

**A QUARTER REVIEW:**

The fourth quarter was a relatively calm end to a rollercoaster year for markets that took stocks to all-time highs. In 2025, SMID quality underperformed by the largest annual margin since 2009 with low-quality, high-volatility stocks leading the robust market recovery from the April lows through October. However, November and December brought a broadening of market leadership. Mid-cap stocks regained ground lost to small caps earlier in the year, and high-quality stocks improved their relative performance.

**PERFORMANCE SUMMARY:**

The SMID Cap Core Strategy returned 1.36% net of fees in the fourth quarter, trailing the Russell 2500 Index's 2.22% return. Underperformance was concentrated in October, driven by the Strategy's high-quality bias, while November and December saw relative improvement as market conditions shifted.

Security selection was the primary headwind, particularly in sectors with wide quality dispersion such as Technology, Industrials, and Health Care, where some of the best performers were highly speculative companies that fell short of our quality mandate. Technology software stocks continued to be pressed by the risk AI poses to their business models, as well as a slower growth profile compared to the booming semiconductor industry. Health Care was the portfolio's best-performing sector, but an underweight in biotechnology—up over 20% in the quarter—was a relative performance drag.

On the positive side, Consumer sectors contributed meaningfully, led by Coca-Cola Consolidated (31%), the portfolio's top performer. An underweight in Consumer Discretionary and strong results in Financials, including Jack Henry & Associates and Axis Capital Holdings, also added value.

| TOP 5 PERFORMERS <sup>1</sup>       |        |                     |
|-------------------------------------|--------|---------------------|
|                                     | WEIGHT | RETURN CONTRIBUTION |
| COCA-COLA CONS INC                  | 1.65%  | 0.46%               |
| CHARLES RIVER LABORATORIES INTL INC | 1.86%  | 0.44%               |
| JAZZ PHARMACEUTICALS PLC            | 1.44%  | 0.35%               |
| IRADIMED CORP                       | 1.10%  | 0.35%               |
| HENRY JACK & ASSOC INC              | 1.32%  | 0.27%               |

| TOP 5 DETRACTORS <sup>1</sup> |        |                     |
|-------------------------------|--------|---------------------|
|                               | WEIGHT | RETURN CONTRIBUTION |
| BENTLEY SYSTEMS INC           | 1.12%  | -0.32%              |
| LSI INDUSTRIES INC OHIO       | 1.00%  | -0.24%              |
| FLOOR & DECOR HOLDINGS INC    | 1.16%  | -0.22%              |
| APPFOLIO INC                  | 1.17%  | -0.21%              |
| ZEBRA TECHNOLOGIES CORPORATIN | 1.11%  | -0.21%              |

| TOP TEN HOLDINGS <sup>2</sup>       |                |
|-------------------------------------|----------------|
| NAME                                | % OF PORTFOLIO |
| CHARLES RIVER LABORATORIES INTL INC | 2.11%          |
| AXIS CAP HOLDINGS LTD               | 1.79%          |
| UNTIL CORP                          | 1.73%          |
| AVERY DENNISON CORP                 | 1.70%          |
| DT MIDSTREAM INC                    | 1.70%          |
| NORDSON CORP                        | 1.70%          |
| RUSH ENTERPRISES INC                | 1.62%          |
| APPLIED INDUSTRIAL TECHNOLOGIES INC | 1.62%          |
| LITTELFUSE INC                      | 1.60%          |
| RELIANCE INC COM                    | 1.59%          |

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.

## MARKET OUTLOOK AND PORTFOLIO POSITIONING:

During the quarter, the team exited positions where confidence in quality and fundamentals had diminished, including LKQ, WEX, Americold Realty Trust, and Everest Group. Dutch Bros., a high-growth coffee and specialty beverage company, was a new addition.

The market has been digesting significant macro factors—AI innovation, tariff policies, monetary policy shifts, and geopolitical risks. Despite these uncertainties, earnings risk has receded as valuations have risen. SMID Cap companies are expected to report +15% year-over-year earnings growth for the fourth quarter, the fastest pace since early 2022, with consensus projecting 30% growth in 2026. While these forecasts often prove optimistic, SMID Cap earnings growth is very likely to outpace Large Cap's in the quarters ahead. With a wide valuation discount still present, a SMID Cap portfolio should be well positioned for relative performance as this fundamental rotation occurs.

| PERFORMANCE     |       |        |        |        |        |        |
|-----------------|-------|--------|--------|--------|--------|--------|
|                 | QTD   | 1YR    | 3YR    | 5YR    | 7YR    | 10YR   |
| JOHNSON (GROSS) | 1.61% | 5.09%  | 11.35% | 10.01% | 12.52% | 10.82% |
| JOHNSON (NET)   | 1.36% | 4.04%  | 10.25% | 8.93%  | 11.41% | 9.72%  |
| RUSSELL 2500    | 2.22% | 11.91% | 13.75% | 7.26%  | 11.75% | 10.40% |

## 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**  
Senior Research Analyst, Principal

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](mailto:info@johnsonasset.com).



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