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INVESTMENT MANAGEMENT

TRANSCRIPT
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Jensen Quality Growth Fund Quarterly Update: 3Q 2026

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

ALLEN BOND: My name is Allen Bond. I am a portfolio manager on the Jensen Quality Growth Strategy. I am joined on the webinar today by my colleague, Tyra Pratt.

During the call, I will begin with a brief overview of our firm and investment philosophy, Tyra will then cover quarterly performance trends and portfolio changes, and 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, so please submit your questions at any time into the webinar portal.

The first slide here is a snapshot of Jensen Investment Management. Jensen is an employee-owned investment management company focused on quality investing strategies. The company was founded in 1988 by Val Jensen, and today we manage about $4 billion in assets across four different strategies.

The first strategy is Jensen Quality Growth. It is a large-cap equity strategy focused on the high-conviction 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, it accounts for the vast majority of the firm's assets, and it will be the focus of the webinar today.

Next is Jensen Quality Mid Cap. It is a mid-cap strategy focused on investing in mid-sized, high-quality businesses, but with a bit more focus on stock price valuation. The Composite for the Strategy was launched in 2008, the Fund was launched in 2010, and the Strategy was essentially rebooted in

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2017 by focusing on fundamental business research very similar to that of the Quality Growth Strategy. So today, the Strategy is best thought of as very similar to Quality Growth, but with a focus on mid-sized businesses.

Next is Jensen Quality Global. It is very much an extension of Quality Growth, with an expanded investable universe that includes businesses that are domiciled overseas. The Strategy and the Fund were launched in April of 2020, and this year, the Fund achieved its six-year investment performance track record.

Lastly is our newest product, and that is the Jensen U.S. Quality Index. This is a large-cap ETF that owns the top 100 stocks by market cap in our long-standing investable universe of businesses that have generated a return on equity of at least 15% for at least 10 years in a row. The ticker for the ETF is JQTY, and the ticker for the underlying index is JQUI.

We launched the product in late September, and we believe it is a compelling product for investors who want broad quality exposure.

So, this slide summarizes our investment philosophy, and I think a 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 attractive growth opportunities.

We also pay close attention to stock price valuation, and 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. And the importance of this valuation discipline is twofold for us. The first is that we believe it provides a margin of safety to manage against long-term pricing risk and uncertainty. And secondly, we believe it maximizes the chances of traction between the results from the business and the share-price appreciation over the long term. The result, in our view, is a portfolio of high-quality, fairly valued stocks.

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

TYRA PRATT: Thanks, Allen. I will start with a review of the investment performance for the Jensen Quality Growth Fund during the quarter. As you can see, the Fund returned 2.34% during the quarter, roughly in line with the benchmark.[1]

The third quarter represented a more measured market environment following the strong equity market gains in the second quarter. Enthusiasm around some of the perceived AI beneficiaries moderated while interest rates moved higher amid renewed inflation concerns. This provided a somewhat more favorable backdrop for our Quality Growth approach.

Moving to the next slide, we'll look at Style Factor performance for the quarter. As you can see, Quality factors generally outperformed, particularly Earnings and Sales stability, while Value factors also performed well. Conversely, Momentum experienced a sharp reversal following strong performance earlier in the year. Overall, this suggests investors became more selective, placing greater emphasis on business fundamentals and valuation.

Turning next to attribution, Stock Selection was a primary contributor to relative performance, particularly within Industrials and Financials. This was partially offset by weaker selection in Technology and Communication Services. Our lack of exposure to Energy also detracted as the sector performed strongly during the quarter.

At the individual holding level, Microsoft and Veeva were our largest contributors, followed by Apple, Nvidia, and Mastercard. KLA was our largest detractor, while Stryker, Cadence Design Systems, Waste Management, and Broadcom also weighed on results.

Moving to the next slide, I want to highlight two companies that had the largest impact on performance. Starting with Microsoft, our largest contributor added approximately 242 basis points to performance as shares increased 38% during the quarter.

Microsoft holds a dominant position across enterprise software and cloud computing, with its products deeply embedded in customer workflows. Its breadth across productivity, cloud, operating systems, security, and

[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.*

developer tools creates significant switching costs and allows Microsoft to leverage its existing customer relationships as new technologies emerge. This provides multiple avenues to monetize AI across Azure, Microsoft 365, and GitHub. Shares responded favorably to strong fiscal year-end results and outlook, highlighted by Azure growth accelerating to 43%, its fastest pace in four years.

