JENSEN™
INVESTMENT MANAGEMENT

COMMENTARY

DEC 2016

Jensen Quality Growth Fund

Class J Shares **JENSX**

Year in Review: 2016

U.S. equity markets are poised to turn in a respectable year in 2016. On a year-to-date basis through November 30th, the total return of the S&P 500 Index was 9.79%. This result represents a meaningful step higher than the 1.38% total return achieved by the Index in 2015 and beats its 20-year annualized average total return of 8.19%.[1] Further, 2016 featured several spikes in volatility due to investor concerns over a slowdown in China, the unexpected Brexit vote, and political uncertainty in the build-up to the U.S. elections.

We believe U.S. equity markets were shaped by the following trends in 2016:

- **U.S. Earnings Rebound.**[2] Operating earnings for companies in the S&P 500 Index are expected to increase 8.70% in full-year 2016, after an 11.10% decline in 2015. We attribute this increase to the stabilization in oil prices, the waning influence of the Energy sector on Index earnings[3], and a weakened U.S. dollar for much of the year. Notably however, projected total 2016 index earnings of $109.14 would still fall short of peak earnings of $113.01 achieved in 2014.
- **Synchronized Global Developed Markets Growth.** All of the G-7 economies[4] are expected to post modest real GDP (Gross Domestic Product) gains for the second consecutive year ending 2016. Domestically, despite a slow start in the first quarter, 2016 full-year real GDP is expected to grow 1.58%. This would be the seventh consecutive annual period of growth, all within a range of 1.49% to 2.60%.[5]
- **Mixed Picture in Emerging Economies**. Real GDP growth is expected to advance in China and India, the two largest emerging economies. However, real GDP is poised to decline in Russia and Brazil for the second consecutive year in 2016. As a whole, growth in BRIC (Brazil, Russia, India and China) countries continued to outpace that of developed countries, and China remained the largest individual country contributor to worldwide GDP growth.[6]
- **Measured U.S. Monetary Tightening.** The U.S. Federal Reserve is expected to raise the Fed Funds rate in December, which would mark only the second rate hike nearly one year into the current tightening cycle. We view this deliberate pattern as consistent with the combination of 'data-driven' monetary policy and stubbornly low domestic economic growth.[6]
- **Potential for Fiscal Stimulus.** The Republican sweep in the November U.S. elections increases the odds of more decisive action from Washington. Post-election stock market reaction suggests that market participants are equal parts optimistic for corporate tax reform and domestic infrastructure investment, and leery of trade and immigration restrictions. We will continue to monitor the investment implications of any political changes. But, we maintain for now that the policy path remains murky at best, and the ability to effect meaningful political change should not be considered a forgone conclusion.

Performance (09/30/16) Jensen Quality Growth Fund:

Class J Shares: 1 year 19.16%, 3 year 11.66%, 5 year 15.55% and 10 year 8.07%. S&P 500 Index: 1 year 15.43%, 3 year 11.16%, 5 year 16.37% and 10 year 7.24%. **The J Shares annual operating expense ratio is 0.88%**

Performance data quoted represents past performance; past performance does not guarantee future results. Performance figures shown for periods over one year are annualized. 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. To obtain updated performance information that is current as of the most recent month end, please call 1.800.992.4144 or visit jenseninvestment.com.

1. Twenty year period: 12/31/95 – 12/31/15.
2. Source: S&P Indices
3. For reference, the Energy sector represented 7.3% of the S&P 500 Index on 9/30/16, compared to 10.5% on 9/30/13 (Source: Jensen attribution).
4. G-7 economies include Canada, France, Germany, Italy, Japan, United Kingdom, and United States.
5. Source: International Monetary Fund
6. Source: Ibid

A Look Ahead to 2017 and Reflecting on 2016

Last year at this time, we maintained a constructive view of U.S. equity markets due to steady global economic growth, the likelihood of a rebound in index earnings, and expectations of prudent U.S. Fed tightening actions. Looking forward to 2017, our outlook remains optimistic, underscored by expectations of an acceleration in index earnings growth[7], stable economic growth among large countries, and the potential for domestic fiscal stimulus. Potential threats to this view are a continuation of the post-election U.S. dollar strength, more-hawkish-than-expected U.S. Fed Policy, and further global geopolitical upheaval.

