

A QUARTER REVIEW:

Energy prices were the dominant macro driver in the first quarter as the U.S.-Iran conflict pushed oil prices above \$100 per barrel.

Energy was the top-performing sector by a wide margin, generating returns exceeding 38% in the SMID Cap universe. The Financials sector, by contrast, was the weakest, as commodity-driven inflation pushed interest rates higher and challenged expectations for Federal Reserve rate cuts. Higher interest rates and elevated gasoline prices pose headwinds for consumer activity.

The geopolitical backdrop shifted market focus away from the pro-cyclical themes that characterized the early part of the quarter, including sustained AI-related capital expenditures, improving PMIs, and strengthening earnings outlooks. The market declined in March, reflecting the concerns and consequences of an unresolved conflict in the Middle East.

PERFORMANCE SUMMARY:

The SMID Cap Core Strategy returned -0.39% net of fees for the quarter, underperforming the Russell 2500 Index, which gained 2.04%.

While value outperformed growth and mid-cap stocks outperformed small caps, these favorable factor trends for the portfolio's positioning were more than offset by continued underperformance of high-quality equities. Overall relative results were driven by security selection, particularly within Technology and Industrials, which together detracted 291 basis points.

Within Technology, the portfolio's overweight to software and services and underweight to hardware and semiconductors proved challenging. Several software and services holdings declined meaningfully during the quarter, including AppFolio, CCC Intelligent Solutions, and SPS Commerce. In addition, the portfolio's lack of exposure to three large technology equipment companies—SanDisk, Lumentum, and Ciena—detracted more than 140 basis points from relative performance.

Industrials underperformance was similarly influenced by software and services exposure, as well as weakness among non-defense government contractors.

While the portfolio maintained a market-weight allocation to the Energy sector, its quality-focused investment approach resulted in limited exposure to the more volatile E&P and oilfield service companies with higher sensitivity to oil prices, which detracted from relative returns.

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
LITTELFUSE INC	1.65%	0.51%
ELEMENT SOLUTIONS INC	1.73%	0.51%
ANTERO MIDSTREAM CORP	1.66%	0.45%
COCA-COLA CONS INC	1.57%	0.41%
LEMAITRE VASCULAR INC	1.25%	0.38%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
APPFOLIO INC	0.94%	-0.37%
CCC INTELLIGENT SOLUTIONS HLD	1.21%	-0.37%
ICF INTERNATIONAL INC	1.31%	-0.32%
STANDARDAERO INC	0.88%	-0.28%
GENPACT LIMITED	1.13%	-0.25%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
CHARLES RIVER LABORATORIES INTL INC	2.28%
RUSH ENTERPRISES	2.08%
NORDSON CORP	1.97%
RELIANCE INC COM	1.78%
ELEMENT SOLUTIONS INC	1.76%
UNITIL CORP	1.75%
JAZZ PHARMACEUTICALS PLC	1.74%
AVERY DENNISON CORP	1.72%
LITTELFUSE INC	1.70%
GORMAN RUPP CO	1.62%

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:

Energy prices remain a key macro uncertainty and are likely to influence markets until geopolitical tensions ease and supply-and-demand dynamics normalize. The oil futures curve currently implies declining prices later this year, which could reflect either a faster resolution in the Middle East conflict or a more concerning signal that elevated prices may constrain demand and economic activity. At present, economic conditions appear resilient, credit spreads remain non-recessionary, and equity markets have repriced geopolitical risk in an orderly fashion.

During the quarter, portfolio activity focused on selectively adding high-quality businesses trading at attractive valuations in areas such as biotechnology, investment banking, aerospace, and automotive retailing. Funding sources included exits from slower-growth holdings with weakening quality characteristics, along with valuation-driven portfolio rebalancing.

Market behavior over the twelve months has reflected early-cycle dynamics that favored unprofitable companies and deep cyclicals. Looking ahead, a quicker geopolitical resolution combined with continued earnings improvement would likely broaden market leadership in favor of higher-quality companies. Conversely, if recent weakness signals rising economic risk, the portfolio's lower volatility profile should provide relative downside protection.

Consensus expectations project 29% year-over-year EPS growth for the Russell 2500 Index in 2026, compared to 17% for the S&P 500. Despite this earnings advantage, SMID Cap equities continue to trade at a significant valuation discount to the historical premium held over large caps, suggesting a compelling valuation opportunity if fundamental growth catalysts evolve as currently forecasted.

PERFORMANCE

	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-0.14%	9.89%	10.13%	7.52%	10.30%	10.44%
JOHNSON (NET)	-0.39%	8.80%	9.05%	6.45%	9.21%	9.35%
RUSSELL 2500	2.04%	23.45%	13.25%	5.48%	9.75%	10.58%

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,
Principal

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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