



# PORTFOLIO CONSTRUCTION & ASSET ALLOCATION

## THIRD QUARTER 2022

# OUR PHILOSOPHY





## OUR INVESTMENT MANAGEMENT RESPONSIBILITY

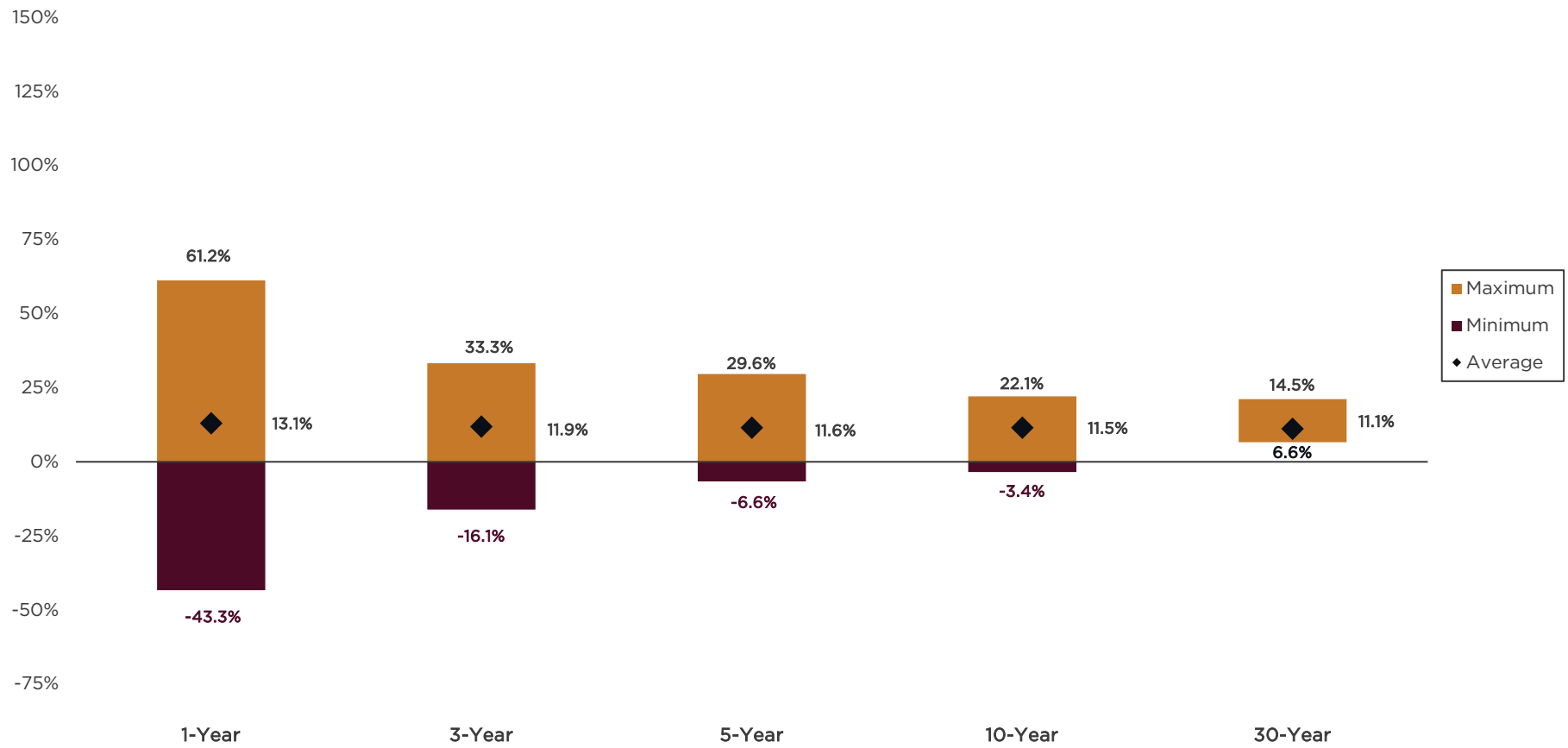
- » Be prudent stewards of our clients' capital
- » Preserve and build wealth over time
- » Maximize total returns at an acceptable level of risk
- » Never risk everything on any one market forecast

1. We focus on long-term performance
2. We will not outperform every year
3. The key to #1 is being prepared for #2

## THE STOCK MARKET IS RELIABLY POSITIVE OVER THE LONG-TERM

- Market returns vary widely in the short-term but become more predictable over long periods.
- Maintaining a long-term focus reduces the risk of negative returns. There has never been a negative 30-year period for the S&P 500.

