



Social Factors in the Jensen Quality Growth Strategy

Introduction

In this briefing, the second of a series of White Papers, we discuss our framework for evaluating Environmental, Social, and Governance (ESG) factors and identify three key social issues portfolio companies encounter. We further explore their impact on our assessment of companies in which the Jensen Quality Growth Strategy invests and the role that ESG factors play in deepening our understanding of risk and risk management within our research process.

Jensen's Social Rankings

Jensen utilizes a proprietary ESG ranking methodology that considers over 400 ESG factors applied to its 15% Return on Equity (ROE) for 10 years universe of companies. Social factors considered include:

- + Adult Entertainment
- + Human Stem Cells
- + Alcohol
- + Human Rights
- + Animal Testing
- + Military and Defense
- + Community Engagement
- + Profile/Prochoice
- + Diversity
- + Sexual Orientation
- + Data Privacy
- + Tobacco
- + Gambling
- + Workforce

We believe our proprietary social rankings are indicative of a company's management of these issues and the risks a Jensen company faces more broadly. Furthermore, we utilize additional proprietary and third-party data sources to create a holistic assessment of the ESG risks our portfolio companies face. We do not use our ESG rankings to make direct portfolio construction decisions, but rather they inform the team of potential ESG-related risks and opportunities within the portfolio. In our view, adverse changes in our social rankings may signal a deterioration of business fundamentals and ultimately the company's ability to generate sustainability high returns on capital.



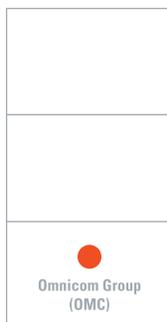
Connecting Social Factors with Business Fundamentals

1. Diversity and inclusion in the workplace

We believe a company that shows a commitment to improving workplace diversity can build its brand reputation and improve its talent acquisition and retention—both of which can lead to strong and stable business.

Omnicom Group (OMC), the parent company of many of the largest marketing and corporate communications agencies in the world, ranks in the bottom third of our proprietary social ranking system. However, the company has taken steps to improve both social issues and governance, including the following: improved board diversity, efforts to recruit more women, bias training for employees, and new policies and procedures on harassment.

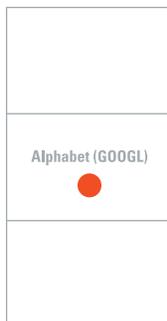
Jensen Social Ranking



In the hypercompetitive landscape for marketing and advertising talent, we believe these efforts should improve Omnicom’s ability to retain and attract employees. The company also adopted a human rights policy that focuses on eliminating discrimination and promoting equal opportunity. However, Omnicom does not release certain key statistics, such as employee turnover, that would assist investors in measuring its progress.

Alphabet (GOOGL) is a dominant technology services company. Lack of workforce diversity has been an issue in the tech industry, and Alphabet has not been immune to this trend. Diversity challenges at Alphabet have been further exacerbated by claims of harassment made against certain executives.

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Following these claims, and the substantial headlines that they generated, Alphabet evolved its policies by ending its requirement that employee sexual harassment claims be handled through private arbitration. The company now requires greater detail on harassment claims to be provided in its reporting. Further, the company provides more support, such as counseling, to employees who raise concerns. We view these measures as necessary and appropriate responses, but Alphabet can still improve—it ranks in the middle third of companies under our proprietary social ranking.

TJX Companies (TJX) is a leading worldwide retailer of off-price apparel and home fashions. The company reports key social metrics, such as employee development and workforce diversity, and provides career training and employee support services. In 2018, 77% of TJX Company’s employees were women, 65% of its management team was female, and 56% of its U.S. employees identified as people of color. Further, the company has reported that women accounted for more than 76% of promotions in the past three years.

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Despite these achievements, TJX does not disclose its retention plans and employee turnover rates, which would better enable investors to monitor workforce diversity initiatives. Overall, TJX ranks in the top third of our proprietary social ranking, as well as the top third for our overall ESG ranking responses, but Alphabet can still improve—it ranks in the middle third of companies under our proprietary social ranking.

2. Data privacy

For technology companies, data privacy has become a major social issue to a broad range of stakeholders.

Microsoft (MSFT) is the largest software company in the world. It scores highly by our metrics. Additionally, it is notable for its efforts to manage and protect user data privacy, which is an increasingly “hot button” topic. Microsoft has managed privacy risks with a Security Development Lifecycle (SDL) process that embeds security features into all phases of software development. The company also discloses global government data requests—considered to be an industry best practice—and where the company has identified important principles to be at stake, it has demonstrated a willingness to challenge the authorities on certain demands for user and customer information. We are mindful that the concept of privacy is defined very differently around the globe, but we support Microsoft’s aggressive protection of user data.

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Apple (AAPL), a premium consumer electronics and services company, has also demonstrated a vigorous commitment to protect user data and has declared privacy a fundamental human right. The company is ranked in the middle third of our proprietary social ranking. Apple has employed mechanisms to safeguard user privacy including encryption, data segmentation, and limiting



tracking for specific-use cases. The company has a strong incentive to preserve its relationship with its customers, who are increasingly aware of the risks associated with the theft or unethical use of their personal data. Consequently, Apple has limited the monetization of user behavior and data.

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3. Stakeholder relations and community outreach

Management of key stakeholder relations and community outreach are positive attributes for any company, but especially a Jensen Quality Growth company.

We believe that a business can enhance its brand equity by being an active member of its community and engaging key stakeholders, including community members, customers, employees, and shareholders. For example, **3M (MMM)**, a diversified industrial conglomerate that develops products based on its material science, process technologies, and manufacturing expertise, has a long history of contributing to organizations that improve the welfare of their communities.

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In 3M’s 2018 corporate sustainability report, it announced an investment of more than \$70 million to support educational and environmental community programs. Further, in 2018 employees completed 333,000 hours of volunteer service in their local communities—a number we believe exemplifies 3M’s dedication to bettering its communities. We believe that such initiatives enhance the 3M brand, and benefit 3M employees by developing their leadership and cross-cultural skill sets. 3M ranks in the top third of our internal social ranking.

Johnson & Johnson (JNJ), is the largest and most diversified healthcare company in the world and has a robust sustainability program focused on “People, Places, and Practices.” Johnson & Johnson has committed itself to enhancing access to healthcare to improve the health and well-being of people globally. The company publishes annual progress reports on these efforts and has identified several key performance indicators to guide its sustainability and global citizenship initiatives. Goals for 2020 include expanding delivery of HIV/AIDS therapy to underserved regions around the world, producing and donating one billion doses of a drug for children

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at risk for intestinal worms, and supporting the delivery of eye care screenings to underserved children. Unsurprisingly, Johnson & Johnson is a leading company in terms of our social ranking and enjoys one of the highest ESG scores in our investment universe.

Social Factor Rankings and Fundamental Analysis

ESG factors and our proprietary rankings are integrated into our fundamental research process to further our understanding of our holdings, the potential risks they face and their ability to mitigate such risks. As previously stated, we do not use our ESG rankings to make portfolio construction decisions, but rather they inform the team of potential ESG-related risks and opportunities within in the portfolio. In our view, adverse changes in our social rankings may signal a deterioration of business fundamentals and ultimately the company’s ability to generate sustainably high returns on capital.

For further company-specific information on the Jensen Quality Growth Strategy portfolio companies’ environmental and social factors, please contact:

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Unless otherwise noted in this paper, all information is current as of August 2019 and is subject to change at any time, based on market and other conditions.

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