



Quality Growth Fund Quarterly Update: 3Q 2025

Hosted by Rob McIver, *Managing Director, President & Portfolio Manager*, and Jeff Wilson, CFA, *Portfolio Manager*

ROB MCIVER: Good morning, everyone. Thank you for joining me, Rob McIver, and my co-portfolio manager, Jeff Wilson. We're delighted to be able to talk to you today.

During today's webinar, Jeff and I will comment on the investment themes over the last three months and review the fund's quarterly and longer-term performance. We'll evaluate the factors behind the fund's performance, review portfolio changes made over the third quarter, and explain our investment thesis for Veeva Systems, the most recent addition to the fund.

We will then conclude our remarks with some comments on market trends and our outlook. And as Gabby mentioned, the session will be wrapped up with a Q&A session, so please, if you have questions, submit them at any time through the webinar portal.

Founded in 1988, Jensen is an independent investment management company focused solely on quality investing strategies. As of September 30th, we managed approximately \$8.2 billion, and also oversee another \$1.4 billion of assets under advisement, for a total of approximately \$9.6 billion.

Quality Growth is our flagship equity product, and it's focused on the long-term ownership of high-quality, value-creating U.S. businesses. The strategy was launched with the founding of our firm in 1988. In addition to the mutual fund, the strategy is available in separately managed accounts, unified managed accounts, a collective investment fund, and an exchange-traded fund.

We focus our fundamental research efforts on identifying quality attributes that we believe represent the engines of sustainable corporate growth and

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shareholder value creation, as evidenced by a minimum return on equity of 15% over 10 consecutive years.

This demanding ROE hurdle helps us identify companies with durable competitive advantages and strong free cash flow that can be deployed by reinvesting in the business for strategic acquisitions to repurchase shares and pay increasing dividends, all ways that can compound shareholder value over time. Importantly, we favor business models that have demonstrated resiliency in a variety of market and economic environments. We believe this focus mitigates business risk, the first of the two main risks facing investors.

The second major risk we seek to manage is pricing risk, arguably the most pressing risk in today's market. Consequently, valuation represents an important component to our process, and we believe at times like this differentiates us.

In summary, our investment discipline seeks to provide good long-term returns with less risk than the overall stock market. As we will discuss later, the strategy's most compelling returns are typically evidenced over a full economic and stock market cycle, because there are often extended times, like now, where the relationship between robust shareholder value creation and the growth in our company's share prices breaks down.

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

JEFF WILSON: Thanks, Rob.

Here we have a review of the investment performance for the Jensen Quality Growth Fund. As you can see, the Fund underperformed the S&P 500 index by an underwhelming 515 basis points in the third quarter, with I Shares up 2.97% versus an 8.12% return for the S&P 500 benchmark.

At a high level, the Fund's underperformance during this period can be explained, in part, by a lower quality high-beta rally, with several high-quality factors being out of favor during the period, acting as a notable headwind for our investment discipline. With Q3 returns primarily driven by lower quality factors, such as high volatility and short-term momentum, as shown on the Style Factor attribution table on the slide, resulting in high beta

outperforming low beta over the period and since April market lows.

In terms of attribution, stock selection within information technology, industrials, and healthcare weighed on relative performance. Accenture was the largest individual detractor, which we'll discuss here in a few minutes, while Alphabet was our largest individual contributor during the period.

More broadly, Q3 served to reinforce and accelerate the risk-on sentiment that has largely underpinned markets since 2023. While the April sell-off reminded investors that markets hate uncertainty, the past six months can be described as a kind of Goldilocks environment, with the initial tariff-related fears gradually de-escalating and resulting in labor market, economic growth, and inflation expectations threading the needle as being not too hot or too cold, while providing a supportive backdrop for risk-taking in the markets over the past six months.

While this isn't a market environment where we would expect to outperform, the magnitude of underperformance has been notable. We closely monitor the underlying health of our portfolio companies and are encouraged by the underlying earnings growth that has outpaced that of the market on a weighted average basis over the last 12 months.

Given the low-quality characteristics of this rally, it isn't overly surprising that strong underlying business performance within our portfolio companies has yet to be rewarded. However, we do expect long-term fundamentals to ultimately prevail, as stock prices tend to closely follow earnings growth over the long term. As we will expand on later, there are several market dynamics we're paying close attention to, including employment trends, consumer spending, AI investment, and signs of exuberance worth monitoring. In many ways, this is not a normal market environment, which presents both risks and opportunities for investors. In times like these, we believe it's imperative for investors to remain disciplined, closely monitor underlying business risks, have a keen eye toward risk management, and know what you own.