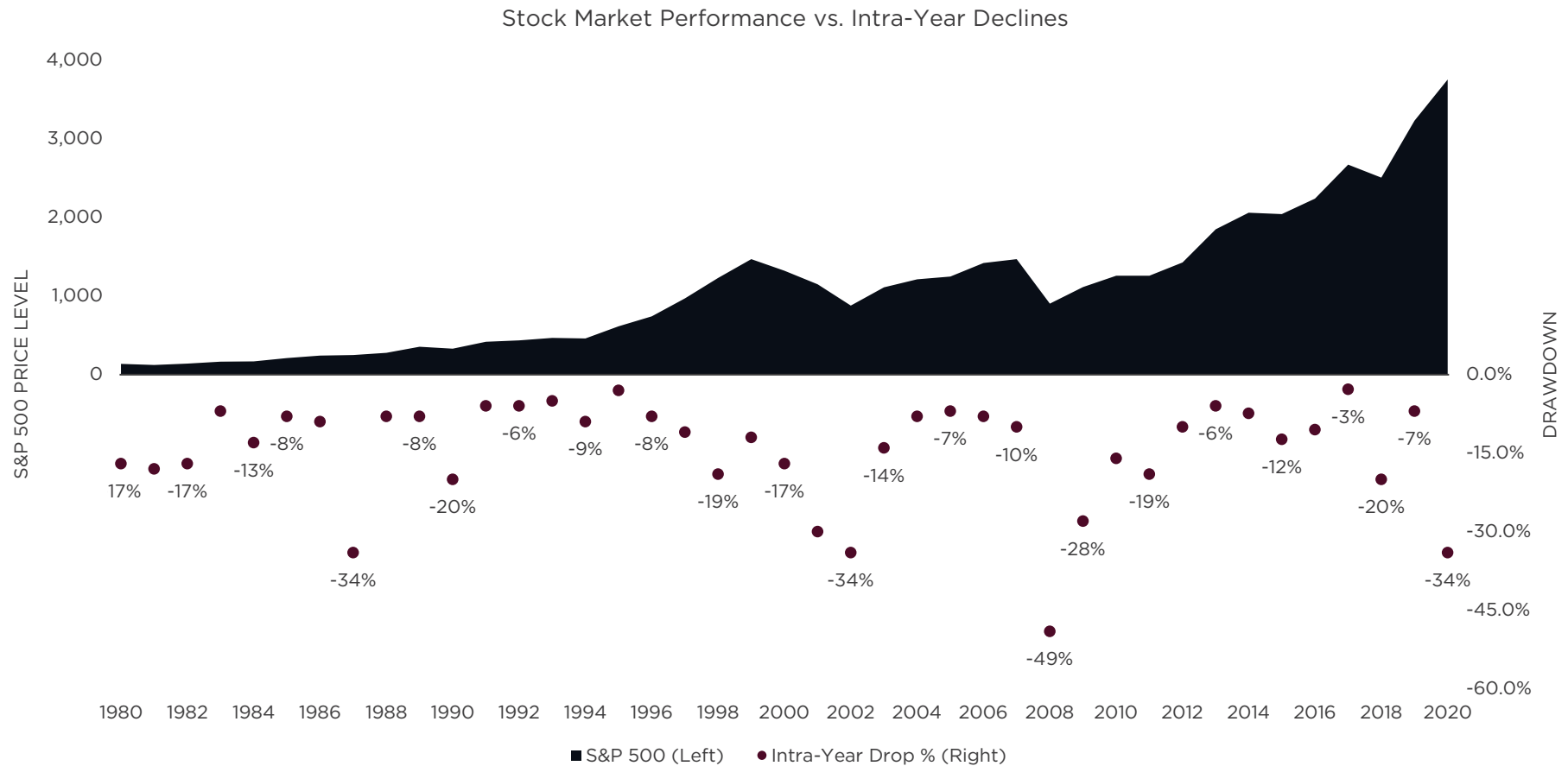
Distribution of Stock Market Returns Since 1950



