BOXWOOD

CAPITAL MANAGEMENT, LLC

Politics matter. Political uncertainty can lead to market volatility. And speaking of political uncertainty, who would have predicted that the Freedom Caucus, the most conservative House members, would have derailed a bill to replace the Affordable Care Act? Repeal and replace was a key campaign promise. During the Obama presidency, the House, under Republican control, voted over 60 times to repeal Obamacare, even though there was no chance of the law being signed by the then president. For the past 7 years, repeal and replace has been the political rhetoric du jour of the Republican party. And of all the members of the party, it was the far right's demands, after already winning one concession, that lead to a shortage of votes for passage. Who would have guessed?

And not to take one side of the political spectrum or the other. The Republican mishandling of the repeal and replace is just the most recent example of how politics are so hard to predict. In the current market cycle politics are ever so important. The market has had a strong rally since the election of Trump. A rally supported by the belief that the new administration would bring a business-friendly agenda to the forefront. Deregulation, infrastructure spending, and tax reform seemed likely; consequently, the presumption that all the favored policy initiates will be delivered upon has been fully priced into the market.

Stock valuations are now anchored to that belief. Any news to the contrary will send markets down. As we just recently saw, when repeal and replace failed, the ability to reform taxes was now put into question. Markets declined on mere speculation of such, even though the president said tax reform was next on his agenda. If repeal and replace couldn't pass, then what are the prospects of tax reform? The markets have been left in suspense. The politicians must deliver, otherwise valuations will not hold at these levels.

Navigating the political uncertainty is difficult for markets. Politics is difficult. Delivering on the pro-business policies that the market is expecting may prove more difficult than the administration is leading on. In any case, anything short of a full delivery will make current equity price levels difficult to maintain. Further, to successfully deliver, the administration, which prides itself on being antiestablishment and is lightly staffed on politicians, must work with a congress that has yet to prove that it can govern (or the Democrats). So far, they are 0 for 1. Anything but a homerun will fall short. Seems like a fragile plateau for the market to be riding on.

Again, this is not to make the case for one party or the other, or some political stance. It's to make the case that in politics there is always a fight. Whether a party controls both chambers of Congress, or whether a party is in the White House, or BOTH, nothing in Washington is easy. Relying on matters so unpredictable, the risks to the market seem to be to the downside. **Politics matter**.

Amid this backdrop, we will be looking to add portfolio protection over the next quarter. Taking some risk off the table after such a great quarter will protect us from any drop-off that may occur down the road. As always, adding protection to the portfolio will cost us performance and therefore we will only enter into new positions if the price is determined to be fair.

Talking about great quarters, I am pleased to announce that the *The Jensen Opportunity Fund* returned 25.95% in Q1 of 2017, over the just prior quarter, and net of fees. Meanwhile, our benchmark, the S&P 500 index returned just 4.94%. An outperformance of over 20% in one quarter.

Here's to another strong quarter ahead. Thanks for your continued support.

Until next time,

Todd Shorb