Quality Growth Investing

A Series of Reports From Jensen Investment Management

Is it Time to Invest?

From its peak on October 9, 2007 to the recent bottom on March 9, 2009, the S&P 500 Index declined from 1,565 to 677, or nearly 57%. On May 31, the S&P 500 closed at 919, up 36% from the low but still down 41% from the peak.

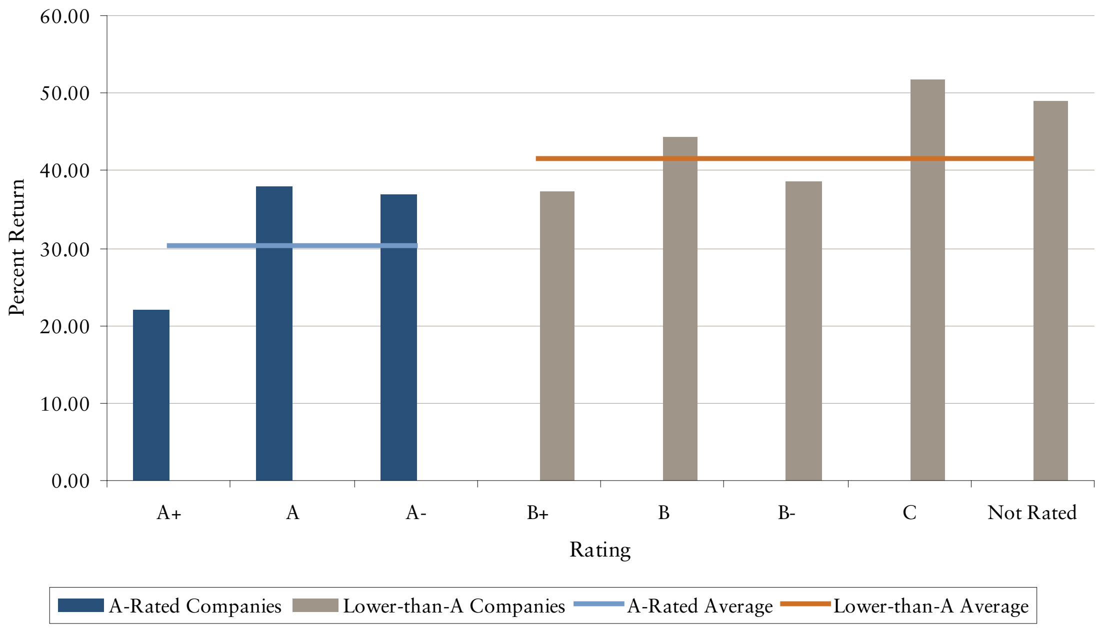
During this time, we have witnessed a near collapse of the global banking system and a recession that has been deeper and longer than any since the Great Depression. The U.S. unemployment rate exceeds 9%, the housing market remains sluggish, business activity has slowed and consumers are more cautious about their spending plans. The fiscal and monetary response, including government ownership of several large institutions, has been enormous and unparalleled in our country's history.

Many investors are faced again with the age-old question: Is it time to invest? Are we in a bear market rally or the beginning of a new bull market? The answer to the question of when to invest usually lies in the investor's outlook, risk tolerance and time horizon. When making decisions investors may want to choose between value and growth stocks, high quality and low quality, large and small or domestic and international.

While it would appear that the current recession may be nearing its end, a growing consensus among economists and market strategists seems to center around the prospect of the U.S. economy entering into a "new normal" period. Economists anticipate that the next 2-5 years will experience below average growth in GDP, deleveraged business and consumer financial statements, rising inflation and interest rates and more government regulation. Market strategists opine that, given this economic and regulatory scenario, stock investors will likely receive below average returns over the next several years.

During the market rally since March 9, 2009, returns from lower quality companies have significantly outperformed those from higher quality companies. For example, as shown in the following bar chart, from March 9 through May 31, the average return for companies with an S&P quality rating of A or better by Standard and Poor's was 30.25% compared with a return of 41.49% for those rated less than A. Experience suggests that it is somewhat common for the more speculative, lower quality stocks to outperform during a significant market rally.

