JENSEN INVESTMENT MANAGEMENT

INSIGHTS
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Navigating the Tariff Landscape: A Balanced Portfolio Perspective

Executive Summary

Recent months have seen a renewed focus on tariffs as a key economic policy tool, creating waves across global markets and supply chains. While headlines paint a picture of widespread disruption, our analysis indicates a more nuanced reality as tariffs represent just one factor in a complex investment mosaic. For companies in our Jensen Quality Growth Strategy ("portfolio"), exposure and impact vary significantly, with only a small subset facing potentially material risks. This Insight examines the broader tariff landscape, specific company exposures and our strategic approach to navigating this evolving environment.

The Evolving Tariff Landscape

A New Economic Pressure Point

The recent escalation in tariff policies has introduced a third significant pressure point to the economy, adding to persistent inflation and elevated interest rates. During the most recent earnings season, FactSet observed that more than half of S&P 500 companies commented on tariffs during their earnings calls[1] — the highest number observed in the past decade. This surge in attention reflects the uncertainty created by the unpredictable rollout of trade policy changes, which have targeted not only China but also close trading partners including Canada, Mexico and the Eurozone.

Like higher interest rates and inflation, tariffs function as regressive economic instruments that disproportionately affect lower-income consumers. As companies pass along higher import duties to end consumers, tariffs effectively operate as consumption taxes that strain household budgets already challenged by other economic pressures.

Rising Economic Uncertainty

The complexity of tariff implementation has contributed to record levels of economic policy uncertainty and in January the Global Economic Policy Uncertainty Index

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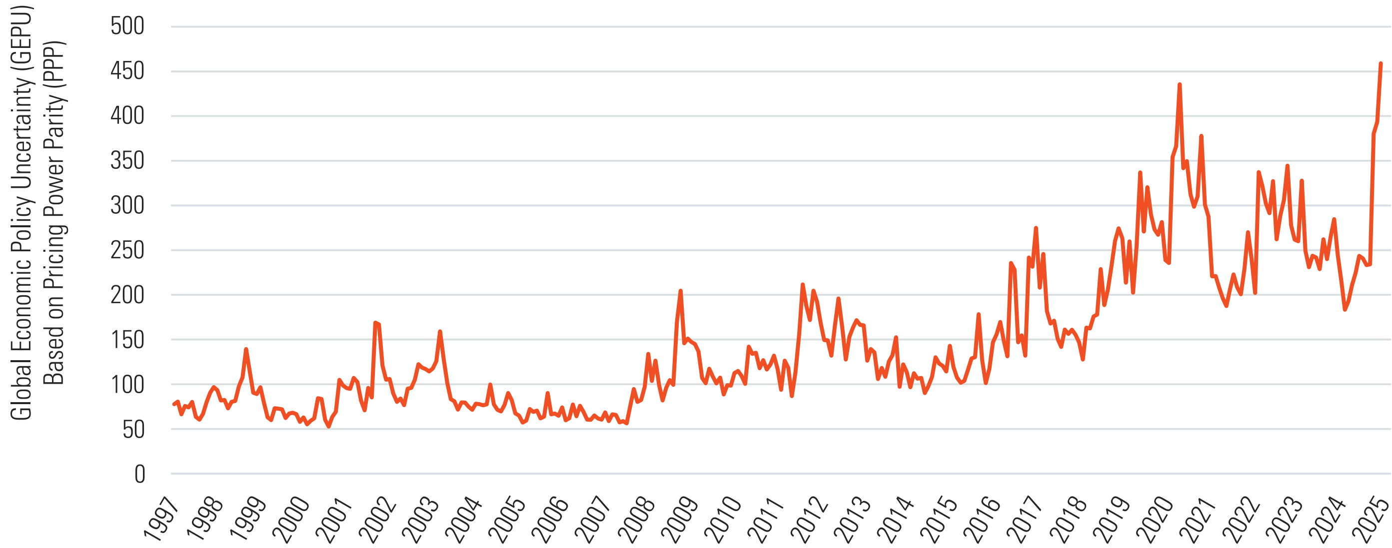
[1] *Butters, John, "Highest Number of S&P 500 Companies Citing 'Tariffs' on Earnings Calls Over Past 10 Years," FactSet, March 7, 2025, https://insight.factset.com/highest-number-of-sp-500-companies-citing-tariffs-on-earnings-calls-over-past-10-years.*

Global Economic Policy Uncertainty Index[2]



reached an all-time high since its introduction in 1997. This uncertainty has complicated strategic planning for businesses, which must now contend with rapidly changing trade rules while attempting to diversify supply chains away from higher-risk regions.

