Quarterly Update

THIRD QUARTER 2019

QUARTER END MARKET STATISTICS

September 30, 2019	Q3	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	2.49%	9.42%	10.95%	3.58%	4.07%	3.46%	4.65%
Core Fixed Income (Net)	2.42%	9.21%	10.68%	3.32%	3.81%	3.20%	4.39%
Barclays Aggregate Index	2.27%	8.52%	10.30%	2.92%	3.38%	2.72%	3.90%
Intermediate Fixed (Gross)	1.62%	7.39%	8.52%	3.11%	3.36%	2.90%	4.06%
Intermediate Fixed (Net)	1.55%	7.19%	8.25%	2.85%	3.11%	2.64%	3.80%
Barclays Intermediate G/C Index	1.37%	6.41%	8.17%	2.40%	2.68%	2.15%	3.24%
Short Duration (Gross)	0.92%	4.11%	5.01%	2.31%	2.07%	1.79%	2.36%
Short Duration (Net)	0.86%	3.92%	4.75%	2.05%	1.82%	1.54%	2.10%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	0.71%	3.44%	4.66%	1.84%	1.60%	1.37%	1.63%
Enhanced Index (Gross)	2.01%	23.09%	6.37%	13.52%	11.23%	13.59%	14.17%
Enhanced Index (Net)	1.95%	22.82%	6.03%	13.17%	10.91%	13.27%	13.86%
S&P 500 Index	1.70%	20.55%	4.25%	13.39%	10.84%	13.26%	13.24%
SMID Cap Core Equity (Gross)	2.46%	21.73%	-1.04%	10.74%	8.73%	N/A	N/A
SMID Cap Core Equity (Net)	2.21%	20.84%	-2.03%	9.64%	7.65%	N/A	N/A
Russell 2500 Index	-1.28%	17.72%	-4.04%	9.51%	8.57%	N/A	N/A

A LETTER FROM THE TEAM

Dear Colleagues and Friends,

I hope that you are well as summer winds down into fall. During the last quarter, we experienced increasing concerns about an economic slowdown with the sustained yield curve inversion. Market volatility increased with the uncertainty around impeachment, Chinese trade tension and the impending Brexit. We saw the Fed move from a quantitative tightening to an easing policy with two rate cuts for the first time in almost two years. There are still reasons to remain optimistic on the short term market outlook, as unemployment remains low and consumer confidence continues to remain relatively high.

During this uncertain time, Johnson Asset Management has been able to continue to provide consistent and reliable performance to our clients. During 3rd Quarter, all of our institutional strategies outperformed their respective benchmarks both gross and net of fees.

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 September 30th include:

- **Core Fixed Income:** provided a gross-of-fee return of 10.95% for the trailing 12-months, outperforming the Aggregate Index by 65 bps and 38 bps net-of-fee.
- **Intermediate Fixed Income**: provided a gross-of-fee return of 8.52% for the trailing 12-months, outperforming the Intermediate G/C Index by 98 bps and 78 bps net-of-fee.
- **Short Duration Fixed Income**: provided a gross-of-fee return of 5.01% 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 6.37% for the trailing 12-months, outperforming the S&P 500 Index by 212 bps and 178 bps net-of-fee.
- **SMID Cap Equity**: provided a gross-of-fee return of -0.04% for the trailing 12-months, outperforming the Russell 2500 by 300 bps and 201 net-of-fee.

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

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

Sincerely,

Emily Fox

Director of Institutional Sales

THIRD QUARTER MARKET COMMENTARY

FIXED INCOME

September in the Midwest is a time of transition. Warm summer nights give way to crisp fall air and people start bracing themselves for colder weather to come. But the weather wasn't the only thing changing over the past few months. For bond investors, the third quarter was witness to a seismic shift in Fed Policy. Though widely anticipated and highly telegraphed, the Federal Reserve officially transitioned from tightening policy to easing policy – enacting two 25 basis point rate cuts during the quarter. Longer term interest rates followed short term rates lower, with the 30 Year Treasury yield ultimately forging new all-time record low levels. Our neutral to slightly longer duration positioning versus the benchmark was beneficial to our relative performance during both the third quarter and the year thus far. Credit spreads have remained surprisingly stable. In fact, spreads widened only two basis points during last quarter, despite slowing economic growth and ongoing political uncertainty. We continue to believe that the combination of rising macroeconomic uncertainty along with stable spread markets offers a unique opportunity to gradually reduce credit weight in portfolios. Often times, we have been able to move from a corporate bond to a government guaranteed bond and not sacrifice yield. Additionally, we have continued to allow our yield curve positioning to become more neutral. For years, we've preferred to be more barbelled relative to the benchmark to capture the benefit of yield curve flattening. However, as the Fed transitions from tightening to easing, we prefer to neutralize our exposure to the long end of the yield curve relative to the benchmark.

