BOXWOOD

CAPITAL MANAGEMENT, LLC

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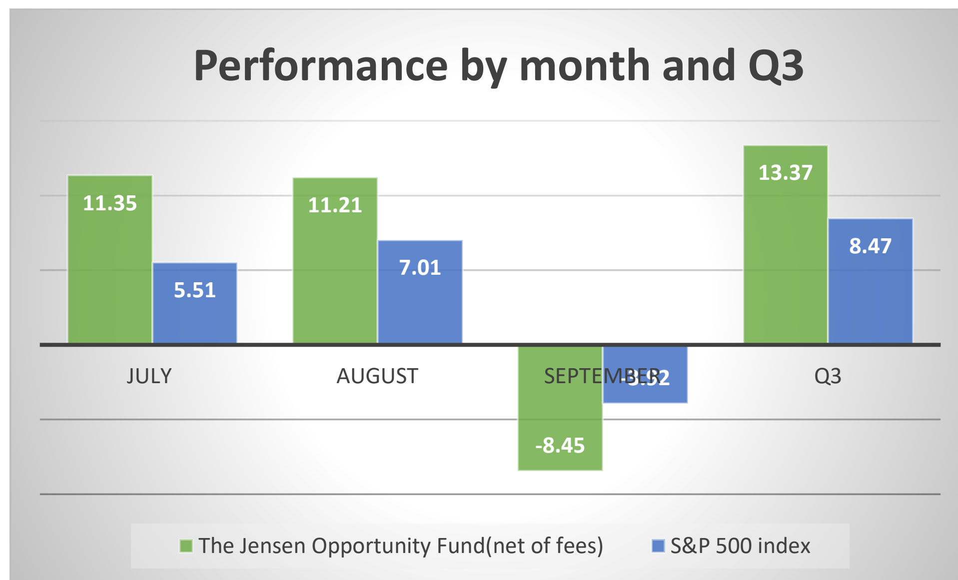
Big price swings in stocks marked the third quarter. The quarter started with the indexes climbing higher but ended with September giving back much of the gains that July and August afforded. As much as the market was volatile, the value of *The Jensen Opportunity Fund* fluctuated even more.

Indeed, the fund holds positions that typically gain in more value than the market as it rises and, on the other hand, loses more ground as the market grinds lower. August provided a good example of the fund outperforming the benchmark during a rising month - even as the S&P had its best August performance since 1986, the fund climbed 4.20% higher. The lofty gains of August gave way to a sell-off in September, and as our postulation predicts, the fund had more severe declines than the S&P.



Specific events throughout the quarter exacerbated the overshooting of the fund’s value to the upside and downside.

Although not confirmed, market commentators were discussing the presence of a “whale” buyer pushing the markets higher in August. Softbank was speculated to be this whale. Softbank runs the $100B Vision Fund, and the Vision Fund invests in many of the same underlying stocks as The Jensen Opportunity Fund. It was speculated that Softbank was making huge bets on these overlapping stocks. The thought was they were buying massive amounts of way out-of-the-money call options. Making such large positions in these particular derivative contracts is important to our discussion because as Softbank was buying the calls, the counterparty to the trade was hedging their position by buying the actual stock of the

underlying contracts, and not just the options. Of course, heavy buying in the underlying positions of the call options drove those stocks higher, and consequently the value of our fund.

It was presumed that Softbank was out of the market in September. So, as these trades unwound, the stocks in play lost a significant amount of bid volume, sending them much lower. These particular stocks make up such a large portion of the index that as they lost value so did the index. But, just like during the runup of these stocks in August, when they shot higher than the index, in September they were down more than the indexes declines.

It wasn't just technical factors that drove the market lower in September, fear took over the market too. As the market was declining, many participants were protecting their portfolios for the potential of both a "second wave" in the virus and a drawn-out contested election. Protection against these events caused more downward pressure on the market.

If the assumption is the fund's positions lose more value than the index as the market declines, and the consensus in the market was for the September pain to extend into the fall and winter, you may be wondering, "What did the fund do for protection?" Nothing.

The answer lies in our long-term approach to investing – having both long-term investors (thank you!) and long-term investments. Regardless of what happens over the next couple of days, weeks or months, our investments will do better over the next 4 years. We are living in a once in a lifetime opportunity to buy some of the best companies the world has ever seen. I'd ask, "Why hedge in the short-run when you can buy and increase your share ownership in some of history's best companies in the long-run?"

Until next time,

Todd Shorb

todd@boxwoodcapitalmanagement.com

6 Arrowood Ter
Bethesda, MD 20817