



Why Concentration May Not Mean More Risk

What can semi-deviation and down-market capture teach us?

Introduction

This white paper was initially produced in mid-2019 and explored the relationship between concentrated portfolios and volatility. We now examine additional historical measures for risk, including semi-deviation, together with down-market capture ratios to evaluate the impact on relative performance from abrupt equity market declines such as in the first quarter of 2020.

The goal is to re-examine our initial conclusions following the pandemic from a “*risk first*” perspective for allocators considering more concentrated portfolios.ⁱ

In this analysis we seek to:

- a. Highlight the lower variability or neutral variability outcomes with respect to portfolio concentration across the large cap core-growth and mid cap value-core peer groups as compared to their benchmarks.
- b. Make the connection between concentrated and highly concentrated portfolios and the potential for better down-market capture ratios.¹
- c. Further delineate the risk profiles of the Jensen Quality Growth and Quality Value Strategies.

Methodology

We measured volatility using semi deviation and beta as primary risk metrics over standardizedⁱⁱ time periods for large-cap and non-standardizedⁱⁱⁱ time periods for mid-cap.²

Peer groups include the eVestment US Large Cap Growth Equity and US Large Cap Core Equity Universes, and the eVestment US Mid Cap Value Equity and US Mid Cap Core Equity Universes as of March 31, 2021.

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ⁱ Over a full market cycle in large cap core-growth peer groups and a partial cycle for mid-cap value-core peer groups.

² Coincides with the re-launch of the Jensen Quality Value Strategy on January 1, 2017. The inception date of the Jensen Quality Value Composite is January 1, 2017.



Large Cap Growth Peer Group

Data was sourced from the eVestment US Large Cap Growth Equity Universe of 318 portfolios. We removed portfolios without a 10-year record, portfolios for which the Russell 1000 Growth Index was not indicated as a preferred benchmark, portfolios with more than 100 stocks, dividend/equity income strategies, and duplicates. Our dataset was composed of 147 portfolios, including the Jensen Quality Growth Strategy’s model portfolio.

Large Cap Core Peer Group

Data was sourced from the eVestment US Large Cap Core Universe of 409 portfolios. We removed portfolios without a 10-year record, portfolios for which the S&P 500 Index or core-equivalent was not indicated as a preferred benchmark, portfolios with more than 100 stocks, dividend/equity income strategies, and duplicates. Our dataset was composed of 109 portfolios, including the Jensen Quality Growth Strategy’s model portfolio.

Mid Cap Value Peer Group

Data was sourced from eVestment US Mid Cap Value Equity Universe of 105 portfolios. We removed portfolios for which the Russell Mid Cap Value Index was not indicated as a preferred benchmark, portfolios with more than 100 stocks, dividend/equity income strategies, and duplicates. Our dataset comprised 63 portfolios, including the Jensen Quality Value Strategy’s model portfolio.

Mid Cap Core Peer Group

Data was sourced from eVestment US Mid Cap Core Equity Universe of 69 portfolios. We removed portfolios for which the Russell Mid Cap Index or core-equivalent was not indicated as a preferred benchmark, portfolios with more than 100 stocks, dividend/equity income strategies, and duplicates. Our dataset comprised 42 portfolios, including the Jensen Quality Value Strategy’s model portfolio.

semi-variance, derived from averaging the deviations of observed values that have a result less than the mean.

Monthly Time Series for Large Cap Growth and Large Cap Core Peer Groups

The table below illustrates the semi-deviation of the monthly returns for the following portfolios: the Russell 1000 Growth Index, the Large Cap Growth Peer Group, the S&P 500 Index, and the Large Cap Core Peer Group compared to the Jensen Quality Growth model portfolio for the standardized year periods.

