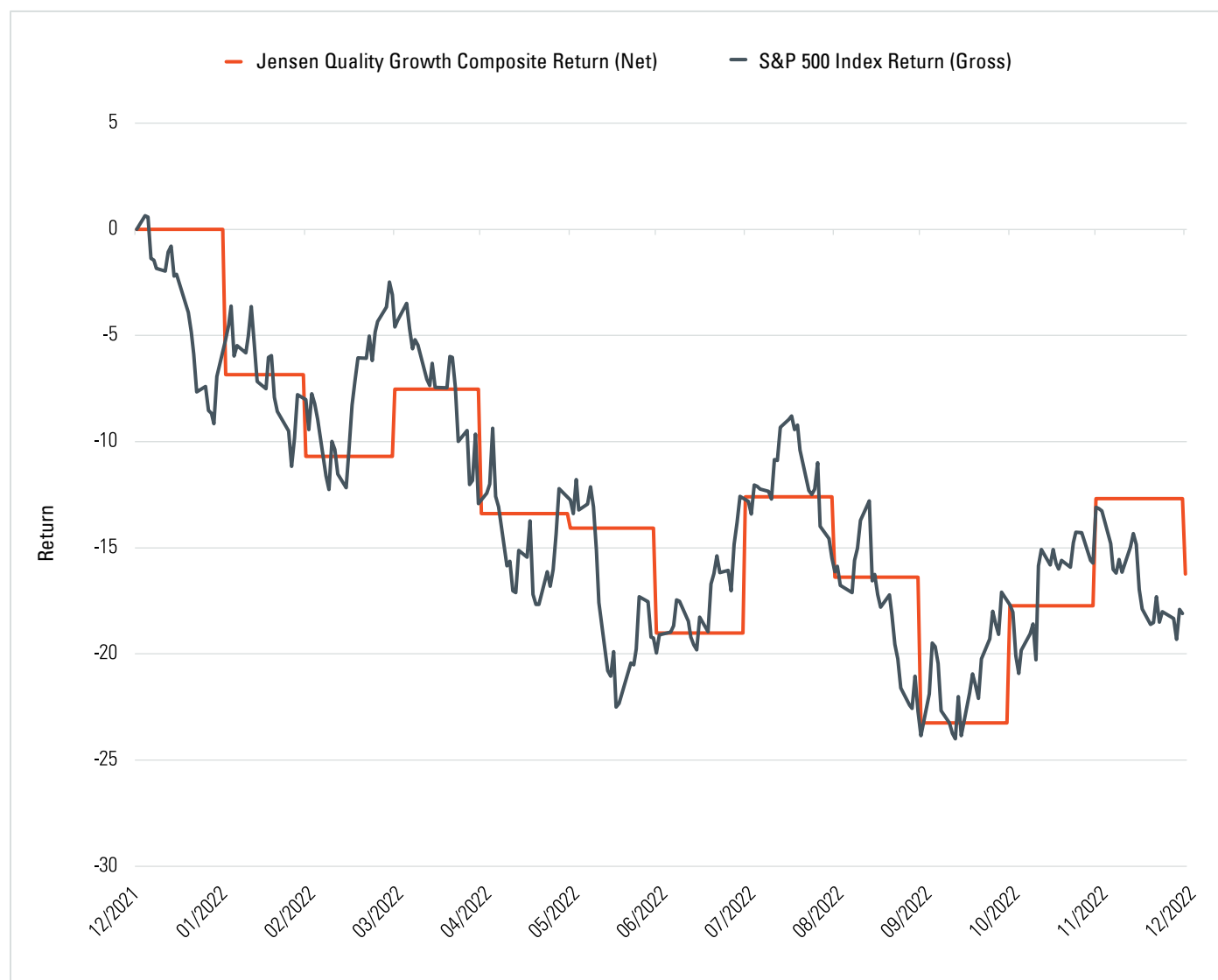
2022: Inflation and Rate Hikes

Inflation began to rise sharply in 2021 and peaked in early 2022,¹² triggering hawkish monetary policy and higher interest rates. In this period, the S&P 500 Index produced a total return of -18.11%, weighed down by the same “magnificent seven” stocks — Apple (-26.4% in 2022), Amazon (-49.6%), Microsoft (-28.0%), Tesla (-65.0%), Meta (-64.2%), Nvidia (-50.3%) and Alphabet Inc. (-39.1%) — that had boosted returns during the prior two years.

The Jensen Quality Growth Strategy outperformed the Index by 1.87%, which we attribute primarily to a higher relative weighting in Healthcare sector stocks and security selection in Consumer Discretionary and Information Technology sector stocks.

