FIRST QUARTER 2019

QUARTERLY UPDATE

QUARTER END MARKET STATISTICS

March 31, 2019	Q1	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	3.50%	3.50%	5.13%	2.75%	3.47%	3.21%	4.63%
Core Fixed Income (Net)	3.44%	3.44%	4.87%	2.50%	3.21%	2.95%	4.37%
Barclays Aggregate Index	2.94%	2.94%	4.48%	2.03%	2.74%	2.48%	3.77%
Intermediate Fixed (Gross)	3.01%	3.01%	4.69%	2.61%	2.87%	2.79%	4.06%
Intermediate Fixed (Net)	2.94%	2.94%	4.42%	2.35%	2.61%	2.53%	3.80%
Barclays Intermediate G/C Index	2.32%	2.32%	4.24%	1.66%	2.12%	2.00%	3.14%
Short Duration (Gross)	1.74%	1.74%	3.52%	1.92%	1.74%	1.72%	2.46%
Short Duration (Net)	1.68%	1.68%	3.26%	1.66%	1.49%	1.47%	2.21%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	1.22%	1.22%	3.06%	1.34%	1.24%	1.17%	1.64%
Enhanced Index (Gross)	14.91%	14.91%	10.28%	13.44%	11.18%	13.25%	17.03%
Enhanced Index (Net)	14.81%	14.81%	9.93%	13.08%	10.86%	12.94%	16.71%
S&P 500 Index	13.65%	13.65%	9.50%	13.51%	10.91%	12.85%	15.92%
SMID Cap Core Equity (Gross)	14.10%	14.10%	-0.15%	10.53%	7.34%	N/A	N/A
SMID Cap Core Equity (Net)	13.83%	13.83%	-1.14%	9.44%	6.27%	N/A	N/A
Russell 2500 Index	15.82%	15.82%	4.48%	12.56%	7.79%	11.36	16.23

Dear Friends & Investors:

Although our name has changed, we want to assure all of you that our investment team along with our disciplined investment process and our singular focus on our clients remains the same. This is a very exciting time for our firm, and we will be sending additional communications regarding this rebranding over the coming days. In the meantime, we welcome you to visit us at www.JOHNSONASSET.com for a closer look at our new brand and our updated website.

We have included a complete table highlighting our institutional composite performance (gross and net) and our quarterly commentary within this update. A few notable highlights as of March 31st include:

- **Core Fixed Income:** provided a gross-of-fee return of 5.13% for the trailing 12-months, outperforming the Aggregate Index by 65 bps, and 39 bps net of fee.
- **Intermediate Fixed Income:** provided a gross-of-fee return of 4.69% for the trailing 12-months, outperforming the Barclays Intermediate G/C Index by 45 bps, and 18 bps net of fee.
- **Short Duration Fixed Income:** provided a gross-of-fee return of 3.52% for the trailing 12-months, outperforming the ICE/BofA ML 1-3 year Index by 46 bps, and 20 bps net of fee.

As always we invite your thoughts and comments.

Best,

Michael E. Hoover

Director of Institutional Sales & Client Service

FIRST QUARTER MARKET COMMENTARY

FIXED INCOME

Bonds rallied during the first quarter, providing their best returns to investors since the first quarter of 2016. Yields continued the decline that began in early November with the curve actually inverting up to 5 year maturities, as the Fed spent the quarter walking back their hawkish posture. The March Fed meeting concluded with an acknowledgment of the global economic slowdown and realization that they may be near (or even at) the end of their rate cycle. Projections for further rate hikes were dramatically reduced and a time table for ending the balance sheet runoff was established for later this year. The market has gone even further and begun to price in the possibility of rate cuts next year. From our perspective, that may be premature. Credit spreads simultaneously fell in the quarter as investors sought yield and recognized the attractive relative value in credit yields. Excess return from the credit sector was more than 250 bps in the period, the highest level since the third quarter of 2012. Lower quality generally outperformed higher quality. Quite the contrast to the second half of 2018. Our economic scorecard remains well in positive territory and does not suggest near-term economic retrenchment. “Slowing, but growing” remains the more likely outcome for the coming year – despite the worrisome signal from the front end of the yield curve.

