Quarterly Update

FIRST QUARTER 2021

JOHNSON ASSET MANAGEMENT

QUARTER END MARKET STATISTICS

March 31, 2021	Q1	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	-3.79%	0.57%	5.26%	3.78%	4.00%	4.13%
Core Fixed Income (Net)	-3.85%	0.32%	5.00%	3.52%	3.74%	3.87%
Barclays Aggregate Index	-3.37%	0.71%	4.65%	3.10%	3.31%	3.44%
Intermediate Fixed (Gross)	-2.28%	2.15%	4.78%	3.49%	3.42%	3.58%
Intermediate Fixed (Net)	-2.35%	1.90%	4.52%	3.23%	3.17%	3.32%
Barclays Intermediate G/C Index	-1.86%	2.01%	4.36%	2.75%	2.77%	2.88%
Short Duration (Gross)	-0.50%	2.89%	3.35%	2.46%	2.18%	2.18%
Short Duration (Net)	-0.56%	2.63%	3.10%	2.20%	1.92%	1.92%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	-0.03%	1.69%	3.07%	2.03%	1.76%	1.61%
Enhanced Index (Gross)	5.53%	58.75%	17.68%	16.62%	14.06%	14.56%
Enhanced Index (Net)	5.45%	58.29%	17.32%	16.26%	13.72%	14.23%
S&P 500 Index	6.17%	56.35%	16.77%	16.30%	13.59%	13.91%
SMID Cap Core Equity (Gross)	12.01%	66.83%	11.59%	13.44%	10.27%	
SMID Cap Core Equity (Net)	11.74%	65.24%	10.48%	12.32%	9.18%	
Russell 2500 Index	10.93%	89.40%	15.33%	15.93%	11.45%	

Dear Friends & Investors:

There's no delicate way to describe winters in the Midwest. They are dark, gloomy, and often downright frigid. The ongoing battle against COVID-19 made this past winter all the more unpleasant. The good news is that the signs of spring are unmistakable. Major League Baseball is back, March Madness just wrapped up, and temperatures are finally getting warmer. For investors, the weather isn't the only thing heating up. The combination of fiscal stimulus, easy monetary policy, and broadening economic recovery have sparked concerns that inflation may start running hotter as well. As a result, bond yields rose sharply throughout the first quarter. Despite the elevated interest rate volatility, we continue to remain committed to our high-quality investment approach and remain focused on delivering consistent and dependable investments results through time. As always, if you have any additional questions, please feel free to reach out to any member of the Johnson Asset Management Team.

Sincerely,

Emily Fox

Emily Fox, CAIA

DIRECTOR OF INSTITUTIONAL SALES

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FIRST QUARTER MARKET COMMENTARY

FIXED INCOME

To date, over $5 trillion of fiscal spending has been approved in an effort to help heal the economic damage from COVID-19. As policy makers in Washington debate additional rounds of fiscal spending, the economic recovery is already gaining steam. Broadening vaccinations, economic reopening, and pent-up consumer demand are all likely to propel the economy to significant gains during the first half of this year. While that's good news for the recovery, investors are growing increasingly nervous at the prospect of economic overheating and faster than expected inflation. As a result, bond yields have risen sharply, with the 10-Year Treasury finishing the quarter at 1.74%, its highest level since late 2019. In turn, bond returns quickly fell into negative territory, with the Bloomberg Barclays Aggregate Bond Index falling by -3.37% in just the first three months of the year. While investment grade fixed income rarely writes itself into the history books, this marked the worst quarter for high-quality fixed income since 1981.

As challenging as the first quarter was for high-quality bond investors, we believe that the outlook for future bond returns has improved significantly. We believe that interest rates are now within a reasonable range of fair value given the longer-term economic outlook. While we believe it is reasonable to expect modestly higher inflation in the near term, we remain cautious to extrapolate short-term cyclical inflation into a longer-term structural trend. Stimulus and the unleashing of pent-up consumer demand will be primary drivers of economic growth over the coming quarters, however, many of the powerful structural forces that have caused subdued inflation are likely to regain control. Specifically, aging demographics and elevated debt levels are likely to prevent structural inflation overheating. As a result, we believe the Federal Reserve will regard rising inflation as temporary and will work to keep interest rates low for a prolonged period of time. During the quarter we took advantage of higher, longer maturity yields and the steepening yield curve to build a more bar-belled duration structure and modestly extend duration.

