BOXWOOD

CAPITAL MANAGEMENT, LLC

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The Jensen Opportunity Fund, in keeping with its investment thesis, invests in companies that often operate as a monopoly or duopoly. As such, these companies often benefit from having large competitive moats. Many also benefit from the network effect. With more and more users on these companies' platforms, there is a tremendous amount of accumulated data. Data that is so large in scale, potential start-up companies (or not start-up) that depend on the monetization of the remaining data cannot compete. Users begets more users, and as a consequence, data begets more data. Their moats become deeper and wider.

The fund's investment strategy has worked out well. Since the inception of the fund (2015), returns have been 190%. That is to say, the companies that the fund has invested in have done well. So well they have caught the eye of politicians and now even state attorneys general. Their user-data protection practices are under attack, along with calls to open investigations into their immense size and their ever-expanding product and service mix.

The companies have responded. So much so their efforts are negatively affecting profitability. Zuckerberg said as much during Facebook's Q2 results conference call, "Looking ahead, we will continue to invest heavily in security and privacy because we have a responsibility to keep people safe. But as I've said on past calls, we're investing so much in security that it will significantly impact our profitability."

But, it isn't just user-privacy issues that are under scrutiny. The companies have grown increasingly large and powerful. Their success in gaining market share has helped the stocks grow, while at the same time raising regulatory concern over their size and influence. U.S. attorney general Jeff Sessions recently convened a meeting with nine state attorneys general, and on the agenda was "technology giants' market dominance and user-privacy practices." The attorney general of the District of Columbia said the meeting represents "the early stages of antitrust consideration."

As if calls for regulation weren't enough but now antitrust concerns? Between EU regulations already in place (GDPR), EU fines already sanctioned ($7.8B to Google alone), U.S. lawmakers calling for regulation and state attorneys general targeting their market dominance, big tech is in the focus of people that can slow their growth, stifle profitability and enact regulation.

In light of this consideration, the fund is evaluating adding diversification to the investment mix.

At the start of Q3, the fund had long positions in big tech that were equal to 74.4% of the fund's overall equity long position (there are also options and other non-big tech equity long positions). The fund is also currently sitting on cash. If the cash is invested in sectors other than technology, the percentage of big tech's position to the equity long positions drops by 2.5%.

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The per cent change to the fund's mix isn't significant but the underlying reasoning for the diversification is. The monitoring of these events will continue. The fund will deploy cash and allocate newly available capital to positions that aren't big tech, if conditions warrant.

Until next time,

Todd Shorb