



QUARTER END MARKET STATISTICS

December 31, 2019	Q4	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	-0.07%	9.33%	9.33%	4.49%	3.68%	3.40%	4.42%
Core Fixed Income (Net)	-0.14%	9.06%	9.06%	4.23%	3.42%	3.14%	4.16%
Barclays Aggregate Index	0.18%	8.72%	8.72%	4.03%	3.05%	2.72%	3.75%
Intermediate Fixed (Gross)	0.39%	7.81%	7.81%	3.87%	3.26%	2.88%	3.79%
Intermediate Fixed (Net)	0.33%	7.55%	7.55%	3.61%	3.00%	2.62%	3.53%
Barclays Intermediate G/C Index	0.37%	6.80%	6.80%	3.24%	2.57%	2.15%	3.05%
Short Duration (Gross)	0.69%	4.82%	4.82%	2.66%	2.18%	1.86%	2.23%
Short Duration (Net)	0.62%	4.56%	4.56%	2.40%	1.93%	1.61%	1.97%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	0.61%	4.07%	4.07%	2.18%	1.69%	1.42%	1.58%
Enhanced Index (Gross)	9.02%	34.19%	34.19%	15.53%	12.12%	15.07%	14.14%
Enhanced Index (Net)	8.94%	33.79%	33.79%	15.17%	11.79%	14.74%	14.12%
S&P 500 Index	9.07%	31.49%	31.49%	15.27%	11.70%	14.73%	13.56%
SMID Cap Core Equity (Gross)	5.95%	29.80%	29.80%	10.09%	9.28%	N/A	N/A
SMID Cap Core Equity (Net)	5.69%	28.53%	28.53%	9.00%	8.20%	N/A	N/A
Russell 2500 Index	8.54%	27.77%	27.77%	10.33%	8.93%	N/A	N/A

A LETTER FROM THE TEAM

Dear Friends & Investors,

As we close the books on another decade, we pause to reflect on how much has changed over the past ten years. During the '10s, we saw Uber give its first ride, the United States elect a political outsider as President, and "QE" became a household term. Despite the seismic changes to the world around us, one thing has remained constant – our unwavering commitment to our Quality Yield investment discipline. Our proven and repeatable approach to building portfolios has continued to result in unparalleled consistency for our clients. In fact, as of year-end 2019, both our Core Fixed Income strategy and our Intermediate Fixed Income strategy have outperformed their respective benchmarks for 14 of the past 15 years both gross and net of fees. In that regard, 2019 was a fitting end to another decade of industry-leading investment management performance with all our investment strategies outperforming their benchmark, both gross and net of expenses.

- **Core Fixed Income:** Provided Net of Fee return of 9.06%, beating the Aggregate index by 34 bps
- **Intermediate Fixed Income:** Provided Net of Fee return of 7.55%, outperforming the Barclays Intermediate Gov't/Credit Index by 75 bps
- **Short Duration Fixed Income:** Provided Net of Fee Return of 4.56%, beating its benchmark by 49 bps
- **SMID Cap Core Equity:** Provided Net of Fee Return of 28.53%, outperforming the Russell 2500 Index by 76 bps
- **Enhanced Equity:** Provided Net of Fee Return of 33.79%, beating the S&P 500 Index by 230 bps

Our strategies are offered as both institutional separate accounts and institutional class mutual funds. If you have any questions, or would like any additional information on our capabilities and how we can tailor them to fit your specific needs please do not hesitate to contact me directly at efox@johnsonasset.com or any member of the Marketing & Service Team at 513.389.2770.

Sincerely,

Emily Fox

Director of Institutional Sales

FIXED INCOME

What a difference a year makes! This time last year, interest rates were hovering near cycle-highs and the Fed had just concluded its ninth rate hike. Despite widespread investor concern over continued rate increases, equity and credit markets disagreed. The S&P 500 fell nearly 20% over the course of just a few months, and credit spreads widened by more than 50 basis points. As a result, the Fed quickly pivoted to a more dovish stance, and pledged to refrain from additional rate hikes for the foreseeable future. This combination of elevated interest rates, wide credit spreads, and a more dovish Fed set the stage for a historically strong year for bond returns. In fact, 2019 was the best year for the Bloomberg Barclays Aggregate Bond Index since 2002.

Throughout the year, the Fed's policy about-face became increasingly justified as domestic economic growth continued to slow. As the year progressed, the economic boost from fiscal stimulus naturally began to fade. At the same time, Trump's increasingly hawkish stance on US/China trade began to impact global economic activity. By August, the ISM Manufacturing Index had fallen below 50, signaling contraction in the factory sector. Despite the sharp slowdown in manufacturing, the consumer continued to be a stalwart of this economic expansion. The unemployment rate remained at 50-year lows, and the economy continued to add nearly 200k jobs per month on average. Although it was clear that economic growth was slowing, the resilience of domestic labor markets gave us comfort that near term recession risk remained low.

