

A QUARTER REVIEW:

Global trade policy remained in flux during the second quarter, and new tariff announcements from the White House contributed to heightened market volatility. The quarter opened with a broad selloff following the April 2nd “Liberation Day” tariff announcements, leading to a sharp correction in SMID Cap stocks. But a week later, a 90-day tariff implementation pause signaled a willingness from the U.S. to negotiate, which sparked a rally that recouped losses from the prior quarter.

Amid continued economic growth and rising investor sentiment, SMID Cap stocks were led by lower quality, cyclical stocks, in economically sensitive sectors such as Technology, Industrials, and Consumer Discretionary. In contrast, low-volatility and value-oriented stocks underperformed.

PERFORMANCE SUMMARY:

The SMID Cap Core Strategy returned 4.66% net of fees in the second quarter, trailing the Russell 2500 Index’s 8.59% return. Sector allocation contributed positively to relative performance but was more than offset by negative stock selection.

The Strategy’s balanced investment framework—focused on quality, valuation, and momentum—faced headwinds in a pro-cyclical market environment that favored lower-quality names. This was particularly evident in the Industrials sector. The Health Care sector also detracted from performance, as political uncertainty and weak growth trends weighed on several holdings. In Energy, falling oil prices (-9% for the quarter) pressured the sector broadly, despite a brief spike in June following U.S. and Israeli strikes on Iranian targets. The portfolio’s emphasis on midstream pipeline companies helped mitigate exposure to oil price volatility.

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
FABRINET	1.34%	0.61%
BENTLEY SYSTEMS INC	1.66%	0.55%
COMFORT SYSTEMS USA	0.87%	0.47%
NVENT ELECTRIC PLC	1.14%	0.40%
TD SYNEX CORPORATION	1.18%	0.34%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
CHEMED CORP	1.71%	-0.39%
AMERICOLD REALTY TRUST INC	0.95%	-0.25%
COCA-COLA CONS INC	1.35%	-0.25%
JAZZ PHARMACEUTICALS PLC	1.21%	-0.22%
GENPACT LIMITED	1.30%	-0.19%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
AMERICAN FINANCIAL GROUP INC OHIO	1.81%
RELIANCE INC COM	1.71%
BENTLEY SYSTEMS INC	1.67%
AVERY DENNISON CORP	1.62%
JONES LANG LASALLE INC	1.61%
UNITIL CORP	1.60%
DYNATRACE INC	1.60%
WORLD KINECT CORPORATION	1.59%
APPFOLIO INC	1.56%
DT MIDSTREAM INC	1.54%

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.

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MARKET OUTLOOK AND PORTFOLIO POSITIONING:

Relative valuations continue to favor SMID Cap stocks over Large Caps, but a lingering SMID Cap earnings recession and a more measured pace of Federal Reserve rate cut expectations have delayed mean reversion.

After four consecutive quarters of year-over-year earnings declines, earnings growth is expected to resume in the second quarter. Trade policy remains a wildcard. While SMID Cap companies are generally more domestically focused, their cost structures may still be vulnerable to tariffs. Whether these costs are passed through to customers or absorbed, margin pressures could rise. However, high-quality companies are typically better equipped to manage these challenges.

Although earnings estimate revisions remain negative, a shift toward upward revisions could serve as a catalyst for broader market participation. Full-year earnings estimates suggest the earnings recession in SMID Cap is now behind us. Rate cuts could further support smaller, more economically sensitive companies, potentially marking the start of a new cycle.

Portfolio activity during the quarter was driven by bottom-up fundamentals. The team exited positions where the quality profile deteriorated and reallocated to a select group of primarily smaller-cap companies with stronger outlooks.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	4.92%	7.83%	12.19%	14.08%	9.10%	9.65%
JOHNSON (NET)	4.66%	6.76%	11.08%	12.96%	8.02%	8.57%
RUSSELL 2500	8.59%	9.91%	11.31%	11.44%	7.58%	8.39%

OUR SMID CAP CORE STRATEGY TEAM:

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



Bryan Andress, CFA
Senior Research Analyst,
Principal



Chris Godby, CFA
Senior Research Analyst

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 our Sales & Client Service Team at 513.389.2770 or info@johnsonasset.com.



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