Quality Growth Fund Quarterly Update: 1Q 2025

Hosted by Kevin Walkush, Portfolio Manager & Head of ESG;
and Jannis Fingberg, CFA, Business Analyst

KEVIN WALKUSH: Thank you for joining us on today's Jensen Quality Growth Fund's first quarter review. I'm Kevin Walkush and I've been with Jensen Investment Management for nearly 18 years. I proudly serve as a co-portfolio manager and analyst on this strategy as well as our Global Quality Growth Strategy, which will mark its five-year anniversary this week. I'm pleased to be joined by my colleague, Jannis Fingberg. Jannis joined Jensen over three years ago. He brings extensive experience analyzing high-quality businesses with a particular focus on the semiconductor value chain for Jensen. In addition, Jannis also offers a broad and deep understanding of quality companies across various industries that we have exposure to.

On today's call, I'll begin with a brief update on the firm and touch on quarterly performance. I'll then turn it over to Jannis for a deep dive into portfolio attribution, including our leading contributor and detractor, as well as portfolio activity during the quarter. I'll then close with some thoughts on our outlook before opening the floor to your questions.

Jensen is now in its 37th year as an independent employee-owned investment management firm dedicated exclusively to quality investing strategies. Of our 40 employees, 25 are shareholders in the firm, including three new shareholder additions this year. We also had a planned employee departure during the quarter. As many of you know, Eric Schoenstein retired during the quarter with over 22 years with Jensen. We are deeply grateful for Eric's many contributions and wish him all the best in his retirement. Additionally, we welcomed Jeff Wilson to the Quality Growth team as a co-portfolio manager maintaining the team's portfolio manager count at six. Jeff has been with Jensen for over five years, initially joining as an analyst

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on the Global Quality Growth Strategy. Since then, he's advanced to portfolio manager on that strategy and has also contributed as an analyst covering companies in the Quality Growth Strategy.

Moving forward, as of March 31, we managed approximately $9 billion in assets across three strategies. The Jensen Quality Growth Strategy, our flagship large-cap equity strategy, which we're discussing today, focuses on long-term ownership of high-quality value-creating U.S. businesses. It was launched alongside the founding of our firm in 1988 and has been available in mutual fund form since 1992 and recently in ETF form. Jensen Quality Mid Cap, our mid-cap strategy, with a composite track record dating back to 2008 and a mutual fund that launched in 2010. And lastly, the Jensen Global Quality Growth Strategy. This strategy launched in April 2020. It extends our U.S.-based Quality Growth approach to a global opportunity set, investing in best-in-class quality companies from around the world.

Now, I'll briefly review our quality investing philosophy. We believe that the stocks of high-quality businesses, those with durable competitive advantages and a consistent track record of value creation, are ultimately recognized and rewarded by equity markets over the long term. In our view, the best way to capitalize on this belief is by building concentrated high-conviction portfolios of quality companies we know exceptionally well. To us, quality businesses are those with stable and ideally expanding competitive advantages that translate into pricing power or cost efficiencies. These characteristics have proven especially valuable during recent periods of elevated inflation and may continue to provide resilience in the face of potential stagflationary environments. These companies are also supported by sustainable and diverse growth drivers, which typically result in strong and consistent financial performance across revenue growth, profitability and cash flow generation. They're led by capable, well-governed management teams focused on effective capital allocation, prioritizing the long-term durability of competitive advantages, and returning excess capital to shareholders through buybacks and dividends. Over time we believe these business attributes have contributed to our portfolio's historic pattern of delivering lower volatility, downside protection and equity-like returns during rising markets.

That said, we recognize there are acute periods such as the past two years, as well as the lead-up to the global financial crisis and the dot-com era when market environments defined by high concentration in momentum-driven growth stocks driving the market worked against our strategy. We want to express our sincere gratitude to our clients who have remained committed through this challenging period, which brings us to this quarter's encouraging turnaround in performance.

During the quarter, the Jensen Quality Growth Fund I Shares were down 1.4% and outperformed the S&P 500 by 287 basis points and the Russell 1000 Growth by 857 basis points. The downside capture relative to the S&P 500 was 33% based on a simple point-to-point calculation and 69% based on a monthly calculation; it was even better relative to the Russell. The quarter proved to be a high-quality led quarter as reflected by multiple considerations. One reference we point to is comparing high-quality stocks in the S&P 500 as defined by S&P stocks rated A+, A, and A- versus stocks that are rated B+, B, B-, and C.

