JENSEN™
INVESTMENT MANAGEMENT

WHITE PAPER
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Environmental Factors for the Jensen Quality Growth Strategy

Introduction

This is the first of a series of White Papers intended to help investors understand the Jensen Investment Committee's perspective on Environmental, Social, and Governance issues that our model portfolio companies face. We will discuss the scope of initiatives underway by considering explicit targets for reductions in greenhouse gas emissions (GHGs), improvements to energy efficiency through the use of renewable sources, waste recycling (zero landfill) and water conservation efforts. Jensen recognizes there may be differences in the degree of adoption by management teams as well as industry factors that may limit the scope of these environmental initiatives. The goal is to highlight a range of potential outcomes by illustrating best practices as reported in 2017-2018 corporate sustainability reports, the Investment Committee's views on specific companies from an ESG integration and risk management perspective, along with the firm's proprietary E ranking (sourced through ISS) juxtaposed with Sustainalytics' insights where we feel their views help augment our understanding of long-term risk.

Jensen's investment philosophy over the last thirty years for the Quality Growth Strategy naturally leads to a universe of companies that have competitive advantages, growth in operating cash flows, and the ability to reinvest those cash flows in a meaningful way to support margins and protect market share against competitors. This is the result of Jensen's requirement that a business generate at least a 15% return on equity for ten consecutive years before qualifying for the discipline. Out of the 225+ names in the Jensen Quality Growth Universe™, the Investment Committee then selects those companies (25-30) that it believes possess the most durable competitive advantages and the ability to allocate a portion of excess cash flows towards business risk mitigation. Jensen believes that environmental issues should be considered when looking at business risk and therefore most of the model companies will generally be "above average" in this ranking when compared to the rest of the Jensen Quality Growth Universe™ (see below table).

Symbol	Issuer	E Ranking within the Jensen Quality Growth Universe	% of Assets
BDX	Becton Dickinson And Co	Top Third	6.41%
PEP	Pepsico Inc	Top Third	6.18%
MSFT	Microsoft Corp	Top Third	5.63%
UNH	UnitedHealth Group Inc	Middle Third	5.37%
LIN	Linde Plc	Top Third	4.96%
ECL	Ecolab Inc	Top Third	4.77%
SYK	Stryker Corp	Middle Third	4.60%
UTX	United Technologies Corp	Bottom Third	4.48%
ORCL	Oracle Corp	Top Third	4.44%
JNJ	Johnson & Johnson	Top Third	4.33%
MMM	3M Co	Top Third	4.32%
Can	Accenture Plc	Top Third	3.42%
PG	Procter & Gamble Co	Top Third	3.36%
GOOGL	Alphabet Inc	Top Third	3.22%
PFE	Pfizer Inc	Middle Third	3.05%
AAPL	Apple Inc	Top Third	3.01%
INTU	Intuit Inc	Middle Third	2.81%
WAT	Waters Corp	Middle Third	2.64%
OMC	Omnicom Group Inc	Middle Third	2.51%
MA	Mastercard Inc	Middle Third	2.50%
APH	Amphenol Corp	Bottom Third	2.47%
CTSH	Cognizant Technology Solutions Corp	Top Third	2.41%
EMR	Emerson Electric Co	Middle Third	2.11%
UPS	United Parcel Service Inc	Top Third	2.09%
TJX	TJX Companies Inc	Top Third	1.96%
NKE	Nike Inc	Top Third	1.91%
TXN	Texas Instruments Inc	Top Third	1.04%

* Data as of 12/31/2018. Holdings are taken from a representative account of the Jensen Quality Growth Strategy.

Companies in the Top Third of the Jensen Quality Growth Universe™ internal E ranking

PepsiCo, Inc. (PEP) is a multinational food, snack, and beverage corporation. Environmental goals established by Pepsi include using less plastic packaging and having all its packaging recyclable, biodegradable or compostable by 2025. We believe this helps mitigate business risk to the extent it lowers the company's input costs. Based on 2017 data, it is estimated that 90% of Pepsi's beverage packaging worldwide is fully recyclable and updated targets are in place to continue to improve upon Pepsi's already strong position in plastics and packaging. Commencing in 2020, Pepsi will enter into a multi-year supply agreement with Loop Industries to use Loop Industries' plastic. Loop Industries' plastic is made from 100% recycled material. Pepsi relies on the continued availability of water for both their products and their manufacturing and the company has adopted a comprehensive water management program with the explicit goal of improving water efficiency in its operations. Lastly, 79% of Pepsi's sourced crops are grown by farmers who are members of the Sustainable Farming Program. For these reasons, Pepsi is an industry leader in managing the environmental risks posed by the Food and Soft Drinks sub-industry and ranks within the top third of the Jensen Quality Growth UniverseTM internal E ranking.