SOURCE: BLOOMBERG

## TO PARTICIPATE IN LONG-TERM RETURNS, INVESTORS MUST SUCCESSFULLY NAVIGATE MARKET DRAWDOWNS

- » Despite an average positive return of 11.4% per year, the average intra-year decline of the S&P 500 is 14%.
- » On average, a 10% or greater decline in the S&P 500 occurs every 19 months.



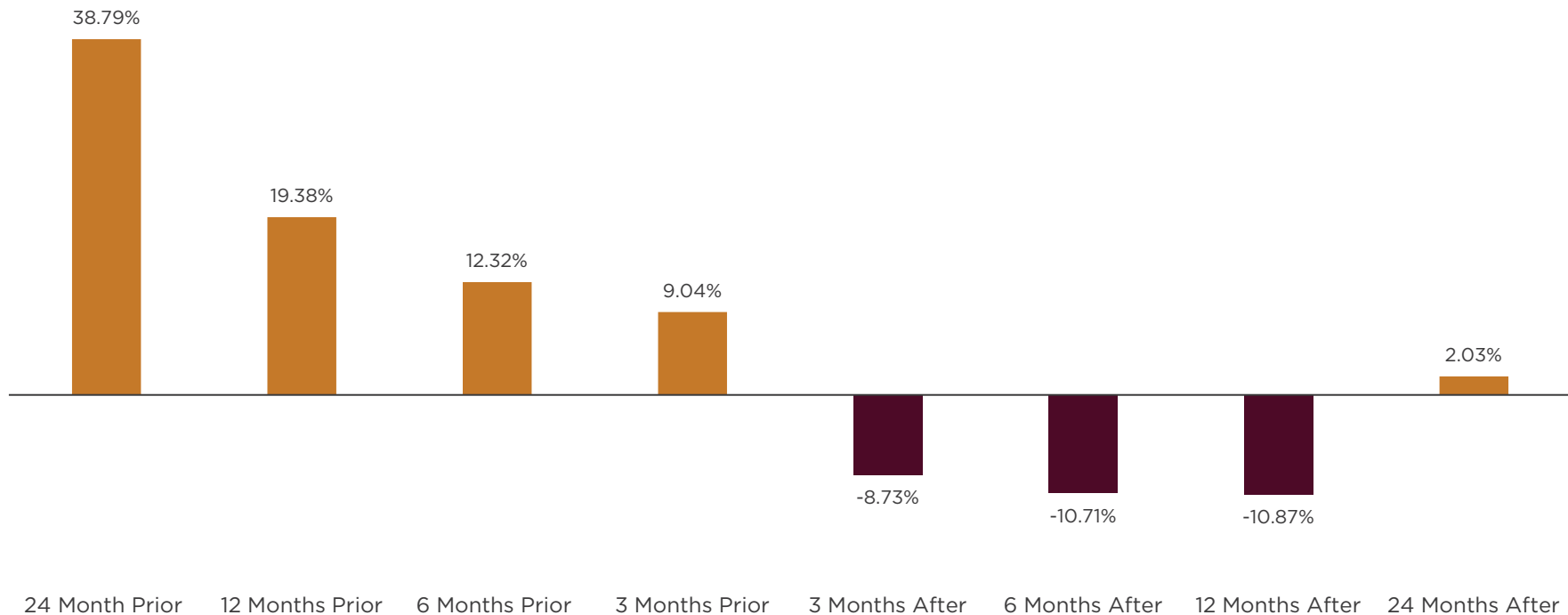
SOURCE: BLOOMBERG



## MARKET TIMING IS NOT A RELIABLE RISK MITIGATION TOOL

- » Attempting to time the market is difficult and dangerous.
- » Successfully timing the market requires both a well-timed exit and a well-timed re-entry.
- » Missing out on the late stages of a bull market can be more costly than participating in a bear market.