	Semi Deviation 5 Years	Semi Deviation 7 Years	Semi Deviation 10 Years
Russell 1000 Growth Index	17.42	15.24	14.84
Large Cap Growth Peer Group Average	16.99	15.74	15.53
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/Russell 1000 Index %	85%	88%	90%
Jensen/Peer Group %	87%	85%	86%
S&P 500 Index	17.82	15.50	14.98
Large Cap Core Peer Group Average	17.33	15.72	15.30
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/S&P 500 Index %	83%	86%	89%
Jensen/Peer Group %	85%	85%	88%

Source: eVestment, March 31, 2021

KEY MEASUREMENTS FOR CONSIDERATION^{iv}

Semi-Deviation

Semi-deviation evaluates the fluctuations in returns below the mean. It provides an effective measure of downside risk for a portfolio and expands on our initial findings from our 2019 white paper. Statistically, semi-deviation is the square root of

In the Large Cap Growth Peer Group, we observed that the **Jensen Quality Growth model portfolio has a consistently low semi-deviation** relative to the Russell 1000 Growth Index and peer group average. Similarly, in the Large Cap Core Peer Group, we observed that the **Jensen Quality Growth model portfolio has a moderately low and consistent semi-deviation** relative to the S&P 500 Index and peer group average.



Monthly Time Series for Mid Cap Value and Mid Cap Core Peer Groups

The table below illustrates the semi-deviation of the monthly returns for the following portfolios: the Russell Mid Cap Value Index, the Mid Cap Value Peer Group, the Russell Mid Cap Index, and the Mid Cap Core Peer Group compared to the Jensen Quality Value model portfolio for the non-standardizedⁱⁱⁱ year periods.

	Semi Deviation 2 Years	Semi Deviation 3 Years	Semi Deviation 4 Years
Russell Mid Cap Value Index	31.50	28.18	24.11
Mid Cap Value Peer Group Average	33.99	29.56	25.25
Jensen Quality Value Model Portfolio	25.78	22.22	19.42
Jensen/Russell Mid Cap Value Index %	82%	79%	81%
Jensen/Peer Group %	76%	75%	77%
Russell Mid Cap Index	29.76	27.07	22.38
Mid Cap Core Peer Group Average	28.22	25.99	22.10
Jensen Quality Value Model Portfolio	25.78	22.22	19.42
Jensen/Russell Mid Cap Index %	87%	82%	87%
Jensen/Peer Group %	91%	86%	88%

Source: eVestment, March 31, 2021

In the Mid Cap Value Peer Group, we observed that the **Jensen Quality Value model portfolio has a consistently low semi-deviation** relative to the Russell Mid Cap Value Index and peer group average. Similarly, in the Mid Cap Core Peer Group, we observed that the **Jensen Quality Value model portfolio has a moderately low and consistent standard deviation** relative to the Russell Mid Cap Index and peer group average.

Drilling Down – Concentrated and Highly Concentrated Portfolios

We further refined the peer groups by number of holdings (<50 and <30 for large cap; <50 for mid cap) to evaluate the effect

of concentrated and highly concentrated portfolios on semi-deviation.

Concentrated Portfolios in Large Cap (<50 Holdings)

	Semi Deviation 5 Years	Semi Deviation 7 Years	Semi Deviation 10 Years
Russell 1000 Growth Index	17.42	15.24	14.84
Concentrated Large Cap Growth Peer Group Average ³	16.93	15.70	15.46
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/Russell 1000 Growth Index %	85%	88%	90%
Jensen/Concentrated Peer Group %	87%	85%	87%
% Change (Concentrated peer group vs. initial peer group)	0%	0%	0%
S&P 500 Index	17.82	15.50	14.98
Concentrated Large Cap Core Peer Group Average ⁴	17.15	15.59	15.18
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/S&P 500 Index %	83%	86%	89%
Jensen/Concentrated Peer Group %	86%	86%	88%
% Change (Concentrated peer group vs. initial peer group)	-1%	-1%	-1%

Source: eVestment, March 31, 2021

In the Large Cap Growth Peer Group, we observed no meaningful change in the semi-deviation for the concentrated peer group. In the Large Cap Core Peer Group, we observed a slight reduction in the semi-deviation for the concentrated peer group.

Based on these observations of semi-deviation, a **portfolio with concentration of less than 50 holdings does not appear to introduce significantly higher variation in returns than those with less than 100 holdings.**

³ The concentrated Large Cap Growth Peer Group contains 78 portfolios with <50 holdings.

⁴ The concentrated Large Cap Core Peer Group contains 48 portfolios with <50 holdings.

⁵ The concentrated Mid Cap Value Peer Group contains 25 portfolios with <50 holdings.



