JENSEN
INVESTMENT MANAGEMENT

ALL QUALITY IS NOT CREATED EQUAL

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WHITE PAPER | A Series of Reports on Quality Growth Investing | jenseninvestment.com

Introduction

Jensen Investment Management has managed the Quality Growth Strategy for more than twenty years. Since its inception, we deliberately created an investment process that we believe blends the 'art' and 'science' of stock selection and portfolio management to build the portfolio one company at a time.

Jensen Methodology

Quantitative tools, or the 'science' – such as our 15% Return on Equity (ROE) requirement – can serve as a hedge against behavioral biases. And the 'art', qualitative inputs such as team-driven portfolio construction and rigorous internal research, allows for critical thinking and nuanced decision making. In our view this balanced approach is critical and has served us well in managing the Strategy through multiple market cycles.

In terms of investment results, the Strategy's goal remains superior risk-adjusted investment returns over a full market cycle. We use a variety of benchmarks – both external and internal – to measure investment performance. Externally, we remain comfortable comparing our returns to those of either the S&P 500 Index or the Russell 1000 Growth Index, especially when measured over longer time periods.

However, we are aware that our bias towards quality can have a meaningful impact on performance versus the broader market. As a result, we often compare our returns to the universe of high-quality companies as defined by the S&P Quality Rankings as a way to analyze and explain this impact.

The S&P Quality Rankings System has been in use since 1956. It scores companies into nine quality buckets, and at Jensen we consider the top three buckets (i.e., those with a grade of A- and greater) to be high quality ("S&P High Quality"). Scores are quantitatively determined based on the growth and stability of earnings and dividends over the most recent 10-year period.

Benchmark of High Quality

At Jensen, we define quality somewhat differently. Our primary quality metric is high and consistent ROE. Beyond this requirement, we focus more broadly on quality characteristics such as competitive advantage, Return on Invested Capital, and free cash flow. However, we find that S&P High Quality is often a good proxy for measuring the investment performance impact of our portfolio's consistent overweight to high quality stocks. For example, over the past five and ten years, the Strategy's average weightings in the stocks deemed high quality by the S&P Quality Rankings was 75.4% and 76.4%, respectively.

Importantly, there is generally a good correlation between the investment returns from our strategy and those of S&P High Quality. However, as shown in Table 1, there is an important caveat to that statement as this relationship does not always hold.

Table 1: Historical Annualized Returns by Quality (through 12/31/15)

Total Return - Annualized	1-year	3-year	5-year	10-year
Jensen Quality Growth Fund - J Shares (net)	1.55%	14.50%	11.02%	7.77%
S&P 500 Index (gross)	1.36%	15.12%	12.56%	7.30%
S&P High Quality* (gross)	2.50%	14.87%	12.32%	6.11%
S&P Low Quality** (gross)	0.72%	15.32%	12.55%	8.09%

** S&P High Quality are those S&P 500 Index consituents rated A- or above in the S&P Quality Ratings.*

*** S&P Low Quality are those S&P 500 Index constituents rated B+ or below in the S&P Quality Ratings.*

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 highter than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800.992.4144. Performance shown is for the Class J Shares; performance for other Fund share classes will differ. The J Shares annual operating expense ratio is 0.87%.

Performance trends for S&P High Quality and the Jensen Quality Growth Fund tracked reasonably well over the past one, three, and five years. S&P High Quality slightly outperformed the Jensen Quality Growth Fund in each of these periods, both strategies outperformed the S&P 500 Index in the past year, and both strategies lagged the S&P 500 Index returns over the past three and five years.

However, S&P High Quality significantly underperformed the Jensen Quality Growth Fund, the S&P 500 Index, and S&P Low Quality over the past ten years. We think the divergence over this period has important implications and its underlying cause becomes clearer when we analyze the individual constituents in S&P High Quality and how they impacted investment returns during specific periods.

Measuring 'Peak-to-Peak'

As mentioned, we strive to make investment decisions based on our expectations for a full market cycle. To measure this approach, we analyze investment returns from one peak in the market to the next peak. Most recently, this period is 10/9/07 – 5/21/15 which encapsulates much of the past ten years as illustrated in Table 2.

The performance patterns in this period for Jensen Quality Growth Fund and S&P Low Quality are relatively intuitive. The Jensen Quality Growth Fund captured 80.6% of the S&P 500 Index's downside in the 'Peak-to-Trough' period and 89.1% of the Index's upside in the 'Trough-to-Peak' period. We believe this performance pattern of measured downside protection paired with solid upside participation is consistent with our strategy's bias towards high quality businesses and its therefore defensive 'tilt'.