Median Return Leading Up To and Following Equity Market Peaks

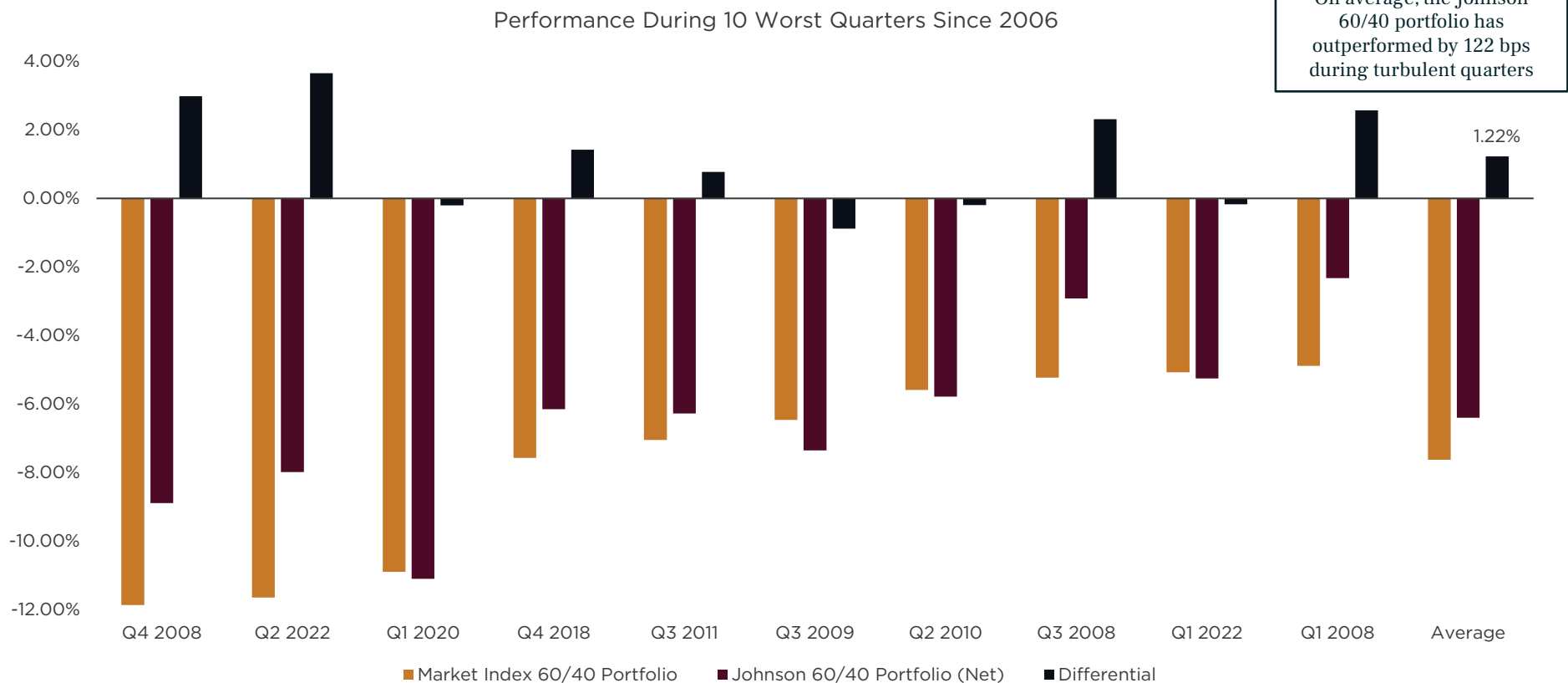


SOURCE: BLOOMBERG

NOTE: CHART IS BASED ON RETURN DATA FROM 9 BEAR MARKETS FROM 1950-2022. A BEAR MARKET IS DEFINED AS A DECLINE OF 20% OR MORE IN THE S&P 500 BENCHMARK PRICE.