We continue to view Microsoft as well-positioned to benefit from AI over the long term, supported by its entrenched enterprise relationships, broad technology platform, and disciplined approach to investment.

Our top detractor for the quarter was KLA, which detracted roughly 189 basis points, with the stock down about 35% during the quarter. KLA is the dominant provider of process control equipment used in semiconductor manufacturing, with more than 50% global market share. The company benefits from increasing chip complexity, which requires greater inspection and process control intensity across leading-edge logic, high bandwidth memory, and advanced packaging.

After being our strongest performer earlier in the year, KLA shares pulled back alongside broader weakness in semiconductor equipment. Importantly, underlying fundamentals remain strong, and our long-term thesis has not changed. We had trimmed the position following its earlier appreciation as valuation became less attractive, which helped limit the impact of the subsequent decline.

Moving to portfolio activity, we took advantage of several attractive opportunities within our investable universe, initiating two new positions and adding to three existing holdings. Our two new positions were American Express and Intuitive Surgical.

American Express is a global payments and lending company focused primarily on affluent consumers and businesses. We were attracted to its premium brand, closed-loop network, and loyal customer base, which support attractive returns and multiple avenues for growth. We believe the company can generate double-digit earnings growth, and the valuation provided a reasonable entry point.

Intuitive Surgical is a global leader in robotic-assisted surgery through its DaVinci platform and is a company we have followed for a long time but historically found difficult to own given the valuation. We view Intuitive as one of the highest quality businesses in healthcare, with a strong moat built around its installed base, surgeon training, and integration into hospital workflows. We also see a significant runway for robotic surgery penetration, and recent multiple compression finally provided a more attractive entry point.

During the quarter, we also added to three existing positions: TJX, Cintas, and IDEXX Laboratories, where we saw attractive valuations supported by continued strong fundamentals.

On the sales side, we exited McDonald's and Meta during the quarter as changes in the underlying businesses led us to reassess our original investment thesis and prospective risk-reward.

For McDonald's, concerns around traffic, pricing power, and execution reduced our confidence in the original investment thesis. We ultimately decided to exit the position and reallocate capital towards businesses where we have greater conviction in the long-term growth outlook.

Our decision to exit Meta was driven by different considerations. The core business and competitive advantages remained very strong, but the significant acceleration in capital spending raised questions about future returns and widened the range of potential outcomes.

While recent AI developments are encouraging, the uncertainty surrounding these investments changed the risk-reward relative to our original thesis and led us to exit.

During the quarter, we also trimmed positions in NVIDIA, Stryker, and Sherwin-Williams to manage position size and reallocate capital towards new opportunities.

Overall, we believe these changes improve portfolio diversification while reallocating capital towards high-quality businesses with durable competitive advantages and attractive long-term growth opportunities. With that, I'll turn it back over to Allen to discuss our outlook.

BOND: Okay, thank you, Tyra. So, moving on to our thoughts on market trends and our outlook. We'll start with a quick look back at the third quarter. We saw evidence of the so-called "tug-of-war between fear and greed" in terms of investor sentiment, and it tipped in favor of fear in the third quarter, as high-quality stocks outperformed, like Tyra mentioned. And we also saw a pause in strength among high beta stocks after an exceptional run in the second quarter. Furthermore, this flight to quality has accelerated thus far during the first several weeks of the fourth quarter.

Looking forward to the remainder of the year, the macroeconomic environment looks increasingly complex due to a combination of higher interest rates, higher-than-expected inflation, a shift towards hawkish Fed policy, and significant uncertainty surrounding the results and implications of the U.S. midterm elections.

That said, underlying business fundamentals, namely earnings growth and profitability advances, remain supportive of stock prices and further stock price advances. And ultimately, we believe that market sentiment will be heavily influenced by the trajectory of the AI-driven investment cycle. To that end, investors should expect at least one IPO from a prominent large language model company later in the quarter, which we believe will bring incremental and meaningful transparency into the economics of the frontier LLM business model.

Our approach in this environment remains unchanged. We remain laser-focused on long-term business quality and poised to patiently take advantage of market volatility for entry and exit opportunities that can upgrade the portfolio.

So, this slide illustrates what we think was a dramatic change in market sentiment between the second and third quarters, which is illustrated in starkly different factor attributions between the two periods. We have circled here the reversal of the Quality factor that's shown in purple bars from significantly out of favor in the second quarter to very much in favor in the third quarter.

