

Third
Quarter
2017

Quarter In Review

Private Client Accounts

Introduction

The Jensen investment philosophy is rooted in a long-term fundamental approach that's designed to help clients reach their objectives. While we believe investor success is largely dependent on the ability to focus on and invest for the long term, ignoring much of the "noise," we also closely follow macroeconomic events to understand how they might impact businesses. To that end, this review is a summary of notable events in the most recent quarter. We hope you find these ongoing updates informative.

Quarter In Review

Despite geopolitical concerns and extreme weather events, the third quarter continued the trend of positive U.S. economic and stock market growth. In some ways, the period provided an example of just how comfortable investors have become with being uncomfortable. GDP ticked up to 3.1%, and though jobs declined in September due to hurricane disruption, consumer and business spending edged higher. With these positive considerations in mind, and with inflation remaining low, the Federal Reserve announced that it would begin the process of unwinding its balance sheet, which currently holds \$4.5 trillion, mostly consisting of U.S. Treasuries and Mortgage Backed Securities. We believe this to be a positive sign signaling the gradual unwinding of a process that began in the last recession when the Fed reduced interest rates and enacted multiple rounds of Quantitative Easing.

Towards the end of the quarter - and following a third

failure to overhaul the Affordable Health Care Act - the Trump administration, in tandem with the Republican-controlled Congress, released an outline of a major policy initiative to reform the overly complicated and burdensome U.S. tax code. While light on detail, the market reacted positively as a tax package is expected to boost corporate earnings. If reform eases the incentive for U.S. corporations with large cash balances trapped overseas to repatriate funds, it's likely that shareholders will be rewarded with a combination of increased or special dividends and accretion as companies may repeat their special stock buyback programs that became popular in the mid-2000s after the special repatriation tax break granted by the Bush administration.

Equity performance for the quarter was broadly positive across different geographies, sectors, and market cap sizes. The S&P 500 Index returned 4.5% for the quarter and is nearing the 9-year anniversary

of the current market cycle. This makes the current bull market the second longest and 4th strongest since the Great Depression (as measured by the S&P 500 Index).

Fixed income markets, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index were broadly positive for the quarter as U.S. Treasury rates remained relatively unchanged. For clients that utilize fixed income in their portfolios, we believe rates will rise in the future, and we continue to favor high quality holdings with shorter maturities. Cash, with rates remaining where they are, should be used strategically for liquidity.

Outlook

At Jensen, we believe the full benefits of the Quality Growth strategy are typically recognized over an entire economic and stock market cycle. At present, the current bull market is approaching its ninth year, and the previous market peak was nearly ten years ago. Acknowledging that it is difficult to foresee an end to recent market advances, historical precedent indicates that volatility will inevitably return to the market. In such an environment, we believe investors are rewarded by scrutinizing company fundamentals and stock price valuations, rather than seeking broad risk exposures.

We believe companies with high returns on equity, strong fundamentals, durable competitive advantages and solid free cash flow should outperform lower-quality businesses over time. We believe that paying attention to these factors enables us to manage risk and to provide capital protection in volatile markets, as well as capital appreciation over the long term, helping our clients reach their objectives.

Please don't hesitate to contact us should you have any questions. As always, thank you for being a valued client of Jensen.

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 Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). Indices are unmanaged and you cannot invest directly in an index.

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JENSEN
INVESTMENT MANAGEMENT

5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384

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