Concentrated Portfolios in Mid Cap (<50 Holdings)

	Semi Deviation 2 Years	Semi Deviation 3 Years	Semi Deviation 4 Years
Russell Mid Cap Value Index	31.50	28.18	24.11
Concentrated Mid Cap Value Peer Group Average ⁵	33.92	29.51	25.17
Jensen Quality Value Model Portfolio	25.78	22.22	19.42
Jensen/Russell Mid Cap Value Index %	82%	79%	81%
Jensen/Concentrated Peer Group %	76%	75%	77%
% Change (Concentrated peer group vs. initial peer group)	0%	0%	0%
Russell Mid Cap Index	29.76	27.07	22.38
Concentrated Mid Cap Core Peer Group Average ⁶	25.74	23.65	20.07
Jensen Quality Value Model Portfolio	25.78	22.22	19.42
Jensen/Russell Mid Cap Index %	87%	82%	87%
Jensen/Concentrated Peer Group %	100%	94%	97%
% Change (Concentrated peer group vs. initial peer group)	-9%	-9%	-9%

Source: eVestment, March 31, 2021

In the Mid Cap Value Peer Group, we observed no change in the semi-deviation for the concentrated peer group. On the other hand, we observed significant improvement in the semi-deviation for the concentrated Mid Cap Core Peer Group.

Based on these observations, a strategy with a portfolio concentration of less than 50 holdings had mixed overall findings depending upon which style category was being considered.

Highly Concentrated Portfolios in Large Cap⁷ (<30 Holdings)

	Semi Deviation 5 Years	Semi Deviation 7 Years	Semi Deviation 10 Years
Russell 1000 Growth Index	17.42	15.24	14.84
Highly Concentrated Large Cap Growth Peer Group Average ⁸ (25)	16.72	15.49	15.10
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/Russell 1000 Growth Index %	85%	88%	90%
Jensen/Highly Concentrated Large Cap Growth Peer Group Average %	88%	86%	89%
% Change (Highly concentrated peer group vs. initial peer group)	-2%	-2%	-3%
S&P 500 Index	17.82	15.50	14.98
Highly Concentrated Large Cap Core Peer Group Average (17)	16.56	15.26	14.84
Jensen Quality Growth Model Portfolio	14.74	13.34	13.39
Jensen/S&P 500 Index %	83%	86%	89%
Jensen/Highly Concentrated Large Cap Core Peer Group Average %	89%	87%	90%
% Change (Highly concentrated peer group vs. initial peer group)	-4%	-3%	-3%

Source: eVestment, March 31, 2021

We observe a meaningful reduction in the semi-deviation for the highly concentrated Large Cap Growth and Large Cap Core Peer Groups versus the Large Cap Growth and Large Cap Core Peer Groups.

⁶ The concentrated Mid Cap Core Peer Group contains 17 portfolios with <50 holdings.

⁷ The Mid Cap Value and Mid Cap Core Peer Groups had insufficient highly concentrated portfolios (<30) to constitute meaningful peer groups.

⁸ The highly concentrated Large Cap Core Peer Group contains 25 portfolios with <30 holdings.



DOWN-MARKET CAPTURE RATIO (DMC)

Down-market capture ratio is a measure of the peer group or manager's performance in down markets relative to the market itself. A value of 90 suggests the peer group or manager's loss is only nine tenths of the market's loss during the selected time period. A market is considered down if the return for the index is less than zero. The DMC is calculated by dividing the return of the peer group or manager during the down-market periods by the return of the market during the same periods.

Monthly Time Series for Large Cap Growth and Large Cap Core Peer Groups

The table below illustrates the DMC of the monthly returns for the following portfolios: the Large Cap Growth Peer Group and the Jensen Quality Growth model portfolio versus the Russell 1000 Growth Index, and the Large Cap Core Peer Group and the Jensen Quality Growth model portfolio versus the S&P 500 Index for the standardized year periods.