As we look forward to the final quarter of the year, our focus turns toward the economy. It's clear that economic growth is slowing. Manufacturing activity has cooled dramatically as domestic companies deal with the fallout from the ongoing trade war with China. In fact, September's ISM Manufacturing number was 47.8 – the lowest level in over a decade. Other economic data is telling a similarly sober story. The Conference Board's Leading Economic Indicators Index is barely managing to keep its head above water, growing by just 1.1% versus this time last year. One counterpoint to the soft manufacturing data has been the relative strength of the consumer. Rising wages and a steady labor market have provided the necessary support for solid consumption, while the Fed's decision to lower interest rates could also provide a tailwind for housing activity. Putting the body of evidence together, it's clear that economic growth is slowing. It is not yet clear that the economy is headed toward a recession. We believe that policy makers hold two important keys to prolonging the economic recovery. Aggressive monetary policy easing or a large-scale deal with China would likely provide relief from near term economic pressure. Absent either of these two key variables, we are watching the labor market and corporate bond spreads for early signs that the economic slowdown is developing into something more troubling. In the meantime, our high-quality orientation and our more defensive positioning should provide necessary relief from any spikes in volatility as we enter the final months of 2019.

ENHANCED EQUITY

After the best first half for the S&P 500 in over 20 years, equities experienced higher volatility during the third quarter as the market digested uncertainty regarding the trade war with China, moderating economic data, and the first rate cuts from the Federal Reserve in over a decade. In the end, equities proved resilient, finishing the quarter with a positive return of just under two percent. Despite that modest gain, 2019 remains a banner year for equity returns, with the market up over 20% during the first nine months of the year.

The Enhanced Index strategy outperformed for the third consecutive quarter due to solid returns from the fixed income portion of the portfolio that out-paced the cost of carry in futures contracts. Portfolio duration has remained steady at close to two years, but we have modestly reduced our allocation to corporate bonds in favor of short duration MBS that looks increasingly attractive in comparison. Additionally, exposure to floating rate and step-coupon securities, which are typically defensive to rising rates, has been reduced and shifted into fixed-rate securities that should provide stronger returns in the event the Federal Reserve continues to cut interest rates in the months ahead.

SMID CAP CORE EQUITY

The SMID Cap Core Equity strategy delivered its best quarter of relative performance since the strategy's inception in 2013. Our emphasis on stocks that have an attractive combination of quality, valuation, and momentum was a benefit in a period that swung from economic slowdown worries to a sudden focus on valuation.

The impact of the tariff increases with China and uncertainty regarding how much monetary stimulus the Federal Reserve will deliver have left investors anxious and markets volatile. An inverted yield curve reflects expectations for a broader economic slowdown and U.S. recession risks are rising. Yet, the hard U.S. economic data has been relatively resilient – slowing but still suggesting growth.

Growth stocks have dominated Value stocks during this long cycle, and valuation disparities between the two styles have grown unusually wide. However, in September the tables turned with a rapid rotation that saw the Russell 2500 Value Index outperform the Russell 2500 Growth Index by over 600 basis points. Interest rates jumped nearly 50 basis points in early September, value stocks in industries such as banks and autos rallied, and high-priced growth stocks in industries such as software and biotech retreated. While the factor rotation has since lost some of its strength and interest rates have pulled back, the portfolio should be well positioned for an environment where investors remain nervous about growing macroeconomic risks but can appreciate that valuation ultimately still matters.

Real Estate was the best performing sector in the third quarter. We took profits in a few stocks that had grown to be more fully valued and repositioned the weight into a more balanced REIT mix with better valuation upside. While we place a strong emphasis on valuation, low valuation alone doesn't always provide a safety net, especially when quality is deteriorating. With that in mind, we sold some positions that were struggling to maintain quality characteristics as we approach what is likely the later stages of this economic cycle. We also reallocated weight into a couple of higher quality cyclicals in Technology that have strong earnings potential and were trading well below recent highs.

Earnings trends have become troublesome for many companies in the SMID cap area -- full year 2019 EPS growth is now forecasted to be down 1% -- and we are remaining conservative in our growth expectations. With that in mind, we are focusing on companies with more consistent earnings growth than peers and those with the financial strength to sustain growth in any market environment.