This quarter high-quality stocks outperformed low-quality rated stocks by 179 basis points. Another supporting indicator of the high-quality nature of the quarter comes from a factor analysis by Style Analytics, which highlights a meaningful shift in market factor leadership. Specifically, the data indicates a strong rotation toward quality factors due to significant geopolitical and economic uncertainty during the quarter, marking a clear departure from the market environment of the past two years as shown in this slide, which heavily favored momentum-driven, high-growth and high-volatility stocks to the detriment of quality over the past two years. As we know, these prior market conditions did not favor us. We believe that this quarter's more favorable backdrop for our strategy is likely to persist given the current investment outlook, which I will discuss in greater detail later in the call.

With that, I will hand it over to Jannis so that he can review quarterly portfolio performance in greater detail along with portfolio actions taken during the quarter and early second quarter. Jannis?

JANNIS FINGBERG: Thank you, Kevin. Great to be on the call. Third time for me for the Quality Growth webinar. Some of you may remember me from a similar call I did with our firm's president, Rob, and before that the head of research, Allen. So, it's great to be here.

Looking at the attribution analysis slide, it's a slide with a lot of numbers. I would encourage you to look at the second column from the right, stock selection effect, and there you can see that security selection within Information Technology, Industrials and Financials were the largest contributors to relative investment performance. And then on the negative side, security selection in Communication Services. And, on the allocation side, lack of exposure to stocks in Energy and Utilities detracted from performance and an overweight to the Health Care sector contributed.

Going into a little bit more detail, what's below these numbers, if you look at Information Technology, a key contributor there was owning a company called KLA. KLA is a company that makes equipment for manufacturing semiconductors. Owning Intuit was a contributor, and on the flip side, not owning Nvidia and Broadcom were also positive contributors within Information Technology. In Industrials, owning Waste Management was a positive contributor. And in Financials, you see Marsh McLennan at the very top right as a top performer, and that was a key contributor within Financials. In Communication Services, if you go below the -0.73-stock selection effect, owning Alphabet was a key contributor for that.

Moving on to the next slide, I want to briefly highlight the top contributor in the quarter, a company called Marsh McLennan. Marsh McLennan is a global professional services firm that provides risk management, insurance brokerage and consulting services. We believe, and we like that the company offers a strong value proposition across all its stakeholders, including clients, so it helps to match risk with insurance policies, insurers and the wider economy. At the very core the company matches risk with capital. And one thing I think that is easy to appreciate these days is that the world is becoming a riskier place as we speak, whether in the economic or political or generally global realm. In many ways, a lot of long-standing assumptions about the world are being challenged and that purely from a business perspective for decision makers creates uncertainty and risk.

Another thing I would like to highlight, because it has come up both in our internal discussions and sometimes in the questions we receive, is it's very important to recognize that Marsh has low capital requirements and does not itself take any underwriting risk, a key advantage in our mind. In terms of the financial analysis, it has a really impressive track record and long track record of growth and sales, profits and free cash flow — pretty much the metrics that we look at when we build our long-term financial models and really go back through the entire history of a company and examine how it has performed over time through different cycles and different market environments. And Marsh really stands out as a very consistent, solid performer over time. Finally, and also crucially, it has a very strong management team that importantly is focused on returning capital to shareholders when appropriate.

Moving on to the bottom performer, so to speak, or bottom contributor this quarter, Alphabet. Alphabet has been the largest detractor to performance this quarter, and it's interesting that I'm talking about Alphabet again because the last time I was on this webinar in 2Q24, Alphabet was actually the top contributor. So, now I'm talking about the same company, just on the flip side of things, which also serves as an important reminder to take the long-term view when analyzing performance and thinking about how companies add value over time or not. Everybody knows Alphabet. Obviously, they have key products in search, first and foremost. They have a very important and very successful cloud business, perhaps less known. And then also Android of course. Talking about the performance, I mean the market at a high level continues to be — and these concerns are not new, they ebb and flow — but the market is concerned to a degree that Google's search business, the core of its business, is at risk of disruption from artificial intelligence.

