

A QUARTER REVIEW:

Returns for SMID Cap stocks were minimal in the fourth quarter, as a post-election rally in November gave way to December profit-taking. Breaking the typical seasonal pattern, December was the worst month of the year for SMID Cap stocks, with the Russell 2500 falling by over 7%. This decline reflected updated Federal Reserve guidance that tempered expectations for the pace of interest rate cuts in 2025. Fiscal policy uncertainty remains elevated as a new administration takes office in Washington, and the Fed seems inclined to stay vigilant on inflation as new policies, such as tariff increases, potentially emerge in the months ahead.

Areas of strength within SMID Cap were found in growth stocks, driven by the top-performing Technology sector, as well as Financials and Energy, which benefitted from the expectation of reduced regulatory pressures under a Trump presidency. Lower-quality stocks with high momentum and high volatility also performed well as the market embraced more risk.

PERFORMANCE SUMMARY:

The SMID Cap Core strategy delivered a net return of -3.12% in the fourth quarter, underperforming the Russell 2500 Index's 0.62% gain. Most of the underperformance occurred in November, when the election results sparked a strong stock market rally, particularly in riskier stocks. Small-cap stocks, as a risk proxy, outperformed mid-cap stocks, creating a headwind for the strategy's higher-quality, lower-volatility approach.

Relative underperformance in a quarter that favored lower-quality stocks was primarily attributable to security selection, consistent with a strategy that adheres to a high-quality investing focus in all market environments. While Technology was the top-performing sector within the Russell 2500 Index, negative security selection in the sector accounted for more than half of the portfolio's performance lag during the quarter. Financials performed well, boosted by a steepening yield curve and expectations of a more favorable regulatory environment following the Republican election sweep. Conversely, Real Estate, Materials, and Health Care were the weakest-performing sectors, with negative security selection observed across all three.

TOP 5 PERFORMERS¹

	WEIGHT	RETURN CONTRIBUTION
HAWKINS INC	1.78%	1.10%
WILLIAMS SONOMA INC	1.27%	1.04%
AXIS CAP HOLDINGS LTD	1.83%	0.93%
DT MIDSTREAM INC	1.15%	0.78%
LEMAITRE VASCULAR INC	1.26%	0.76%

TOP 5 DETRACTORS¹

	WEIGHT	RETURN CONTRIBUTION
AMN HEALTHCARE SERVICES INC	0.62%	-0.65%
OPTION CARE HEALTH INC	1.34%	-0.52%
DOUBLEVERIFY HOLDINGS INC	0.49%	-0.48%
NORDSON CORP	1.55%	-0.37%
CHARLES RIVER LABORATORIES INTL INC	1.56%	-0.36%

TOP TEN HOLDINGS²

NAME	% OF PORTFOLIO
AXIS CAP HOLDINGS LTD	1.97%
DYNATRACE INC	1.85%
GENPACT LIMITED	1.82%
BENTLEY SYSTEMS INC	1.80%
AVERY DENNISON CORP	1.80%
FULLER H B CO	1.73%
EVEREST GROUP LTD	1.72%
AMERICAN FINANCIAL GROUP INC OHIO	1.72%
JONES LANG LASALLE INC	1.66%
UNITIL CORP	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:

Monetary and fiscal policy uncertainty is elevated. The path toward greater clarity will likely involve higher volatility and potential market rotation. SMID Cap stocks appear to be priced more appropriately for this uncertainty compared to large cap stocks, but a shift in relative earnings growth may be necessary for this value to be recognized.

Rising bond yields pose a significant risk, as they tend to pressure balance sheets and capital spending plans, particularly for highly leveraged companies—a common trait in the SMID Cap space. Additionally, higher discount rates could negatively impact valuations for expensive, long-duration growth stocks. From an asset allocation perspective, higher fixed-income yields could become increasingly competitive relative to equities with low earnings or dividend yields. However, our emphasis on quality investing, combined with rigorous valuation scrutiny, positions the portfolio to better manage these risks compared to riskier segments of the market.

Acknowledging potential challenges from shifting fiscal priorities and bond market dynamics, we reduced our overweight exposure to companies with significant revenue reliance on government contracts during the quarter. Additionally, recognizing the potential for economically cyclical companies to gain an advantage if corporate profits improve as expected, we added positions in quality cyclical stocks with strong growth profiles.

The Russell 2500 Index has underperformed the S&P 500 in eight of the last ten calendar years. However, SMID Cap stocks now offer a meaningful relative valuation advantage and the potential for faster earnings growth. While the market environment remains risky, our strategy's quality-focused approach balances these macroeconomic risks with the compelling valuation opportunities within the SMID Cap asset class.

PERFORMANCE						
	QTD	1YR	3YR	5YR	7YR	10YR
JOHNSON (GROSS)	-2.87%	11.06%	5.11%	10.86%	9.49%	10.07%
JOHNSON (NET)	-3.12%	9.97%	4.07%	9.77%	8.41%	8.98%
RUSSELL 2500	0.62%	11.99%	2.39%	8.77%	8.33%	8.85%

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



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