BOXWOOD

CAPITAL MANAGEMENT, LLC

December 21, 2022

The fund's investment outlook continues to be bleak into 2023. Inflation is here and is the reason for the pessimism. The Fed was wrong about inflation. This inflation is not transitory as they predicted. This inflation has been persistent. What started out as energy and goods inflation has now crept into the service economy. What is most concerning about the transition to the service sector is that the price of services is mainly driven by labor costs. If labor costs are rising, services are inflating. To tame service inflation, labor inflation needs to come down first. The Fed's tools are ill equipped to deal with rising labor rates. The Fed will have to raise interest rates to the point in which firms feel the pain and let employees go. Layoffs will ensue. The unemployment rate will go up. Growth will suffer. We will be in a recession that is more painful than the "soft landing" many were calling for.

Despite the fund's accurate outlook on past macro events, our performance suffered greatly throughout the year. We didn't capitalize enough on our predictions. The gains from the few trades that were predicated on our thesis weren't nearly significant enough to offset the steep declines in our long-term holdings. Further, the long-term holdings weren't properly hedged. We weren't surprised about the events that were unfolding. We wrote about them beforehand on these pages. Since we knew, we made the wrong assumption that those factors were already priced into the market and the pain would subside sooner. As we know, that didn't play out.

Heading into the new year, the fund will be looking to add put protection to the long-term holdings. As usual, if the long-term holdings rise in price, the puts that are meant to hedge against downside risk, will lose value. On the other hand, if earnings do decline and multiples are compressed (as what happens in recessions), the long-term holdings' value will decrease, and the puts will rise in value. Our assumption is that our holdings will continue to decline, and the puts will provide some cushion.

Limited partners should receive their year-end statements the week of January 3rd. K-1's will follow later in the month.

A note on the K-1's: One positive about suffering trading losses throughout the year is those losses will pass through pro-rata to each limited partner's K-1. The losses can be used to offset capital gains in other accounts. To the extent the losses from *The Jensen Opportunity Fund* exceed capital gains, the losses can offset $3,000 in income and any other losses can carry forward to future years.***

*** (DISCLAIMER: This is not tax advice. This is our understanding of how trading losses within the fund affect each investor. Seek advice from your own CPA.)

Happy New Year,

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