	DMC 5 Years	DMC 7 Years	DMC 10 Years
Large Cap Growth Peer Group Average	94.49	96.87	100.41
Jensen Quality Growth Model Portfolio	84.93	82.14	84.43
Jensen/Russell 1000 Index %	85%	82%	84%
Jensen/Peer Group %	90%	85%	84%
Large Cap Core Peer Group Average	98.14	98.44	98.73
Jensen Quality Growth Model Portfolio	89.95	85.28	88.42
Jensen/S&P 500 Index %	90%	85%	88%
Jensen/Peer Group %	92%	87%	90%

Source: eVestment, March 31, 2021

In the Large Cap Growth Peer Group, we observed that the **Jensen Quality Growth model portfolio has a consistently low down-market capture** relative to the Russell 1000 Growth Index and peer group average. Similarly, in the Large Cap Core Peer Group, we observed that the **Jensen Quality Growth Strategy has a moderately low and consistent down-market capture** relative to the S&P 500 Index and peer group average.

One additional observation to note is the more consistent result for the Large Cap Core Peer Group over the standardized periods versus the S&P 500 Index. The Large Cap Growth Peer Group displayed better down-market capture over the past five years, but showed no differentiation from the Russell 1000 Growth Index over the past 10 years.

Monthly Time Series for Mid Cap Value and Mid Cap Core Peer Groups

The table below illustrates the DMC of the monthly returns for the following portfolios: the Mid Cap Value Peer Group and the Jensen Quality Value model portfolio versus the Russell Mid Cap Value Index, and the adjusted Mid Cap Core Peer Group and the Jensen Quality Value model portfolio versus the Russell Mid Cap Index for the non-standardized periods.

	DMC 2 Years	DMC 3 Years	DMC 4 Years
Mid Cap Value Peer Group Average	100.54	101.35	100.93
Jensen Quality Value Model Portfolio	86.80	87.65	85.16
Jensen/Russell Mid Cap Value Index %	87%	88%	85%
Jensen/Peer Group %	86%	86%	84%
Mid Cap Core Peer Group Average	96.33	97.59	96.87
Jensen Quality Value Model Portfolio	96.84	95.46	96.77
Jensen/Russell Mid Cap Index %	97%	95%	97%
Jensen/Peer Group %	101%	98%	100%

Source: eVestment, March 31, 2021

In the Mid Cap Value Peer Group, we observed that the **Jensen Quality Value Strategy has a consistently low down-market capture** relative to the Russell Mid Cap Value Index and peer group average. However, in the adjusted mid-cap core universe, we observed that the **Jensen Quality Value Strategy has only negligible down-market capture** relative to the Russell Mid Cap Index and peer group average.

Two additional observations are (1) the higher absolute down-market capture ratios across the non-standardized periods for the Mid Cap Value Peer Group and (2) the lack of differentiation for the Jensen Quality Value Strategy versus the mid-cap core peer

⁹ The concentrated Large Cap Growth Peer Group contains 78 portfolios with <50 holdings.

¹⁰ The concentrated Large Cap Growth Peer Group contains 48 portfolios with <50 holdings.



group and the Russell Mid Cap Index. When measuring against correlation coefficients we observe that there is no meaningful difference between the Jensen Quality Value Strategy and the Russell Mid Cap Value or Mid Cap Indexes over the non-standardized periods.

Drilling Down – Concentrated and Highly Concentrated Portfolios

We further refined the peer groups by number of holdings (<50 and <30 for large cap; <50 for mid cap) to evaluate the effect of concentrated and highly concentrated portfolios on down-market capture.

Concentrated Portfolios in Large Cap (<50 Holdings)

	DMC 5 Years	DMC 7 Years	DMC 10 Years
Concentrated Large Cap Growth Peer Group Average ⁹	92.45	95.55	98.84
Jensen Quality Growth Model Portfolio	84.93	82.14	84.43
Jensen/Russell 1000 Growth Index %	85%	82%	84%
Jensen/Concentrated Peer Group %	92%	86%	85%
% Change (Concentrated peer group vs. initial peer group)	-2%	-1%	-2%
Concentrated Large Cap Core Peer Group Average ¹⁰	96.36	96.47	96.92
Jensen Quality Core Model Portfolio	89.95	85.28	88.42
Jensen/S&P 500 Index %	90%	85%	88%
Jensen/Concentrated Peer Group %	93%	88%	91%
% Change (Concentrated peer group vs. initial peer group)	-2%	-2%	-2%

Source: eVestment, March 31, 2021

In both the large cap growth and large cap core per groups, we

observed a slight reduction in the down-market capture ratios for the concentrated peer groups. Based on these observations, a strategy with a portfolio concentration of less than 50 holdings did not appear to introduce significantly higher down-market capture for monthly returns in below return environments than the benchmarks.

