Quarterly Update

SECOND QUARTER 2019

QUARTER END MARKET STATISTICS

June 30, 2019	Q2	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	3.15%	6.76%	8.46%	3.01%	3.66%	3.36%	4.65%
Core Fixed Income (Net)	3.09%	6.63%	8.19%	2.75%	3.40%	3.10%	4.39%
Barclays Aggregate Index	3.08%	6.11%	7.87%	2.31%	2.95%	2.62%	3.90%
Intermediate Fixed (Gross)	2.60%	5.68%	7.37%	2.86%	3.07%	2.93%	4.06%
Intermediate Fixed (Net)	2.54%	5.55%	7.10%	2.60%	2.81%	2.68%	3.80%
Barclays Intermediate G/C Index	2.59%	4.97%	6.93%	1.99%	2.39%	2.15%	3.24%
Short Duration (Gross)	1.41%	3.16%	4.64%	2.09%	1.89%	1.84%	2.36%
Short Duration (Net)	1.34%	3.03%	4.38%	1.84%	1.64%	1.58%	2.10%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	1.49%	2.72%	4.29%	1.61%	1.46%	1.35%	1.63%
Enhanced Index (Gross)	5.02%	20.67%	12.28%	14.18%	11.03%	14.40%	15.74%
Enhanced Index (Net)	4.93%	20.47%	11.91%	13.81%	10.70%	14.08%	15.42%
S&P 500 Index	4.30%	18.54%	10.42%	14.19%	10.71%	13.98%	14.70%
SMID Cap Core Equity (Gross)	4.12%	18.80%	0.33%	11.61%	7.59%	N/A	N/A
SMID Cap Core Equity (Net)	3.86%	18.22%	-0.67%	10.51%	6.53%	N/A	N/A
Russell 2500 Index	2.96%	19.25%	1.77%	12.34%	7.66%	N/A	N/A

JOHNSON
ASSET MANAGEMENT

A LETTER FROM THE TEAM

Dear Friends & Investors

I hope you are having a great summer. It is amazing how quickly we shifted from cool and wet to hot and dry. Meanwhile, the markets continue to advance as the Federal Reserve evolves its policy around a complicated economic environment. In the face of these changes, Johnson Asset Management remains steadfast in our approach and we are pleased to provide solid performance to our clients
.
Through the first half of 2019, each of our fixed income strategies is outperforming its respective benchmark both gross and net-of-fee. All of our fixed approaches are outperforming over the past 1, 3, 5, 7, and 10 year time periods. Our Enhanced Index approach is also performing well, outperforming the strong rebound of the S&P 500 in 2019.

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 June 30th include:

- **Core Fixed Income:** provided a gross-of-fee return of 8.46% for the trailing 12-months, outperforming the Aggregate Index by 59 bps and 32 bps net-of-fee.
- **Intermediate Fixed Income**: provided a gross-of-fee return of 7.37% for the trailing 12-months, outperforming the Intermediate G/C Index by 44 bps and 17 bps net-of-fee.
- **Short Duration Fixed Income**: provided a gross-of-fee return of 4.64% for the trailing 12-months, outperforming the U.S. Corp & Govt 1-3 Year Index by 35 bps and 9 bps net-of-fee.
- **Enhanced Index**: provided a gross-of-fee return of 12.28% for the trailing 12-months, outperforming the S&P 500 Index by 186 bps and 149 bps net-of-fee.

Many of our strategies are offered as both institutional separate accounts as well as institutional class mutual funds.

If you have any questions, or if you would like any additional information on our various strategies and how we might tailor them to fit your specific objectives, please do not hesitate to contact a member of our Sales & Client Service Team at 513.389.2770.

We appreciate the opportunity to serve you, and as always we invite your questions and comments.

