

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	
FINANCIALS OVERWEIGHT	

ATTRIBUTION			
	JOHNSON	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index	DIFFERENCE
DURATION	0.18%	0.14%	0.04%
NON-PARALLEL	-1.03%	-0.87%	-0.16%
OTHER RATES	0.09%	0.13%	-0.04%
SECTOR/QUALITY	-0.08%	-0.02%	-0.06%
SELECTION	0.04%	-0.04%	0.08%
INCOME	0.22%	0.13%	0.09%

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.62%	-0.77%	2.66%	2.23%	2.01%	1.94%
JOHNSON (NET)	-0.68%	-1.02%	2.41%	1.98%	1.76%	1.68%
ICE BofA Merrill Lynch US Corp & Govt, 1-3 Years	-0.53%	-0.41%	2.31%	1.88%	1.62%	1.43%

PERFORMANCE SUMMARY:

The Johnson Short Duration Fixed Income strategy returned -0.68% after fees during the fourth quarter versus the ICE BofA Merrill Lynch U.S. Corp & Govt, 1-3 Years, which returned -0.53%. 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. The largest contributor to relative performance was the higher level of income generated from the portfolio compared to the index, which is primarily due to the strategy's overweight to corporate credit. Within the strategy's Government bond allocation, our shorter duration positioning within treasuries was beneficial as short-end rates rose, while our slightly longer duration positioning within the agency sector detracted from performance. 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 utilities, which outperformed their financial and industrial peers on the front end of the yield curve. The strategy's allocation to MBS, which is not a part of the benchmark, was neutral 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 maintain our modest position in Agency MBS and 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
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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	ICE BofA Merrill Lynch US Corp & Govt, 1-3 Year Index
COUPON	2.68%	1.68%
YIELD TO MATURITY	1.10%	0.82%
WEIGHTED AVG. MATURITY (IN YEARS)	2.49	1.94
WEIGHTED AVG. DURATION (IN YEARS)	2.27	1.87



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