The Fund's top individual performance contributor in the quarter was Alphabet. Alphabet is a leading communications services and technology company known for its core Google search engine business and YouTube, its leading online video business. The company's shares



rose during the quarter, driven by a strong earnings report and demonstrated progress in integrating artificial intelligence into its products and services. Specifically, Alphabet's willingness to disrupt itself by embedding AI into its core products and leverage its unique vertical integration has led to a meaningful shift in the narrative surrounding Google's AI prospects.

We took advantage of recent stock price performance in Alphabet shares, trimming the position as part of our risk management discipline, and reallocating proceeds toward other compelling opportunities that we'll detail in the coming slides. Alphabet remains a top five holding in the Fund, and a relative overweight.

The leading detractor to Fund performance during the quarter was Accenture. Accenture is a global management consulting, technology services and outsourcing company. The company reported weak third quarter results attributable to several factors, including subdued 2026 guidance and sluggish corporate demand.

More importantly, however, Accenture is exposed to meaningful AI risk relating to their core consulting business model, and while it remains a high-quality company, we materially reduced the position in the period in favor of companies with strengthening competitive advantages and accelerating growth prospects. Accenture represents less than 1% of the portfolio as of September 30, 2025.

We added one new company to the strategy around the period: Veeva Systems. Veeva is a cloud computing company that provides software as a service, data, and consulting services to the life science industry, primarily to pharmaceutical and medical technology companies. Veeva's software products assist customers in research, development, and commercialization of pharmaceuticals and medical devices, including bringing products to market faster and more efficiently.

Veeva has a highly attractive business model, with roughly 80% of sales derived from contractual, recurring revenues tied to software solutions embedded within its customer's workflow, leading to an entrenched position within leading pharma and biotech clients. A consistent history of driving profitable sales and profit growth and a pristine balance sheet add to the attractiveness of Veeva as an addition to the Jensen Quality Growth Strategy.

Next, we will offer some perspectives on portfolio changes during the period. As has been the case for much of this year, we were active in taking advantage of opportunities. Specifically, we took advantage of recent share price strength in Google, KLA Corp, Cadence Design Systems, and Amphenol to right-size those positions to more appropriate weights within the portfolio. For context, we had opportunistically added to both Amphenol and Cadence during the market downdraft in March and into April.

With these Q3 trims, a reflection of our ongoing risk management discipline, we also sold Home Depot and Johnson & Johnson as a part of our valuation discipline. In terms of ads, we used trim and sale proceeds to bolster high-conviction, quality growth securities that warranted higher weights within the portfolio through our discipline, including Eli Lilly, Meta, NVIDIA, Sherwin-Williams, and Verisk, due to their attractive, risk-adjusted return characteristics and long-term growth prospects.

And with that, I will turn the call back to Rob to discuss our outlook.

ROB: Thanks, Jeff. We'd like to spend the balance of today's call on looking forward.

As we consider the health of the economy and future monetary policy, our overall outlook remains favorable, but with some reservations. We are monitoring signs of exuberance with loss-making AI startups raising capital at lofty valuations, creative financing deals, private credit vehicles drawing in yield-hungry investors, and surging retail activity in leveraged AI-related products, and they remind us that liquidity can magnify both rational and sometimes speculative behavior.

The focus of this call is on the U.S. economy, but we should also note that the global economy remains in an uncertain state, with an anemic growth in the Eurozone and the UK, concerns that France is overly indebted, and that the Chinese economy is also operating subpar.

For active stock pickers like Jensen, risk-on markets typically pose a challenging environment. It has been frustrating as company-specific fundamentals and the portfolio's strong earnings per share growth have been overshadowed by the near-euphoria associated with the AI trade.



We've seen these cycles many times over our 37-year history, and the tariff-induced market sell-off in April of 25, and more recent market volatility remind us that bull markets die of fear, not of old age. The next few charts highlight some of the key factors that have influenced our outlook.

Jeff mentioned earlier the Goldilocks environment that has helped to turbocharge high-beta stocks this year. The stock market's robust return year-to-date is all the more surprising when we consider that a year ago, it was predicting that as many as 10 separate 25 basis point reductions to the Fed funds rate by the end of 2026. These optimistic forecasts have been pared back significantly, and after a surprisingly negative jobs report, the Fed moved by cutting interest rates in September, even though U.S. inflation remains higher than the 2% target.

