

A QUARTER REVIEW:

Equity markets rallied during the third quarter, led by speculative growth stocks and early-cycle value names. Low-quality companies delivered outperformance not seen since the post-COVID market recovery in 2020. A continued risk-on environment created a challenging relative performance period for active managers focused on quality, and the Russell 2500 Index ranked in the top quartile of SMID Cap managers in the quarter.

Within the SMID Cap universe, small caps outperformed mid caps by the third-widest quarterly margin in 30 years—more than 7 percentage points when comparing Russell 2000 Index returns to the Russell Mid Cap Index. Only Q4 2020 and Q3 2008 showed more extreme spreads, and like today, those periods featured dynamic policy shifts and supportive Fed rate-cut cycles.

More than one-fourth of Russell 2500 constituents gained 20% or more during the quarter. In this type of market, attributes typically rewarded by institutional investors—such as low volatility, consistent earnings, and downside protection—acted as relative performance headwinds for quality-oriented strategies.

PERFORMANCE SUMMARY:

The SMID Cap Core Strategy returned 2.96% net of fees in the third quarter, trailing the Russell 2500 Index's 9.00% return. The Strategy's high-quality focus was the primary driver of relative underperformance, extending a headwind that began in April.

Unprofitable companies led the rally, with SMID Cap “non-earners” rising an average of 18%, compared to 7% for companies generating positive net income—the widest gap since 2020. The portfolio's mid-cap overweight also detracted from performance given the unusually strong small-cap outperformance.

Security selection results were adversely affected by the low quality dynamic, with ten of eleven sectors underperforming. Eight holdings declined 15% or more during the quarter, many in the software industry. The portfolio's more conservative positioning led to underperformance in cyclical sectors including Financials and Consumer Discretionary,

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
NVENT ELECTRIC PLC	1.45%	0.44%
LSI INDUSTRIES INC OHIO	1.16%	0.39%
MAXIMUS INC	1.23%	0.33%
HAWKINS INC	1.15%	0.29%
APPFOLIO INC	1.40%	0.28%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
SPS COMMUNICATIONS INC	1.28%	-0.27%
HENRY JACK & ASSOC INC	1.26%	-0.23%
GLOBANT SA	0.48%	-0.22%
UFP TECHNOLOGIES INC	1.06%	-0.22%
OPTION CARE HEALTH INC	1.45%	-0.22%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
DONALDSON INC	1.66%
AMERICAN FINANCIAL GROUP INC OHIO	1.65%
NVENT ELECTRIC PLC	1.65%
ANTERO MIDSTREAM CORP	1.63%
UNITIL CORP	1.62%
CHARLES RIVER LABORATORIES INTL INC	1.57%
APPLIED INDUSTRIAL TECHNOLOGIES INC	1.56%
LITTELFUSE INC	1.56%
DT MIDSTREAM INC	1.53%
AXIS CAP HOLDINGS LTD	1.52%

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.

while underexposure to speculative growth themes in Technology, Health Care, Energy, and Utilities further weighed on results.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

Risk appetite remains elevated as confidence grows that a recession is no longer the base case. Evidence includes robust AI capital expenditures, stabilizing corporate earnings, and accommodative monetary policy. While recent market dynamics have favored high-risk stocks, a continuation of these macroeconomic trends would likely benefit a broader array of equities. This environment should further support SMID Cap performance and narrow the valuation gap relative to large caps, particularly as SMID Cap earnings growth is expected to accelerate.

During the quarter, the team trimmed select Industrials positions where valuations had become too expensive. Within Technology, exposure was rebalanced—reducing holdings in companies with fundamental challenges and adding to select small-cap software names exhibiting niche market leadership and attractive long-term growth prospects.

Quality investing aligns well with a long-term approach, and risk management remains an important focus, especially after such a sharp move higher in lower quality stocks. Downside protection, reduced volatility, and superior risk-adjusted returns remain core objectives for the Strategy.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	3.22%	0.45%	14.19%	14.05%	9.00%	10.89%
JOHNSON (NET)	2.96%	-0.55%	13.07%	12.92%	7.92%	9.79%
RUSSELL 2500	9.00%	10.16%	15.65%	12.09%	8.20%	10.52%

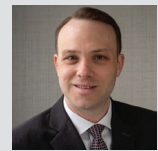
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The Johnson SMID Cap Core Equity Strategy seeks to consistently outperform the Russell 2500 Index over a full market cycle with less volatility. The Strategy seeks to identify stocks that are making smart allocation decisions, with a favorable combination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

For more information on our products and services, please contact a member of the our Sales & Client Service Team at 513.389.2770 or info@johnsonasset.com.



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