Jensen Quality Growth Fund Quarterly Update: 2Q 2026

Hosted by Richard Clark, *Managing Director, Business Development,* and Jeff Wilson, CFA, *Portfolio Manager*

RICHARD CLARK: My name is Richard Clark, Managing Director and Head of Business Development here at Jensen. Joining me today is my colleague, Jeff Wilson, who is a portfolio manager on the Quality Growth Strategy.

Here's how we'll run things today. I'll open with a quick look at who we are and how we think about investing. Then I'll hand it over to Jeff for his quarterly update. Once he's wrapped up, we'll open the floor for Q&A. Feel free to drop your questions into the webinar portal during the call.

So, let's start with who we are. Jensen is a 100% employee-owned investment manager built around a single idea: quality investing. Val Jensen founded the firm in 1988, and that same discipline still guides us in everything we do.

We manage a little over $4 billion in assets across three strategies. Jensen Quality Growth is where it all started. Our large-cap strategy is focused on owning high-quality, value-creating businesses for the long haul. It launched alongside the firm in 1988 and has been available as a mutual fund since 1992. It's our flagship strategy and still accounts for the majority of our assets.

Jensen Quality Midcap takes that same philosophy and applies it further down the cap spectrum, with a bit more emphasis on valuation discipline. The composite launched in 2008, the fund followed in 2010, and in 2017, we sharpened the strategy's focus on fundamental business research, bringing it even closer in spirit to Quality Growth with just a mid-cap lens.

And Jensen Global Quality Growth takes the strategy worldwide – same quality discipline, bigger universe, now including companies outside the

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clientservices@jenseninvestment.com
800.221.4384

U.S. It's the newest addition to the lineup, launched in April of 2020, so it's just past the six-year mark.

That's the firm in a nutshell. And what actually drives our investment philosophy? Put simply, we invest for the long term in businesses that grow and create value. Nothing more complicated than that.

To find those businesses, we dig into the things that actually sustain value creation over time: competitive advantages, free cash flow generation, and consistency of business models. We're not chasing explosive growth. We want steady, durable, predictable growth we can count on. And valuation still matters. We build discounted cash flow models on every stock in the portfolio, and we only invest when shares are trading below our estimate of intrinsic value.

So why does that matter? Two reasons. First, it gives us a margin of safety alongside long-term pricing risk. And second, it maximizes the odds that business results and share price actually converge over time. Put it all together, and what you get is a portfolio of high-quality businesses bought at a fair price.

So with that, let me hand things over to Jeff, who will walk you through this quarter's performance and portfolio changes.

JEFF WILSON: Thanks, Rich. I'll start with a review of the investment performance for the Jensen Quality Growth Fund during the second quarter. As you can see, the Fund returned 10.79% for the period, trailing the S&P 500 Index by 441 basis points, which had a return of 15.20% for the period.[1]

Now, we were active during this period, and part of that was due to the unique nature of the market, and part of it was opportunities that fit within our discipline.

Looking at what drove the second quarter, the Fund's performance was impacted by a continuation and, arguably, an acceleration of the high-beta rally witnessed since the April 2025 Liberation Day market lows. While the next slide will provide a visual of this dichotomy, you'll see here on this Style Factor attribution table that several high-quality factors remained out of favor during the period, acting as a notable headwind for our investment discipline, with Q2 returns driven primarily by lower quality factors – notably, volatility and short-term momentum.

Now, this is the chart that I was alluding to. It's a good illustration of the risk-on market environment we've been operating in since April 2025, which, as you can see, really accelerated during this Q2 period. This chart shows a sharp bifurcation between the S&P 500 High Beta Index, which was up 134% from those April lows through June 30th, relative to pretty muted performance from the S&P 500 Low Volatility Index, up only 13% through the same period – a 121% gap since those April lows.