Softening economic data also provides air cover for the Fed to continue relaxing monetary policy before the November 2026 midterm elections. The most recent quarterly CEO Economic Outlook survey from the Business Roundtable indicates U.S. CEOs were, in the third quarter, generally bullish in their outlook for their businesses, plans for hiring, and capital spending over the next six months. Although these surveys can be volatile, index values over 50 typically signal expectations of U.S. economic expansion.

This year's passing of the One Big Beautiful Bill Act was greeted positively by the market, as it included provisions for U.S. companies to accelerate corporate depreciation for tax purposes, and is intended to boost and accelerate U.S. GDP (gross domestic product). Less appreciated is the fact that a second component of fiscal policy that is forecasted to appear early next year, when more than \$150 billion of incremental consumer aid is likely to be provided through higher tax refunds. Additional tax relief will come at the start of 2026, when taxpayers adjust their withholdings to reflect these new deductions, boosting their after-tax income. History suggests that consumers are likely to spend their tax refunds further boosting economic activity next year, ahead of next year's midterm elections.

Another boost to the stock market has been the strength of U.S. consumer spending that has supported the economy. However, we note that this data is historic, and although the U.S. government shutdown has resulted in less timely data, recent surveys have started to suggest that all is not well. So, let's move on to a discussion of some areas of our concern.

We mentioned earlier that there are some troubling signs that the robust domestic economic activity that has provided support for the equity market appears to be under strain. The timing of the Federal Reserve's most recent interest rate cut appeared motivated in large part by growing weakness in the U.S. unemployment market. And as we can see here, the August Job Openings and Labor Turnover Survey indicated a deteriorating trend. In August, and for the first time this year, the number of U.S. unemployed has exceeded the number of available positions that employers are actively seeking to fill. Other private surveys have affirmed the same trend.

The weakening jobs market has translated into a decline in consumer sentiment, an important leading indicator, and excluding the distorting effects of the COVID years, today's consumer confidence hasn't been this weak since 2016. We acknowledge that sentiment can change rapidly, and the current reading is not severe, but it does suggest that consumers, who typically account for two-thirds to seventy percent of U.S. GDP, have become more cautious.

The Conference Board study also reported a decline in views of current economic conditions, and the views of current job availability declined for the ninth consecutive month. We wonder if this is symptomatic of another bifurcation, this time between Main Street and Wall Street.

Staying with the consumer, this data from the New York Federal Reserve is also signaling a warning sign. There's been much reporting in the media about how wealthy Americans have kept consumer spending data positive, but many Americans are living paycheck to paycheck. As this data illustrates, Americans in households earning less than \$50,000 are already cutting back on every item tracked. Likewise, more wealthy households are becoming more budget conscious. If these trends continue, the U.S. consumer could start to represent a headwind.

Consumer stress is also starting to appear in debt arrears, a slow housing market, and the increasing popularity of buy now, pay-later financing. As a result of significant increase in government spending after the pandemic, U.S. debt has increased and the cost to service this debt has skyrocketed, so that some 18% of tax revenues are now required to service interest payments, a level not seen in decades.



Although the revenues from U.S. tariffs will help, the scale of U.S. indebtedness will need to be addressed by either a reduction in spending and/or an increase in taxes. Even though the U.S. government no longer enjoys a AAA credit rating, treasuries are still considered to be one of the safest asset classes in the world, but pressures could mount if the government does not address the unsustainable trend.

Turning back again to the US stock market, we have referenced this slide in previous calls, and do so again as it graphically highlights how the S&P Index returns have become so concentrated in and reliant upon just a handful of stocks. It's remarkable to note that today the top 10 companies now represent over 40% of the Index, a level significantly higher than the concentration evident before the bursting of the dot-com bubble.

It's unclear if the panic selling of the market leaders and reactions to April's Liberation Day tariff announcement and the volatility of the last week will be repeated soon, but to us, the more important takeaway is that the market's reliance on highly valued or speculative companies and the concentration of market returns in such a narrow pool of stocks arguably now represents a new systemic risk when volatility returns in earnest. We will shortly publish on our website a white paper that discusses the implications of this unprecedented market concentration.