Jensen Quality Growth Fund Relative Earnings Performance[8]

Estimated Earnings Growth	2012	2013	2014	2015	2016	CAGR*	Std Dev
Jensen Quality Growth Fund	5.20%	7.04%	8.20%	2.68%	4.87%	5.58%	2.12%
S&P 500 Index	0.39%	10.82.%	5.32%	-11.11%	8.65%	2.51%	8.72%

Overall, we remain pleased with the business performance from individual companies held in the Jensen Quality Growth Fund. In the table above, we estimate that over the five year period 2012 - 2016, earnings-per-share growth for companies held in the Fund will increase at a faster rate and with lower volatility when compared to S&P 500 Index companies. We attribute this steadiness to our focus on consistent, all-weather businesses.

Jensen Quality Growth Fund Total Return Attribution Analysis[9]

Total Return	2016 - YTD	1 Year	3-Year (Annualized)	5-Year (Annualized)
Jensen Quality Growth Fund (J Shares)	10.88%	9.57%	8.75%	13.58%
S&P 500 Index	9.79%	8.06%	9.07%	14.45%
Out/Underperformance	1.09%	1.51%	-0.32%	-0.87%
Upside Capture	111.13%	118.73%	96.47%	93.98%

(Past performance does not guarantee future results.)

On a year-to-date basis through November 30th, the Fund produced a total net return of 10.88%, outperforming the S&P 500 Index by 109 basis points. Our analysis of relative performance attribution for this period highlights the following:

Top Individual Stock Contributors: UnitedHealth and 3M

- **UnitedHealth Group (UNH)** is the largest health insurer in the U.S. Our long-term investment thesis for UnitedHealth is underpinned by the company's diverse revenue base by customer type, the scale and scope of its provider network, and its ability to use data to improve health outcomes. We believe the share price was bolstered by the company's consistent top- and bottom-line results that exceeded expectations. We added to the Fund's position in late 2015 and continue to view it as a core portfolio holding.

- **3M (MMM)** is a global industrial conglomerate. In our view, competitive advantages for 3M consist of technology leadership, manufacturing expertise, and brand equity. The company's share price responded favorably to resilient results despite end market softness. We did not meaningfully change the position in 2016, but 3M remains a high conviction Fund holding.

* CAGR: Compound Annual Growth Rate
7. Source: S&P Indices
8. Source: Baseline
9. Attribution analysis as of 11/30/16.

Top Individual Stock Detractors: Nike and Cognizant Technologies

- **Nike (NKE)** is the world's leading supplier of footwear, sportswear, and sports equipment. The company benefits from powerful brand equity, manufacturing scale, and strong research and development infrastructure. During 2016, Nike signaled a growth slowdown due to increasing competition, weakness among North American retailers, and incremental margin pressure. We trimmed the Fund's position in 2015 and in early 2016 to take profits after previous strong share price performance. Most recently, however, we added to the position to take advantage of the pullback this year.
- **Cognizant Technologies (CTSH)** is a leading provider of IT consulting and technology outsourcing services. The U.S.-based company utilizes a client delivery model combining on-site technical and account management professionals with India-based offshore technical support teams to serve a wide variety of customers around the globe. We added to the Fund's position in Cognizant shares after a sharp price decline early in the year. However, we trimmed the position this past September due to the abrupt resignation of a key company leader coinciding with the announcement of an internal investigation into potentially improper business dealings in India. Since that time, the stock price has seesawed due to post-election concerns over immigration reform, and the disclosure of a meaningful stake by an activist investor.

  We believe Cognizant remains well positioned to benefit from the secular trend in which businesses are using technology to increase efficiency and lower costs. However, Cognizant is currently the second smallest position in the Fund, and we have proactively maintained Cognizant near the bottom of the portfolio over time. This relatively small weighting reflects the importance of risk management in our investment process, and our uncertainty over the company's growth path as it matures. Looking forward, the stock is trading well below our estimate of full worth, and we believe the company will continue to grow and create value. However, in light of recent developments, we will be carefully monitoring the management transition, the outcome of the internal investigation, immigration reform prospects, and the potential for strategy changes due to activist investor interest.

