

Quarterly Update

Quarter End Market Statistics

December 31, 2018	Q4	YTD	1 Year	3 Year	5 Year	10 Year
Core Fixed Income (Gross)	1.40%	0.23%	0.23%	2.70%	3.26%	4.24%
Core Fixed Income (Net)	1.34%	-0.02%	-0.02%	2.45%	3.00%	3.98%
Barclays Aggregate Index	1.64%	0.01%	0.01%	2.06%	2.52%	3.48%
Intermediate Fixed (Gross)	1.05%	0.65%	0.65%	2.47%	2.59%	3.74%
Intermediate Fixed (Net)	0.99%	0.39%	0.39%	2.21%	2.34%	3.48%
Barclays Intermediate G/C Index	1.65%	0.88%	0.88%	1.70%	1.86%	2.90%
Short Duration (Gross)	0.86%	1.40%	1.40%	1.71%	1.56%	2.41%
Short Duration (Net)	0.80%	1.15%	1.15%	1.45%	1.30%	2.16%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	1.17%	1.63%	1.63%	1.26%	1.04%	1.56%
Enhanced Index (Gross)	-13.59%	-5.63%	-5.63%	9.11%	8.63%	14.16%
Enhanced Index (Net)	-13.67%	-5.94%	-5.94%	8.77%	8.32%	13.85%
S&P 500 Index	-13.52%	-4.38%	-4.38%	9.26%	8.49%	13.12%
SMID Cap Core Equity (Gross)	-18.70%	-13.23%	-13.23%	6.93%	4.83%	
SMID Cap Core Equity (Net)	-18.92%	-14.10%	-14.10%	5.87%	3.79%	
Russell 2500 Index	-18.49%	-10.00%	-10.00%	7.32%	5.15%	

Dear Friends & Investors:

On behalf of everyone at Johnson Institutional Management, we thoroughly understand that there is no greater responsibility that we have to our clients than our unyielding commitment to the stewardship of their assets. We thank you for the trust and confidence that you continue to place in us as we continually strive to deliver superior, long-term investment results coupled with a client experience that meets and exceeds expectations. Our proven and repeatable Quality-Yield investment approach to building portfolios combined with the extensive experience and continuity of our investment team, has continued to result in a high batting average of success for our clients.

As of year-end 2018, both our Core Fixed Income strategy and our Intermediate Fixed Income strategy have both outperformed their respective benchmarks for 16 out of the past 17 years. We have included a complete table highlighting our institutional composite performance (gross and net) and our quarterly commentary within this update.

Core Fixed Income: provided a gross-of-fee return of 2.70% for the trailing 3-year market cycle, outperforming the Aggregate Index by 64 bps and 25 bps net-of-fee.

- Intermediate Fixed Income: provided a gross-of-fee return of 2.47% for the trailing 3-year market cycle, outperforming the Intermediate G/C Index by 77 bps and 26 bps net-of-fee.
- Short Duration Fixed Income: provided a gross-of-fee return of 1.71% for the trailing 3-year market cycle, outperforming the U.S. Corp & Gov't 1-3 Year Index by 45 bps and 26 bps net-of-fee.

Many of our strategies continue to be 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 needs, please do not hesitate to contact me directly at mhoover@johnsoninstl.com, or any member of the Sales & Service Team at 513.389.2770. As always we invite your thoughts and comments.

Best,

Michael E. Hoover

Director of Institutional Sales & Client Service

Fourth Quarter Market Commentary

Fixed Income

The Federal Reserve raised short-term rates an additional 25 basis points in mid-December, as expected – their 9th hike over the past 3 years and the fourth in 2018. Only this time the move was anything but typical. Unlike prior hikes this cycle, yields on treasuries of all durations actually declined with the curve temporarily steepening. Along with growing signs of slowing global economic growth, stock volatility spiked, adding to the concern that perhaps the Fed had leaned out beyond the “tips of their skis.” Chairman Powell’s seemingly laissez-faire attitude about the impact of tightening (and particularly balance sheet retrenchment) during his press conference was the final nail and led to worries that the Fed was not paying attention. Yields rallied, spreads widened, and stocks dropped to the cusp of bear market. Credit spreads were hit hard in the quarter with both investment-grade and high yield moving substantially wider. In all, IG spreads widened 47 bps in the fourth quarter, the eighth worst quarter on record. High yield spreads gapped open by more than 210 bps. The sudden shift in market tenor is coinciding with growing concerns about future economic growth. The global expansion of a year ago is quickly becoming a global slowdown. While indicators of slowing growth are almost everywhere, outright recessionary risks remain modest. January’s strong employment report, though primarily a coincident indicator, suggests that economic troubles remain a longer-term rather than near-term concern. We acknowledge that the flattening yield curve and widening credit spreads are problematic forward looking indicators. Both are suggesting the risk of economic retrenchment is growing. Still, our economic scorecard remains solidly in positive territory and suggests that slowing is far more likely than shrinking. With credit spreads at their widest level in 3 years we remain committed to quality corporates in portfolios.