We're sharing this chart today as it illustrates a less appreciated risk that has arisen from the market's concentration of returns. It highlights the actual earnings from each S&P 500 Index sector, minus that sector's index weight. And just as the promise of future riches from AI has driven their share prices in the last couple of years, it's enlightening that when it comes to the reported earnings of those companies, as a whole, they have yet to deliver the profits that the markets have priced in. Likewise, it reminds us of the need to know what you own, and why specific tech companies have justified their position in the Jensen Quality Growth Portfolio.

In this regard, we are frustrated by the negative disconnect between the Portfolio's average 28% year-over-year increase in their annualized earnings through September 30th that exceeded the average 21% increase in the S&P 500 Index companies' earnings over the same period, and yet, our companies' share prices have underperformed. In

our mind, this is untenable, and that suggests that quality growth companies are, arguably, currently on sale.

Since Jensen's founding in 1988, we have witnessed similar periods of relative underperformance during times of concentrated market returns. Following these periods, either bear markets ensued, or the market has normalized, and the Quality Growth Strategy subsequently outperformed the benchmark.

We don't think it unreasonable to posit that after a multi-year bull market in the U.S. equities, they're looking very expensive, and as this chart illustrates, this is true by just about every metric. As fundamental investors, we have always priced strong and growing free cash flow, the lifeblood of any enterprise, and consequently, our valuation tools rely primarily on discounted cash flow models to help ensure that we don't overpay for an investment.

But today, even the price to free cash flow metric is looking stretched, and this has manifested itself in company-specific trades that Jeff discussed earlier. We have been selling more fully priced positions, taking profits, and reallocating to more attractively priced opportunities. More broadly, these metrics should also caution that the market may be priced to perfection that makes it vulnerable to any disappointment or negative surprise. Today, we think it hard to make additional multiple expansion a base case, and we have no doubt that the time will come while investors will adopt a show-me approach to growth in corporate revenues, earnings, and margins to justify current lofty share price valuations that have been bid up in the expectation of future rewards. As we've seen before, any disappointment in these expectations can be fast and ruthless.

In addition to hard data, in preparation for this call, I've conducted a very unscientific study by keeping headlines that caught my eye. And as you can see, we're not alone in cautioning investors that today's risk-reward profile may not be as compelling as it's been, and we note an unusual bifurcation of views in the marketplace, with investors broken into two camps: the first becoming more cautious, and the second showing signs of irrational exuberance.

Those in the first camp favor classic defensive asset classes, reflected in reports that money market assets have now risen to over \$7 trillion, and that the price of gold is



trading at all-time highs. On the other hand, are signals of a mature bull market with evidence of excess. Others are highlighted here, but of all the headlines that caught my eye were the classic late-stage bull market behaviors that don't always end well.

Firstly, the journal's headline that more investors are using borrowed money to buy shares. Also, the Strategas report earlier this month that highlights the prevalent use of leverage in new ETFs, as well as regulatory filings showing that over 70 new funds are planned for launch, and each of them target 300% exposure to a single stock. To us, these all feel signs like signs of an overheating market.

In today's call, we've discussed the market's performance, the bifurcations that are apparent in the market's concentration and returns in consumer spending, and an apparent divide between Main Street and Wall Street, and we've referenced to increasing concerns about the underlying economy, and some of the excesses that are typically associated with a mature risk-on bull market.

While our companies are not immune from the factors affecting the global economy, we hope that you will be reassured by some of the key characteristics of the Quality Growth Portfolio that are byproducts of highly profitable companies with durable competitive advantages, pricing power, consistent revenue and earnings, and which are not overly leveraged. In our opinion, we believe these high-quality attributes can provide resiliency, and all help to mitigate the inevitable economic challenges that will arise over a business cycle. We are comforted today that the average return on equity of the Fund's companies is 32.8%, more than twice our minimum requirement of 15%. These businesses really are operating at a very high level of profitability.

And while the Portfolio company's earnings per share growth is currently forecast to be in line with the benchmark's, at 25.2%, the variability or volatility of the Quality Growth earnings is significantly lower and more dependable than the market's 45.2%.

In the shorter term, shareholders are also rewarded by growing dividends and share buybacks, and importantly, reflecting the fortress-like balance sheets that the Portfolio companies' debt coverage remains significantly higher than those that comprise the S&P 500 Index.

For active stock pickers like Jensen, these highly concentrated market returns have been challenging, because the companies we own have been operating very well, but this has not been reflected in their share prices. And although we've experienced similar periods before, it's still frustrating to see demonstrably successful business results playing second fiddle in a risk-on market whose returns have been increasingly reliant on a handful of companies.

