

A QUARTER REVIEW:

SMID-cap equities advanced to new all-time highs during the second quarter, delivering their strongest quarterly return since 2020. Earnings trends remained constructive, with a broad majority of companies reporting first-quarter results above expectations, supporting continued upward revisions to future earnings estimates. Consensus forecasts now call for approximately 36% earnings growth in 2026.

Performance leadership was highly concentrated. The Technology sector advanced 66% during the quarter, making it the only sector to outperform the broader SMID-cap market. Semiconductor companies drove much of the gain as investor enthusiasm surrounding AI-related infrastructure spending and data center investment continued to accelerate. In contrast, Energy was the weakest-performing sector, declining 10%. Oil prices quickly retraced gains following a ceasefire in the Middle East and the resumption of tanker traffic through the Strait of Hormuz, easing supply concerns.

PERFORMANCE SUMMARY:

The SMID Cap Core Strategy returned +10.97% net of fees during the quarter, compared with +20.26% for the Russell 2500 Index. The Strategy's emphasis on high-quality businesses has historically resulted in a lower-beta, lower-volatility profile, which can create relative headwinds during periods when risk-taking is strongly rewarded.

Small-cap equities were a notable beneficiary of the market's risk appetite. The Russell 2000 gained 21.5%, outperforming the Russell Midcap Index's 13.8% return. The Strategy's structural overweight to mid-cap companies relative to the Russell 2500 detracted from performance during the quarter and over the trailing twelve months.

The market's preference for lower-quality and more cyclical companies also weighed on results. Since the market rebound that began in April 2025, lower-quality stocks have significantly outperformed businesses characterized by strong profitability, resilient balance sheets, and consistent earnings growth—attributes that remain central to our investment philosophy.

Market narrowness presented additional challenges. The portfolio's underexposure to the Technology sector, particularly semiconductors, resulted in negative sector attribution. Security selection also detracted, reflecting an underweight position in semiconductor companies and an overweight allocation to software and services. The absence of Sandisk Corp., the benchmark's

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
ON SEMICONDUCTOR CORP	0.76%	0.96%
TD SYNEX CORPORATION	1.87%	0.86%
ELEMENT SOLUTIONS INC	1.85%	0.69%
GORMAN RUPP CO	1.52%	0.66%
NVENT ELECTRIC PLC	1.56%	0.60%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
GENPACT LIMITED	0.98%	-0.29%
OPTION CARE HEALTH INC	0.93%	-0.24%
BENTLEY SYSTEMS INC	1.37%	-0.23%
UNIVERSAL HEALTH SERVICES INC	1.08%	-0.21%
CCC INTELLIGENT SOLUTIONS HLD	1.09%	-0.19%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
CHARLES RIVER LABORATORIES INTL INC	2.10%
RUSH ENTERPRISES	2.00%
NORDSON CORP	1.92%
RELIANCE INC COM	1.90%
ELEMENT SOLUTIONS INC	1.87%
TD SYNEX CORPORATION	1.85%
LITTELFUSE INC	1.77%
UMB FINANCIAL CORP	1.74%
APPLIED INDUSTRIAL TECHNOLOGIES INC	1.69%
DONALDSON INC	1.67%

1) Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Strategy. Holdings listed might not have been held for the full period. To obtain a copy of Johnson Asset Management's calculation methodology and a list of all holdings with contribution analysis, please contact your service team. The data provided is supplemental. Please see important disclosures at the end of this document.

2) Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.

top-performing stock during the quarter, accounted for approximately 270 basis points of relative underperformance. Industrials and Health Care also detracted as the portfolio held a higher-quality mix of stocks than the benchmark.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

During the quarter, portfolio activity was higher than normal. The strong market move changed valuation upside in many holdings and pushed some stocks outside of our targeted market cap range. New purchases in the quarter included a profitable biotechnology company and a few companies with exposure to the datacenter capital spending boom that is driving marginal earnings growth.

The recent market environment has been challenging for quality-oriented SMID cap strategies. However, these challenges have created a compelling opportunity. Research shows that the quality factor has historically delivered excess returns across full market cycles. Timing factor rotation is difficult to do consistently, but recent underperformance suggests a buying opportunity for quality investors. The degree of underperformance for the quality factor is similar to the late 1990's Dot-Com bubble and the post-COVID recovery of 2020. Both of those periods were followed by markets that broadened in participation, and quality recaptured the performance gap.

For investors considering a single allocation across small- and mid-cap equities, the Strategy offers exposure to a disciplined quality process at a point when history suggests the opportunity set may be particularly attractive.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	11.24%	16.51%	12.43%	8.52%	11.35%	11.50%
JOHNSON (NET)	10.97%	15.36%	11.32%	7.45%	10.25%	10.40%
RUSSELL 2500	20.26%	36.72%	18.40%	8.30%	12.21%	12.25%

OUR SMID CAP CORE STRATEGY TEAM:



Brian Kute, CFA
Managing Director of
Research, Senior Portfolio
Manager, Principal



Bryan Andress, CFA
Senior Research Analyst,
Principal



Chris Godby, CFA
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The Johnson SMID Cap Core Equity Strategy seeks to consistently outperform the Russell 2500 Index over a full market cycle with less volatility. The Strategy seeks to identify stocks that are making smart allocation decisions, with a favorable combination of quality, valuation, and momentum characteristics.

For more information on our products and services, please contact a member of our Business Development Team at 513.389.2770 or info@johnsonasset.com.



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