
BOXWOOD

CAPITAL MANAGEMENT, LLC

Q3 2017

*“I am not the man they think I am at home
Oh no, no, no, I’m a rocket man
Rocket man burning out his fuse up here alone”*

Elton John, yes. But it is the other Rocket Man in the news today – President Trump’s nickname for Kim Jong Un, the leader of the hermit and rogue state North Korea. Using his favorite form of communication, Mr. Trump first used the provocative nickname through a tweet. The name was used a second time during the United Nations General Assembly platform where Mr. Trump also proclaimed that, if the U.S. needed to defend itself or its allies, it would “have no choice but to totally destroy North Korea.”

In a rare instance of a quote directly attributable to him, Kim Jong Un responded by referring to the U.S. president as a “mentally deranged U.S. dotard.” Further adding that the U.S. was “playing with fire”, and that North Korea was considering the “highest level of hard-line countermeasure in history.” Their foreign minister subsequently shed light on what the “highest level” might be, suggesting they “might consider a historic hydrogen bomb test over the Pacific Ocean.”

Not to be taken lightly, this war of words was preceded by an already successful hydrogen bomb test by North Korea. That atomic bomb testing, reportedly 10 times the strength of the Hiroshima bomb, added to the long list of other successful test rocket launches, including, but not limited to, two with flight paths directly over U.S. ally Japan; and a test of an intercontinental ballistic missile with the ability to hit the U.S. homeland.

Not only was the testing of missiles occurring at an alarming rate, but the rhetoric was also heightening. For example, in describing a U.S. response to North Korean aggression, Mr. Trump used the phrase “fire and fury.” Not to be outdone, The North Koreans provided worrisome detail about the potential of an “enveloping fire” of missiles off the shore of U.S. territory Guam.

Amid heightened tensions between the two countries and concern about a market decline in the face of further escalation, *The Jensen Opportunity Fund, LLC* took steps to add protection to the portfolio. The hedge protections the fund uses are derivative securities that move inversely with the direction S&P 500 index. In the case of protecting against downside geopolitical risks, the security would increase in value as the S&P 500 index declined. In the case of no downside geopolitical event, the decision to buy portfolio protection will cost the fund performance.



BOXWOOD

CAPITAL MANAGEMENT, LLC

The fund is not taking a completely defensive posture. It is still 100 percent invested, with no cash on the sideline. Prior to the escalation of words between the two countries, the fund was taking significant, calculated risks. The additional risk taking enhanced the performance of the fund over the year, far outpacing the market in general. But the potential for downside geopolitical risk has been too much to ignore. In addition to buying the hedges, the fund has also pulled back on the risk-taking measures that proved successful earlier in the year. For the time being, the fund will stay fully invested, but with hedges in place. If the tensions ease, and all else being equal, the fund will seek to add back the risk to the portfolio. In the meantime, all eyes will be on the Korean peninsula.

I am pleased to announce *The Jensen Opportunity Fund, LLC* increased 8.05% over the previous quarter, net of fees (49.44% YTD). Another quarter outperforming the S&P 500 index, with its gain of only 3.6%.

I am also very pleased to announce that since inception (February 2015), the fund and the investors have earned a return of over 109% - a double in a short period of time!

Cheers to a double and more to come,

Todd Shorb