## THE BEST PATH TO RELIABLE DOWNSIDE PROTECTION IS THROUGH OWNING HIGH QUALITY SECURITIES

- A better approach to managing risk in portfolios is owning high-quality securities throughout the cycle.
- The timing of market declines is unpredictable, but the relative performance of the best securities in a downturn is consistent.

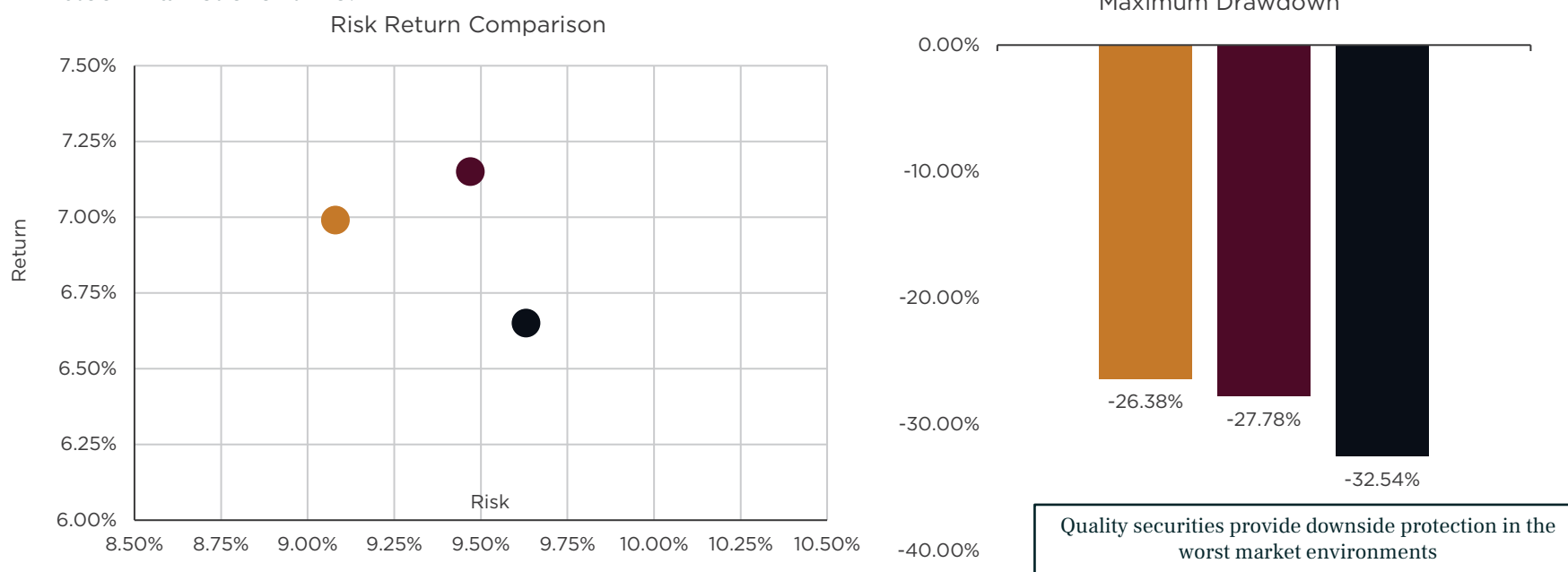


SOURCE: ZEPHYR DATA AS OF 9/30/2022

NOTE: JOHNSON 60/40 PORTFOLIO MADE UP OF JEQIX AND JIBFX, MARKET INDEX MADE UP OF S&P 500 AND BLOOMBERG US AGGREGATE; INFORMATION ABOUT INDICES IS PROVIDED TO ALLOW FOR COMPARISON OF THE PERFORMANCE OF JOHNSON PORTFOLIO TO THAT OF THE MARKET INDEX MADE UP OF S&P500 AND BLOOMBERG US AGGREGATE. THERE IS NO REPRESENTATION THAT SUCH INDICES ARE AN APPROPRIATE BENCHMARK FOR SUCH COMPARISON. YOU CANNOT INVEST DIRECTLY IN AN INDEX, WHICH ALSO DOES NOT TAKE INTO ACCOUNT TRADING COMMISSIONS AND COSTS. THE VOLATILITY OF INDICES MAY BE MATERIALLY DIFFERENT FROM THE PERFORMANCE OF THE JOHNSON PORTFOLIO. IN ADDITION, JOHNSON'S RECOMMENDATIONS MAY DIFFER SIGNIFICANTLY FROM THE SECURITIES THAT COMPRISE THE INDICES.

## QUALITY SECURITIES ALLOW FOR A GROWTH-ORIENTED ASSET ALLOCATION

- » Asset allocation is a key driver of long-term investor success.
