

A QUARTER REVIEW:

During the third quarter, the equity market experienced a broad decline across all styles and sizes. While the market's first-half gains extended into July, a mid-quarter correction in August and September dampened market sentiment. This correction was primarily in response to concerns about higher interest rates and the economic outlook. At the start of the quarter, most investors appeared confident in a soft landing for the economy, rather than a recession, and had anticipated a smooth conclusion to the Federal Reserve's tightening cycle. However, confidence in these expectations began to wane as economic growth remained stronger than anticipated, and inflationary pressures resurfaced, particularly in energy prices.

Notably, oil prices surged by over \$20 per barrel (WTI), concluding the quarter above the \$90 mark. The Energy sector emerged as the top performer within equities, registering a 17% gain amidst the broader market's decline. The Financials sector also posted a positive gain, benefiting from higher interest rates and the prospects of yield curve normalization, which boosted profit margins for many of its constituent industries. This leadership from the Energy and Financials sectors during a period of declining market enthusiasm contributed to the outperformance of value stocks.

While the Federal Reserve has become less definitive in its stance on interest rates, the bond market saw yields definitively rise during the quarter. The 10-year Treasury note reached a yield of over 4.5%, marking a significant increase of more than 75 basis points. Many companies capitalized on lower interest rates earlier in the cycle for long-term funding, but the lagged impact of higher interest rates is beginning to influence the economy.

PERFORMANCE SUMMARY:

The SMID Cap Core strategy declined -3.44% net of fees for the quarter, outperforming the Russell 2500 Index, only capturing 67% of the decline. The strategy is well constructed to provide sturdier performance during market corrections.

The portfolio was underexposed to Energy, the market's leading sector in the quarter, which fully accounted for the negative sector positioning effect. Security selection drove the strategy's outperformance and was additive in most sectors, with particularly strong relative performance in Industrials and Health Care. Industrials experienced a valuation correction for more cyclical

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
HAWKINS INC	1.66%	0.37%
WILLIAMS SONOMA INC	1.22%	0.27%
BLACK KNIGHT INC	0.50%	0.22%
BJS WHSL CLUB HOLDINGS INC	1.57%	0.19%
GORMAN RUPP CO	1.27%	0.17%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
AMN HEALTHCARE SERVICES INC	1.55%	-0.37%
US PHYSICAL THERAPY	1.35%	-0.36%
ZEBRA TECHNOLOGIES CORPORATION CL A	0.90%	-0.29%
LKQ CORP	1.75%	-0.27%
UNITIL CORP	1.67%	-0.26%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
EVEREST GROUP LTD COM	2.06%
WINTRUST FINANCIAL CORP	1.96%
APPLIED INDUSTRIAL TECHNOLOGIES INC	1.95%
CHEMED CORP	1.87%
SEI INV CO	1.81%
AVERY DENNISON CORP	1.81%
NORDSON CORP	1.78%
AXIS CAP HOLDINGS INC	1.77%
BJS WHSL CLUB HODINGS INC	1.76%
SMITH A O CORP	1.75%

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.

participants, as higher rates stressed companies with excessive balance sheet leverage. However, our quality discipline avoids these types of companies, leading to additive security selection with this sector. Additionally, while Health Care was the worst performing sector for the quarter, with the brunt of the valuation correction impacting lower quality, higher growth stocks like biotechnology, our disciplined stock selection was able to mitigate this negative contribution.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

The market appears to be reevaluating risk as economic uncertainty grows, and corporate profitability faces challenges. To date, the SMID Cap Core strategy has outperformed in 9 out of the 12 down quarters since its inception. Maintaining downside protection remains a key objective, and the team is committed to a quality investing discipline that continues to provide lower volatility.

During the quarter, the investment team seized the opportunity to trim the larger relative position sizes of several top holdings that had reached full valuations. While a recession remains the base case, certain cyclical stocks are already priced to account for a business slowdown. The team has invested in a handful of these stocks in industries such as industrial distribution, restaurants, and computer hardware.

The importance of starting valuation for long-term returns cannot be overstated, and the extended period of large-cap outperformance has made smaller stocks show relative value. Valuation alone may not be a catalyst, but in its fundamental analysis, the team has conducted stress tests on company cash flows with a recessionary outlook in mind. In many cases, quality companies remain attractively priced and are well-positioned to navigate any cyclical transition, particularly when compared to companies with high leverage or overly ambitious growth forecasts.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-3.20%	14.48%	14.04%	7.04%	9.83%	9.36%
JOHNSON (NET)	-3.44%	13.35%	12.92%	5.98%	8.75%	8.28%
RUSSELL 2500	-4.78%	11.28%	8.39%	4.55%	7.96%	7.90%

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
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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 our Sales & Client Service Team at **513.389.2770** or info@johnsonasset.com.



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