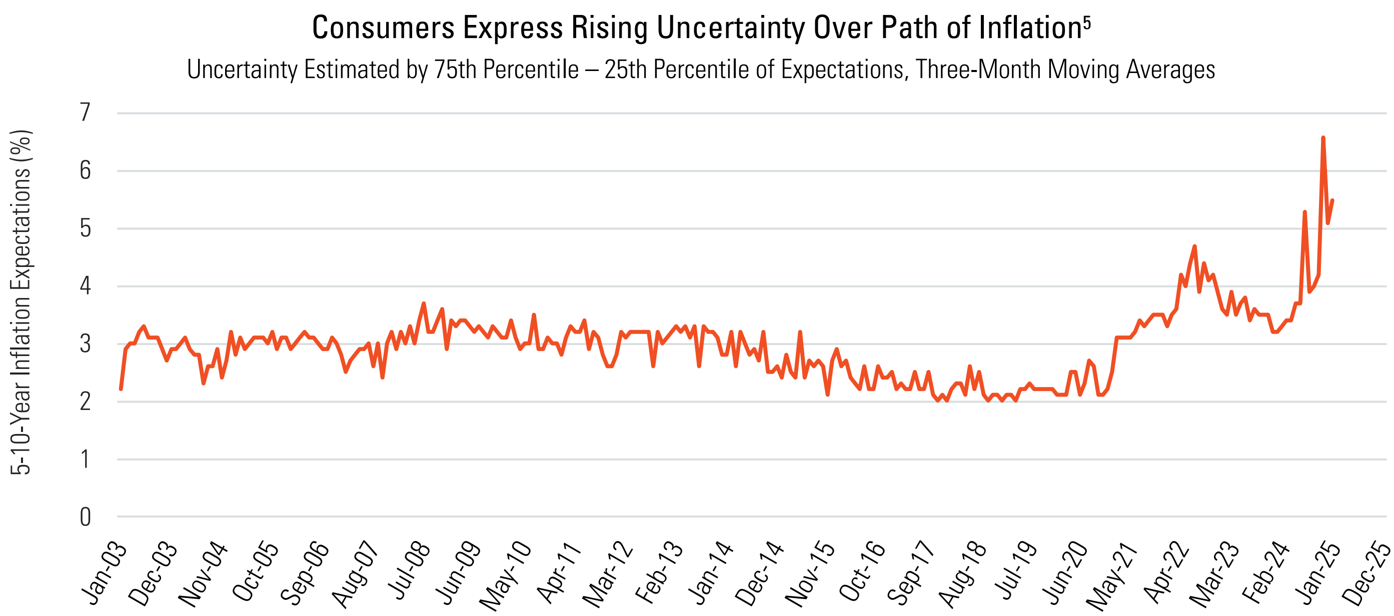
While many companies have already begun shifting production to countries like Vietnam, Indonesia or Mexico to reduce China exposure, the evolving tariff landscape makes these decisions increasingly complex. Each adjustment carries its own costs, risks and timeline considerations, forcing businesses to balance immediate compliance with long-term strategic positioning.

Inflation Expectations and Growth Concerns

We are also observing a notable disconnect emerging between consumer sentiment and market indicators. Consumer inflation expectations recently jumped to a near 30-year high as Americans brace for higher prices resulting from tariffs and potential trade conflicts, according to University of Michigan data.[3] This pessimistic consumer outlook stands

10-Year Breakeven Inflation Rate[4]

[2] Source: policyuncertainty.com as of March 2025. The Global Economic Policy Uncertainty (GEPU) Index is a Gross Domestic Product (GDP)-weighted (based on Pricing Power Parity (PPP)-adjusted GDP) average of national EPU indices for 21 countries: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the United Kingdom and the United States.
[3] University of Michigan: Inflation Expectation, Federal Reserve Bank of St. Louis (FRED), March 21, 2025, https://fred.stlouisfed.org/series/MICH.
[4] Source: Federal Reserve Bank of St. Louis (FRED), 10-Year Breakeven Inflation Rate, March 21, 2025.



in stark contrast to market-implied inflation expectations, as measured by the 10-year Breakeven Inflation Rate,[6] which remains well below the elevated levels seen during the late stages of the COVID-19 era in 2022. This divergence suggests that current consumer sentiment may be worse than what market data implies at this juncture.