- » By reducing risk through the ownership of high-quality securities, investors can maintain a higher allocation to the stock market over time.



	Return	Standard Deviation	Sharpe Ratio	Max Drawdown
Johnson 60/40 Portfolio (Net)	7.15%	9.47%	0.64	-26.38%
Johnson 63/37 Portfolio (Net)	6.99%	9.08%	0.65	-27.78%
Market Index 60/40 Portfolio	6.65%	9.63%	0.58	-32.54%

SOURCE: ZEPHYR DATA AS OF 9/30/2022

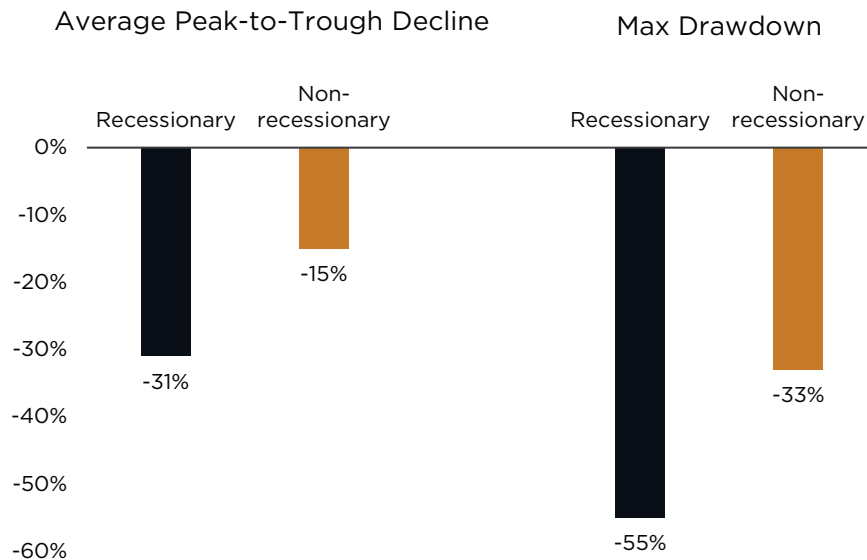
NOTE: JOHNSON PORTFOLIOS MADE UP OF JEQIX AND JIBFX, MARKET INDEX PORTFOLIO MADE UP OF S&P500 AND BLOOMBERG US AGGREGATE INDEX; RETURN SEQUENCE FROM 1/1/2006 (JEQIX INCEPTION) TO 6/30/2021; INFORMATION ABOUT INDICES IS PROVIDED TO ALLOW FOR COMPARISON OF THE PERFORMANCE OF JOHNSON PORTFOLIO TO THAT OF THE MARKET INDEX MADE UP OF S&P500 AND BLOOMBERG US AGGREGATE. THERE IS NO REPRESENTATION THAT SUCH INDICES ARE AN APPROPRIATE BENCHMARK FOR SUCH COMPARISON. YOU CANNOT INVEST DIRECTLY IN AN INDEX, WHICH ALSO DOES NOT TAKE INTO ACCOUNT TRADING COMMISSIONS AND COSTS. THE VOLATILITY OF INDICES MAY BE MATERIALLY DIFFERENT FROM THE PERFORMANCE OF THE JOHNSON PORTFOLIO. IN ADDITION, JOHNSON'S RECOMMENDATIONS MAY DIFFER SIGNIFICANTLY FROM THE SECURITIES THAT COMPRISE THE INDICES.



