JENSEN™
INVESTMENT MANAGEMENT

Jensen Quality Value Discipline Has Avoided Energy and Utility Sector Inclusion

Profitability Screens and Competitive Advantage Assessment:

To qualify for the Jensen Quality Value Universe™ a business must produce 10 consecutive years of high profitability, as measured by a return on equity of 15% or greater. Companies must also demonstrate durable competitive advantages, growth in operating cash flows, and the ability to reinvest these cash flows to support margins and protect market share from competitors.

In most cases, highly cyclical business models, such as fossil fuel companies, or regulated industries, such as U.S. electric utilities, are unable to sustain the high profitability levels required through different economic environments. In the last five years, only one energy company has qualified, Core Laboratories N.V., a small-cap company offering petroleum services and reservoir diagnostic tools. However, as Core Laboratories relies on backlog growth and its business model is hyper-dependent on the price of oil for new exploration and production, it lacks competitive advantages and fails our preliminary fundamental analysis screen.

Figure 1 **Sector Breakdown in the Jensen Quality Value Universe**

For illustrative purposes only. Source: Jensen Investment Management, December 31, 2020.

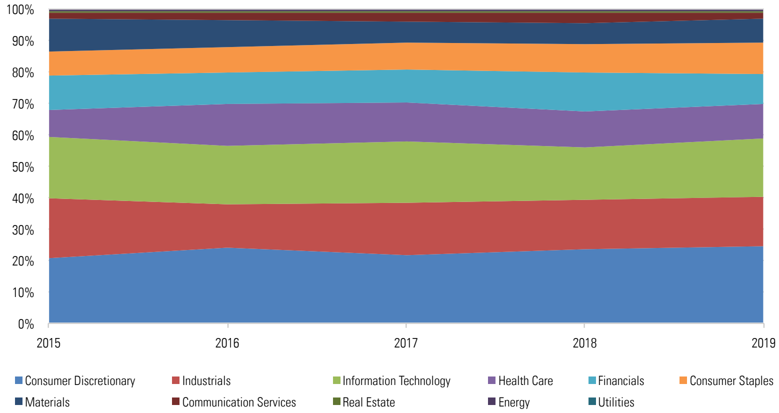

Figure 1 highlights the historical progression of the Jensen Quality Value Universe at the sector level and illustrates the lack of energy and utility sector exposure.

Why Does It Matter?

Many Jensen Quality Value companies are leaders in environmental risk mitigation. Our Strategy companies play a prominent role in reducing or minimizing the amount of greenhouse gas (GHG) emissions caused by manufacturing and distribution, as well as the amount of energy required to run their businesses.

For example, as of December 31, 2020, 23 companies[1] that comprise 59.02% of the Strategy support the Climate Disclosure Project (CDP) and/or science-based targets for Scope 1 and 2 emissions, which aim to keep global temperature increases either at or below 1.5° or below 2°C through 2030.

[1] Best Buy Co Inc (2.83%), Broadridge Financial Solutions Inc (4.20%), Campbell Soup Co (2.53%), CBRE Group Inc (2.99%), Crown Holdings Inc (4.10%), Expeditors International of Washington Inc (4.04%), F5 Networks Inc (2.68%), General Mills Inc (3.03%), Hasbro Inc (3.20%), Herman Miller (1.16%), Kellogg Co (2.39%), Kroger Co (2.99%), Laboratory Corporation of America Holdings (4.03%), Lennox International Inc (3.03%), Levi Strauss & Co (2.71%), Microchip Technology Inc (3.57%), NetApp Inc (1.34%), Omnicom Group Inc (1.39%), ON Semiconductor Corp (2.44%), Teradata Corp (1.02%), Verisk Analytics Inc (0.99%), Waters Corp (0.59%), and W. W. Grainger Inc (1.76%).

Table 1

Portfolio Snapshot

Source: ISS. Data as of December 31, 2020.