As we'll discuss in the Outlook section, we've observed strong earnings growth and record margins that have supported broad market and company-specific gains, particularly in AI infrastructure-exposed companies and more recent beneficiaries of supply chain bottlenecks, earning truly remarkable profits.

The sustainability of those profits is an open question, and worth monitoring. This high-beta market environment isn't one where we would expect to outperform necessarily — as high-quality companies inherently skew toward the lower volatility end of the spectrum due to high recurring cash flows, conservative balance sheets, and more consistent versus cyclical growth — we are encouraged by the underlying health of the portfolio companies we hold.

While earnings, free cash flow growth, and outlooks have been strong, they have not been met with full-fledged enthusiasm relative to higher-octane stocks. But we are firm believers that over the long run stock prices closely follow sustainable earnings and free cash flow growth and will ultimately be rewarded.

Additionally, this concentrated momentum market afforded us attractive entry points for four new portfolio companies in Q2 that we'll detail shortly. In times like these, where speculation is rampant and capital is abundant, we believe it's important for investors to remain disciplined.

To closely monitor the underlying health of the business fundamentals and sustainability of competitive advantages

[1] *Performance data quoted represents past performance and is no guarantee of future results. 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 may be lower or higher than the performance data quoted. For the most recent month-end performance, please call (800) 992-4144 or visit the Fund's website at www.jenseninvestment.com.*

within their portfolios, many of the portfolio changes I'll profile are a result of this exact discipline.

In terms of attribution, stock selection within Industrials, Technology, and Financials weighed on relative performance, partially offset by stock selection in Communication Services. We'll now examine our largest individual contributors and detractors shown on the side panel there, during the period in greater detail.

The Fund's top individual contributor in the second quarter was KLA, with shares up a remarkable 105% during the second quarter. KLA is the dominant player in process control within semiconductor manufacturing, with over 56% global market share, roughly six times its nearest competitor. Process control intensity structurally grows as chips become more complex. AI use cases require even more process control tooling across advanced packaging, high bandwidth memory (HBM), and leading-edge logic. Within a notoriously cyclical industry, KLA stands out due to its leading gross margin profile within semi-cap equipment, a stable and growing services business, and disciplined capital-allocation philosophy. Importantly, we believe KLA benefits regardless of which architecture or customer wins, due to its dominance and ubiquity within leading global fabs.

The Fund's top individual detractor was Abbott Laboratories, detracting roughly 37 basis points, with the stock down about 11% during the period.

Abbott is a diversified healthcare company across medical devices, diagnostics, nutrition, and established pharmaceuticals, with its businesses benefiting from sustainable competitive advantages, including scale and regulatory barriers. Shares fell during the period as its nutrition and diagnostics businesses experienced near-term headwinds, which overshadowed otherwise strong results in its medical device and pharma segments, both up high single digits, and which combine to represent over 60% of recent quarter sales.

Here's where you can see our activity and I'll offer some perspectives on these portfolio changes during the period.

We took advantage of attractive investment opportunities within our investable universe, adding four new positions to the portfolio in the second quarter, and bolstering two existing positions that warranted higher weights in the portfolio.

In terms of these new additions, as you can see, we initiated positions in several high-quality companies, including Amphenol, Cintas, IDEXX, and TJX, and made key adds in Motorola Solutions and Waste Management. Both of these companies are quality defensive businesses that we actually trimmed at higher valuations in recent periods and they warranted higher weights after valuation growth prospects aligned to become more attractive during Q2.

Funding for these new positions and additions included the full sale of Intuit and material trims to KLA and Alphabet, following strong share price appreciation, among other funding sources.

We believe these actions taken in the portfolio serve to broaden portfolio diversification and increase exposure to a variety of businesses with exposure to resilient end markets, attractive reinvestment opportunities, and long runways of compounding growth across various market environments, with each addition offering a compelling entry point from a quality, growth, and valuation perspective.