NIKE, Inc. (NKE) is the world's leading footwear, sportswear, and equipment supplier. Nike is an example of a Jensen Quality Growth Strategy holding that demonstrates adequate mitigation of environmental risk and is ranked in the top third of the Jensen

Quality Growth UniverseTM internal E ranking. Nike's 2020 Sustainability Targets include a 10% reduction in average carbon footprint (CO2 emissions) and a 20% reduction in water usage. Nike is also working with their supply chain to move toward 100% use of sustainable cotton. Currently, Nike uses recycled materials in approximately 75% of its footwear and apparel products. For an apparel company, Nike is progressive in managing environmental risks. Although the industry still has a major environmental impact, Nike has taken advantage of economic incentives to reduce waste, water use, and pollution.

United Parcel Service, Inc. (UPS) is a package delivery and supply chain management company with the stated mission of enabling global commerce. Although UPS has a large carbon footprint, it maintains an adequate environmental policy and also ranks within the top third of the Jensen Quality Growth Universe internal E ranking. Of note is the company's focus on improving fleet and route efficiency with alternative fuel and advanced technology vehicles as part of an overall effort to reduce greenhouse gas (GHG) emissions by 25% by 2020. UPS checks many of the boxes in terms of positive environmental policy, but the endemic use of fossil fuels in shipping limits the impact. UPS has invested in electric trucks which should improve their environmental impact, but it will be at least five to ten years before the impact becomes apparent. Lastly, UPS has a collection of other stated goals, such as moving to 25% electricity procurement from renewable resources, a 12% reduction in absolute GHG emissions for their global ground operations, and a goal of 40% alternative fuel usage as a percentage of total ground fuel by 2025. Overall UPS has a strong environmental policy in place which has lent itself to a favorable E ranking from Jensen's perspective, affirmed by Sustainalytics' assessments.

Texas Instruments, Inc. (TXN) is a leading global designer and manufacturer of analog and embedded semiconductors. The company was added to the Jensen Quality Growth Strategy in 2018 and it is ranked favorably in terms of their management of environmental risk. Texas Instruments has taken steps to manage its water use and implement processes to reuse rinse water, thereby improving their water conservation efforts. Texas Instruments has laid out quantifiable goals and reporting on water management, strengthening their ESG standing with both external providers such as Sustainalytics and in Jensen's own internal E ranking (for which Texas Instruments ranks in the top third of the Jensen Quality Growth UniverseTM). Further, the company has saved approximately 2.1 billion gallons of water through manufacturing improvements in the last five years. Importantly, Texas Instruments maintains disclosures of ESG issues and provides shareholders and the public with detailed ESG reports.

Ecolab, Inc. (ECL) develops and markets cleaning and sanitizing products for the hospitality, food service, healthcare, and industrial markets. They also provide pest elimination and maintenance and repair in similar end markets. Ecolab ranks in the top third of Jensen's internal E ranking system. Not only are their products themselves integral to customers' sustainability goals, the company is focused on ESG issues, specifically in terms of energy and water efficiency. Ecolab has a goal to reduce water withdrawal by 25% and reduce greenhouse emissions by 10% by 2020. The business initiated several 'large' projects in 2016 designed to reduce energy and water consumption at manufacturing plants with a focus on 2020 goals. In 2017, Ecolab helped its customers save 171 billion gallons of water. We believe these goals enhance Ecolab's strong competitive advantages as the company is able to not only make a positive impact on the environment but also cut costs. Furthermore, Ecolab recently announced plans to spin off its Upstream Energy businesses as a stand-alone public company by mid-year 2020. The Upstream Energy business currently consists of the Oil Field Chemicals production business and the WellChem drilling and well completion chemistry business. Although it is not yet clear how the spin-off will affect Ecolab's overall environmental score, it is likely that the remaining Ecolab businesses will see an improvement to its ESG ranking within our universe.