Returns by S&P Earnings and Dividend Quality Ranking*
March 9, 2009 - May 31, 2009

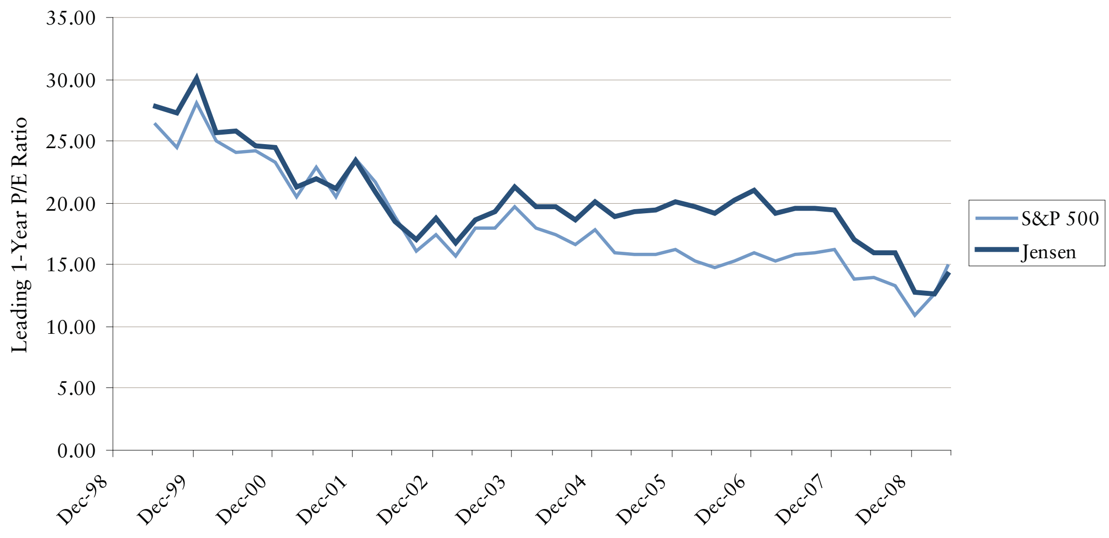


* S&P analyzes about 4,000 stocks traded on the NYSE, AMEX and Nasdaq exchange based upon each firm's per-share earnings and dividend records, then recalculates "core earnings" by backing out certain items (extraordinary items, discontinued operations, impairment charges, etc.) Figures are also adjusted 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. The performance figures shown here for the "A-Rated Average" and "Lower-than-A Average" categories were calculated using the weighted average performance of the individual companies included in each quality category. There were no D-rated companies in the S&P 500 Index during the years analyzed. **Past performance does not guarantee future results.**

During the recovery period following the last recession from late 2002 through late 2007, the returns from lower quality stocks significantly outperformed those from higher quality stocks over an extended period of time. This outperformance, however, occurred during a period of above average economic growth fueled by excessive risk taking and extensive use of leverage by consumers and businesses. A fundamental question may be whether these return patterns will repeat in the next recovery or whether the "new normal" with produce different leadership among stocks.

We believe an argument can be made for new leadership coming from quality growth companies. In a slower growth economy with reduced leverage, higher inflation and interest rates and more government oversight, it is our belief that quality will stand out. Businesses with sustainable competitive advantages that provide pricing power should be better able to generate attractive margins in the face of commodity and wage inflation. Quality companies can generate attractive returns on investment without the need for excessive leverage. Companies with strong balance sheets and superior cash flow generation should be able to absorb the rising cost of debt and take advantage of better returns on their surplus cash holdings. Global franchises can pursue greater growth opportunities outside of the U. S. in economies such as China, India, South America and Eastern Europe. Companies with strong balance sheets and rich cash positions may be able to capitalize on the weaknesses in competitors by gaining market share and making acquisitions to bolster future growth. Their ability to pay dividends and buy back shares represents an added strength. Lastly, well-run businesses with shareholder friendly managers are unlikely to be as affected by new government regulations aimed at reducing risk in businesses with managers whose competence was overstated by the short-term benefits of excess leverage.