And beyond the Quality factor, this analysis shows a sharp reversal in nearly all market factors. Notably, Value and Yield factors mirrored the strength in Quality factors during the third quarter, while investor sentiment soured on Volatility and Momentum factors. This is one of the first cracks in the so-called "AI trade" that we've seen in nearly two years, and we believe it's due primarily to increasing scrutiny about how this AI investment cycle will be financed. And from our end, we welcome this scrutiny, we welcome the scrutiny into the sustainability of AI investment financing because it's consistent with our approach of owning only the best-capitalized AI beneficiaries.

This slide shows the performance of high beta stocks relative to low volatility stocks since Liberation Day in early April 2025. As we discussed on the last webinar, high beta shares have trounced low volatility shares during this period. And even though we don't focus solely on low volatility, we do believe this trend was a headwind to our relative performance, particularly in the second quarter of this year. However, we do see signs that this trend is moderating. Low volatility shares largely remain out of favor, but the extreme outperformance of high beta shares has stagnated.

Furthermore, this sentiment trend away from high beta stocks has strengthened thus far in October, which we believe has been a tailwind to our relative performance.

Moving on to the interest rate environment, this slide shows the yield on a 10-year Treasury note over the past two years. As you can see, the yield has sharply increased over the past month, and sets the stage for a complex macroeconomic and political environment in the coming months.

One example, that's occurring right now is this trend has exacerbated the financing concerns surrounding the AI investment cycle, to which we previously alluded, and in particular, presently appears to be adding to the financial distress of certain aggressively financed neocloud businesses, none of which we own, and none of which exist in our investable universe.

We believe the move higher in Treasury yields is linked with an unexpected uptick in inflation. On this chart, we show the 10-year trend in the Consumer Price Inflation (CPI) Index, which shows a notable increase in 2026.

Furthermore, the most recent print on the Producer Price Inflation (PPI) Index also came in much higher than expected, which suggests that so-called pipeline inflation is elevated as well, and raises the risk that cost increases borne by producers are ultimately passed along to consumers in later periods. Much like we discussed during the inflationary episode in 2022, we believe our portfolio is relatively well-positioned for this environment due to our focus on businesses with competitive advantages and pricing power.

Higher inflation has meaningful implications for U.S. Federal Reserve policy. As you can see in this chart, investor expectations surrounding the federal funds rate have reversed sharply since the beginning of the year. In particular, investors began the year expecting monetary easing to continue, expecting two to three more rate cuts by year-end. Now, investors expect three to four rate hikes over the next nine months. This reversal has meaningful implications for market return expectations shown on the next two slides.

This slide shows the total change in the Fed Funds rate over previous tightening cycles. The magnitude of this change obviously varies, but perhaps the most important takeaway is that increases to the federal funds rate are often not one and done. Investors, in our view, should therefore expect hawkish Fed policy to continue for some time.

Furthermore, Fed tightening cycles are often linked with meaningful equity market drawdowns. On this slide, we show the maximum S&P 500 drawdown that occurred during each previous tightening cycle. Notably, the most recent tightening cycle in 2022 and 2023 may be a good corollary for the current environment, as monetary tightening in that period was also due to a rapid and unexpected increase in inflation. Likewise, as you may recall, high-quality stocks fared relatively well during the bear market in 2022.

Moving along to the U.S. political cycle, the upcoming midterm elections could further exacerbate this complexity. As you can see in this slide, midterm election years have produced notably weak investment returns over the past 30 years. It is hard to know the exact cause for this phenomenon, but we do know that markets generally dislike uncertainty, and that midterm results can lead to meaningful change and uncertainty in the political and regulatory landscape that impacts stock market returns.

On this slide, we drill down even further on stock market trends during midterm election years. If you look closely, you can see that the average low point during these years happens just prior to the election date. So, based on this trend, perhaps we should not be surprised by the recent uptick in volatility that we've seen in the market during the past few months.

That said, despite higher recent volatility, the market is still trading near all-time highs. In our view, broad-based earnings strength, as depicted in this chart, remains supportive of market advances. Specifically, this chart shows that expectations for third-quarter earnings growth have steadily risen over the past five months, which mirrors other longer-term measures. In any case, we believe this trend is directionally reflective of increasing investor confidence in the broad financial outlook.

A key driver of this earnings growth has been margin expansion. As you can see in this chart, margins for S&P 500 Index companies have increased significantly over the past two years. We attribute this rise primarily to the influence of technology and technology-adjacent companies. These companies tend to have relatively high margins. These margins have increased, in part due to cyclical strength. And these companies now comprise a much greater portion of the overall index.

