Quarterly Update
THIRD QUARTER 2021

JOHNSON ASSET MANAGEMENT

QUARTER END MARKET STATISTICS

September 30, 2021	Q3	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Core Fixed Income (Gross)	0.05%	-1.53%	-1.17%	6.02%	3.60%	3.95%	3.77%
Core Fixed Income (Net)	-0.02%	-1.71%	-1.41%	5.76%	3.35%	3.69%	3.52%
Barclays Aggregate Index	0.05%	-1.55%	-0.90%	5.35%	2.94%	3.26%	3.01%
Intermediate Fixed (Gross)	0.04%	-0.91%	-0.42%	5.07%	3.22%	3.37%	3.29%
Intermediate Fixed (Net)	-0.03%	-1.10%	-0.67%	4.80%	2.96%	3.11%	3.03%
Barclays Intermediate G/C Index	0.02%	-0.87%	-0.40%	4.63%	2.60%	2.74%	2.52%
Short Duration (Gross)	0.09%	-0.15%	0.22%	3.17%	2.29%	2.13%	2.07%
Short Duration (Net)	0.03%	-0.34%	-0.03%	2.92%	2.04%	1.87%	1.81%
ICE BofAML U.S. Corp & Gov't 1-3 Year Index	0.09%	0.12%	0.35%	2.90%	1.92%	1.72%	1.51%
Enhanced Index (Gross)	0.49%	15.17%	29.31%	17.00%	17.11%	14.39%	17.23%
Enhanced Index (Net)	0.41%	14.92%	28.92%	16.64%	16.75%	14.06%	16.90%
S&P 500 Index	0.58%	15.92%	30.01%	15.99%	16.90%	14.01%	16.63%
SMID Cap Core Equity (Gross)	-1.68%	16.93%	42.24%	10.45%	13.08%	10.94%	-
SMID Cap Core Equity (Net)	-1.92%	16.07%	40.86%	9.36%	11.96%	9.85%	-
Russell 2500 Index	-2.68%	13.83%	45.03%	12.46%	14.26%	12.18%	-

Dear Friends & Investors:

In the words of the late, great George Jones, "It just don't get any better than this." The first three quarters of the year have been economic nirvana. Broadening vaccinations and widespread economic reopening have unleashed pent up demand that has fueled the best economic growth in nearly 20 years. Momentum is beginning to slow as the multitude of economic tailwinds begin to fade. Despite more modest growth expectations, the economy remains on overall firm footing – anchored by elevated consumer savings and healthy business investment. One consequence of the robust economic rebound has been rising inflation. While inflation has continued to run above trend in recent months, we believe that it is unlikely to prove long-lasting. In fact, a narrow list of industries such as new and used cars, hotels, and airfares have contributed disproportionally to monthly inflation gains. Bond yields have oscillated nervously as a result. Looking forward, the market is likely to face a growing list of uncertainties. The outlook for Fiscal Policy remains questionable as Congress continues to debate multiple infrastructure bills while also simultaneously attempting to raise or suspend the debt ceiling. On the monetary policy front, interest rate hikes remain unlikely in the near term, although recent Fed communication suggests it could begin tapering asset purchases as soon as next month.

While the market weights the growing list of economic and political headwinds, we continue to believe that Johnson's quality-focused investment discipline will help our clients and partners continue to navigate market uncertainty. As always, please reach out to a member of the Johnson Asset Management Team with any questions.

Sincerely,

Johnson Asset Management Team

THIRD QUARTER MARKET COMMENTARY

FIXED INCOME

The bond market just can't seem to make up its mind this year. The first quarter was all about the fear of rising inflation. Vaccinations and fiscal stimulus combined to set the economy on a path to a self-sustained recovery. As a result, bond yields rose considerably as investors re-priced their expectations of growth and inflation. Bond yields peaked on exactly 3/31/21 and have retraced much of their first quarter increase through the following few months. This was a bit of a surprise to investors. While bond yields were falling, official measures of inflation were indeed confirming the very jump in consumer prices that investors feared. Perhaps the underlying details of the report were enough to assure investors that inflation pressure was unlikely to prove permanent. In the most recent quarter, bond yields gradually began to climb once again, settling at levels right in the middle of the year-to-date range. While the persistence of inflation pressure may have put renewed upward pressure on rates, a multitude of other forces are likely at play. Specifically, the lack of progress from policy makers to raise or suspend the debt ceiling may be causing overseas investors to price modest default premiums into the Treasury market. We are optimistic that partisan brinksmanship will be pushed aside to avoid a default scenario.