The first new portfolio company that we'll discuss is TJX Companies. TJX is the leading off-price retailer, and includes TJ Maxx, HomeGoods, and Marshalls branded stores. We believe off-price offers an attractive and growing niche within retail, offering a more durable revenue and earnings growth profile across economic cycles. TJX itself is a highly resilient business model. As the clear leader in off-price, it benefits from sustainable competitive advantages, including global scale in its sourcing capabilities and long-standing vendor relationships that are difficult to replicate. Its brand is known for quality among its customers, and it is a cash buyer for discrete liquidation of excess inventory among a highly inefficient retail ecosystem.

We have owned TJX in the past, have followed the company closely, and watched for an attractive entry point, like the one we got this quarter.

Next, we purchased Cintas Corp, the leading provider of uniform rental and laundry services. Cintas benefits from economies of scale, with three times the market share of its next largest competitor in an industry where scale really matters, and provides significant benefits to profit margins by leveraging fixed assets and maximizing route density.

Additionally, the company benefits from a strong brand and moderate barriers to entry and switching costs driven by startup capital requirements and transition costs. We believe this is a high-quality business, with high returns on capital and more economic resilience than its occasional stock price volatility may suggest. Cintas is in the process of acquiring the number three player in the industry, UniFirst, which could further bolster its scale and route density lead. We believe uncertainty surrounding the deal may be casting a non-fundamental overhang on the stock. We determine shares to be attractively priced with or without the deal closing, and we added the company to the portfolio in June.

Next is IDEXX Labs, also a company that we've had on our wish list. It's a leading provider to and producer of veterinary diagnostics tests and testing equipment, as well as integrated vet practice management software. This is a very high-quality business, as it benefits from an installed base of instruments with high customer switching costs, resulting in very high customer retention, recurring revenue in part driven by a razor-razorblade type of consumables model, and testing volumes that gear more toward acute needs versus optional testing. This results in high earnings stability and predictable and profitable growth. Alongside a pristine balance sheet, it makes entry points a rarity, and the stock often looks expensive.

We believe investors, in part due to indexation and basket trading, may have lumped IDEXX in with the broader medtech industry despite a distinguished profile. Regardless of the cause, we found that shares were attractively priced during the period and opportunistically added it to the portfolio.

The final new purchase during the period was Amphenol, and it's a familiar one. Amphenol is a business we've owned for the majority of the past two decades and was sold purely based on valuation discipline. The business itself is performing wonderfully, and we continued to monitor it closely for an opportunity to add it back to the portfolio, and we got that opportunity here recently.

Amphenol is a highly diversified leader in global electronic connectors and sensors, with its products sold into military, aerospace, industrial, mobile, and technology markets. Within IT, Amphenol is well-positioned within data center componentry and then participating in that build-out.

Next slide. Now, this will be a familiar slide for those of you who have invested with us for a long time — it's our valuation assessment. It's really illustrative of what we're trying to seek, and it fits because of some of the opportunities that we pursued this quarter. All these examples, the four companies that I just profiled, fit our criteria for quality growth businesses, with proven track records and business profiles, able to compound shareholder value over very long periods of time.

As Rich alluded, we use proprietary discounted cash flow (DCF) models for every portfolio company and bench candidate to determine intrinsic value estimates and look for opportunities to proactively use periods of over- and undervaluation to trim and add, respectively, to positions. Our fundamental research process aims to identify and concentrate in compounding growth businesses, resembling the orange line there, and avoiding stagnating businesses, as depicted by the gray line, that don't compound value over time.

Amid a dynamic market environment, we've spent considerable time redoubling efforts to assess the durability and sustainability of competitive advantages across the portfolio, which has informed recent portfolio actions in certain cases on both the buy and the sale side of the ledger. We are comforted by the continued growth in sustainable earnings and free cash flow within our portfolio of high-quality businesses. And we're happy to take advantage of mispricing opportunities as investors focused disproportionately on momentum and volatility-oriented securities. Ultimately, we believe long-term correlations between stock prices and per share value creation will hold, rewarding discipline and patience in the long run.

