

A QUARTER REVIEW:

The first quarter of 2024 witnessed a continuation of momentum-driven gains in stock indices, with the market continuing to favor larger companies. Despite the market-cap weighted Russell 2500 Index posting a healthy total return of 6.9%, the median stock in the SMID Cap benchmark only saw a modest gain of 0.6%. Underneath the surface, most stocks experienced a steep correction during the quarter, with the median SMID Cap stock experiencing a significant 24% maximum drawdown, indicative of heightened market volatility.

Equity markets continue to be heavily influenced by interest rate movements. While the Federal Reserve has openly communicated the likelihood of rate cuts this year, certainty in the timing of that path lessened during the quarter. Amid stronger economic reports that raised questions about whether inflation has been definitively tamed, interest rates rose, and commodities rallied. High quality stocks, with high returns on capital and strong balance sheets, outperformed amid the heightened uncertainty.

PERFORMANCE SUMMARY:

The SMID Cap Core strategy delivered a net return of 7.81%, outperforming the Russell 2500 Index by 90 basis points. The positive attribution effects were driven by our emphasis on quality investing, strong security selection, and favorable sector allocation. Notably, our overweight position in mid-cap relative to small-cap stocks contributed to value-added performance.

The Industrials sector is the portfolio's largest sector allocation and was the SMID Cap market's top performing sector in the first quarter. Consumer Discretionary was also a meaningful contributor to excess returns with high-outperforming stocks in retail industries including home furnishings, apparel, and restaurants. Positioning in Financials was another bright spot with non-bank financials posting healthy gains, particularly insurance stocks. The portfolio was also less exposed to weak trends in commercial real estate and multifamily loans, which severely pressured some regional bank stocks.

Technology underperformed, in large part due to not owning one of the benchmark's highest-flying stocks, Super Micro Computer, which gained 255% in the first quarter, reducing relative performance by 61 basis points.

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
WILLIAMS SONOMA INC	1.66%	0.81%
COMFORT SYSTEMS USA INC	0.94%	0.46%
CORE & MAIN INC	1.05%	0.40%
RALPH LAUREN CORP	0.90%	0.36%
LEIDOS HOLDINGS INC	1.70%	0.34%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
BLACKBAUD INC	1.33%	-0.23%
DYNATRACE INC	1.42%	-0.22%
AMN HEALTHCARE SERVICES INC	0.97%	-0.18%
NEW YORK TIMES CO	1.16%	-0.15%
GLOBANT SA	0.96%	-0.14%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
WINTRUST FINANCIAL CORP	2.09%
APPLIED INDUSTRIAL TECHNOLOGIES INC	1.92%
AXIS CAP HOLDINGS LTD	1.85%
SMITH A O CORP	1.83%
EVEREST GROUP LTD	1.78%
UNITIL CORP	1.75%
HAWKINS INC	1.73%
CHARLES RIVER LABORATORIES INTL INC	1.72%
AVERY DENNISON CORP	1.70%
LEIDOS HOLDINGS INC	1.70%

1) Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Strategy. Holdings listed might not have been held for the full period. To obtain a copy of Johnson Asset Management's calculation methodology and a list of all holdings with contribution analysis, please contact your service team. The data provided is supplemental. Please see important disclosures at the end of this document.

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No stock in the Russell 2500 Index is more than a 1% position, so this kind of relative performance impact in a quarter is an extreme outlier rather than a common occurrence, and the portfolio outperformed its benchmark regardless of this single stock drag.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

With a strong 30% rally from the October 2023 lows, many SMID Cap stocks have seen meaningful valuation expansion that has gotten ahead of the fundamental outlook. Consequently, the team capitalized on the opportunity to trim positions in more fully valued cyclical growth stocks while identifying bottom-up valuation opportunities in out of favor areas such as cold storage REITs, roofing supplies, and retail apparel.

Although a recessionary slowdown has yet to materialize, the economic forecast remains uncertain, contributing to mixed signals for stocks. Elevated market multiples and rising interest rates underscore the importance of managing valuation risk. Earnings growth has not cratered, but estimate revisions are still negative. Momentum investors have been chasing a story of AI-driven growth and easier monetary policy in the near future. While both seem likely to play out, the timing is uncertain and the transition is likely to be less smooth than current market valuation would suggest. The team is focused on navigating this landscape with prudent risk management, being selective in valuation opportunities, and maintaining the strategy’s disciplined investment approach.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	8.07%	23.87%	10.04%	12.99%	11.22%	10.20%
JOHNSON (NET)	7.81%	22.66%	8.95%	11.88%	10.13%	9.11%
RUSSELL 2500	6.92%	21.43%	2.97%	9.90%	9.45%	8.84%

OUR SMID CAP CORE STRATEGY TEAM:



Brian Kute, CFA
Managing Director of Research, Senior Portfolio Manager, Principal



Bryan Andress, CFA
Senior Research Analyst, Principal



Chris Godby, CFA
Senior Research Analyst

The Johnson SMID Cap Core Equity strategy seeks to consistently outperform the Russell 2500 Index over a full market cycle with less volatility. The strategy seeks to identify stocks that are making smart allocation decisions, with a favorable combination of quality, valuation, and momentum characteristics.

For more information on our products and services, please contact a member of the our Sales & Client Service Team at **513.389.2770** or **info@johnsonasset.com**.



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