Concentrated Portfolios in Mid Cap (<50 Holdings)

	DMC 2 Years	DMC 3 Years	DMC 4 Years
Concentrated Mid Cap Value Peer Group Average ¹¹	101.02	101.84	101.66
Jensen Quality Value Model Portfolio	86.80	87.65	85.16
Jensen/Russell Mid Cap Value Index %	87%	88%	85%
Jensen/Concentrated Peer Group %	86%	86%	84%
% Change (Concentrated peer group vs. initial peer group)	0%	0%	1%
Concentrated Mid Cap Core Peer Group Average ¹²	88.93	90.15	89.51
Jensen Quality Value Model Portfolio	96.84	95.46	96.77
Jensen/Russell Mid Cap Index %	97%	95%	97%
Jensen/Concentrated Peer Group %	109%	106%	108%
% Change (Concentrated peer group vs. initial peer group)	-8%	-8%	-8%

Source: eVestment, March 31, 2021

In the Mid Cap Value Peer Group, we essentially observed no change in the down-market capture for the concentrated Mid Cap Value Peer Group. On the other hand, in the **Mid Cap Core Peer Group** we observed significant improvement in the down-market capture for the concentrated mid cap peer group. While acknowledging the small sample size, based on these observations, a strategy with a portfolio concentration of less than 50 holdings had mixed overall findings depending upon which style category was being considered but, nevertheless, tracked to a much lower down-market capture ratio in the mid-cap core asset class.

¹¹ The concentrated Mid Cap Value Peer Group contains 25 portfolios with <50 holdings.

¹² The concentrated Mid Cap Core Peer Group contains 17 portfolios with <50 holdings.

¹³ The concentrated Large Cap Growth Peer Group contains 17 portfolios with <30 holdings.

¹⁴ The concentrated Large Cap Core Peer Group contains 17 portfolios with <30 holdings.



Highly Concentrated Portfolios in Large Cap Only (<30 Holdings)

	DMC 5 Years	DMC 7 Years	DMC 10 Years
Highly Concentrated Large Cap Growth Peer Group Average ¹³	91.22	94.22	95.63
Jensen Quality Growth Model Portfolio	84.93	82.14	84.43
Jensen/Russell 1000 Growth Index %	85%	82%	84%
Jensen/Highly Concentrated Peer Group Average %	93%	87%	88%
% Change (Highly concentrated peer group vs. initial peer group)	-3%	-3%	-5%
Highly Concentrated Large Cap Core Peer Group Average ¹⁴	92.66	91.88	91.88
Jensen Quality Growth Model Portfolio	89.95	85.28	88.42
Jensen/S&P 500 Index %	90%	85%	88%
Jensen/Highly Concentrated Peer Group Average %	97%	93%	96%
% Change (Highly concentrated peer group vs. initial peer group)	-6%	-7%	-7%

Source: eVestment, March 31, 2021

In the adjusted large-cap growth universe, we observed a **meaningful reduction in the down-market capture ratios for the highly concentrated Large Cap Peer Group** versus the Russell 1000 Growth Index. In the adjusted large-cap core universe, we saw an even larger reduction in the down-market capture ratios for the Highly Concentrated Peer Group versus the S&P 500 Index mindful of the relatively small sample size.

Unfortunately, the mid-cap value and mid-cap core universes did not have enough highly concentrated portfolios (<30) to constitute peer groups.

CONCLUSIONS

There were three underlying objectives for this analysis.

1. We sought to highlight the lower variability or neutral variability outcomes with respect to portfolio concentration across the Large Cap Core Growth and Mid Cap Value Core Peer Groups as compared to their benchmarks.

We observe some evidence of lower standard deviations as portfolios become more concentrated in the mid cap core space and highly concentrated portfolios in the large cap growth space. We recognize the small sample size in the former category.

Importantly, we also observe some evidence of lower semi-deviations in below average return environments for portfolios that become more concentrated in the mid-cap core space and highly concentrated portfolios in the large cap core space. Again, recognizing the small sample size in the former category.