However, we believe it's important to recognize the Fund's characteristics in the evaluation of its performance, and we counsel that the full benefits of the discipline are typically recognized over an entire economic and stock market cycle that more closely aligns with our clients' investment horizons. This slide summarizes the Fund's performance over the last two complete stock market cycles that we define as one market peak to another.

As you can see, the most recent stock market peak-to-peak cycle was very short, from February 2020 to January 2022, and encompassed the worst of the COVID-19 pandemic lockdowns and massive U.S. monetary and fiscal stimulus that supported the economy and contributed to a significant rise in inflationary pressures. Over this cycle, the Fund's I share class delivered annualized appreciation of 24.08%, outperforming the S&P 500 Index's return.

The previous cycle was much longer and lasted from October 2007 to February 2020. As you may recall, this period includes the financial crisis and Great Recession of 2008 and 2009, the subsequent risk-on bull market driven by the Fed's low-interest rate policy, quantitative easing, and the subsequent normalization of U.S. monetary policy until the onset of the coronavirus induced bear market of February 2020. Over this long cycle, the Fund's I Shares provided a total annualized return net of expenses of 10.02%, compared to an 8.73% return from the Index. In absolute terms, this represents 44.11% of cumulative outperformance over the period.

The Fund's performance characteristics were also shareholder-friendly, with significantly lower volatility than the overall market. And the Fund captured 92% of the market's monthly upside, but only 82% of its downside.

So, as we look forward, we're comfortable with more normal levels of volatility, as in these environments, business



fundamentals should become the focus of discussion and recognition. Company-specific strengths and weaknesses typically reassert themselves as determinants of stock price movements, instead of the generalized risk-on and currently increasingly euphoric nature that has characterized the markets more recently.

We acknowledge that the secular growth opportunities offered by AI are not without merit, but everything has a price, and as we consider the economic outlook in the U.S. and globally, we are cognizant that many commentators are concerned by the perceived negative disconnect between the market's strong positive return in the third quarter and the more fragile state of the underlying economy here in the U.S. and elsewhere.

As Ben Graham famously noted, "in the short run, the market is a voting machine, but in the long run, the market is a weighing machine." Not all businesses enjoy the high-quality strengths that characterize the Quality Growth Fund, and we would urge caution for investors with exposures to lower quality or more speculative stocks, who we suspect will be in a much more perilous position as and when the market normalizes.

In our opinion, the hardest time to own quality is the best time to own it, but we only tend to recognize this truism when we look in the rearview mirror. The Fund has experienced periods of extended underperformance before, typically when investors have become myopic and find themselves on a hamster wheel of chasing high returns, and in every case, the strategy subsequently reaffirmed its value proposition. For clients and their advisors more focused on the future than the past, we believe that the case for Quality Growth has rarely been stronger.

Thank you for joining us today, and for your support of the Quality Growth Fund that we never take for granted. We remain confident that the Fund's companies remain well positioned to navigate the challenges of today, and more importantly, tomorrow.

Before we move into the Q&A section, I'd like to start by saying that usually on this call, we provide an estimate of the fund's annual capital gains distributions, but unfortunately, we're not in a position to do so today, as the calculations for 2025 are not yet complete.

What we can say is that we expect this year's distribution to be higher than it has been historically, due to larger-than-expected redemptions and higher trading activity enacted to upgrade the portfolio and other opportunistic changes. On a more positive note, the Fund recently partnered with two vendors offering programs that will minimize future realized gains on trading activity. In the short time we've had these programs in place, we've already seen a benefit to the Fund in terms of the impact to a realized capital gains reduction, and we expect this trend to continue.

We expect to provide an update later this month, and we'll communicate further at that time. In the meantime, thank you for your patience.

Please see the appendix on the following page for definitions of the financial terms discussed herein.

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.

The Jensen Quality Growth Fund is distributed by Quasar Distributors, LLC.

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Appendix

Definitions

AAA Credit Rating: The highest grade assigned by credit rating agencies, indicating an exceptionally strong capacity to meet financial obligations and an extremely low risk of default.

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

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

Earnings Per Share (EPS) Growth: Illustrates the growth of earnings per share over time. **Earnings growth is not a measure of a fund's future performance.**

High Beta: Describes a stock or portfolio with returns that tend to be more volatile than the broader market, as indicated by a beta greater than 1.0.

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.