And I'm sure most of us on the call have searched for things with ChatGPT or asked questions, and maybe in the past they would've gone exclusively to Google. And so it is a valid concern and it's also a concern we take seriously. At the same time, though, there's also a credible case that Alphabet will be a long-term winner in artificial intelligence. And one way to appreciate that or think about it is if you think about artificial intelligence, what do you actually need to be successful? And you need basically deep pockets. I mean artificial intelligence, sometimes you get different news, but at a high level, artificial intelligence and being successful in it are expensive. You need deep pockets, you need processing power, you need a lot of powerful chips and you need a lot of data. And on all these key dimensions, Alphabet scores really well.

And then also you have of course the question of valuation and to what degree some of these concerns are already taken into account by the market. And overall, we continue to maintain conviction in Alphabet in the long term.

Moving on to portfolio changes. We initiated one new position in the quarter in a company called Abbott Laboratories. Abbott is a global healthcare company. It has a very strong medical devices business, and interestingly, despite being the largest, it's also the fastest growing and the most profitable division. Abbott focuses on the cardiovascular market and also the diabetes care market with their continuous glucose monitors. When we analyze businesses, whether it's a tech company or a healthcare company, consumer, in some ways the approach is always the same. At Jensen, we always look for high-quality businesses with strong competitive advantages – those could manifest themselves in recurring revenues.

Companies usually have secular tailwinds, favorable growth outlook and an attractive valuation. And all these things come together for Abbott in our opinion. Additional details, if you want to learn more about it, I believe there's a piece on our website if you want to read more about this new company and this new addition to the Quality Growth Strategy. In terms of key adds, we also added to Sherwin-Williams, which despite a challenging U.S. housing market, the company continues to execute really well, and the management team continues to invest in the business. So countercyclical investment, usually a strong indication for a long-term thinking management team and something that we like.

We also added to Copart and Cadence and we trimmed Pepsi, I would highlight on GLP-1[1] concerns and a relatively muted growth profile. Also, Johnson & Johnson, an extremely defensive company with a very strong balance sheet, but we took advantage of some of the turmoil to upgrade the portfolio with some higher growth names. And then we also trimmed Mastercard and ADP. Those were the key changes within the quarter.

I did want to take just a brief moment to highlight, even though this doesn't really fall into Q1, but I still want to mention that obviously the stock market, as we've all experienced, has had a lot of volatility and very extreme changes. In our experience, those extreme movements can create opportunities because often the market just indiscriminately sells or buys stocks. So we really had a busy few weeks, so to speak. And then the investment team really went through a lot of ideas and thought about how we can upgrade the portfolio. We did sell Texas Instruments more recently. We had increasing concerns about their exposure to auto and industrials. We also completely sold Nike on concerns that its turnaround may face perhaps underappreciated challenges given the macroeconomic backdrop and also risks to its business models should some of these tariffs that we all read about every day — whether it's on China, Vietnam or Bangladesh — remain in place.

We did initiate a very small position in Nvidia, a company that we have been analyzing for a long time and have been examining. And at the core, we took advantage of what we believe to be extreme movements in share price for a company that, from our position, we take always the long-term view as you know. We believe Nvidia will retain its market leadership position and it's a great company to own for the long term at the right price. Its valuation has approached or even surpassed 10-year lows. And so this is a recent small addition that we made to the portfolio. And with that, let me hand back to Kevin. Thank you.

KEVIN: Great. Thank you, Jannis. Now moving on to our outlook. We see significant risks to near-term market returns. With volatility continuing to rise, erratic U.S. administrative actions and a lack of government policy, predictability are likely to further fuel market turbulence. In this environment, we believe quality companies like those we own are well positioned to outperform. A couple of indicators reflecting increasing risk to the economy include the Fed's Economic Policy Uncertainty Index for the U.S., which recently reached its third-highest level since its inception in 1985 — only during the great financial crisis in 2007 and 2008, and the COVID period, was uncertainty higher. Additionally, the University of Michigan Consumer Sentiment Survey has shown a steady decline throughout the quarter and into April. In fact, the April 2025 survey showed a sharp decline in consumer sentiment with the index reaching its second-lowest level

[1] Glucagon-Like Peptide-1 (GLP-1): is an incretin hormone produced in response to food intake and is involved in glucose metabolism. Source: National Institute of Health.

ever. The current reading is lower than the starting points of all six recessions since the survey's inception in 1978.