Now, we will enter our Outlook section. This will carry on through the balance of the prepared remarks, and then we'll open up the call to Q&A.

We've broken this down into positives, negatives, mixed, and some of the implications for our portfolio. First, there are several positives to highlight, including resilient economic growth, anchored inflation expectations, and, most notably, robust profits and margins that have helped propel share prices higher. And it has not strictly been multiple expansion; this has been real underlying profit growth.

On the other side, headwinds we're monitoring include high multiples and rising bond yields, both acting as a headwind to go-forward stock returns for the broader market, a Fed easing cycle that's been disrupted by resurgent inflation and the conflict with Iran, and investor enthusiasm witnessed, particularly in Q2, with dramatic upside moves in real and perceived AI winners and beneficiaries of supply chain bottlenecks, rewarded with supernormal profits. As noted, high beta has trounced low volatility over the past fifteen months, and this trend only accelerated this past quarter.

Other considerations within the mixed camp are geopolitical uncertainties and various paths to de-escalation, the fact that U.S. net interest expense now exceeds defense spending, and a frozen housing market despite likely pent-up demand. And as we've mentioned, despite negative disconnect between strong fundamentals for the companies that we own, and share prices in certain cases, we believe the linkage between earnings per share (EPS) and free cash flow growth and shareholder value creation will ultimately provide a highly predictive return stream over the long term.

In the meantime, we are controlling what we can control, taking advantage of what we believe are attractively priced, quality businesses as they present opportunities as evidenced by recent portfolio actions.

So, to get into specifics and visuals on the positives. Here we show how decelerating U.S. consumer spending in recent periods has contributed to U.S. gross domestic product (GDP) growth, but it's been fully offset by the ramp in non-residential fixed investment, specifically, the AI CapEx cycle and data center construction activity.

In fact, recently, data center construction now exceeds U.S. office as a category. Expectations are for this trend to continue, and if you've paid attention to earnings today or last night, it looks like that's continuing.

And while the on-again, off-again Iran conflict has captured plenty of headlines, we are specifically monitoring this metric, which is the degree of pressure on global supply chains, as this has a direct impact on transportation and input costs for many of our portfolio companies. So far, the critical role that the Strait of Hormuz plays in global trade, global trade supply chain stress has been manageable despite this, with recent signs of relief, although uncertainty and risk of escalation remain ever-present.

We're also monitoring inflation components. While inflation has accelerated, it's far below COVID peaks, and headline inflation has been primarily driven by non-core items, particularly energy prices, which tend to be more transitory.

And as a continuation, this readout shows sticky inflation has remained anchored by and large and is likely to remain so absent housing and wage components getting involved to a meaningful degree.

As it relates to business fundamentals, as I alluded, company EPS growth and outlooks show continued strength, underpinning stock price advances to a large extent. In fact, as you can see, 2027 expectations call for an acceleration in corporate earnings in part fueled by record high operating margins on the next slide, and a continuation of AI infrastructure spending.

Here we have record operating margins. Well, this is obviously a positive. We would caution that some companies and industries may be experiencing a degree of supernormal profitability that may not be sustainable over the long term, once supply and demand comes more into balance, particularly across the AI supply chain.

Now, onto some of the mitigating factors we're watching. We have some elevated multiples. The resilient economy and strong underlying profitable growth have also served to fuel meaningful multiple expansion for the market broadly – next slide – which history suggests could provide a headwind to future returns for the index, as more muted returns can be expected with starting valuations where they stand today.

Rising yields offer a similar story, with the Fed's easing cycle derailed by the Iran War, and energy price volatility rippling through supply chains and the broader economy.

And for an interesting data point, higher rates are now burdening federal budgets, with net interest expense now exceeding defense spending, with austerity nowhere in sight amid growing deficits, entitlements, and interest costs.