However, as you can see, this series does tend to mean revert over time. So, the ongoing margin expansion has been beneficial to stocks, but eventual mean reversion to an unknown degree indicates the potential for a longer-term headwind.

All that said, we believe investor sentiment linked with the trajectory of the AI investment cycle will be a key determinant of market direction. One way to measure this trajectory is via capital spending on new data centers, and this slide shows the trend in these investments relative to general office construction spending over the past decade plus.

As you can see, data center capital expenditures (CapEx) increased dramatically in the aftermath of the first ChatGPT launch in late 2022, and surpassed office CapEx spending less than three years later.

Looking forward, we see two key events that could determine the perception of the AI trade. First, as we've discussed, midterm elections are happening in a few weeks from now in early November. And specific to the AI trade, given the widespread voter antipathy about AI, and specifically about the data center build-out, we think the chances are higher that we could see policy responses to issues, such as power consumption and electricity costs, after the midterm election process concludes.

And then beyond the political cycle, as we mentioned, we also expect the initial public offering of at least one of the large frontier LLM companies, and financial filings related to this event, some of which have actually leaked out already, should provide meaningful incremental transparency into LLM economics, including revenue growth, profitability, and cash usage.

So, as we mentioned, despite all these uncertainties, our investment approach remains consistent. We remain first and foremost focused on enduring business quality, while being poised to take advantage of market opportunities to upgrade the portfolio. And I wanted to talk about a couple examples where we've tried to achieve this goal so far this year.

The first has to do with our position in Veeva Systems. Veeva is a software company that provides software to the life sciences industry to help manage drug pipeline research and customer relationships in that industry. The stock was very weak in the first half of the year. It got dragged down in the broader SaaSpocalypse trend that we've talked about, and at the time, we thought the negative sentiment specific to Veeva was overblown. Veeva has really, in our opinion, very powerful competitive advantages. Their software's very integrated into their customers' workplaces. There are regulatory headwinds that create friction for quick switching away from Veeva. And so, we added to the position by about 90% during the first half of the year, and were thankfully rewarded in the third quarter. As Tyra noted, Veeva was our second leading contributor to performance, and I think was one of the top stocks in the S&P 500 during the quarter. So, an example of us saying, "hey, the market's thinking one thing, but our long-term research suggests another," and we took action to benefit from that.

The second example is a bit of a counterexample, and Tyra alluded to it. That's in KLA Corporation. Tyra talked in detail about KLA's business model, so I won't repeat that, but in our view, KLA is an extremely high-quality business, and perhaps the highest quality business within the semiconductor equipment space. And that's been the foundation of our ownership thesis for over three years. The stock did incredibly well during the first half of the year, and it was by far our best-performing stock, but as Tyra mentioned, the stock price got a bit ahead of fundamentals in our view, and so we reduced the position pretty aggressively by about 50% during the first half of this year, and so even though it was the portfolio's largest detractor, we think that proactive move mitigated the negative effect and allowed us to reallocate proceeds to other higher-return, more attractive opportunities at that point in time.

So, to comment a little bit on the characteristics that are shown on this page. We think the big takeaway here is that what you see is consistent with our goal of creating and managing a high-quality portfolio. The portfolio's return on equity (ROE) percentage remains robust, the portfolio's earnings per share (EPS) variability is significantly lower than that of the benchmark, and the portfolio's dividend per share growth, which we think is an extension of free cash flow and free cash flow growth, is higher than that of the benchmark.

So, in conclusion, we want to thank all our clients for their support and their continued confidence in the Quality Growth Strategy. We certainly do not take that for granted and genuinely appreciate that confidence.

Definitions

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

Beta: A measure of the volatility of a stock's total returns relative to the broader market, as represented by a corresponding benchmark index. A beta above 1.00 indicates greater volatility than the market, while a beta below 1.00 indicates lower volatility than the market.

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)

Consumer Price Index for All Urban Consumers: All Items is a price index of a basket of goods and services paid by urban consumers. Percent changes in the price index measure the inflation rate between any two time periods. The most common inflation metric is the percent change from one year ago. It can also represent the buying habits of urban consumers. (U.S. Bureau of Labor Statistics)

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.**

EPS Variability: Measures the variability of annual EPS over the last 10 years. A high EPS variability number indicates that the portfolio is more heavily invested in companies with volatile earnings streams.

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

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)

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.

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 them 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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