

A QUARTER REVIEW:

The final quarter of 2023 witnessed a robust market rally, steering SMID cap stocks away from a potentially negative year and concluding with an impressive 17% Russell 2500 Index total return for the year.

Enthusiasm was ignited by indications of a policy shift toward easing from the Federal Reserve. There is debate on whether this signaled a true pivot from the "higher-for-longer" message on interest rates or if it was intended to maintain a "wait-and-see" approach. Nonetheless, with the economy still growing and inflation fears receding, the market appreciated the dovishness of the Fed's message. Investor discussions have now shifted to the timing of the first rate cut, rather than speculating on whether the Fed will hike again.

Earnings growth forecasts, closely tied to economic prospects, experienced a meaningful slowdown throughout 2023. The upcoming fourth quarter report is expected to reveal the second consecutive quarter of sequential decline. Year-end market bullishness appears linked to lower interest rates and the prospects for a soft landing, creating a favorable environment for higher future earnings growth. Sector rotation in the quarter reflected these hopes for an improved economy, with the more cyclical Financials, Consumer Discretionary, and Real Estate sectors yielding the highest returns.

PERFORMANCE SUMMARY:

The SMID Cap Core strategy delivered a net of fee return of 12.97%, slightly trailing the Russell 2500 Index by 38 basis points. Quality stocks slightly outperformed and the team's quantitative factor scoring was a favorable influence. The portfolio's Mid Cap style tilt made for a tougher relative performance comparison as Small Cap stocks outperformed Mid Cap in the quarter.

A strategic underweight position in the Energy sector proved advantageous, especially considering the 21% drop in oil prices during the quarter. The decision to avoid higher beta energy stocks contributed positively to overall performance through effective security selection.

Despite bank stocks being among the top contributors for the quarter, a portfolio overweight position in underperforming Insurance stocks more than offset those gains. Insurance stocks are low beta and do not have the same degree of cyclical risk or valuation risk as other sectors.

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
COCA-COLA CONS INC	1.49%	0.62%
ARROW FINANCIAL CORP	1.04%	0.56%
EAST WEST BANCORP INC	1.34%	0.53%
WINTRUST FINANCIAL CORP	2.05%	0.47%
SMITH A O CORP	1.87%	0.45%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
AMN HEALTHCARE SERVICES INC	1.15%	-0.20%
BJS WHSL CLUB HOLDINGS INC	1.59%	-0.12%
PAYLOCITY HOLDING CORP	0.95%	-0.12%
COMMUNITY HEALTHCARE TR INC	1.10%	-0.11%
JAZZ PHARMACEUTICALS PLC	1.17%	-0.07%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
CHARLES RIVER LABORATORIES INTL INC	2.13%
WINTRUST FINANCIAL CORP	2.10%
SMITH A O CORP	1.91%
APPLIED INDUSTRIAL TECHNOLOGIES INC	1.90%
NORDSON CORP	1.84%
HAWKINS INC	1.79%
AVERY DENNISON CORP	1.75%
COCA-COLA CONS INC	1.75%
FULLER H B CO	1.68%
SEI INV CO	1.67%

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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Low beta, stable stocks were less in favor during the quarter.

In a quarter marked by the Biotechnology industry's prominence, the strategy maintained an underweight position. This decision stemmed from the industry's composition, mostly comprising early-stage, unprofitable companies that often fail to meet the quality criteria of the strategy. While the portfolio did have exposure through established biotech companies and ancillary firms benefiting from industry growth, these positions were insufficient to offset the direct underweight, given the strong returns in the industry.

MARKET OUTLOOK AND PORTFOLIO POSITIONING:

History consistently reminds us that macroeconomic forecasting should be approached with caution. Despite increased optimism regarding a soft landing due to discussions of a Fed pivot, caution is warranted as leading economic indicators and the lag in monetary policy suggest it's premature to rule out the risk of a recession.

During the quarter, the regional bank holdings were repositioned to capitalize on relative valuation opportunities within the industry. Additionally, Healthcare was a sector of focus and additional weight was placed into stocks that had been underperforming and offered improved valuation given a favorable long-term outlook for growth and profitability.

The current equity risk premiums are below average, and market valuation appears contingent on companies achieving the mid-teens earnings growth rate indicated by the 2024 consensus. While annual forecasts often begin with such growth expectations, they rarely finish there as the year progresses. It is troubling to see that revision trends have not yet turned positive, and growth rates would likely still turn negative in a recession. Amid a year marked by transitioning monetary policy, significant U.S. elections, and ongoing international conflicts, the team maintains a bottom-up focus in the face of macroeconomic uncertainty. Quality investing minimizes the reliance on timing the cycle, and aligns with companies well-equipped to navigate hard-to-predict market environments.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	13.24%	18.28%	11.35%	14.37%	10.50%	9.50%
JOHNSON (NET)	12.97%	17.12%	10.25%	13.25%	9.41%	8.41%
RUSSELL 2500	13.35%	17.42%	4.24%	11.67%	8.98%	8.36%

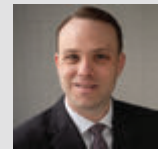
OUR SMID CAP CORE STRATEGY TEAM:



Brian Kute, CFA
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Research, Senior Portfolio
Manager, Principal



Bryan Andress, CFA
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Principal



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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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