Fundamentally, the IG Credits we are drawn to have strong cash flow trends. Financials and high quality industrials are among the types of names offering good relative value and we added to them during the quarter. Our credit exposure is primarily short and intermediate duration and our names generally outperformed in the period to help offset the overweight drag. We have also been modifying our barbell as the curve has flattened. In December we reduced our allocation to both the long-end of the curve and in floating rate treasuries or step-up coupon agencies, adding to longer intermediate treasuries. Overall duration is still near neutral.

Enhanced Equity

The secular bull market experienced a cyclical decline in the quarter and erased all YTD gains in the market. Every major index was down sharply in the fourth quarter, and especially in December – punctuated by a Christmas Eve collapse that put largecap stocks on the cusp of bear market. Smallcaps did slip into bear territory. A year-end rally ensued, but was too little to salvage a positive year. In all, nearly 90% of all asset types experienced negative returns for 2018, the most broadly down year ever. Fed tightening, slowing signs of global growth, and more worries over trade policy were often cited as causes of the downturn. Each contributed. Still, the sharp pickup in volatility in 2018 only pulled the market back to normal volatility levels historically. The problem was they all came at once and mostly to the downside. As volatility picked up and the market fell, our Enhanced strategy held-up relatively well. We outperformed in December due to good returns from the bond portfolio enhancing futures contracts. The yield of the bond portion of the strategy continued to rise in the quarter and is now at its highest level in more than a decade at 3.3%. However, the cost of carry has also continued to rise this year and was a drag in October and November. Overall in the quarter, the Enhanced strategy performed slightly less than the index. More than 90% of the lag in the YTD performance occurred in the first half. Portfolio duration is still slightly less than two years, with 70% of the portfolio invested in quality credit securities. We reduced exposure to adjustable rate or step-up coupon securities in the period, but continue to hold nearly 14% in such bonds.

Fourth Quarter Market Commentary (cont'd.)

SMID Cap Core Equity

SMID Cap stocks had their worst quarter since the 3rd quarter of 2011, with the Russell 2500 Index total return falling 18.5%. The year-ending plunge brought most stocks' returns into negative territory for the year.

The SMID Cap Core Equity strategy's poor security selection in the quarter offset its favorable portfolio-level risk factor and style positioning. The weakest performers were found in some of the higher growth sectors, such as Technology, Health Care, and Consumer Discretionary, as earnings growth prospects for several holdings became less rosy. The rolling market correction was especially unforgiving to companies that had lowered earnings guidance. Even though earnings growth for the Russell 2500 is still likely to surpass +25% for 2018, expectations for slowing growth into 2019 have caused a sharp compression in P/E multiples during the past year, erasing earnings-driven returns.

A disconnect about the path of the U.S. economy has developed with many market sentiment indicators (e.g. stock market, yield curve, business surveys) indicating recession risk while most hard economic data (e.g. employment, production, inflation) point to nothing more than a moderation in growth at this point. Our base case is economic moderation rather than recession. We are comfortable with our risk positioning and do not see a need to get more defensive. Growth underperformed Value in the quarter, however, given its cycle-long dominance, Growth still remains at a premium valuation. If fears begin to ease about the path and pace of the Federal Reserve's tightening cycle and global trade wars and tariffs do not escalate, it should embolden investors to return to the Value stocks that were most negatively impacted by cyclical concerns. Our largest sector overweights – Industrials, Financials, and Consumer Discretionary – would stand to perform well.

We have used the correction as an opportunity to round-up some of the poor performers in Health Care and Technology, add weight to select banks and REITs, and buy a handful of stocks with earnings that are less reliant on the economy. In these later stages of the cycle, our quality emphasis should remain useful regardless of whether the outcome is slowdown or recession.

Johnson Institutional 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, 2018 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 Institutional 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.

JIM'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 weighted 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.