

## A QUARTER REVIEW:

Financial markets, including SMID Cap companies, were pressured in the first quarter by a powerful combination of the highest inflation in 40 years, rapid escalation of a war between Russia and Ukraine, and higher interest rates as the Federal Reserve began to tighten monetary policy.

Commodities soared at the fastest pace since 1990, with the Goldman Sachs Commodity Index rising 29%. Energy, Materials, and Utilities stocks were the top performing SMID Cap sectors, reflecting already higher commodity prices that were further bolstered by global trade disruptions and widespread economic sanctions that followed Russia's invasion of Ukraine.

Even amid the geopolitical threats most of the downward pressure to equity prices happened early in the quarter. The Russell 2500 index bottomed in January and gained ground in both February and March. Value stocks meaningfully outperformed growth stocks during the quarter. Growth did recoup some losses in March after a sharp 20%-plus correction from a November peak.

## PERFORMANCE SUMMARY:

For the quarter, the SMID Cap Core strategy underperformed the Russell 2500 Index in the first quarter net of fees -7.70% vs. -5.82% for the index. Energy stocks soared in the quarter, and the strategy's less exposed positioning in the sector accounted for nearly all underperformance.

A slight underweight in a sector usually doesn't move the needle on portfolio relative performance, but in the first quarter, the Energy sector was up an incredible 41%, which magnified the negative attribution effect of being 352bp underweight compared to the benchmark. SMID Cap energy stocks typically have an unreliable track record of capital allocation. The low quality cyclical nature of most energy companies typically does not meet the standards of our investment philosophy. Excluding Energy, our sector allocation effect was net positive on overall performance.

### TOP 5 PERFORMERS<sup>1</sup>

	WEIGHT	RETURN CONTRIBUTION
FIRST HORIZON CORPORATION	1.93%	0.68%
AXIS CAP HOLDINGS LTD	1.15%	0.21%
EVEREST REINSURANCE GROUP LTD	2.01%	0.19%
ATMOS ENERGY CORP	1.33%	0.19%
WEX INC	0.67%	0.15%

### TOP 5 DETRACTORS<sup>1</sup>

	WEIGHT	RETURN CONTRIBUTION
HIBBETT INC	0.89%	-0.42%
SMITH A O CORP	1.49%	-0.42%
IPG PHOTONICS CORP	0.78%	-0.42%
CHARLES RIVER LABORATORIES INTL INC	1.44%	-0.41%
SITEONE LANDSCAPE SUPPLY INC	0.97%	-0.39%

### TOP TEN HOLDINGS<sup>2</sup>

NAME	% OF PORTFOLIO
FIRST HORIZON CORPORATION	2.32%
EVEREST RE GROUP, LTD.	2.13%
WINTRUST FIN'L	2.07%
APPLIED INDUSTRIAL TECHNOLOGIES, INC.	2.05%
AXIS CAPITAL	1.98%
FARMERS NATIONAL BANC CORP	1.90%
NVENT ELECTRIC PLC F	1.89%
AMERICAN FINANCIAL GROUP INC.	1.86%
SEI INVESTMENTS COMPANY	1.80%
AMN HEALTHCARE SERVICES, INC.	1.78%

<sup>1</sup>) 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.

<sup>2</sup>) 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.

Our high-quality security selection in Financials and Health Care helped offset some of the commodity-driven underperformance. Within the Financial sector, company specific allocation decisions to bank and insurance companies added to the overall defensiveness of the portfolio positioning. Health Care security selection was positive in large part due to limited exposure to Biotechnology stocks, which fell 23% at the index level in the quarter.

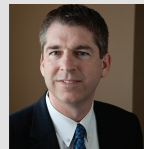
Importantly, from the 11/8/21 Russell 2500 Index peak to the 1/27/22 trough, the SMID Cap Core strategy outperformed the index by 7.79% during the correction, down only 9.34% net of fees while the Russell 2500 dipped -17.13%, delivering only 55% down capture. Our high-quality approach continued to be able to deliver strong downside protection as the strategy faced strong headwinds of Energy and cyclical companies outperforming.

#### MARKET OUTLOOK AND PORTFOLIO POSITIONING:

Inflation-driven volatility in commodity markets and bond prices created quarterly price moves that the market hasn't seen in decades, and that spilled into equity sector performance. We would not expect a repeat of that magnitude and do not see reasons yet to materially change portfolio positioning for a new regime of sustained inflation. If the inflationary forces that drove commodities and interest rates higher continue, we would expect to see economic demand destruction and investors beginning to price in more recession risk, favoring our more defensive quality approach. If commodity prices moderate and the economic stays on course for growth, a broader group of sectors would benefit, and company fundamentals would again matter more than the macroeconomic factors that wielded a bigger than usual influence on stock prices in the first quarter.

	PERFORMANCE				
	QTD	1YR	3YR	5YR	SINCE INCEPTION 1/1/2013
JOHNSON (GROSS)	-7.48%	9.09%	14.68%	11.51%	10.40%
JOHNSON (NET)	-7.71%	8.01%	13.54%	10.41%	9.31%
RUSSELL 2500	-5.82%	0.34%	13.79%	11.57%	9.99%

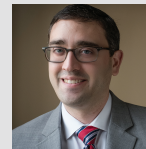
#### OUR SMID CAP CORE STRATEGY TEAM:



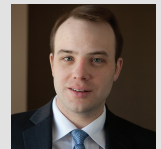
Brian Kute, CFA  
Portfolio Manager,  
Principal



Bryan Andress, CFA  
Research Analyst



Joe Edelstein, CFA  
Research Analyst



Chris Godby, CFA  
Research Analyst

**1965**  
ESTABLISHED

**\$5.2B**  
INSTITUTIONAL  
ASSETS UNDER  
MANAGEMENT  
(As of 03.31.22)

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](mailto:info@johnsonasset.com).



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