		Scope 1 Direct Emissions (tCO_2e)	Scope 2 Direct Emissions (tCO_2e)	Scope 1 + 2 Emissions (tCO_2e)	Scope 1 Emissions/Revenue (USD)	Scope 2 Emissions/Revenue (USD)	Total Emissions/Revenue (USD)
Amphenol Corp	APH.N	67,197	278,786	345,983	8.2	34.0	42.2
Best Buy Co Inc	BBY.N	237,327	263,586	500,913	5.5	6.1	11.7
Broadridge Financial Solutions Inc	BR.N	10,287	45,242	55,529	2.3	10.3	12.6
Campbell Soup Co	CPB.N	421,970	312,967	734,937	48.6	36.0	84.6
Carter's Inc	CRI.N	19,567	60,851	80,418	5.6	17.6	23.2
CBRE Group Inc	CBRE.N	46,069	24,439	70,508	2.2	1.1	3.3
Church & Dwight Co Inc	CHD.N	82,317	85,914	168,231	19.8	20.7	40.6
Copart Inc	CPRT.OQ	21,414	62,254	83,668	11.9	34.5	46.3
Crown Holdings Inc	CCK.N	576,724	752,070	1,328,794	51.6	67.3	119.0
Donaldson Company Inc	DCI.N	26,000	40,705	66,705	10	15	24.4
Encompass Health Corp	EHC.N	29,588	52,225	81,813	6.9	12.2	19.1
Equifax Inc	EFX.N	7,823	33,264	41,087	2.3	9.7	12.0
Expeditors International of Washington Inc	EXPD.OQ	7,790	1,181	8,971	1.0	0.1	1.1
F5 Networks Inc	FFIV.OQ	3,365	17,349	20,715	1.6	8.0	9.6
General Mills Inc	GIS.N	235,000	530,000	765,000	13.9	31.4	45.4
Genuine Parts Co	GPC.N	159,970	639,398	799,368	8.5	34.1	42.6
Hasbro Inc	HAS.OQ	5,447	7,629	13,076	1.2	1.7	2.9
Herman Miller Inc	MLHR.OQ	26,700	59,500	86,200	10.4	23.2	33.6
Hill-Rom Holdings Inc	HRC.N	15,031	17,598	32,629	5.3	6.2	11.5
Kellogg Co	K.N	483,061	539,719	1,022,780	35.6	39.8	75.5
Kroger Co	KR.N	2,313,574	3,460,486	5,774,060	19.1	28.5	47.6
Laboratory Corporation of America Holdings	LH.N	74,595	179,046	253,641	6.6	15.8	22.4
Landstar System Inc	LSTR.OQ	30,725	9,030	39,755	6.7	2.0	8.6
Lennox International Inc	LII.N	102,200	58,100	160,300	26.3	15.0	41.3
Levi Strauss & Co	LEVI.N	NA	NA	NA	NA	NA	NA
Maximus Inc	MMS.N	4,556	4,084	8,640	1.9	1.7	3.6
Microchip Technology Inc	MCHP.OQ	529,371	80,593	609,964	98.9	15.1	114.0
NetApp Inc	NTAP.OQ	5,354	96,532	101,886	0.9	15.7	16.6
Omnicom Group Inc	OMC.N	30,614	65,407	96,021	2.0	4.3	6.3
ON Semiconductor Corp	ON.OQ	1,421,218	676,060	2,097,278	241.7	115.0	356.6
Paychex Inc	PAYX.OQ	6,768	15,793	22,561	1.8	4.2	6.0
Scotts Miracle-Gro Co	SMG.N	21,814	45,184	66,998	8.2	17.0	25.1
Teradata Corp	TDC.N	156	18,340	18,496	0.1	8.5	8.5
Tractor Supply Co	TSCO.OQ	76,312	189,486	265,798	9.6	23.9	33.6
Verisk Analytics Inc	VRSK.OQ	6,831	431	7,262	2.9	0.2	3.0
W. W. Grainger Inc	GWW.N	37,447	86,548	123,995	3.3	7.7	11.0
Waters Corp	WAT.N	12,311	14,789	27,100	5.1	6.1	11.2
Portfolio Average		**198,791**	**245,127**	**443,919**	**19.1**	**19.2**	**38.2**
Portfolio Median		**30,101**	**60,176**	**84,934**	**6.6**	**14.9**	**20.7**
R2500		**569,936**	**109,375**	**679,311**	**110.2**	**36.2**	**146.4**

Portfolio Observations

According to the data from ISS in Table 1 (as of December 31, 2020), the Jensen Quality Value Strategy has 35% less carbon risk and 74% less carbon intensity than the benchmark Russell 2500 Index.

Among the 37 companies that comprise the Strategy, 9[2] have a meaningful carbon exposure (above the average of all holdings) under industries such as aluminum cans, automotive parts/supply, consumer electronics, food products/grocery, and semiconductor manufacturing. Many of these companies have developed programs to limit the growth of their Scope 1 and 2 emissions by implementing energy efficiency measures, adopting lower impact technologies, and introducing more renewable resources into their energy mix.

For example, Microchip Technology and ON Semiconductor are limiting their air emissions, recycling wastewater, and reducing chemical usage in their manufacturing processes to lower the carbon intensity produced per chip and chipset. Similarly, Crown Holdings is focused on improving its metal and glass packaging. The company notes a recent assessment by Metal Packaging Europe that showed the production of aluminum had a 31% reduction in carbon emissions between 2006-2016. These improvements can be attributed to the development of lighter weight cans and an increase in recycling rates, among other factors.[3]

Carbon Risk Examples

Kellogg Co (K)

Kellogg has taken on a leadership role within the food products industry by developing a proprietary model that has measured key carbon-emitting activities across its value chain since 2009. Kellogg's global business comprises over 60 facilities in four geographies: North America, Latin America, Europe and the Middle East, and Asia Pacific. The model includes actual or estimated data for ingredients, inbound transport, manufacturing, packaging, and distribution for all of its locations.

