JOHNSON ASSET MANAGEMENT

STRATEGY COMMENTARY
Johnson SMID Cap Core Equity
AS OF 06.30.2022

A QUARTER REVIEW:

Stock market declines continued in the second quarter, deepening a SMID Cap stock correction that began last November. From that prior peak through the end of June, the Russell 2500 Index declined 25.9%. The SMID Cap Core strategy's emphasis on quality and valuation has been effective in providing downside protection through this bear market with down capture of only 68% during that market decline.

For SMID Cap stocks this was the worst consecutive two quarters since the 2008-2009 Financial Crisis and the worst first half of a calendar year on record. Rising inflation and interest rates continued to challenge stock market valuation.

There were not many places to hide among asset classes in the quarter, but defensive stocks in sectors such as Utilities and Consumer Staples declined less given their lower sensitivity to valuation and economic risks. Growth stocks continued to get squeezed on valuation, with Communication Services and Technology declining the most in the quarter. These high expectation stocks had carried a much larger than normal valuation premium and suffered more as discount rates rose. Despite this year's weakness, many growth stocks still traded at a more expensive valuation than the rest of the market.

PERFORMANCE SUMMARY:

The SMID Cap Core strategy outperformed the Russell 2500 with a net of fees -11.12% return vs. -16.98% for the index. The excess returns were driven by effective security selection and a small positive effect from residual portfolio cash.

The stock picking effort resulted in outperformance in 9 of the 11 sectors compared to the index sector performance. An underweight position in Energy continued to detract from relative returns. Security selection was strongest in the sectors where quality mattered the most: Information Technology, Industrials, and Health Care. In such a sharply weak quarter, avoiding the worst performers in these sectors led to a very positive contribution to relative performance.

Mid cap performed slightly better than small cap, and the strategy continued to get an advantage from tilting higher in market cap than the benchmark.

TOP 5 PERFORMERS[1]

	WEIGHT	RETURN CONTRIBUTION
UNITIL CORP	1.37%	0.22%
US PHYSICAL THERAPY	1.35%	0.14%
BLACK KNIGHT INC	1.11%	0.10%
AMN HEALTHCARE SERVICES	1.74%	0.10%
HIBBETT	0.59%	0.08%

TOP 5 DETRACTORS[1]

	WEIGHT	RETURN CONTRIBUTION
SIGNATURE BANK NY	1.30%	-0.59%
NEW YORK TIMES CO	1.11%	-0.51%
UNIVERSAL HEALTH SERVICES	1.13%	-0.37%
FIRST INDUSTRIAL REALTY TRUST	1.49%	-0.36%
REGAL-BELOIT CORP	1.35%	-0.35%

TOP TEN HOLDINGS[2]

NAME	% OF PORTFOLIO
EVEREST RE GROUP, LTD	2.13%
APPLIED INDUSTIAL TECHNOLOGIES, INC	2.09%
AMN HEALTHCARE SERVICES, INC	2.03%
WINTRUST FINANCIAL CORP	1.93%
AMERICAN FINANCIAL GROUP, INC	1.92%
NVENT ELECTRIC PLC	1.84%
FARMERS NATIONAL BANC CORP	1.81%
AXIS CAP HOLDINGS, LTD	1.79%
SEI INVESTMENTS COMPANY	1.75%
SONOCO PRODS	1.68%

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:

While the market has appropriately responded to repricing the risks of inflation and a Federal Reserve interest rate hike cycle, it likely doesn't fully reflect a recession scenario yet. The market decline has been fully explained by falling multiples, as earnings estimates have barely budged. Rising input costs, lingering supply chain issues, and falling consumer optimism have led to concerns that companies will begin to see lower revenues and profit margins. It is unlikely that so many companies will be able to maintain the expected levels of earnings growth given so many macroeconomic pressures. Therefore, the team is not being aggressive in our forward cash flow projections, and we are counting on quality companies to navigate a tricky environment. Recent portfolio moves have included selling small cap Consumer Discretionary holdings that might struggle to grow in a more turbulent economy.

Many sentiment indicators are suggesting excessive pessimism, which can be bullish from a contrarian standpoint. The investment team will be watching for signs that the market's main concerns are lessening, such as inflation starting to slow and guidance from the Fed turning less hawkish. But risks to the market are still too prevalent to expect a quick return to a smooth bull market path.

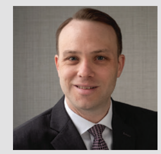
PERFORMANCE

	QTD	1YR	3YR	5YR	SINCE INCEPTION 1/1/2013
JOHNSON (GROSS)	-10.89%	-8.49%	8.86%	8.33%	8.58%
JOHNSON (NET)	-11.12%	-9.41%	7.78%	7.26%	7.51%
RUSSELL 2500	-16.98%	-21.00%	5.91%	7.04%	7.16%

OUR SMID CAP CORE STRATEGY TEAM:

Brian Kute, CFA
Director of Research,
Senior Portfolio Manager,
Principal

Bryan Andress, CFA
Senior Research Analyst



Chris Godby, CFA
Senior Research Analyst

1965
ESTABLISHED

$4.9B
INSTITUTIONAL ASSETS UNDER MANAGEMENT
(As of 06.30.22)

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**.

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