Chart 8

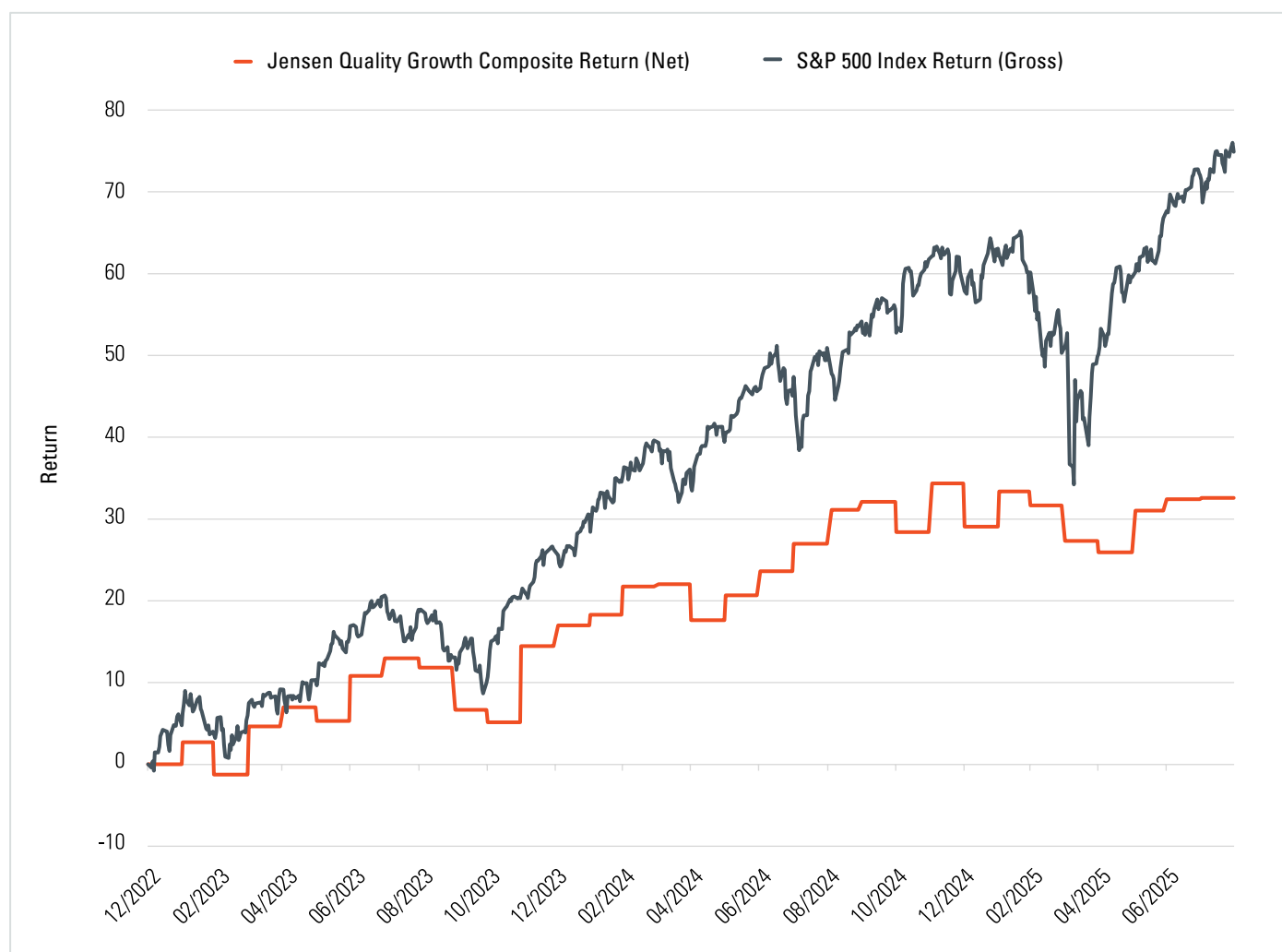
2022: Inflation and Rate Hikes¹³



¹² Source: Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org>.

¹³ Source: YCharts, data as of March 22, 2024.

Chart 9

2023-Present: ChatGPT and Artificial Intelligence (AI)¹⁴

2023-Present: ChatGPT and Artificial Intelligence (AI)

ChatGPT was launched in November 2022 and reached more than 100 million active users in January 2023.¹⁵ Further adoption of AI-driven large language models and investor enthusiasm that this trend would result in a wave of technology investment has fueled the current bull market. Since January 2023, the S&P 500 Index produced a total return of +81.36%, led by Nvidia (+1,177.93%), Microsoft (+120.71%), Amazon (+161.39%), Meta (+513.98%), Apple (+98.72%) and Alphabet Inc. (+177.44%).¹⁶

Over the same time period, the Jensen Quality Growth Strategy returned +38.76% but underperformed the Index by 42.60%,¹⁷ marking an extreme example of weak relative

returns during periods of increasing Index concentration. The underperformance arose primarily due to security selection in Information Technology and Consumer Discretionary sector stocks. In particular, the Strategy's lack of lower exposure to shares in Nvidia, Amazon, and Broadcom (AVGO) materially detracted from relative investment performance.

Long-Term Focus

We acknowledge that we are currently navigating a period of particularly challenging short-term relative performance. In such environments, investors may be tempted either to abandon long-term investment discipline in favor of near-term trends or to remain static and “tune out the noise.” We are instead pursuing a more deliberate path—enhancing the quality and growth characteristics of the portfolio while

¹⁴ Source: YCharts, data as of August 31, 2025.

¹⁵ Source: DeVon, Cheyenne, “On ChatGPT's one-year anniversary, it has more than 1.7 billion users—here's what it may do next,” Next Gen Investing, CNBC, November 30, 2023, <https://www.cnbc.com/2023/11/30/chatgpts-one-year-anniversary-how-the-viral-ai-chatbot-has-changed.html>.

¹⁶ Source: LSEG. Returns are for the period from December 31, 2022, through September 30, 2025.

¹⁷ Ibid.



remaining firmly anchored to our established investment philosophy. Our focus is on owning the highest-quality businesses with meaningful exposure to secular growth trends while positioning the portfolio to maintain resilience when volatility inevitably returns to the markets.

For a list of the Jensen Quality Growth Strategy's current holdings, please visit www.jenseninvestment.com/growth-composite-holdings.

The company discussions in this article are solely intended to illustrate the application of our investment approach and are not intended as investment recommendations or an indication that our investment decisions have been or will be profitable.

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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 index is unmanaged, and you cannot invest directly in an index.

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JENSEN
INVESTMENT MANAGEMENT

5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384

jenseninvestment.com