2. Make the connection between concentrated and highly concentrated portfolios and the potential for better down-market capture ratios.¹⁵

We observe evidence of lower down-market capture ratios as portfolios become more concentrated in the mid-cap core space as well as both large-cap growth and core spaces. We recognize the small sample size of the former.

Additionally, there seems to be progression in the magnitude of improvement with the down-market capture ratios as portfolios become highly concentrated in the large cap growth and core spaces. One reason may be that managers who manage strategies with larger average position sizes may be more likely to use bottom-up, fundamental research when selecting names while maintaining a careful eye towards downside risk mitigation during prior economic cycles.

3. Further delineate the risk profiles of the Jensen Quality Growth and Quality Value Strategies.

¹⁵ Over a full market cycle in Large Cap Core Growth Peer Groups and a partial cycle for Mid Cap Value Core Peer Groups.

¹⁶ Jensen Quality Growth Strategy: 15.14%, 14.86%, and 15.14% over standardized periods; Jensen Quality Value Strategy: 32.24%, 35.39%, and 41.93% over non-standardized. All average annual turnover rates were measured on a rolling quarterly basis over past 12 months in eVestment.



We posit that the Jensen Quality Growth and Value Strategies maintain below-average variability profiles, better semi-deviations, and attractive down-market capture ratios as a result of relatively consistent sector and industry exposures combined with low average annual turnover rates.¹⁶

Table 1 highlights the sector and industry exposures for the Jensen Quality Growth Strategy for the past five years ending March 31, 2021.

This table illustrates that some of the larger sector and industry exposures such as in Information Technology, Health Care,

Table 1 Sector & Industry Exposure for the Jensen Quality Growth Strategy

Source: Jensen Investment Management, March 31, 2021

	3/31/2016	3/31/2017	3/31/2018	3/31/2019	3/31/2020	3/31/2021
Communication Services	N/A	N/A	N/A	5.28%	7.57%	6.54%
Interactive Media & Services	N/A	N/A	N/A	3.05%	5.50%	6.54%
Media	N/A	N/A	N/A	2.23%	2.07%	0.00%
Consumer Discretionary	11.41%	9.69%	9.59%	4.80%	7.92%	11.20%
Hotels Restaur & Leisure	0.00%	0.00%	0.00%	0.00%	0.00%	2.79%
Media (exp 9/18)	4.05%	3.58%	3.27%	N/A	N/A	N/A
Specialty Retail	4.80%	3.66%	3.02%	1.96%	1.80%	4.42%
Text, Apparel & LuxGoods	2.56%	2.44%	3.31%	2.84%	6.12%	3.99%
Consumer Staples	11.83%	11.19%	10.17%	9.33%	10.93%	11.95%
Beverages	7.82%	7.46%	7.11%	6.12%	6.93%	6.17%
Household Products	4.00%	3.73%	3.07%	3.20%	0.66%	2.38%
Food Products	0.00%	0.00%	0.00%	0.00%	0.00%	3.39%
Food Beverage & Tobacco	0.00%	0.00%	0.00%	0.00%	3.34%	0.00%
Financials	2.34%	0.82%	0.00%	0.00%	0.00%	0.00%
Capital Markets	2.34%	0.82%	0.00%	0.00%	0.00%	0.00%
Health Care	20.04%	21.30%	22.93%	23.72%	24.20%	24.24%
Health Care Equip & Supply	8.33%	9.71%	11.44%	11.23%	9.98%	10.25%
Health Care Provider & Svc	4.03%	4.38%	4.77%	4.76%	4.22%	4.46%
Life Sciences Tools & Svcs	2.45%	2.54%	2.48%	1.13%	0.00%	0.00%
Pharmaceuticals	5.23%	4.66%	4.23%	6.60%	9.99%	9.53%
Industrials	15.13%	14.82%	13.59%	13.86%	14.28%	12.58%
Aerospace & Defense	4.71%	5.00%	5.22%	4.85%	4.22%	0.00%
Air Freight & Logistics	2.79%	2.43%	2.21%	2.14%	3.11%	1.97%
Commercial Serv & Supply	0.00%	0.00%	0.00%	0.00%	0.00%	1.93%
Electrical Equipment	2.38%	2.24%	2.37%	2.16%	1.51%	0.00%
Industrial Conglomerates	5.25%	5.15%	3.79%	4.72%	5.11%	5.46%
Professional Services	0.00%	0.00%	0.00%	0.00%	0.32%	3.22%
Information Technology	25.94%	29.54%	32.36%	30.00%	30.84%	32.62%
Electronic Equipment, Instruments & Components	2.89%	2.30%	2.59%	2.43%	0.55%	0.00%
Internet Software & Svc	0.00%	2.77%	3.15%	0.00%	0.00%	0.00%
IT Services	10.39%	11.60%	10.09%	10.45%	12.95%	15.95%
Semiconduct & Semi Equip	0.00%	0.00%	0.00%	0.98%	1.74%	2.49%
Software	9.62%	9.45%	13.64%	12.90%	11.49%	9.88%
Tech Hardware, Storage & Peripherals	3.05%	3.43%	2.90%	3.24%	4.11%	4.31%
Materials	9.37%	8.64%	9.82%	9.52%	0.41%	0.00%
Chemicals	9.37%	8.64%	9.82%	9.52%	0.41%	0.00%
Cash	3.94%	4.00%	1.53%	3.49%	3.85%	0.88%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%