Sector Analysis: Healthcare, Financials, and Energy

- **Healthcare:** We estimate the combination of the Fund's overweighting and security selection in the Healthcare sector boosted Fund performance relative to the S&P 500 Index by nearly 350 basis points. Within the sector, we often find companies with competitive advantages based on intellectual property, brand equity, and entrenched relationships with healthcare organizations. In our opinion, long-term trends such as medical technology advances, an aging global population, and increased healthcare spending in emerging markets provide attractive opportunities for growth investments.
- **Financials:** The combination of the Fund's underweighting and security selection in the sector held back Fund performance relative to the S&P 500 Index by an estimated 120 basis points. T. Rowe Price has long been the Fund's sole holding within the sector as traditional bank and finance companies have not achieved our 15% or greater return on equity standard. Notably, we estimate that nearly 100% of the sector's outperformance for the year was due to sharply higher post-election returns.
- **Energy:** We estimate the Fund's 0% weighting in Energy sector held back Fund performance relative to the S&P 500 Index by just over 100 basis points. Very few companies in the sector are able to meet our standards for consistently high return on equity as exposure to commodity prices creates volatile results.

A Peek behind the Trends

Continued Low Quality Outperformance

- We use the S&P Quality Rankings as a proxy for measuring performance differences between high-quality and low-quality stocks. We define high-quality stocks as those rated A- or above by S&P. In 2016, the Fund's average weighting in stocks rated A- or above was 81.33% compared to 37.16% for the S&P 500 Index. Similar to 2015, low-quality stocks in the S&P 500 Index have outperformed high-quality index stocks thus far in 2016. However, high-quality stocks fared better for much of the year before a post-election, low-quality rally.

Correlation Between Dividend Yield and Total Return

- Within the S&P 500 Index, there was a strong correlation[10] between dividend yield and total return; returns were highest for high dividend-yield stocks and lowest for no dividend-yield stocks. Our takeaway is that investors favored income producing equity securities given low nominal Treasury rates throughout much of the year. We estimate this trend was a headwind to Fund performance relative to the S&P 500 Index as the Fund is underweighted in high-yielding sectors such as Utilities and Telecom. Notably, the relationship between dividend yield and total return for index stocks deteriorated in the post-election period, likely due to the sharp increase in Treasury yields.

10. R-squared: 0.90

Market Cycle View

Longer term, we believe that measuring relative performance over a full market cycle best demonstrates the value of our Jensen Quality Growth Fund strategy (we define a full market cycle as one market peak to the next). The table below shows the Fund's 'through-the-cycle' relative performance. Similar to previous cycles, the Fund continues to outperform the S&P 500 Index by this measure due to capital preservation during the market decline and solid participation on the upside.

Total Return -Annualized (net)	'Peak to Peak' 10/9/07-11/25/16	'Peak to Trough' 10/9/07-3/9/09	'Trough to Peak ' 3/9/09-11/25/16
Jensen Quality Growth (J-Shares)	7.16%	-34.93%	17.43%
S&P 500 Index	6.15%	-43.34%	19.11%
Out/Under performance	1.01%	8.41%	-1.68%
Upside/Downside Capture	116.42%	80.60%	91.21%

(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. To obtain updated performance information that is current as of the most recent month end, please call 1-800-992-4144 or visit www.jenseninvestment.com.)

Portfolio Changes in 2016

During 2016, we executed four wholesale portfolio changes. We liquidated the Fund's position in Colgate and initiated positions in Apple, Automatic Data Processing, and Alphabet. Additionally, valuation opportunities resulted in a variety of trim/add trades throughout the year.