Sincerely,

Michael E. Hoover

Director of Institutional Sales & Client Service

SECOND QUARTER MARKET COMMENTARY

FIXED INCOME

2019 is yet another example why interest rate anticipation is a difficult way to add value in the fixed income market. As the year began, nearly all market strategists forecast more Fed tightening and higher yields. Wrong. Building portfolios around this expectation would have severely impacted total return. Many bond managers who employed such an approach are lagging significantly. In fact, the return for the Aggregate Index during the first half of 2019 is the best first half performance since 1995 at more than six percent. The second quarter return was the strongest quarter since 2011 as yields continued to decline and the curve further flattened/inverted. Corporate spreads moved with a little more volatility, but tightened modestly. Overall credit has performed well in 2019 with A/BBB rated names helping our portfolio results. MBS generally lagged as prepayments picked up and spreads widened. We remain underweight this sector, though have added to Agency CMBS during the year. These pools act much more like bullet maturities and were positive contributors to results. Overall duration of portfolios is near the benchmark and slightly more barbelled in structure. Our overweight to intermediate credit, balanced with an underweight to governments (though longer and more barbelled) has been additive. Industrials are generally tight and we are lower weighted in these credits. Our largest allocation to corporates continues to be financials, especially quality regional banks and insurance names. This is the segment of the credit market we believe offers the most attractive relative valuation.

The big question is: What is the bond market signaling about future economic growth? The treasury curve is inverted out to 10 years for the first time since 2007, with the trough in yields in the 3 to 5 year maturity range. Although none of our other economic or market signals suggest the risk of recession is high, this inversion is worth noting and is often an early warning sign of slowing growth. The Fed has picked up on this and backed off on their plan to continue tightening. It is quite likely the Fed will reduce rates at least once in the second half of the year, possibly beginning in July. Economic data releases over the rest of this month will determine this timing. It is clear the Fed is shifting its policy stance in response to low inflation, slowing economic signals, and the grand uncertainty around trade policy. The runoff of their balance sheet is also slowing and is scheduled to cease in September. Our perspective remains the same – that “slowing, but growing” remains the more likely economic outcome for the year. We also find spreads to be relatively tight and have added to governments as a result, including agency MBS recently. We are particularly focused on names with less global economic exposure, lower economic cyclicality, and more limited acquisition risk. This is another reason why financials are relatively attractive.

ENHANCED EQUITY

It was the best first half for the S&P 500 Index since 1997 as the market extended its bull run, achieving another record high. From the nearly 20% drop late last year and market bottom on Christmas Eve, the index has rallied more than 27%. This is exactly in alignment with the average recovery from a non-recessionary sell-off over the past 30 years. A substantive reason for the strong recovery is the shift in Fed outlook as the market moved from expecting 2-3 additional rate hikes to anticipating rate cuts this year. Amazingly, we are currently in the longest stretch without a rate cut in the last fifty years. A reduction in the Funds rate at this point would best be termed as a maintenance cut rather than the beginning of a new easing cycle. However, we remain vigilant to other economic signals and this perspective could change during the second half of the year.

Our Enhanced strategy outperformed again during the second quarter due to attractive bond returns from the fixed income portion of the portfolio and a more steady cost of carry in futures contracts. Duration of the portfolio remains modest at just under two years and continues to emphasize quality corporate bonds, focusing on financials and lower cyclical industrials. The portfolio yield has moderated with the strong bond rally this year, but still out-yields the cost of carry in futures.

SECOND QUARTER MARKET COMMENTARY

(CONTINUED)

SMID CAP CORE EQUITY

Stocks advanced in the second quarter, even with a May selloff, and completed a first half of the year that was the strongest since 1991.

Crosswinds from back-and-forth trade policy negotiations with China and an evolving shift in monetary policy have been key factors in the market's recent shifts. After lagging over the past year, the Industrials and Financials sectors led the SMID Cap market in the quarter, benefitting from valuation support and expectations for easier monetary policy. Technology, which has been the sector leader this cycle, pushed higher again, driven by semiconductor stocks. Energy was the only declining sector in the market as oil prices fell.

Strong security selection drove the SMID Cap Core Equity strategy to outperform in the quarter. Our stocks outperformed in seven of the ten allocated sectors. Gains were distributed fairly broadly -- the top six attribution contributors were all from different sectors.