We are finding additional opportunities in high-quality, intermediate duration credit. During the first, quarter there was an overlooked rotation going on within the investment grade universe. First, long duration corporates meaningfully outperformed their intermediate peers. This is likely a result of many buyers being drawn to the attractive all-in yields of long duration corporates as the yield curve steepened significantly during the first quarter. Next, industrials meaningfully outperformed financials, led by highly cyclical industries like energy and metals. While these trends were a headwind to relative performance during the first quarter, they have also created opportunities to find value within high-quality intermediate duration corporates. As a result, we added to this segment of the market during the quarter. Finally, we remain underweight MBS due to increasing prepayment risks and duration volatility.

ENHANCED EQUITY

US equities began 2021 right where they left off, with solid performance from the S&P 500 of over +6.2% during the first quarter after earning over +18% in 2020. Even more impressive is the index's total return of +56.4% over the last twelve months, making the volatility of last March seem like a distant (albeit still painful) memory. In fact, the last twelve months has been the best one-year period for the S&P 500 since the early 1980s. While equity valuations have appeared expensive by some metrics, an abundance of fiscal stimulus as well as optimism surrounding trends in economic re-openings have continued to push stocks higher.

The Enhanced Index strategy underperformed in the first quarter by about 0.72% net of fees as interest rates moved higher during the first quarter, particularly in three to five-year maturities. This caused returns on the bond portion of the portfolio to be modestly negative and lag the equity futures contracts' cost of carry. The effect of rising interest rates was mitigated by the portfolio's short duration of just over 2 years, as well as its allocation to corporate bonds which experienced tightening credit spreads during the quarter. Despite lagging the S&P 500 to start 2021, performance over the past twelve months has been very strong at +58.3% net of fees, outpacing the index by nearly 2%. Additionally, a steeper yield curve and higher overall level of rates have improved the total return outlook for short duration fixed income. This, combined with a cost of carry that remains quite low, should provide a tailwind for relative performance in the months ahead.

SMID CAP CORE EQUITY

Enthusiasm about an economic reopening post-COVID restrictions continue to be the driving theme in equity markets. Early cycle stocks have been lifted, and the growth sectors that led throughout 2020, Technology and Health Care, have taken a pause this year. Market valuation is high, and multiples have been compressing, but positive earnings growth trends and government-driven stimulus are pushing the market higher.

More confidence in the recovery also brings more risk-taking behavior, which is reflected in the market remaining near all-time highs even as unprofitable companies have captured their biggest share of the market ever. Cyclical rallies are common out of market bottoms -- deep cyclicals show rapid earnings growth on easy comparisons, and turnaround stories are given new life. But history suggests that this early cycle leadership is lower in quality and will prove to be temporary as the market refocuses on fundamentals.

With a more certain economic background, more companies have brighter outlooks. Value will likely be found in the underappreciated quality companies with stronger competitive positions that are poised to deliver sustainably higher returns on capital as the cycle continues. These are characteristics that are embedded in our SMID Cap Core strategy, and we have benefitted recently from the market starting to refocus on the quality value stocks that we favor. Our overweight positioning in Banks has been a big performance driver for our strategy in recent months, but we have recently shifted to a more neutral position as valuation has now become more average. Today, we are seeing the most value in quality cyclicals within the Industrials sector and in high quality Health Care stocks.

Things are certainly on more stable footing for cyclical companies compared to one year ago, but given the large amount of valuation expansion we have seen, we feel the reward for risk-on positioning is diminished. We are emphasizing quality and lower volatility stocks that have an opportunity for relative valuation improvement in an expensive market.