BOXWOOD

CAPITAL MANAGEMENT, LLC

The year 2018 proved to be the year when the investing world's experience from the past decade changed, no longer could bull market conditions be expected. Volatility was and is back. In fact, 2018 was one of the most volatile years in recent times. Free money was and is no longer available. During the year, the Fed continued its gradual fed funds rate hikes that started in Q4 of 2015. The rate was raised in every quarter of 2018. The range ended the year between 2.25-2.5%, a significant increase from the 0-1.5% range the market was accustomed to over the last 10 years.

While the Fed raised interest rates, they also were tightening their balance sheet. Over the past decade, with the Fed funds rate already pegged at zero and no more room to go lower, the Fed was forced to use unconventional measures in order to bring commercial rates down further. Through the so-called quantitative easing programs 1,2 and 3, the Fed was able to expand its balance sheet. The expansion allowed them to make purchases of Treasury bonds. Over an eight-year period the Fed's balance sheet ballooned from a balance of $870B to $4.5T! The desired results were met and the program was quite effective. Through the successive purchasing programs, the rates on short duration Treasury bonds (and T-bills) headed towards zero (in fact, negative after inflation). This was the first time in history that the Fed used their authority to directly influence rates on public bonds, rather than their conventional and indirect use of the federal funds rate. Yield seeking investors were pushed out the “risk spectrum” and were forced into riskier assets such as stocks and high yielding bonds. From this perspective the Fed was successful in their mission. Risk averse investors who would have otherwise been happy with "normal" rates on Treasurys were buying stocks instead. That trend has stopped. Now, with the Fed's purchases of Treasury bonds decreasing and while at the same time raising rates, the opposite is true.

The new, higher rates have offered investors new opportunities. New opportunities that put downward pressure on stocks throughout the year. Today investors have other options than risk assets. Investors can now get a “risk free” rate of return of about 2.45% through the purchase of 2-year Treasury bonds. Even if just at the margin, small changes in portfolio allocations can have a meaningful effect on the performance of asset classes, and in this particular case the effect on stocks. The relatively high yield of these short-term Treasury bonds is too good to pass up for some investors. This showed up in the net flows between stocks and bonds. In December the weekly outflows in stocks reached near-term records.

The week in which the Fed announced its latest rate hike, the S&P 500 index had its worst week since 2011, falling 7.1%! The S&P's annual return was the lowest since the Great Recession, and the month of December was the worst December since the Great Depression.

The Jensen Opportunity Fund was not immune to the market volatility. There were two events in early October that really sent the markets in a tailspin. First was Jerome Powell's comment that the feds fund rate was "a long way from neutral." Stock market participants didn't like the implication that rates had a long way to go to reach the level in which rates nether stimulate nor restrict growth – the market presumed the rate was already there. Second was Mike Pence's China speech. The speech was so hawkish that veteran market commentator Jim Cramer summarized it as a "declaration of economic war." He further said, "It was the most important speech of the whole Trump administration ... It was the speech

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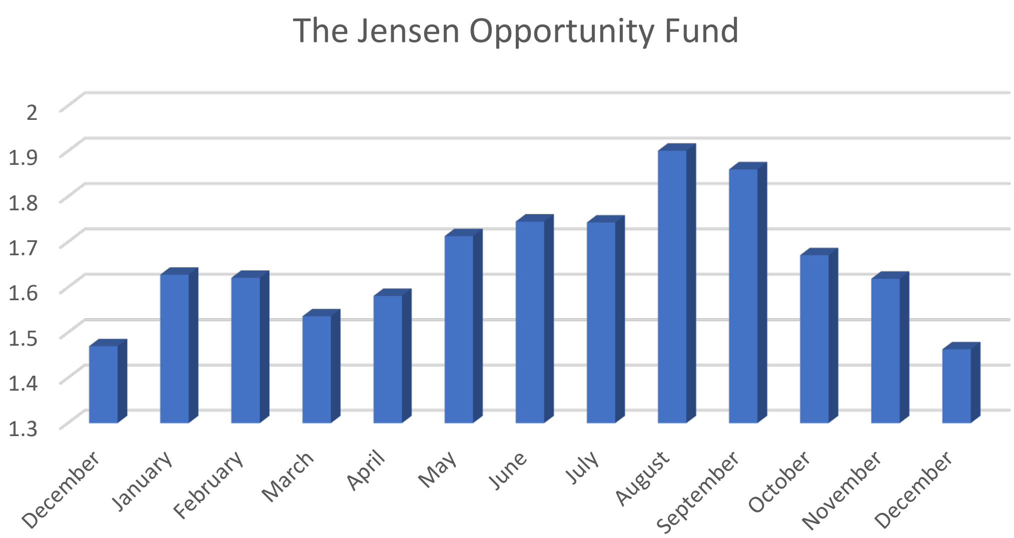
that President Obama never gave ... It was a recognition that it's a communist country" that " has none of the protections that democracies afford." Wow! The combination of that one, two punch, over a 2-day period, sent stocks collapsing. You can see below the effect on The Jensen Opportunity Fund through the graph of the end-of-month net asset values throughout the year:



Although The Jensen Opportunity Fund had a disappointing return of (2.42%), it still outperformed the whole market, as the S&P 500 index fund had a return of (6.2%).

Happy New Year,

Todd Shorb