JOHNSON ASSET MANAGEMENT

STRATEGY COMMENTARY
Johnson SMID Cap Core Equity
AS OF 09.30.2022

A QUARTER REVIEW:

The showdown between central banks and high inflation continued to grind markets lower in the third quarter. Tighter monetary policy brought higher short-term interest rates and the markets negatively responded for the third consecutive quarter, a streak of quarterly declines not seen since the 2008-2009 Great Financial Crisis.

The quarter can be dissected into two halves – a first half with a bear market rally driven by riskier growth stocks followed by second half of a more defensive tilt as the market responded to cues that a Fed pivot away from the restrictive monetary policy was still too far in the distance, even as economic pressures continue to mount.

SMID Cap stocks outperformed Large Cap stocks, in part, due to a more domestic business mix and less exposure to weaker overseas growth. According to FactSet, the Russell 2500 Index's revenue exposure to the United States is 77% compared to 60% for the large-cap S&P 500. The U.S. Dollar Index was up a strong 7% which gives a comparative growth advantage to smaller companies facing less negative foreign currency translation in earnings than the larger multinationals. From a relative growth standpoint, SMID Cap companies are growing faster than Large Cap, +13% vs. +7% for estimated 2022 EPS growth.

PERFORMANCE SUMMARY:

For the quarter, the SMID Cap Core strategy outperformed the Russell 2500 with a net total return of -2.37% vs. -2.82% for the index. The positive excess return can be wholly explained by effective security selection. Sector attribution was roughly neutral, but the stock picking effort resulted in outperformance in 8 of the 11 sectors compared to the index sector. Industrials was a major contributor as many of the winners in this economically sensitive sector outperformed, validating the argument that quality cyclicals can be outperformers in the face of increasing recession risk.

TOP 5 PERFORMERS[1]

	WEIGHT	RETURN CONTRIBUTION
PAYLOCITY HOLDING CORP	1.55%	0.55%
HUBBELL INC	1.41%	0.31%
REGAL-BELOIT CORPORATION	1.39%	0.28%
ON SEMICONDUCTOR CORP	1.08%	0.27%
COMFORT SYSTEMS USA INC	1.56%	0.26%

TOP 5 DETRACTORS[1]

	WEIGHT	RETURN CONTRIBUTION
US PHYSICAL THERAPY	1.24%	-0.37%
LITTELFUSE INC	1.43%	-0.32%
UNITIL CORP	1.37%	-0.30%
LITHIA MOTORS INC	1.25%	-0.29%
BLACKBAUD INC	1.12%	-0.28%

TOP TEN HOLDINGS[2]

NAME	% OF PORTFOLIO
APPLIED INDUSTRIAL TECHNOLOGIES, INC	2.26%
EVEREST REINSURANCE GROUP LTD	2.02%
WINTRUST FINANCIAL CORP	2.00%
AMN HEALTHCARE SERVICES INC	1.99%
BJS WHSL CLUB HOLDINGS INC	1.96%
AXIS CAP HOLDINGS LTD	1.93%
NVENT ELECTRIC PLC	1.89%
AMERICAN FINANCIAL GROUP INC OHIO	1.73%
SONOCO PRODS CO	1.70%
SIGNATURE BANK NEW YORK NY	1.66%

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.

2) Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

This year's market decline can mostly be explained by valuation changes, driven by interest rate increases and growing global economic risk. Earnings growth has remained positive thus far and consensus estimates suggest that will continue. However, our base case cash flow projections are getting more conservative as earnings estimates likely have peaked and discount rates in our DCF models have risen, bringing down stock price targets.

Encouragingly, the market is already well through the process of more appropriately discounting the risks. Many valuation metrics are back to long-term averages and investor sentiment is already very pessimistic. A cautious approach is prudent given the elevated macroeconomic risks and uncertain environment; however, we are comfortable with our continued focus on investing in quality companies and have been using the market volatility to be opportunistic.

The bear market rally early in the quarter was used to trim back the position sizes in a few of the more cyclical stocks in Technology, Retail, and Building Products. However, not all cyclical stocks are the same, and we found stocks to buy in commercial real estate and homebuilding that certainly face economic challenges but are cheap enough to compensate for the risk. Also, market volatility afforded us the opportunity to incrementally bolster position sizes in some high conviction stocks that had been weakened by the stock market's broad decline during the quarter. As market volatility continues, we expect similar valuation opportunities will emerge.

PERFORMANCE

	QTD	1YR	3YR	5YR	SINCE INCEPTION 1/1/2013
JOHNSON (GROSS)	-2.12%	-11.07%	7.21%	6.92%	9.50%
JOHNSON (NET)	-2.37%	-11.96%	6.15%	5.86%	8.42%
RUSSELL 2500	-2.82%	-21.11%	5.36%	5.45%	8.39%

OUR SMID CAP CORE STRATEGY TEAM:

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

Bryan Andress, CFA
Senior Research Analyst

Chris Godby, CFA
Senior Research Analyst

1965
ESTABLISHED

$4.6B
INSTITUTIONAL ASSETS UNDER MANAGEMENT
(As of 09.30.22)

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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