Industrials, Consumer Staples, and Consumer Discretionary have been relatively consistent or in a modest allocation range so that business models have an opportunity to demonstrate resilience and perform over an economic cycle.

Table 2 highlights the sector and industry exposures for the Jensen Quality Value Strategy for past three years ending March 31, 2021.

Again, this table illustrates that some of the larger sector and industry exposures such as in Industrials, Information Technology, Consumer Discretionary, Health Care, Consumer Staples, Materials, Real Estate, and Communication Services have also been relatively consistent or in a tight allocation range so that business models have an opportunity to demonstrate their resilience and perform over an economic cycle.

Table 2 Sector & Industry Exposure for the Jensen Quality Value Strategy

Source: Jensen Investment Management, March 31, 2021

	3/31/2018	3/31/2019	3/31/2020	3/31/2021
Communication Services	N/A	3.04%	2.91%	0.82%
Media	N/A	3.04%	2.91%	0.82%
Consumer Discretionary	19.27%	18.49%	15.23%	16.92%
Distributors	1.48%	2.90%	2.99%	3.91%
Diversified Consumer Services	1.83%	0.00%	0.00%	0.00%
Hotels Restaur & Leisure	4.84%	3.90%	0.00%	0.00%
Household Durables	0.00%	0.00%	0.00%	0.00%
Leisure Products	1.56%	2.12%	2.18%	3.73%
Media	2.48%	N/A	N/A	N/A
Multiline Retail	0.65%	0.00%	0.00%	0.00%
Specialty Retail	2.16%	4.97%	6.35%	5.09%
Text, Apparel & LuxGoods	4.28%	4.61%	3.70%	4.20%
Consumer Staples	13.62%	10.08%	12.61%	10.80%
Beverages	0.89%	0.00%	0.00%	0.00%
Food & Staples Retailing	1.50%	2.43%	2.53%	2.56%
Food Products	5.02%	7.65%	9.08%	6.33%
Household Products	3.09%	0.00%	1.00%	1.90%
Personal Products	2.25%	0.00%	0.00%	0.00%
Tobacco	0.88%	0.00%	0.00%	0.00%
Financials	3.81%	3.68%	0.00%	2.60%
Capital Markets	3.81%	3.68%	0.00%	2.60%
Consumer Finance	0.00%	0.00%	0.00%	0.00%
Health Care	8.89%	10.75%	15.58%	11.76%
Biotechnology	0.00%	0.00%	0.00%	0.00%
Health Care Equip & Suppl	3.38%	5.00%	5.63%	3.79%
Health Care Provid & Svc	2.53%	3.25%	7.54%	7.97%
Life Sciences Tools & Svcs	2.98%	2.50%	2.42%	0.00%
Pharmaceuticals	0.00%	0.00%	0.00%	0.00%
Industrials	20.60%	18.64%	20.21%	26.05%
Aerospace & Defense	0.71%	0.00%	0.00%	0.00%
Air Freight & Logistics	3.40%	2.15%	3.35%	4.19%
Building Products	0.00%	3.13%	3.00%	2.91%
Commercial Serv & Supply	3.64%	1.83%	2.35%	5.65%
Electrical Equipment	2.18%	0.00%	0.00%	0.00%
Machinery	5.57%	4.73%	2.77%	2.01%
Professional Services	1.63%	1.87%	2.84%	6.71%