As for housing, the lock-in rate effect shows no signs of abating in the near term, with mortgage rates well above fixed mortgages outstanding and dependent on the Fed's path from here, and tempering otherwise pent-up demand for housing and related industries. We own Sherwin-Williams as a portfolio company, for example, a business performing admirably in a difficult backdrop by winning market share, while poised to benefit from an eventual rebound in home sales and paint gallon volumes.

We're monitoring signs of exuberance in the market, with loss-making AI startups raising capital at lofty valuations amid abundant funding, creative financing deals adding leverage and interrelatedness to the system, private credit vehicles drawing in yield-hungry investors, and surging retail activity in leveraged AI-related products. Capital markets remain supportive of financing AI build-outs across numerous structures, and we're all aware of the magnifying effects that liquidity and leverage can have when combined with both rational and speculative behavior.

What has us concerned is the degree to which "this time is different" is being used to describe what have long been notoriously cyclical industries, and we think patience and prudence are necessary to successfully navigate today's market environment.

Shown here are historic bubbles for context. Bubbles are normal, but they're often only visible with clarity, with hindsight. Will Korean stocks and memory-supply constraints be in or produce a bubble? Perhaps. We feel that appropriate caution is warranted when enthusiasm, surplus capital, and speculation are this abundant. And that's where we're sticking to our discipline.

As discussed earlier, volatility and momentum have ruled the day in recent periods, with Q2 seeing an acceleration of this trend, with the bifurcation of high beta versus low volatility stocks, indicative of market enthusiasm and risk-taking behavior.

And no matter what metric you use, it's hard to argue that U.S. broad stock markets are not expensive. Fortunately, we believe there are exciting opportunities within our quality investable universe, and represented within our portfolio of 28 quality businesses.

As shown here, our portfolio characteristics in aggregate represent a significantly higher return on equity (ROE) profile, more stable EPS variability, and superior financial strength. Quality companies tend to consistently trade at a premium to the broader market, and deservedly so, in our view, while offering favorable risk-reward profiles, especially when timeframes are extended to allow compounding benefits to these companies.

As of June 30th, the Jensen Quality Growth Fund held 28 high-quality businesses that collectively continue to grow and create shareholder value for long-term holders via sustainable and profitable growth, which we believe share prices will reflect over the long run, with patience and discipline critical in the meantime.

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

Definitions

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

Capital Expenditures (CapEx): Cash outlays a company makes to acquire, build, upgrade, or extend the useful life of long-lived assets. CapEx is typically recorded as an investment on the company's balance sheet and can be calculated by adding current depreciation to the change in property, plant, and equipment (PP&E). (Investopedia)

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).

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

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

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

Gross Domestic Product (GDP): An inflation-adjusted measure that reflects the value of all goods and services produced by an economy or country over a specified period, expressed in base-year prices.

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.

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.

Operating Margin: A company's operating margin is the amount it makes on every dollar of sales after deducting the variable costs involved but before accounting for interest or taxes. Operating margin is calculated by dividing the company's operating income by its net sales. (Investopedia)

Razor-Razorblade Model: A pricing strategy in which a primary product is sold at or below cost, while a related consumable product generates profits and recurring revenue.

Return on Equity (ROE): Equal to a company's after-tax earnings (excluding non-recurring items) divided by its average stockholder equity for the year.

S&P 500 High Beta Index: Measures the performance of the 100 S&P 500 constituents most sensitive to changes in market returns, based on each stock's beta.

S&P 500 Low Volatility Index: Measures the performance of the 100 least volatile stocks in the S&P 500, with lower-volatility stocks receiving higher weights.

Sticky Price Consumer Price Index (CPI): An inflation measure, produced by the Atlanta Fed, that tracks a weighted basket of goods and services whose prices change infrequently, helping to capture underlying or persistent inflation trends.

The Jensen Quality Growth Fund's investment objective, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus for the 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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5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384

jenseninvestment.com