In contrast to last year, market gains in 2019 have been driven by P/E multiple expansion, not earnings growth. In fact, earnings growth for the first half of the 2019 is likely to be negative according to current expectations. And while the second half growth outlook is still positive, full year growth is expected to be only 6%.

As it has become more evident that the Federal Reserve is leaning toward a more accommodative stance and U.S./China trade tensions have calmed a bit, it is likely that investor attention will turn to the health of corporate earnings for answers. The market is priced as if the lack of earnings growth in the first half is a temporary lull, and that growth will resume in the second half. The economy always plays a large role in earnings growth and recession risks have risen, but we are not yet seeing enough compelling data to deliberately move the portfolio more defensively. We continue to place our confidence in the companies that show consistent earnings with a track record of doing well through cycles. And valuation still matters. While traditional valuation factors have not been useful in identifying this year's winners, our discounted cash flow valuation approach allows us to solve the valuation puzzle in a more comprehensive way, and align our valuation work with our longer lens view. Given such a strong first half that pushed valuation gaps wider, we used the opportunity in the quarter to rebalance certain positions, especially within Technology, Health Care, and Real Estate.

†Beginning January 1. 2010, the firm was redefined as Johnson Institutional Management which only includes institutional client assets with a single asset mandate. In 2019, Johnson Institutional Management was renamed Johnson Asset Management (JAM). Johnson Asset Management is a division of Johnson Investment Counsel, Inc. ("JIC"), an independent and privately owned Midwestern based investment advisory firm registered with the Securities and Exchange Commission. Johnson Institutional Management manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds. JIC's fees are available upon request and may be found in our Form ADV Part 2A. Performance data quoted herein represents past performance. Past performance does not guarantee or indicate future results. All data is current as of June 30, 2019 unless otherwise noted. Returns and net asset value will fluctuate. To determine if this strategy is appropriate for you, carefully consider the investment objectives, risk factors, and expenses before investing. Individual account management and construction will vary depending on each client's investment needs and objectives. Investments employing JIC's strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by any Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.

Johnson Asset Management claims compliance with the Global Investment Performance Standards.

The Institutional Core composite includes all fee paying, fully discretionary, actively managed institutional fixed income portfolios with a minimum value of $500,000 and an investment objective of broad investment grade, taxable fixed income, benchmarked against the Barclay's Capital Aggregate Index. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Institutional Intermediate Fixed Income composite includes all fee paying, fully discretionary, actively managed institutional fixed income portfolios with a minimum value of $500,000 and an investment objective of broad investment grade, taxable fixed income securities with an intermediate average duration, benchmarked against the Barclay's Capital Intermediate G/C Index. The Barclays Capital U.S. Intermediate Government/Credit Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The Short Duration Fixed Income composite includes all fee paying, fully discretionary, actively managed institutional fixed income portfolios with a minimum value of $500,000 and an investment objective of short duration, investment grade taxable fixed income. The benchmark for this composite is the Merrill Lynch 1-3 Year G/C Index. The Merrill Lynch 1-3 Year Corporate/Government Bond Index includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt.

The Enhanced Index Composite is comprised of all discretionary equity portfolios with a portfolio value greater than $1 million and an investment objective of replicating the S&P 500 Index utilizing equity futures contracts and short duration fixed income securities. The benchmark for this composite is the S&P 500 Index, a broadly diversified large cap equity universe of U.S. companies.

JAM's policies for valuing portfolios, calculating performance and preparing compliant presentations, as well as a complete list of composite descriptions are available upon request. Please contact our office at 513.389.2770 or 3777 West Fork Road, Cincinnati, OH 45247.

All returns reflect the reinvestment of investment income (dividends and/or interest) and capital gains. Valuations and returns are stated in U.S. dollars. Trade date accounting is used. Portfolio returns are calculated using time weighed return methodology on a monthly basis. Net returns shown reflect gross performance less the highest fee schedule for this strategy. Actual client returns would also be reduced by brokerage commissions, custodial fees, and other client paid expenses detailed in JIC's Form ADV Part 2A.