	3/31/2018	3/31/2019	3/31/2020	3/31/2021
Road & Rail	2.19%	2.65%	3.26%	3.28%
Trading Co & Distrib	1.29%	2.27%	2.65%	1.31%
Information Technology	17.43%	20.55%	19.03%	16.75%
Communications Equipment	0.00%	0.00%	1.83%	2.41%
Electronic Equipment, Instruments & Components	2.88%	3.12%	0.61%	0.32%
Internet Software & Svc	0.00%	0.00%	0.00%	0.00%
IT Services	5.97%	8.55%	8.11%	8.26%
Semiconduct & Semi Equip	3.14%	2.85%	3.67%	4.75%
Software	4.20%	3.48%	3.21%	0.00%
Technology Hardware, Storage & Peripherals	1.24%	2.54%	1.61%	1.01%
Materials	9.93%	7.89%	6.67%	5.31%
Chemicals	5.73%	3.81%	2.44%	1.45%
Containers & Packaging	4.20%	4.08%	4.23%	3.86%
Real Estate	1.73%	3.34%	3.80%	3.06%
Real Estate Management & Development	1.73%	3.34%	3.80%	3.06%
Cash	4.72%	3.53%	3.95%	5.93%
Total	100.00%	100.00%	100.00%	100.00%

These tables are not to suggest that Jensen is any better or worse at picking stocks in the concentrated or highly concentrated peer groups found in this study, only that our strategies tend to have stable allocations and sub-allocations with low-to-moderate annual turnover. Future topics for investigation could include examining the potential link between lower down-market capture ratios and the composition of the peer groups in terms of investment approach, average annual turnover, and variation in sector exposures over time.

Custom eVestment datasets utilized in this piece are available by request.

The information contained herein, including references to specific sectors, is intended to serve as an illustration of Jensen's investment process and objectives for the Jensen Quality Growth and Quality Value Strategies. References to "Jensen Quality Growth", "Jensen Quality Value", the "Jensen Quality Growth Strategy", the "Jensen Quality Value Strategy", "Jensen Quality Growth portfolio", or "Jensen Quality Value portfolio" are to each Strategy's model portfolio. The model portfolios for the Jensen Quality Growth and Quality Value Strategies are members of the Jensen Quality Growth Equity and the Jensen Quality Value Composites, respectively, and are representative accounts of each Strategy's Composite. Individual account characteristics, data discussed within this paper, and performance returns may differ from those of the representative account due to the size of the portfolio, client-specific constraints, tax considerations or other factors.

Indices are unmanaged and do not incur investment management fees. An investor is unable to invest in an index. The characteristics discussed in this paper are based on past performance. Past performance is no guarantee of future results. Performance results shown reflect the reinvestment of dividends and other earnings. Although taken from reliable sources, Jensen cannot guarantee the accuracy of the information received from third parties. Graphs, charts, and/or diagrams cannot, by themselves, be used to make investment decisions.

The opinions expressed herein are those of Jensen, are current as of the date of this material, should not be considered investment advice and are subject to change at any time. The information contained herein represents management's current expectation of how the Jensen Quality Growth and Quality Value Strategies will continue to be operated in the near term; however, management's plans and policies in this respect may change in the future. In particular, (i) policies and approaches to portfolio monitoring, risk management, and asset allocation may change in the future without notice and (ii) economic, market and other conditions could cause the Strategies and accounts invested in the Strategies to deviate from stated investment objectives, guidelines, and conclusions stated herein.

Jensen Investment Management, Inc., is registered as an investment adviser with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration with the SEC does not imply any level of skill or training.

This paper contains data and definitions sourced from eVestment.

ⁱ <50 holdings and <30 holdings in large-cap equities; <50 holdings in mid-cap equities.

ⁱⁱ 5/7/10 years.

ⁱⁱⁱ 2/3/4 years.

^{iv} Source: eVestment Methodology.