I'll briefly touch on what we believe are some of the key drivers of economic and market uncertainty and its resulting volatility. First and foremost, U.S. tariff and trade policy is chaotic and unpredictable. We recently published a piece on tariffs but, given the rapidly evolving nature of the current administration's approach, it already feels somewhat outdated. In our view Trump 2.0 represents a clear departure from Trump 1.0. We see this regime as more aggressive on tariff policy. The current shift in trade policy appears to be counting on speed and force at the expense of intentionality as reflected by sweeping tariff announcements followed by temporary reprieves. Such chaotic policy changes make it difficult for businesses to operate, which in this scenario can put a chill on investment and subsequent economic activity. One of the consequences of rapid government policy changes is we expect unemployment to rise, which compounds headwinds to economic growth.

The Trump administration is actively pursuing job cuts across government agencies, and we believe these efforts will continue to intensify beyond what we've seen so far. Additionally, heightened economic uncertainty is likely to dampen private sector hiring. These employment conditions will likely compound slower economic growth expectations due to the dampening effect on personal consumption and the carry-through adverse impact to U.S. economic health. Next, the bond market appears to interpret Trump's more aggressive tariff policies as growth-negative and risk-enhancing, prompting a defensive shift among bond investors. Typically, in such scenarios, we would expect rates to decline. However, rates moved higher, suggesting the market was pricing in stagflation risks driven by Trump's policies. We believe this unexpected response played a key role in the administration's decision to pause its aggressive tariff agenda. Looking ahead, we expect interest rates to remain volatile, but also to act as a natural check on the administration's ability to pursue further aggressive tariff measures. In alignment with bond market investors, what we view as an increasing likelihood of a recession plus muted economic growth, we believe sets the stage for stagflation. In our view, the quality attributes of our companies can enable them to be more immune to such dire conditions.

Next, we expect corporate earnings and margins to come under pressure in the latter half of the year. While the current rush to pull forward inventories and purchases ahead of tariff implementation may make this quarter appear strong, we believe that strength will prove to be short-lived. Given the uncertainty surrounding tariffs, we wouldn't be surprised if companies start to withhold earnings guidance at some point, which we expect will further add to economic instability.

Compounding Trump's tariff policies, which affect almost every country, there are additional geographic instabilities, particularly involving China, the EU, Russia and Ukraine, and they continue to intensify. President Trump has disrupted the traditional global order by adopting an antagonistic stance toward long-standing U.S. allies, while simultaneously appearing to embrace a historical adversary in Russia, an approach that remains difficult to fully understand. We believe these actions have added to global uncertainty and risk. While I've highlighted some key risks, other risks that I won't touch on, such as pending tax and spending legislation, the withholding of federal funding for research at universities, and immigration policy, are further exacerbating global instability.

Lastly are the unintended consequences. Such aggressive moves on many fronts by Trump will likely break governing and economic structures in unforeseen ways. Thus, the path forward will likely be uneven and unnerving for investors. Given this backdrop, we're encouraged by the renewed opportunity for higher-quality, more resilient businesses to gain favor with investors seeking lower volatility among today's economic challenges whether those issues prove to be transient or more likely systemic.

We remain confident in the high-quality companies held in the strategy, as our research favors businesses with strong durable business models, sustainable competitive advantages, pricing power, resilient operating margins and robust free cash flow generation in all types of market conditions. These companies consistently reinvest in future growth while also returning capital to shareholders through growing dividends and share buybacks. While the path ahead may be marked by continued uncertainty, we believe this environment calls for thoughtful, disciplined investment decisions. The Jensen investment team remains confident in the strength of our strategy and the soundness of the process guiding our management of the portfolio. Our objective remains the same: to own a portfolio of high-quality companies that we believe are positioned to grow and build business value over the long term, ideally in excess of the broader market. We aim to participate in this value creation through the long-term ownership of fairly valued high-quality stocks. In our view, these globally dominant companies are capable of generating returns consistently above their cost of capital, leading to meaningful shareholder value creation across market cycles.

Finally, we remain steadfast in our belief that a focus on company fundamentals helps investors manage risk and uncover opportunities. This approach not only provides a degree of capital protection in more volatile or lower-return market environments, like the current one, but also positions the portfolio for long-term capital appreciation.

Thank you for your time today and your attention. We remain tremendously grateful for the ongoing support of our Quality Growth Strategy from our shareholders, partners and clients such as yourselves, and we'll continue to strive to deliver the results you expect of us. Thank you and have a great day.

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