As we turn our attention toward the coming year, we continue to advocate somewhat more defensive positioning in portfolios. Credit spreads have tightened to multi-year lows, rendering the valuation of many high quality credits unattractive. At the same time, a meaningful improvement in economic activity is unlikely without a more significant reduction in tariffs charged on Chinese imports. While our Recession Scorecard continues to highlight that near term recession risk remains modest, our forecast for economic growth remains subdued. We believe this combination of tight valuations and growing macroeconomic risk warrants more defensive positioning. We view Agency MBS as a way to maintain portfolio yield while moving up in quality. In fact, Agency MBS valuations are competitive with many high quality industrials, but carry the backing of the U.S. Government. While overall credit spreads are tight, we continue to find relative value in high quality financials and certain low cyclical BBB rated industrials. Lastly, the Fed's commitment to keeping interest rates unchanged warrants a neutral to modestly longer duration positioning.

ENHANCED EQUITY

The S&P 500 ended 2019 in impressive fashion, returning over 9% during the fourth quarter to finish the year up over 31%, the best year for large cap equities since 2013. Volatility picked up briefly at the start of the quarter, but finished on a quiet note as stocks gradually marched toward a new all-time high. After cutting rates at three consecutive policy meetings, the Federal Reserve held rates steady at their December meeting, but remained dovish in their communication by suggesting that there is a high hurdle for any near-term policy tightening. This, combined with some positive news surrounding trade, helped lift risk assets to close out the year.

After outperforming for three consecutive quarters, the Enhanced Index strategy lagged during the final quarter of the year as returns from the fixed income portion of the portfolio were slightly behind cost of carry in futures contracts. Despite the strategy's modest underperformance during the quarter, 2019 was a strong year for relative performance overall, with the strategy outperforming the S&P 500 by over 2%. Portfolio duration is close to two years with a focus on quality corporate bonds, with the largest allocation to the financial sector. However, the strategy has continued to increase its allocation to short duration MBS which offers an attractive combination of yield and credit quality in comparison to short duration credit. Additional weight in treasury and agency securities was also added during the quarter, which should help provide downside protection in the event risk asset volatility surfaces in 2020.

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SMID CAP CORE EQUITY

As the Federal Reserve continued to affirm its dovish message and major economic indicators remained mostly stable, recession fears began to dissipate, and investors began to anticipate an extension of this record long economic expansion. Bullish sentiment led to risk-seeking in more speculative growth areas of the market, such as biotechnology. In the fourth quarter, the Russell 2500 Biotechnology Index was up a whopping 26%! Yet, over 90% of these companies are unprofitable, and given our quality discipline, we had no direct exposure to these stocks, which negatively impacted relative performance. We do own several stocks that capture the growth opportunities in health care in a more visible, less risky investment approach than early-stage biotech, and these stocks were among our best performers in the quarter.

A de-escalation in the U.S./ China trade war also helped boost stocks that had been negatively impacted by tariffs, including semiconductors, auto parts, and apparel companies. Our exposure to these areas reflects their cheap valuation, which compensates for the economic and political risk. Looking ahead to 2020, the macroeconomic environment has improved and SMID cap is still somewhat cheap relative to large cap overall, but we are cognizant that the risk of recession has only diminished, not vanished.

In the portfolios, we are trimming highly valued growth stocks and showing patience with quality value stocks. We are best positioned for relative returns in a value rotation that sustains the bull market or a market selloff, both of which we believe are higher chance possibilities in 2020 than either a speculative melt-up or a big cyclical boom. In the quarter, we sold some Industrial and Consumer stocks with cyclical businesses that might be more negatively exposed to an unexpected downturn in the economy and we purchased a few more undervalued health care stocks with earnings growth that isn't expected to be directly tied to the state of the economy.

Our SMID Cap Core Equity strategy outperformed the Russell 2500 Index in 2019 net of fees, and SMID cap stocks pushed to an all-time high. The fourth quarter was challenging for the strategy's relative performance as lower quality stocks rallied in November and December and the Russell 2500 Growth Index (+10.6%) resumed its outperformance trend versus its Value counterpart (+7.4%). These investor style preferences for lower quality, speculative growth negatively impacted security selection in the quarter.

*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 December 31, 2019 unless otherwise noted. Returns and net asset value will fluctuate. To determine if this strategy is appropriate for you, carefully consider the reinvestment 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 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.