We believe that near-term, cyclical inflation pressure is likely to fade over time as supply chain disruptions ease and demand softens to more normal levels. As a result, we continue to believe that interest rates remain within a reasonable range of fair value. This view is supported by modeling the Fed's forecasted late 2022 liftoff and slow tightening pace – ultimately ending at or below a terminal rate of 2.5%. While interest rates continue to bounce around a relatively tight range this year, credit spreads remain historically tight. We continue to emphasize financials for their improved credit quality and modest relative value versus industrial peers. This year, the outperformance of low-quality, highly cyclical credit issuers has been a headwind to our high-quality approach, we believe we are well positioned to weather any potential market volatility. With investment grade credit spreads now close to historic lows, we maintain that the best offense may be a good defense. Agency MBS spreads have widened as investors look forward to eventual Fed tapering, which has presented us with an opportunity to gradually begin harvesting very tight, high-quality credit in favor of stable duration Agency MBS. As the early year economic and market related tailwinds begin to fade, we believe that Johnson Asset Management's Quality Yield investment discipline is well positioned to continue to deliver reliable yield and return during periods of market tranquility, while also being a consistent ballast against risk-asset volatility.

ENHANCED EQUITY

After over a year of relentless gains, the S&P 500 posted a return of +0.58% during the third quarter, making it the sixth straight quarter with positive returns for the index. Volatility resurfaced in September however, with the index declining -4.65% during the month. While that is a modest decline compared to the selloff experienced during the early stages of the pandemic, it was the worst monthly return for equities since March 2020 and served as a reminder that risk assets can indeed experience negative returns.

The enhanced index strategy finished slightly behind its benchmark in the quarter. Short duration bond yields climbed higher, particularly during the month of September, as the market reacted to the Fed's announcement that tapering may begin soon and what that might mean for the timing of the first interest rate hike. While the first rate hike may ultimately be a year (or more) away, the market has already begun to price higher short-term interest rates, resulting in a steepening of the front end of the yield curve. While this has presented a headwind for the performance of the bond portfolio, it has also resulted in a better total return opportunity for short-term fixed income going forward, with portfolio yields at their highest levels in over a year. We continue to emphasize high-quality corporate bonds for their yield and roll-down potential, as well as government securities for liquidity and stability should volatility continue in the months ahead.

SMID CAP CORE EQUITY

A year ago, we were beginning a string of what would become nine consecutive months of positive returns in the Russell 2500 Index as the economy roared back from the pandemic-driven recession. In the recently completed third quarter, SMID Cap stocks became choppier as the economic cycle began to naturally decelerate from its strong, snapback pace. Riskier stocks fared worse, and the SMID Cap Core Equity strategy, which employs a lower volatility approach, profited with positive relative returns in the quarter.

There is a noteworthy style shift happening in the lower market capitalizations. Many are aware that mega cap growth stocks have been massive outperformers during the last several years, but it appears that small cap growth stocks have broken rank this year – for the worse. While large cap growth stocks are still slightly ahead of value stocks year-to-date, in the small cap space, growth is trailing value by a very sizeable 20 percentage points. This large-to-small style difference seems mostly attributable to risk characteristic differences, as many smaller cap growth companies can be unprofitable, overvalued, less diversified, and often, all of the above.

Our core strategy does invest in both growth and value stocks, but our approach seeks to manage risk, and our emphasis on quality has limited our relative exposure to the riskier growth stocks. This quality focus has been rewarded lately in growth sectors such as Health Care where stock selection has been very additive to performance, even though riskier areas such as biotechnology, have seen sharp weakness.

Even with a small wobble in September, stock markets are strongly positive this year. Much of this year's gains are attributable to a quick, robust earnings recovery and a resumption of record profit margins. Valuation multiples have contracted this year yet remain elevated. But low interest rates have helped support higher valuation through the cycle, and our base case is that they will likely remain moderate. We are confident that our company holdings typically possess the balance sheet strength and consistency of results that help them adapt more easily to shifts in the macroeconomic environment, no matter the direction – a key reason for high quality's long-term competitive edge.

†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 Asset 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 September 30, 2021, 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..