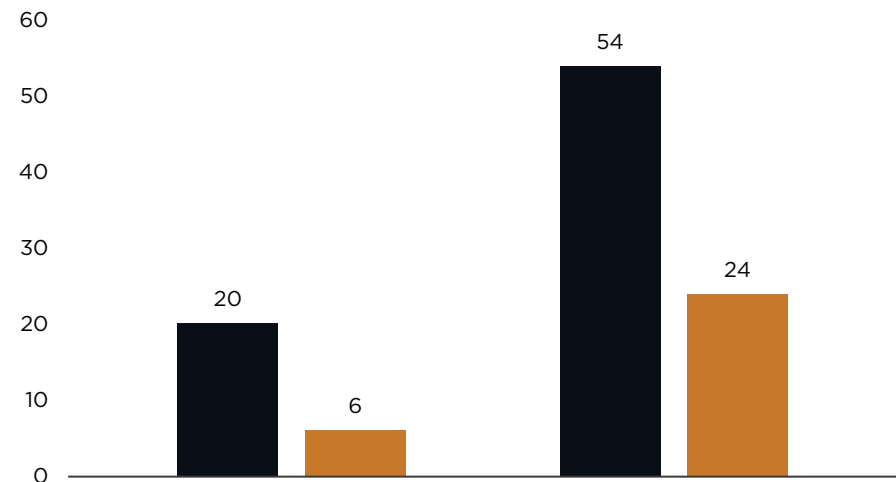
## RECESSIONARY MARKET DECLINES WARRANT ADDITIONAL RISK CONTROL

- » In most environments, quality securities give sufficient protection to weather difficult markets.
- » Not all volatility is the same; recessions lead to bear markets.
- » Recessionary periods have historically been much more detrimental to portfolios and warrant adjustments at the asset allocation level.

Historically, recessionary drawdowns have been much more severe than non-recessionary market pullbacks



Average Time to Recover (Months)      Max Recover Time (Months)

