

**QUARTER END MARKET STATISTICS**

June 30, 2020	Q2	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	3.31%	7.97%	10.58%	6.32%	5.21%	4.86%	4.62%
Core Fixed Income (Net)	3.24%	7.84%	10.30%	6.05%	4.94%	4.60%	4.32%
Barclays Aggregate Index	2.90%	6.14%	8.74%	5.32%	4.30%	3.96%	3.82%
Intermediate Fixed (Gross)	3.29%	6.14%	8.30%	5.26%	4.34%	3.99%	3.91%
Intermediate Fixed (Net)	3.22%	6.00%	8.03%	5.00%	4.08%	3.73%	3.65%
Barclays Intermediate G/C Index	2.81%	5.28%	7.12%	4.43%	3.46%	3.12%	3.13%
Short Duration (Gross)	2.29%	2.93%	4.57%	3.26%	2.60%	2.36%	2.29%
Short Duration (Net)	2.23%	2.80%	4.31%	3.01%	2.34%	2.11%	2.04%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	1.21%	2.83%	4.17%	2.89%	2.11%	1.82%	1.67%
Enhanced Index (Gross)	22.75%	-2.15%	8.81%	11.26%	11.30%	12.81%	14.77%
Enhanced Index (Net)	22.66%	-2.31%	8.49%	10.90%	10.96%	12.49%	14.45%
S&P 500 Index	20.54%	-3.08%	7.51%	10.73%	10.73%	12.13%	13.99%
SMID Cap Core Equity (Gross)	18.43%	-13.17%	-5.73%	2.92%	5.39%	N/A	N/A
SMID Cap Core Equity (Net)	18.15%	-13.61%	-6.68%	1.90%	4.35%	N/A	N/A
Russell 2500 Index	26.57%	-11.05%	-4.70%	4.08%	5.41%	N/A	N/A

Dear Friends & Investors,

It's hard to believe we're already halfway through 2020 - a year that has, at times, felt as though it may never end. The first quarter of this year was a tumultuous one, as the COVID-19 pandemic sent shockwaves through financial markets. As quickly as markets fell, policy makers stepped up with a tsunami of stimulus which helped lead the second quarter into a near mirror image of the first. Equities rose, credit spreads tightened, and optimism abounded. As we look forward to the second half of the year, we are struck by the stark contrast between the recession-like economic data and widespread financial market optimism.

As always, we remain committed to our high-quality investment approach that has allowed us to successfully navigate a challenging and volatile first half of the year. Should you have any questions, please do not hesitate to reach out to any member of the Johnson team.

Best,

*Emily Fox*

Director, Institutional Business Development

## Fixed Income

The first half of this year has truly been a tale of two quarters. During the first quarter, fear of COVID-19 led to cascading economic closures, which rocked financial markets. For fixed income investors, all eyes were on the violent reaction in credit markets. In fact, the Bloomberg Barclays Investment Grade Corporate Index underperformed duration-matched Treasuries by a whopping 10.40% , outpacing even the losses generated the month that Lehman Brothers declared bankruptcy. Despite the extreme volatility, the Johnson Core Fixed Income strategy outperformed its benchmark by 130 bps after fees, driven almost entirely by our high-quality credit selection discipline.

As investment grade credit spreads approached +400bps, the investment team proactively added several high-quality corporate bonds at historically cheap valuations. This strategic shift was beneficial to second quarter performance as risk asset markets stabilized. By April, swift and powerful action by policy makers helped lead the market to an abrupt reversal in sentiment. The fear and pessimism that permeated much of the first quarter gave way to improving market fundamentals and widespread investor optimism. Suddenly, credit markets that were plagued by illiquidity during the first part of the year were awash in newly minted Federal Reserve money. As a result, credit spreads tightened by over 200 bps, leaving them just 57 bps wider than their year-end levels.

As we turn our attention to the second half of the year, we remain cautious in our overall outlook. While we have added a handful of high-quality credits to the portfolio, we have resisted the urge to push credit weight any higher. As we mentioned in the outset of this update, markets appear out of sync with economic fundamentals. While equity and credit markets are priced for near perfection, we believe that the road to economic recovery may be longer and more challenging than markets appreciate. Cyclical sectors such as airlines, hotels, and energy remain under significant stress. Additional downgrades and defaults in these areas are likely. We are also reminded each month that millions of Americans remain without reliable employment. Generous Federal unemployment benefits are set to expire over the coming months, leaving those who are unemployed to face a possible fiscal cliff without additional action from Washington. While we continue to find select opportunities to add value in high-quality credit, we are constantly measuring the risk/reward tradeoff. Should spreads continue to narrow, and economic risk remain elevated, a return to a more defensive posture may be more prudent in the coming months.

## Enhanced Equity

Equity markets reversed course in the second quarter, rebounding strongly on the heels of stimulus from the federal government, liquidity programs from the federal reserve, and optimism surrounding the reopening of the economy. The S&P 500 enjoyed its best quarter since the late 1990's, returning over 20% and bringing its year-to-date decline to a modest -3.1%. Market volatility moderated but remained elevated versus levels seen in recent years.

The Enhanced Index strategy outperformed the S&P 500 by 2.12% net of fees for the quarter, as the returns on the bond portion of the portfolio were well ahead of futures contracts' cost of carry, which had declined sharply in the month of March when the Fed cut interest rates to zero. Tightening credit spreads provided a boost to total returns, and an increased allocation to corporates made late in the first quarter was also additive to relative performance. Toward the end of the second quarter, we used the rebound in equity markets as an opportunity to increase the bond portfolio's government allocation in order to provide stability and liquidity in the event downside volatility resurfaces. Although bond market yields have declined, the portfolio yield remains above cost-of-carry, providing an encouraging outlook for relative performance in coming months.

## SMID Cap Core Equity

Market optimism from the reopening of the economy and unwinding of losses experienced in the first quarter pushed SMID Cap stocks higher during the second quarter. While typically stocks discount negative news, the market was quick to dismiss the severe recession that had grinded the global economy to a halt during the first part of 2020.

Growth and speculative stocks led the SMID Cap market rally. This created strong factor and style headwinds for the Johnson SMID Cap Core strategy during the quarter. The value tilt and high-quality focus caused the relative performance to lag. Investors flocked to growth stocks, particularly within the Biotech industry, which experienced 40% growth during the quarter. While our strategy did benefit from exposure to health care companies that benefited from the industry's expanded research and development of COVID19 treatments and vaccines, our limited exposure to biotech and speculative growth stocks dragged performance.

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## SMID Cap Core Equity

Value remains at an extreme discount to growth, creating long-term opportunities in quality value stocks that should benefit as fundamental momentum improves. Our overweight positioning in Banks and Real Estate reflects our view that fundamentals are not as negative as feared in these sectors, and we expect to benefit from a mean reversion in their favor.

We remained focused on investing in companies with an attractive mix of quality, valuation, and momentum and continue to believe this approach will provide long term stability given the macroeconomic uncertainty. Our strategy is positioned to provide low volatility with downside protection in the event of a prolonged recession. The strategy is also positioned to capture relative valuation improvement if fiscal and monetary stimulus is enough to sustain economic activity until COVID19 is controlled.

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*†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 June 30, 2020 unless otherwise noted. Returns and net asset value will fluctuate. To determine if this strategy is appropriate for you, carefully consider the investment 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 weighed 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.*