[2] Campbell Soup, Crown Holdings, General Mills, Genuine Parts, Kellogg, Kroger, Microchip Technology, ON Semiconductor, and Scotts Miracle-Gro.

[3] "2019 Sustainability Report: Building a Sustainable Roadmap," Crown Holdings, 36.

This tool helps Kellogg focus on ingredients (50%) and manufacturing (15%) as the two primary components in achieving its science-based targets. Although the company is generally classified with the food products industry, for purposes of the proprietary model, they are classified as "Other Industry" and face a tougher benchmark. As a result, the company's carbon reduction targets are more aggressive than if using other available methodologies.

Kellogg's long-term commitment is to deliver 65% combined Scope 1 and 2 target reductions by 2050.[4] Management has implemented energy efficiency techniques across manufacturing and distribution over the past five years to help reach this goal. However, Kellogg will rely on improvements in grid technology to expand use of on-site and off-site, low-carbon energy generation in future periods.

CBRE Group Inc (CBRE)

Real estate is at the center of many of the important environmental and social issues of our time. As buildings and construction increasingly contribute to global carbon emissions (up to 40% according to the International Energy Agency[5]), CBRE Group recognizes the importance of driving sustainable real estate practices. The IEA estimates that over the next decade direct building emissions need to fall by 50% and indirect building emissions by 60% in order to stay on track for its 2050 net-zero carbon building stock target.[6]

As the world's largest commercial real estate services firm, with a portfolio of 6.8 billion sq. ft. under management, CBRE fulfills a dual role in minimizing negative environmental impacts in the building environment through both the services it provides to clients and its own global operations. Despite a year-over-year increase in total emissions for 2019 due to increases in the number of offices and portfolio floor area, the company reduced overall Scope 2 emissions by 17% from its 2015 target baseline. These Scope 2 reductions were primarily achieved through efficiencies gained from a Workplace360 initiative, as well as the greening of electricity across its operations, including 100% renewable electricity for some offices across Europe. By the end of 2019, the company opened 81 Workplace360 offices worldwide, representing 35% of its global occupied space. Each Workplace360 office is a "free address" and has a paperless environment, supported by leading-edge technology tools and platforms. Assigned offices and workstations have been eliminated. Instead, up to 15 different types of workspaces are offered based on carefully calculated employee usage patterns.[7]

Conclusion

We believe that the Jensen Quality Value Strategy is suitable for U.S. Mid Cap Investors who are looking for fossil fuel-free and low carbon solutions. Since relaunching the Strategy in 2017, the Strategy has had zero fossil fuel exposure, it maintains a below-average carbon footprint, and it demonstrates an even lower carbon intensity[8] score than the Russell 2500 Index.

Definitions

Emissions/Revenue (USD)

Carbon intensity expressed as the issuer's total carbon emissions per million USD of revenue as a proxy of the carbon efficiency per unit of output.

Scope 1 Direct Emissions (tCO_2e)

This factor provides the issuer's Scope 1 Direct Emissions (tCO_2e), which includes owned and controlled sources. The direct emissions data represents the final, ISS ESG reviewed and approved value based on the ISS ESG methodology, which selects the most accurate value from available sources.

Scope 2 Indirect Emissions (tCO_2e)

This factor provides the issuer's Scope 2 Indirect emissions (tCO_2e), which includes indirect emissions from purchased energy. The indirect emissions data represents the final, ISS ESG reviewed and approved value based on the ISS ESG methodology, which selects the most accurate value from available sources.

tCO_2e

Metric tons (1000 kg) of carbon dioxide equivalent emissions.

JENSEN™ INVESTMENT MANAGEMENT

5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384

jenseninvestment.com

[4] "Better Days," 2019/2020 Corporate Responsibility Report: Executive Summary, Kellogg Company, 11.
[5] "Buildings-Related Carbon Dioxide Emissions Hit Record High: UN," UN Environment Programme, Energy and Climate Branch, December 16, 2020, https://phys.org/news/2020-12-buildings-related-carbon-dioxide-emissions-high.html.
[6] https://phys.org/news/2020-12-buildings-related-carbon-dioxide-emissions-high.html
[7] "Our Values in Action," 2019 Corporate Sustainability Report, CBRE Group Inc, 51-53.
[8] 41.2 tCO2e/Mil USD vs. 153.0 tCO2e/Mil USDT