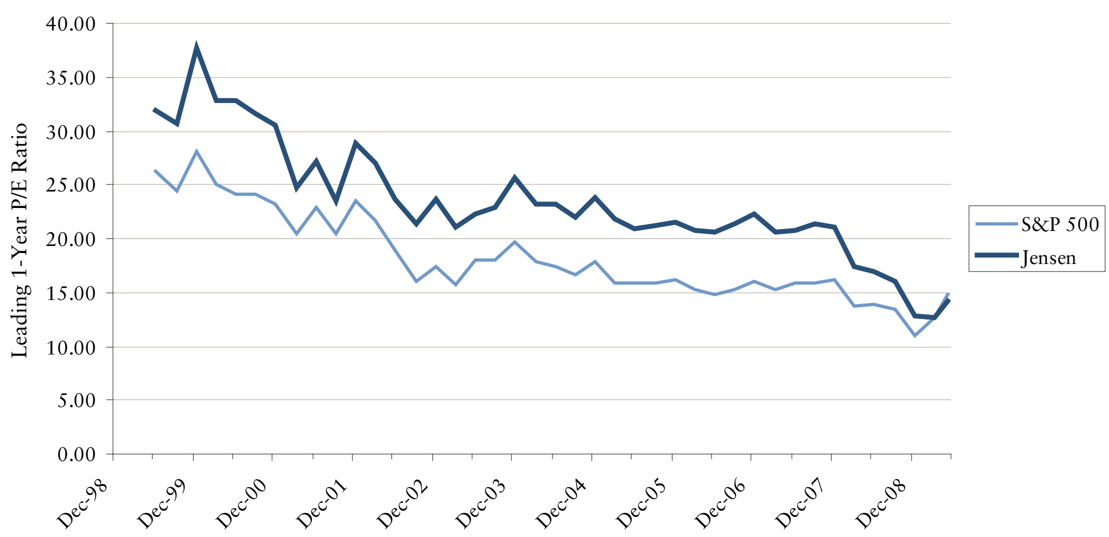
The Jensen Portfolio - Leading 1-Year P/E Ratio*
June 30, 1999 - May 31, 2009



*The leading (forward) 1 year P/E of a company is a ratio calculated by dividing current price of the stock by the company's predicted future year earnings per share, as determined by market consensus.

Businesses that possess high quality characteristics often sell at a P/E premium to the overall market. And why shouldn't they? Investors are often willing to pay a premium for superior and consistent growth and the "all-weather" characteristics that protect the downside. As can be seen in the graph above, from June 1999 through May 2009, The Jensen Portfolio nearly always traded at a premium to the S&P 500 Index (as measured by the weighted average of the Leading 1-Year P/E ratios of the companies held by the Fund at each measurement period). The premium ranged from a low of -5% to a high of 32%, and averaged 12% over this 10-year period. The graph below assumes we had owned our current portfolio companies over this entire period. Until recently, the weighted average P/E of this portfolio consistently exceeded the S&P 500 Index, averaging 28% higher over the 10-year period.

The Jensen Portfolio - Leading 1-Year P/E Ratio (Current Portfolio Only)
June 30, 1999 - May 31, 2009



In 2008, the premium for our actual portfolio over the S&P 500 Index fell from 20% to 17%. Although the value of the S&P 500 Index fell more than the value of our portfolio, so did index leading earnings (-16.4%) thereby mitigating the decrease in its P/E, down from 16.23 to 10.96. In contrast, the leading earnings of our portfolio grew by slightly less than 1%, resulting in a greater percentage decrease in its P/E from 19.45 to 12.79.

At the end of the first quarter 2009, this relationship continued to moderate with index leading earnings falling by 21.1% year over year and, yet, our average portfolio leading earnings fell by only 6.4%.

The result is that our portfolio companies as of May 31, 2009 were selling at a 5% discount to the S&P 500 Index as measured by the P/E ratio. This discount compares with a 12% average premium for the Fund's actual portfolio over the past 10 years and a 28% average premium for the current portfolio, assuming it had been held since 1999. What does it mean for our portfolio P/E to be less than the index P/E? Does the market believe our companies no longer possess the high quality characteristics they have demonstrated in the past? Could the market be overvalued? Are the current earnings projections for the market too robust? Will future earnings of companies in the market grow faster than their stock prices thereby driving down their P/E ratios? Is our portfolio undervalued?

Is today a good time to invest? The answer to this question continues to depend on the investor's outlook, risk tolerance and time horizon. It is likely that the market will experience volatility until clarity is achieved in the strength of our banking system, the direction of the economy and the roadmap for the government's plan to ease deficits and reduce its involvement in the private sector. The market may still be in bear territory but we believe that a bull market will not occur until we have endured a bear market rally.

During the previous eight recessions (1953 to 2001), the average time for the S&P 500 Index to recover from its low point to its previous high was 1.9 years. This recovery time ranged from as little as 83 days to nearly six years. Regarding the current environment, if you were so lucky to have invested at the market's (S&P 500 Index) recent bottom at the close on March 9, 2009 and it takes 5 years to reach the previous top (October 9, 2007), your annualized return would be 18.26%. Over a 10 year recovery period the return would be 8.75%. If you had purchased the S&P 500 Index at the close on May 31, 2009, after a nearly 36% increase from the bottom, and it takes 5 years to reach the previous top, your annualized return would be 11.23%. Again, taking 10 years the return would be 5.47%. No one can predict when or if this will happen but the analysis provides a little perspective on the possibilities. Moreover, if achieved, even the lowest return will likely exceed those of Treasury bonds.