Our portfolios remain overweight quality credit securities, with our largest allocation toward financials. Regional banks and insurance offer good relative value and make up the largest allocation of this sector. Investors underappreciate the dramatic improvement in quality among these names and their spreads remain quite attractive. We have reduced the allocation to Industrial credits as an offset and are now underweight this sector due to their relatively tight spreads. The majority of corporate holdings are rated between high-BBB and mid-A and this was also positive to our relative results. We have added to Agency CMBS in recent months, but still remain underweight securitized. These sector decisions were the greatest contributor to outperformance in the quarter. The duration of credit and MBS is relatively short the benchmark while our treasury allocation is relatively long. Portfolio duration is only slightly longer than the benchmark. This allocation of duration was slightly additive in the quarter. While we reduced our barbell allocation during the first half of last year, portfolios are still slightly overweight this duration structure. It was very modestly a drag in the quarter. Mid 2018 we shifted some duration from long treasuries to intermediate at a time when the yield spread between the 10 and 30 year maturities was around 10 bps. This curve spread now stands at 42 bps. Finally, our name selection was essentially neutral during the quarter on an attribution basis to the benchmark.

ENHANCED EQUITY

The bull market didn’t die during the fourth quarter of 2018 as many strategists opined. In fact, the first quarter return for the S&P 500 of 13.6% was its strongest since the third quarter of 2009. Fed commentary continues to suggest they are less hawkish than previously feared and indeed recognize the slowing in the global economy. This was the largest driver of the rebound in stocks during the quarter. Earnings growth during 2019 is definitely slowing, but will likely remain positive. The valuation for stocks has definitely increased, but does not yet stand at historically problematic levels. Clearly, the stabilization of the global economy and a more reflective/responsive Fed policy is critical to the continued advancement of stocks.

Our Enhanced strategy outperformed during the first quarter due to attractive bond returns and a more steady cost of carry in futures contracts. The bond portfolio enhancing equity futures yields over 3%, which is relatively attractive to the implied cost of carry. As a result, performance improved as yields and yield spreads stabilized during the quarter. Despite higher short term rates and a flatter yield curve year-over-year, the Enhanced strategy has also outperformed over the past four quarters due to good bond performance. The portfolio duration is still less than 2 years, with 62% allocated to investment-grade rated corporates. This credit allocation is slightly less than the beginning of the year as we have been increasing our allocation to short/intermediate duration Agency-backed CMOs and Treasuries.

FIRST QUARTER MARKET COMMENTARY

(CONTINUED)

SMID CAP CORE EQUITY

SMID stocks soared higher to start the year, with the Russell 2500 posting a 15.8% total return, its best first quarter in 28 years.

Sentiment became very bearish in the fourth quarter of 2018 amid a deep market correction, but developments in key policy areas – monetary policy and global trade -- changed investor expectations fairly quickly as the calendar turned. The Federal Open Market Committee (FOMC) pivoted to a more neutral stance, giving indications that it doesn't expect to raise interest rates in 2019 and also will stop shrinking its balance sheet later this year. Global trade tensions eased as the threatened escalation of U.S. tariffs to 25% on $200 billion of Chinese imports was postponed, and continued negotiations have suggested that a trade compromise may soon be reached. Low interest rates and global growth have been linchpins of this 10 year bull market and the strong market performance in the quarter reflected their continued importance.

The SMID Cap Core Equity strategy's performance lagged behind the "risk-on" rally in the quarter, as speculative and cyclical growth stocks outperformed. The Russell 2500 Biotechnology industry was up 26%, and the strategy's lack of exposure to this riskier area contributed to lagging performance in the quarter. An overweight in regional banks also was a negative performance contributor, as the yield curve flattened, threatening the profitability of banks' net interest income.

We believe that underlying U.S. economic fundamentals are not indicative of an imminent major recession – more likely another mid-cycle slowdown in what has been a long, slow expansion. The global economy has been weaker, but we see some early signs of stabilization there. SMID Cap earnings for the first quarter are forecasted to be down 4% year-over-year, the first decline since the second quarter of 2016. But even if they are down, earnings are likely to turn positive in the second quarter and through the rest of the year, with current estimates of 6% calendar year growth.

Still, we don't think it's time to get aggressive. The rally in 2019 has been fully attributable to multiple expansion, so there is valuation risk if earnings growth sputters from margin pressures or surprise slowing in global activity. We have used the first quarter strength to improve the valuation and quality within portfolios by cutting our exposure to the expensive Technology sector and trimming a few of our cyclical holdings carrying higher financial leverage.