Bear Market Preparedness: Know What You Own
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That was fast. After peaking at 3,386 on February 19, 2020, the S&P 500 Index declined by 26.7% in just sixteen trading days, marking the sharpest descent into bear territory in history[1]. The selling of stocks in this period has often felt indiscriminate as market participants struggle to discount the economic impact of the COVID-19 pandemic in a near-vacuum of information. Reactionary investment decisions are not typically rewarded in such an environment.

Know What You Own

In times of market stress, it is crucial to 'know what you own' and focus on underlying, long-term business attributes. For Jensen, these factors include competitive advantages, balance sheet strength, and free cash flow consistency. Using this framework, we can compare stock price reactions with our existing knowledge of each individual business to identify market over- and under-reactions.

FIG. A

	Holding Price Decline	S&P 500 Index Decline	Delta
General Mills	-6.1%	-26.7%	**20.6%**
Beckton Dickinson	-13.9%	-26.7%	**12.8%**
Johnson & Johnson	-15.8%	-26.7%	**10.9%**
United Technologies	-32.0%	-26.7%	**-5.3%**
V.F. Corp	-33.6%	-26.7%	**-6.9%**
Emerson Electric	-35.7%	-26.7%	**-9.0%**

Source: Jensen Investment Management and Refinitiv EIKON from February 19, 2020 to March 12, 2020

The table to the left (FIG. A) displays absolute share price changes for the top-three and bottom-three decliners among the stocks held in the Jensen Quality Growth Strategy during the aforementioned period. As shown, all portfolio stocks declined in the period, within a range of -6.1% to -35.7%.

Judging magnitude in such a short time period is challenging, but for both the largest and smallest decliners the market reaction appears to be *directionally* consistent with prospects for near-term business fundamentals. **Emerson, United Technologies, and V.F. Corp** serve cyclical end markets and are therefore more financially sensitive to economic changes. On the other hand, **Johnson & Johnson, Becton Dickinson, and General Mills** cater to relatively inelastic customer demand. And, both Johnson & Johnson and Becton Dickinson stand to benefit from increased use of the global healthcare system.

However, there are examples in the portfolio where the market reaction appears disproportionately negative relative to the fundamental outlook. Two such examples are **Accenture and Stryker Corporation**, as shares of both companies declined more than that of the S&P 500 Index during this period. Yet, we view both businesses as resilient and well-positioned relative to expected economic headwinds.

[1] Source: https://www.ft.com/content/d895a54c-64a4-11ea-a6cd-df28cc3c6a68

Accenture is the world's largest business and information technology consulting firm, serving clients in approximately 120 countries, including 75% of the Global 500 companies. The company sports a nearly debt-free balance sheet, and its global scale allows for the unique combination of strategic advice and execution expertise when crafting and implementing business productivity projects. These projects tend to be long-term in nature and cannot be quickly shuttered based on near-term economic speed bumps. As a result, we expect to see some business slowdown, but not the financial disruption that appears to be reflected in its recent share price decline.

FIG. B

	Holding Price Decline	S&P 500 Index Decline	Delta
Accenture	-29.4%	-26.7%	**-2.7%**
Stryker Corporation	-31.5%	-26.7%	**-4.8%**

Source: Jensen Investment Management and Refinitiv EIKON from February 19, 2020 to March 12, 2020.

Stryker is a global leader in orthopedic implants, surgical tools, and healthcare-delivery equipment, serving primarily hospitals and other healthcare delivery organizations. Longstanding product development and commercial relationships with these clients form the foundation of a stable competitive moat. Stryker also benefits from revenue diversity, both at the product and geographic level. In the near-term, we do expect economic weakness to result in pockets of challenges across its product portfolio, as some orthopedic procedures can be delayed. However, Stryker products support many non-discretionary procedures, and it is a global leader in the sale of hospital beds, a business that stands to benefit from higher hospital admissions.

Taking the Long-Term View

Capricious market declines are unsettling to us all. In such times, it is paramount to separate market 'noise' from business reality. We take comfort managing a portfolio of time-tested businesses backed by competitive advantages and financial resiliency. As investors, our job is to weigh long-term business strength relative to market expectations. During this short time period, we have been in the fortunate position to add to many of the portfolio holdings of in the Jensen Quality Growth Equity Strategy – including Accenture and Stryker – at what we consider deeply discounted prices.

Holdings and attribution discussed are those of a representative account (also "portfolio") of the Jensen Quality Growth Equity Composite. The mention of specific securities illustrates the application of our overall investment approach only and is not to be considered a recommendation to purchase or sell a security. The specific securities identified and described herein do not represent all of the securities purchased and sold for the portfolio, and it should not be assumed that investment in these securities will be profitable in the future. There is no assurance that the securities purchased remain in the portfolio or that securities sold have not been repurchased. Individual account characteristics 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.

The contribution to performance of the portfolio's Top Contributors and Bottom Contributors was calculated by multiplying the security's weight in the portfolio by the rate of return. If you wish to obtain a list showing the contribution of each holding in the representative portfolio or additional information about the calculation methodology, please contact Jensen Investment Management, Inc. at info@jenseninvestment.com.

Indices are unmanaged and do not incur investment management fees. An investor is unable to invest in an index. Past performance is no guarantee of future results. Performance results shown reflect the reinvestment of dividends and other earnings. This information is current as of the date of this material and is subject to change at any time, based on market and other conditions.

The information contained herein represents management's current expectation of how the Jensen Quality Growth Equity Strategy 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 Strategy and accounts invested in the Strategy to deviate from stated investment objectives, guidelines, and conclusions stated herein.

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