Economic growth may dampen amid this turbulence, as both consumers and businesses adopt more cautious spending and investment behaviors. A "bull market in uncertainty" threatens to exert a chilling effect that extends beyond just low-income consumers to broader market segments.

Portfolio Implications: A Company-Level Analysis

We are actively monitoring tariff exposure, and, at this juncture, we do not believe the tariff threat is pervasive across the portfolio; however, we have identified a handful of portfolio holdings with heightened tariff risk. In these cases, we are confident that the companies have the pricing power and operational flexibility to mitigate this risk, but our analysis is ongoing.

Our analysis continues to focus on several key factors: geographic revenue distribution, supply chain configuration and resilience, pricing power, product uniqueness, and management's strategic flexibility. Companies with localized supply chains and manufacturing approaches generally face lower direct tariff risk, while those with strong brand positions may be better able to pass through cost increases if necessary.

We remain vigilant in monitoring both direct tariff impacts and potential secondary effects such as supply chain disruptions or changes in consumer behavior. The situation remains fluid, and we will continue to assess implications for both individual holdings and overall portfolio positioning as policies evolve.

Strategic Portfolio Positioning

A Balanced, Mosaic Approach

While tariffs may create meaningful near-term volatility and headline risk, they represent just one piece of the investment mosaic we construct for each portfolio company. Importantly, our investment philosophy has always emphasized quality attributes, including:

- **Long-term competitive positioning:** Companies with sustainable competitive advantages can better navigate short-term policy disruptions.
- **Pricing power:** The ability to pass through cost increases should help insulate margins during periods of tariff-induced inflation.
- **Supply chain resilience:** Companies that have already diversified their manufacturing and sourcing geographically face reduced tariff exposure.
- **Balance sheet strength:** Financial flexibility allows companies to absorb short-term margin pressures while making strategic adjustments.

[5] *Source: University of Michigan, (2025), Surveys of Consumers — Featured Charts, March 21, 2025.*
[6] *10-Year Breakeven Inflation Rate, Federal Reserve Bank of St. Louis (FRED), March 21, 2025, https://fred.stlouisfed.org/series/T10YIE.*

> **End market diversity:** Exposure across multiple geographies and customer segments reduces concentration risk from any single policy change.

In our view, these qualities become even more valuable during periods of trade policy uncertainty.

Looking Forward: Navigating the New Environment

Evolutionary, Not Revolutionary

Despite heightened attention, today's tariff environment represents an evolution rather than a revolution in trade policy. Many companies have already adapted to tariffs implemented in previous years, developing more flexible supply chains and pricing strategies.

For most Jensen Quality Growth Strategy companies, tariffs represent a manageable business challenge rather than a significant threat. In our view, the strongest businesses in our portfolio possess the operational flexibility, dominant market positions and financial resources to adapt to changing policy environments while maintaining long-term competitive advantages.

Monitoring Key Indicators

As the tariff situation continues to evolve, we are closely monitoring several key indicators:

> Implementation timelines and specific product categories affected

> Potential exemption processes or modifications to announced policies

> Supply chain adjustments announced by portfolio companies

> Pricing actions and their reception in respective markets

> Consumer spending patterns, particularly among different income segments

> Changes in capital investment plans related to manufacturing relocations

These indicators will help inform both our assessment of existing positions and the identification of new opportunities created by market dislocations.

Conclusion

While tariffs create a new layer of complexity in the investment landscape, our portfolio construction process remains focused on identifying companies with the fundamental strengths needed to navigate changing policy environments. Only a small subset of our holdings currently face material tariff exposure, and even within this group, we believe that mitigating factors such as supply chain diversification, pricing power, and strategic positioning provide important buffers.

By maintaining our disciplined investment approach — focused on competitive advantages, management quality, and long-term business fundamentals — we are confident that we remain well-positioned to navigate the current uncertainty while capitalizing on opportunities created by market overreactions. Tariffs represent just one piece of a complex investment mosaic, and we continue to evaluate each holding within this broader context.

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