

A QUARTER REVIEW:

The fourth quarter was dominated by many of the themes that persisted throughout 2021. Interest rates rose in the short and intermediate parts of the yield curve in anticipation of possible Fed tightening, while long end rates declined as the market's estimate of the terminal rate moderated. This yield curve flattening is a sign that the market believes the sooner the Fed acts to tighten monetary policy, the less tightening they will ultimately need to enact. Despite investors focusing on the move in rates, corporate bond spreads widened quietly – finishing the quarter up 8 basis points. While the fundamental macroeconomic backdrop still remains quite supportive, the transition away from ultra-easy Fed policy may have been responsible for heightened year-end risk-asset volatility. Though the overall magnitude of spread widening was modest, we did find several opportunities to purchase additional high-quality corporates at attractive valuations throughout the quarter.

CONTRIBUTORS	DETRACTORS
CORPORATE SECURITY SELECTION	CORPORATE OVERWEIGHT
YEILD CURVE STRUCTURE	CORPORATE 5 YEAR KEY RATE DURATION
FINANCIALS OVERWEIGHT	

ATTRIBUTION			
	JOHNSON	BLOOMBERG US AGGREGATE	DIFFERENCE
DURATION	0.50%	0.52%	-0.02%
NON-PARALLEL	-0.82%	-0.57%	-0.25%
OTHER RATES	0.06%	-0.16%	0.22%
SECTOR/QUALITY	-0.24%	-0.15%	-0.09%
SELECTION	0.09%	0.04%	0.05%
INCOME	0.39%	0.35%	0.04%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.16%	-1.68%	5.47%	4.13%	3.66%	3.63%
JOHNSON (NET)	-0.22%	-1.93%	5.21%	3.87%	3.40%	3.37%
BLOOMBERG US AGGREGATE	0.01%	-1.54%	4.79%	3.57%	3.00%	2.90%

PERFORMANCE SUMMARY:

The Johnson Core Fixed Income strategy returned -0.22% after fees during the fourth quarter versus the Bloomberg Aggregate Index, which returned 0.01%. While our neutral duration positioning helped to minimize the overall impact of rising interest rates, the flattening of the yield curve had a more mixed impact. Within the strategy's Government bond allocation, our barbelled posturing was beneficial as long-term interest rates fell. Our discipline of focusing the credit portfolio within intermediate maturities was a modest headwind as intermediate-maturity rates rose meaningfully. Often, corporate bond spread tightening can help soften the impact of rising interest rates. However, spreads on the Bloomberg Corporate Bond Index widened modestly during the fourth quarter. As a result, being overweight to corporate bonds was an additional headwind to the strategy, that was mostly offset by our high-quality security selection. Sector allocation within credit further helped offset the impact of spread widening, as the strategy remains overweight to financials, which outperformed their industrial and utility peers. Security selection within MBS was also beneficial to relative performance. The Fed's plan to begin tapering asset purchases negatively impacted on-the-run, current coupon MBS the most, which the strategy seeks to avoid.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

The Federal Reserve is likely to dominate market headlines throughout the coming year. Within just a couple of months, the Fed has embarked upon tapering asset purchases, doubled the pace of tapering, and is now hinting at the possibility of near-term interest rate hikes and even outright balance sheet contraction. There has been a clear shift in the Fed's mindset, abandoning its more patient approach for an increasingly hawkish tilt aimed at slowing inflation. We remain underweight Agency MBS but continue to monitor the sector for valuation opportunities related to the Fed's balance sheet adjustments. While recent economic performance and inflation have both been quite robust, we ultimately believe that as the impact of fiscal stimulus wanes, the macroeconomic environment should moderate throughout the coming year. As a result, we continue to position duration roughly neutral versus the benchmark with a more barbelled structure to take advantage of possible yield curve flattening. We also continue to reiterate our discipline to remain overweight high-quality, low-beta corporates. As the Fed embarks upon its policy tightening, we continue to believe that our disciplined approach remains well positioned to weather possible bouts of market volatility.

OUR FIXED INCOME STRATEGY TEAM:

Jason Jackman, CFA
President,
Chief Investment Officer,
Principal



Brandon Zureick, CFA
Director & Portfolio
Manager,
Principal



Michael Leising, CFA
Director of Fixed Income,
Portfolio Manager,
Principal



David Theobald, CFA
Senior Portfolio Manager,
Principal

1965
ESTABLISHED

\$5.9B
INSTITUTIONAL
ASSETS UNDER
MANAGEMENT
(As of 12.31.21)

Our primary objective across all duration mandates is to outperform the market with comparable volatility by utilizing our proprietary and unique Quality Yield approach and the deep experience and continuity of our investment team.

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

PORTFOLIO SUMMARY

	JOHNSON	BLOOMBERG US AGGREGATE
COUPON	3.10%	2.45%
YIELD TO MATURITY	1.80%	1.72%
WEIGHTED AVG. MATURITY (IN YEARS)	8.42	8.57
WEIGHTED AVG. DURATION (IN YEARS)	6.99	6.78
CONVEXITY	0.40	0.18



Johnson Asset Management (JAM) 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 December 31, 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 Bloomberg U.S. Aggregate Index. The US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. 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.