# BOXWOOD
CAPITAL MANAGEMENT, LLC

Q4 2017

I am pleased to announce the superb results for *The Jensen Opportunity Fund, LLC*. The fund had an amazing increase of 62.42% over the prior year's value. Meanwhile, the S & P 500 index returned 18.74%. Another great outperformance to put in the bag.

These results were in large part due to the gains in the fund's long-term holdings, and not necessarily due to trading during the year. The long-term equity holdings increased 46.75% year over year. The rise in value of these holdings contributes largely to the $644,929 in unrealized gains held within the fund. Protecting and holding onto those gains is a top priority.

Most of the fund's hedges will expire in the later part of January 2018. The fund will seek to replace all the lapsing hedges and then add more. This protection to the downside will cost the fund performance, but should help the fund hold value throughout the year.

The outlook for 2018 seems to call for the additional protection:

**Sector rotation out of technology and into others.**

As reflected in our results, large-cap tech stocks were on a tear this year. "Investors" in these names will look to capitalize on those gains and move into areas like financials and industrials – areas that will benefit from lower corporate taxes or rising interest rates.

Contrary to the expectation that others will rotate out of these positions, the fund will hold onto its investments. In fact, expect the fund to buy on any sizable decline.

**No more easy money.**

Having only raised interest rates a total of 3 times since rates bottomed out at 0 - .25% in December of 2008, the Federal Open Markets Committee decided to raise rates an additional 3 times during 2017, bringing the Fed funds rate to 1.25% - 1.50%.

The 3 rate hikes were consistent with the Fed's guidance. So, we shouldn't be surprised if rates were raised another 3 times during 2018, again consistent with the Fed's current guidance for 2018. This would take rates by the end of 2018 to a


@ToddShorb
todd@boxwoodcapitalmanagement.com
6 Arrowood Ter
Bethesda, MD 20817

2-handle, 2.0% - 2.25%. The last time rates were in that range was 2008. It will have taken a decade to get rates back to that level (and yet still extraordinarily low).

With higher rates, future earnings discounted back to today look less valuable, making current price-to-earnings ratios look high. Multiple expansion by way of increased equity prices may be constrained.

Further, as rates have been held so low for so long, income seeking investors who would have otherwise been in bonds were forced out the risk spectrum into equities. Bonds and other income producing instruments were earning nothing, making stocks an attractive alternative. With higher rates in the forecast, this trend is likely to reverse.

**Geopolitics.**

*North Korea:* See Investor Update Q3 2017.

*Iran:* The presence of Iran's proxies in the Middle East, particularly in Syria and Lebanon, heighten volatility in an already fraught area.

**Regulation on large-cap tech stocks.**

For the same reason the fund invests in certain tech companies, regulators are starting to become uneasy about their outsized dominance and influence over the users of these company's products (the network effect in the works).

The clearest example of such is the European Union regulator's June 2017, $2.7B antitrust fine on Google.

The EU has also examined the tax practices of Apple and Amazon and their respective foreign subsidiaries.

Similarly, the friendly US landscape that these companies used to operate in is rapidly changing. Both Facebook and Google have been called into congressional hearings regarding the involvement of Russian influence in the 2017 presidential election and the use of their products.

The target these companies have on their back has extended to the highest level of government. The president has on multiple occasions attacked Amazon regarding their sales tax practices. Facebook has also been criticized by the president as being fake news.

The regulatory pressure from the EU and US doesn't seem over.

Despite the expected headwinds to the performance of the equity markets in 2018, *The Jensen Opportunity Fund* remains confident in its long-term investing strategy. Although there may be up years and down years along the way, the fund expects its strategy to continue to hold strong over the secular horizon (at least 10 years). This year was one of those good years.

Cheers,

Todd Shorb