Companies in the Middle or Bottom Third of the Jensen Quality Growth Universe™ internal E ranking

Stryker Corporation (SYK) is a healthcare devices and equipment company. Stryker's main products are orthopedic implants and medical/surgical equipment which are sold primarily to hospitals. Stryker ranks in the middle third of the Jensen Quality Growth UniverseTM internal E ranking. Stryker and other medical device companies are facing increasing pressure from regulators regarding the use of hazardous chemicals in their medical devices and products. Further, regulations in the EU require that medical equipment no longer in use be recycled by the company or disposed of in an environmentally friendly manner. Lastly, Stryker is facing pressure from customers who wish to use more energy-efficient medical equipment to save on energy costs. Despite these pressures, Stryker lacks a committee specifically tasked to oversee environmental matters. On the other hand, Stryker's Sustainability Solutions business enabled nearly 3,000 customers to divert 13.4 million pounds of medical waste from landfills, while saving approximately $326 million in supply costs, so there has been marked progress on this front. Currently, it remains unclear whether Stryker has explicit GHG emissions targets in place in its manufacturing operations. We will continue to monitor the company for improvements to their environmental risk programs.

Emerson Electric (EMR) in an industrial conglomerate that produces process management instruments and systems, valves and switches used in industrial automation, and residential and commercial HVAC components. The company requires large amounts of energy in the manufacture of heavy electrical equipment and therefore Emerson faces a considerable amount of carbon emissions risks. However, from 2016 to 2017 Emerson experienced a 31.3% reduction in GHG emissions, a 5.6% reduction in global water consumption, and a 20.5% decrease in global energy use. Additionally, conservation and efficiency activities across their operations contributed to a reduction of 14.5 million kilowatt hours used in 2017. Despite these meaningful efforts, however, Emerson is lacking in their overall ESG-related disclosures. Further, Emerson does not have a committee tasked with overseeing the company's environmental risk management. For these reasons, Emerson is ranked in the middle third of the Jensen Quality Growth UniverseTM internal E ranking.

Waters Corporation (WAT) is a leading analytical instrument producer that designs, manufactures, sells, and services instruments related to liquid chromatography, mass spectrometry, and thermal analysis. Currently, Waters has a program aimed at reducing solvent usage in liquid chromatography applications via more efficient chemistry columns. However, Waters lacks in ESG-related disclosures and does not maintain a specific committee to address environmental or social issues. Due to this lack of integration of ESG issues into their business model, Waters ranks in the middle third of the Jensen Quality Growth UniverseTM internal E ranking.

Omnicom (OMC) is a holding company that owns many of the largest marketing and corporate communications companies in the world. Environmental impacts for Omnicom are relatively low, but the company could improve in terms of its renewable energy use (its current energy usage from renewable resources is approximately 10%). Furthermore, Omnicom does not have a committee dedicated to overseeing environmental issues and their ESG-related disclosures do not meet industry best practices. For these reasons, Omnicom currently ranks in the middle third of the Jensen Quality Growth UniverseTM internal E ranking.

Amphenol (APH) is a developer, manufacturer, and marketer of electronic, electrical, and fiber optic connectors, interconnect systems, and coaxial and flat-ribbon cable. Amphenol currently ranks in the bottom third of the Jensen Quality Growth UniverseTM internal E ranking. Amphenol is in the nascent stages of developing comprehensive ESG management goals and initiatives. Amphenol released their first sustainability report in 2016, and in it, they did not specifically identify any ESG-related goals. Instead, they aimed to incorporate sustainability practices into their operational philosophy. As such, Jensen will continue to monitor the underlying business fundamentals of Amphenol and any environmental risks posed to the business that may affect their ability to mitigate risk and/or drive value creation.

Conclusion

As a hallmark of a Jensen Quality Growth company, we believe management teams that consider environmental risk factors in their day-to-day operations become more effective long term stewards of shareholder capital. Jensen uses proprietary internal tools and external ESG sources, such as ESG databases and academic research, to aid in identifying key ESG issues for the businesses we own. We have partnered with Institutional Shareholder Services (ISS) and Sustainalytics, global leaders in sustainability research and ESG data, in order to consider their ratings alongside our fundamental analysis. Information from these service providers, in conjunction with our proprietary analysis, helps us identify ESG factors that impact the sectors, industries, and companies that comprise the Jensen Quality Universe. In addition, one Investment Committee member is tasked with categorizing relevant ESG factors into a proprietary dashboard that is used by the Committee to help navigate ongoing regulatory and reputational risks associated with companies in the Jensen Quality Universe. Although Jensen does not invest based on any explicit top-down or thematic drivers across sectors or industries, all of the Investment Committee members evaluate and incorporate ESG information into their initial and ongoing assessment of portfolio companies and investment candidates.

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