Benjamin Graham, the father of value investing, has been quoted as saying that in the short run the market is like a voting machine—tallying up which firms are popular and unpopular. However, in the long run, the market is like a weighing machine—assessing the substance of a company. **We like the substance in quality growth companies and believe that this segment of the market will outperform the overall market over the next several years.**

Based on this review and our more extensive proprietary valuation models used since 1995, we believe it is a very good time for the long-term investor, who desires an allocation to equities, to be investing in quality growth companies. The business performance of our companies throughout recessions has demonstrated their resilience. We believe that the strength of their franchises and balance sheets, as well as their superior cash flow generation will allow a return to double-digit growth validating their consistent long-term value creation. By contrast, given the prospect of a "new normal" economic environment over the next several years, it is unlikely that the earnings from lower quality companies will quickly return to their previous highs. Over the long term, we believe earnings growth and dividends will drive the price of a company's stock.

About Jensen Investment Management

Jensen is the investment adviser to The Jensen Portfolio, an equity mutual fund, and to separate accounts for our private wealth clients and institutional clients. The firm's investment team manages investments for its clients using a singular approach that has been applied consistently over time. As experienced, mature investment advisers, the team strongly believes that enduring wealth comes from owning great companies for a long time.

The Jensen Investment Discipline

The Jensen investment team believes that true investing entails participating in the long term success of a business instead of speculating on short term movements in its stock price. From an investment universe of companies recording a minimum 15% return on equity for each of the last 10 years, we seek approximately 20-30 high quality growth businesses representing our best ideas for inclusion in client portfolios. These companies possess several common characteristics including: what we believe are sustainable competitive advantages, business returns in excess of capital costs, shareholder friendly management and growing free cash flow that is available to reinvest in the business, for making strategic acquisitions, to repurchase shares and pay increasing dividends -- ways that deliver current shareholder value or increase the value of the business over time.

Investments are made when shares can be purchased for a significant discount to Jensen's estimate of a business' intrinsic value in an attempt to create a portfolio with less risk than the overall securities markets. We will remain invested in a business unless it fails to meet our minimum business standard of a 15% return on equity (indicating a loss of competitive advantage), becomes overpriced in the market, or is replaced by a better idea.

As of March 31, 2009, the Average Annual Total Returns for The Jensen Portfolio - J Shares were -31.03%, -8.59%, -4.11% and 1.23% for the 1-, 3-, 5-, 10-year periods, respectively. As of March 31, 2009 the S&P 500 Index's Average Annual Total Returns were -38.10%, -13.05%, -4.76%, and -3.00% for the 1-, 3-, 5-, and 10-year periods, respectively.

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. 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. All returns include the reinvestment of dividends and capital gains. Performance shown is for the Class J Shares; performance for other Fund shares classes will differ.

This material must be preceded or accompanied by a prospectus for The Jensen Portfolio that contains information about the Fund's investment objective, risks, charges and expenses. Please read it carefully before you invest.

The Fund is non-diversified, meaning that it may concentrate its assets in fewer individual holdings than a diversified fund, and is therefore more exposed to individual stock volatility than a diversified fund. Mutual fund investing involves risk. Principal loss is possible.

The information provided herein represents the opinions of Jensen Investment Management, and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice. Fund holdings and sector weightings are subject to change and should not be considered recommendations to buy or sell any security.

S&P 500 Index: An index of the share prices of 500 US companies reflecting the general trend of the US stock market. The index covers the shares of industrial, transport, utilities and financial corporations. This index is unmanaged and you cannot invest directly in an index.

Price/Earnings Ratio: The weighted average of the price/earnings ratios of the equity securities referenced. The trailing P/E ratio is calculated by dividing current price of the stock by the company's past year earnings per share. The leading (forward) P/E ratio is calculated by dividing current price of the stock by the company's predicted future year earnings per share, as determined by market consensus.

Return on Equity: (ROE) is a financial ratio. ROE is obtained by dividing company's fiscal year's after tax income, after preferred stock dividends(but not common stock dividends), by its book value.

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

Free Cash Flow: Measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) to after tax income and subtracting capital expenditures.

The Jensen Portfolio is distributed by Quasar Distributors, LLC