- **Colgate (CL)** produces and sells a variety of oral care, personal care, home care and pet related products. We sold the position solely due to valuation concerns as we retain a positive fundamental outlook for the company. Colgate benefits from strong global market positions across its businesses and dominates the toothpaste category in South America. We will continue to monitor the company from a fundamental and valuation perspective, and would consider the repurchase of Colgate shares if valuation improves.
- **Apple (AAPL)** is a global consumer electronics company, best known for products such as the iPhone, iPad, and Mac computers. In our view, Apple benefits from deep competitive advantages such as an iconic brand, a powerful network effect, and an innovation-focused company culture. We expect Apple to continue its transition to a mature business, maintain its high returns on capital, and grow via new product releases, and expansion of its Apps platform.
- **Automatic Data Processing (ADP)** is the leading North American payroll processor, serving mid-market businesses to large enterprises. Additionally, ADP offers human resources, outsourcing services, and tax/benefits administration. The company's leading market position is crucial in a business characterized by extremely high customer switching costs, as evidenced by ADP's 90%+ customer retention rate. The company is the midst of migrating customers to a cloud-based platform. We believe this approach is a good long-term fit for the business and is consistent with our expectation of steady growth.
- **Alphabet (GOOGL)** is a global technology leader with a host of ubiquitous internet service-related products. The company benefits from a powerful network effect due to the dominance of its Google Internet search tool and investments in symbiotic platforms–YouTube video-sharing, the Chrome web browser, and the Android operating system–all of which serve to reinforce the network. We believe the company is well-positioned to profit from continuing growth in digital advertising, and from ventures into enterprise cloud services.

Our Steadfast Investment Philosophy

In closing, the Investment Committee at Jensen Investment Management remains confident in the philosophy and process underpinning our management of the Fund. Our goal remains the construction of a portfolio of companies poised to create business value. To that end, we continue to focus on the long-term ownership of businesses with sustainable competitive advantages, resilient financial results, and attractive long-term growth opportunities. Importantly, we believe these attributes allow companies to generate business returns consistently above their cost of capital, ultimately resulting in shareholder value creation.

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.

Earnings growth is not a measure of the Fund's future performance.

+ Please **click here** for a current Fund prospectus.

The S&P 500 Index is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Index is unmanaged, and one cannot invest directly in the Index.

Upside/Downside Capture Ratios: A measure of how well a manager was able to replicate or improve on phases of positive benchmark returns, and how badly the manager was affected by phases of negative benchmark returns.

Top to Top: Represents an annualized period of return from a stated market high to a stated market high.

Top to Bottom: Represents an annualized period of return from a stated market high to a stated market low.

Bottom to Top: Represents an annualized period of return from a stated market low to a stated market high.

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

Price to Earnings (P/E) Ratio: Is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share.

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.

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

Forward Earnings: A company's forecasted, or estimated, earnings made by analysts or by the company itself.

Standard Deviation: A statistical measure of the historical volatility of the pooled investment vehicle over a specific time period.

CAGR (Compound Annual Growth Rate) : Compound annual growth rate (CAGR) is a metric that smoothes annual gains in revenue, returns, customers, etc., over a specified number of years as if the growth had happened steadily each year over that time period.

S&P Quality Rankings: S&P analyzes about 4,000 stocks traded on the NYSE, AMEX and Nasdaq exchange based upon each firm's per-share earnings and dividend records, then recalculates "core earnings" by backing out certain items (extraordinary items, discontinued operations, impairment charges, etc.) Figures are also adjusted for changes in rates of earnings/dividend growth, stability over a long-term trend and cyclicality. S&P then divides stocks into a quality category matrix, rating each stock from A+ to D, basing ratings upon each individual company's growth and stability of earnings and dividends.

+ Please **click here** for current fund holdings. Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. *Current and future portfolio holdings are subject to risk.*

The information provided herein represents the opinions of Jensen Investment Management, and is not intended to be a forecast of future events or a guarantee of future results, and does not constitute investment advice.

As of 09/30/2016, the Jensen Quality Growth Fund's position in UnitedHealth Group represented 3.98%, 3M represented 5.06%, Nike represented 2.46%, Cognizant Technologies represented 2.00%, Apple represented 2.88%, Automatic Data Processing represented 2.88%, Alphabet represented 2.02%, T. Rowe Price represented 1.93% and the Fund did not hold any shares of Colgate - Palmolive. Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. Current and future portfolio holdings are subject to risk.

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