Table 2: 'Peak-to-Peak' Annualized Returns

Total Return - Annualized	"Peak-to-Peak" 10/9/07 - 5/21/15	"Peak-to-Trough" 10/9/07 - 3/9/09	"Trough-to-Peak" 3/9/09 - 5/21/15
Jensen Quality Growth Fund - J Shares (net)	7.39%	-34.93%	20.41%
S&P 500 Index (gross)	6.43%	-43.34%	22.91%
S&P High Quality (gross)	5.10%	-42.25%	20.94%
S&P Low Quality (gross)	7.38%	-43.84%	24.58%

Conversely, S&P Low Quality captured 101.2% of the S&P 500 Index's downside while capturing 107.3% of the Index's upside. This is somewhat of a mirror image to the performance of the Jensen Quality Growth Fund and we believe a good example of the tradeoff in low quality stocks between higher returns and higher volatility.

This relationship between return and volatility, however, did not hold true for S&P High Quality. S&P High Quality captured 97.5% of the S&P 500 Index's downside in the 'Peak-to-Trough' period while capturing 91.4% of the Index's upside in the 'Trough-to-Peak' period. What explains S&P High Quality's relatively weak downside capture during this period?

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Quantitative and Qualitative Synergy

In our view, the simple answer is that the quantitative tools used to create the S&P Quality Rankings failed to accurately assess quality during this period. The result was steep stock price declines for companies included in S&P High Quality supported by business models ultimately proven unsustainable. Specifically, the following well-known companies (of which only one, Wells Fargo, was owned by the Fund) were included in S&P High Quality during this period:

- Washington Mutual and Lehman Brothers – both forced to declare bankruptcy.
- Merrill Lynch, Wachovia Corp, Countrywide, and Bear Stearns – all sold due to financial distress.
- Citigroup, Bank of America, Wells Fargo[1] , American International Group, American Express, Goldman Sachs – all accepted government help under the Troubled Asset Relief Program (TARP)[2].

[1] Note: during the 'Peak-to-Trough' period, the Quality Growth Strategy held an average weighting of 3.71% in Wells Fargo and estimate that the position detracted 254 basis points from the Strategy.
[2] "Bailout Recipients". ProPublica. Retrieved Feb. 22, 2016

Admittedly, the investment process we use to manage the Quality Growth Strategy emphasizes historical business results. Specifically, we have found that a 10-year track record of high ROE is a good indicator of competitive advantage and that a high ROE track record tends to remain persistent in the future. However, this is not true in all cases as even the best business models can succumb to competitive or economic pressures. For that reason, the crux of our internal research and monitoring efforts focus on the long-term viability of the business models that support our investments.

Bottom line, we think the above example of S&P High Quality returns during the past bear market illustrate the importance of using both quantitative and qualitative inputs in determining attractive investment opportunities. In our business, we are often reminded that 'past performance does not guarantee future results' when assessing the prospects of an investment strategy. We have found the same rule applies to assessing business performance. Stable and growing earnings over ten years is a wonderful accomplishment but it is no guarantee of an eleventh.

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.

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 one cannot invest directly in the Index.

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

Free Cash Flow: Is equal to the after-tax net income of a company plus depreciation and amortization less capital expenditures.

Correlation: A statistical technique that can show whether and how strongly pairs of variables are related.

Return on Invested Capital (ROIC): A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. Return on invested capital gives a sense of how well a company is using its money to generate returns.

S&P Earnings and Dividend Rankings: The Standard & Poor's Earnings and Dividend Rankings (also known as "quality rankings") score the financial quality of several thousand US stocks from A+ through D with data going back to 1956. The company rankings are based on the most recent 10 years (40 quarters) of earnings and dividend data. The better the growth and stability of earnings and dividends, the higher the ranking.

Mutual fund investing involves risk; loss of principal is possible. The Jensen Quality Growth Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

As of 12/31/15, the Jensen Quality Growth Fund did not hold any shares of Washington Mutual, Lehman Brothers, Merrill Lynch, Wachovia Corp, Countrywide, Bear Stearns, Citigroup, Bank of America, Wells Fargo, American International Group, American Express or Goldman Sachs. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security. For a complete list of fund holdings please visit www.jenseninvestment.com.

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The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.800.992.4144, or by visiting jenseninvestment.com. Read it carefully before investing.

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