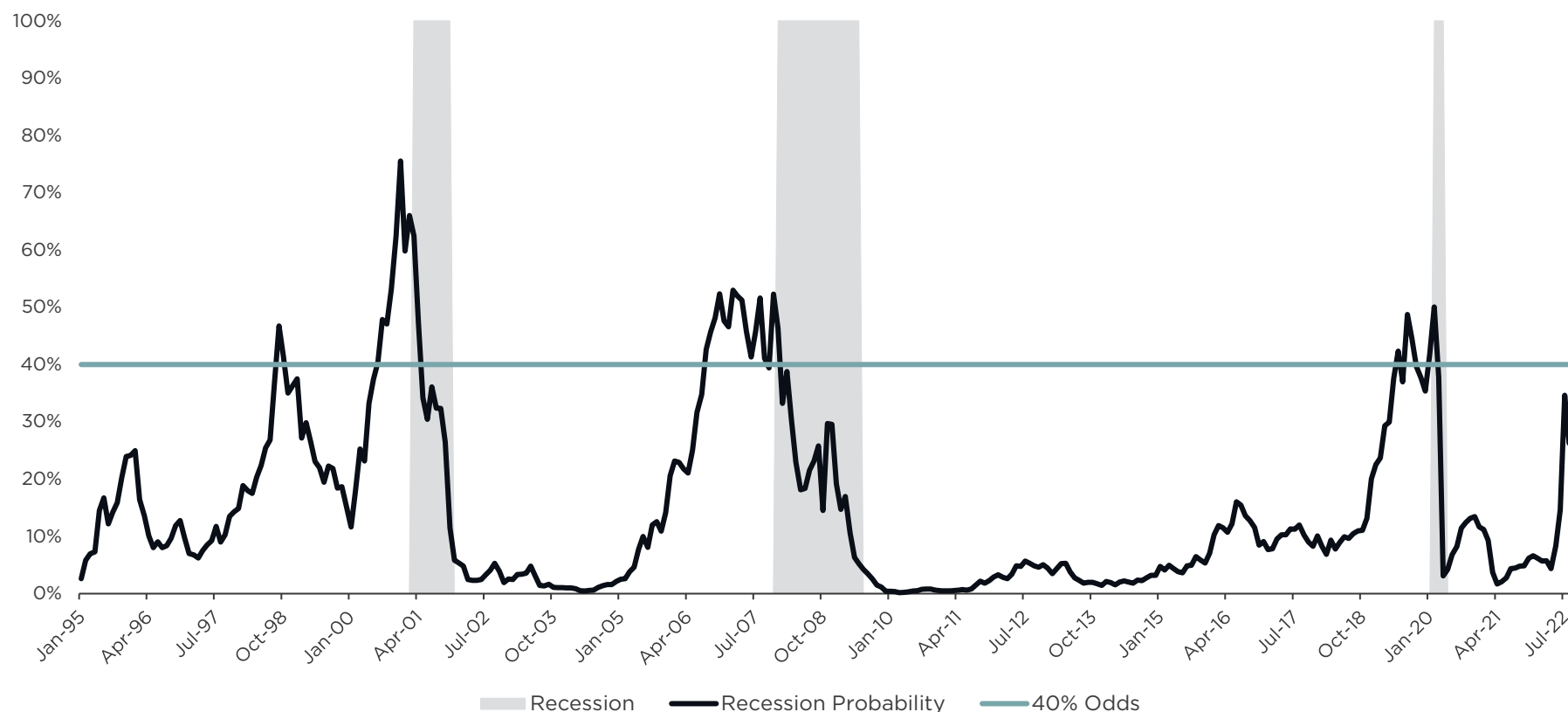


At the same time, the market has typically recovered more quickly coming out of non-recessionary pullbacks

## RECESSIONS ARE UNPREDICTABLE, BUT THERE ARE NORMALLY WARNING SIGNS

- » We monitor economic data to determine when recessions are more likely; our proprietary multifactor model has been a strong indicator of recession risk.
- » When market volatility increases in tandem with recession risk, we are likely to move more conservative in asset allocation.

Johnson Asset Management Recession Probability Model



SOURCE: BLOOMBERG & JOHNSON ASSET MANAGEMENT DATA AS OF 9/30/2022 (SOME MODEL INPUTS AS OF 8/31/22).

# OUR PROCESS



## JOHNSON INVESTMENT RESEARCH TEAMS

### Portfolio Strategy Team

- Charles Rinehart, CFA, CAIA, Chief Investment Officer
- Michael Leisring, CFA, Chief Investment Officer – Fixed Income
- Jason Jackman, CFA, President – Johnson Investment Counsel
- Bret Parrish, CFA, President – JIC Private Client Group
- Fred Brink, CFA, CFP®, President – Johnson Asset Management
- Brian Kute, CFA, Director of Research
- Michael Jordan, CFA, CFP®, Managing Director
- Chad Maggard, CFA, Managing Director

### Individual Stock Selection

**Brian Kute, CFA**  
**Charles Rinehart, CFA, CAIA**  
 Bryan Address, CFA  
 Chris Godby, CFA  
 Bill Jung, CFA  
 Bret Parrish, CFA  
 Joe Abbott, CFA  
 Eric Bachus, CFA  
 Previn Pandey  
 Treven Mitchell  
 Zach Berohn

### Research Strategy Teams

#### Equity

**Charles Rinehart, CFA, CAIA**  
 Brandon Zureick, CFA - Economics  
 Max Monk, CFA - Infrastructure  
 Emilia Connor-Brady, CFA - Private Assets  
 Michael Timm, CFA, CFP® - Private Assets  
 Eric Bachus, CFA - Portfolio Construction

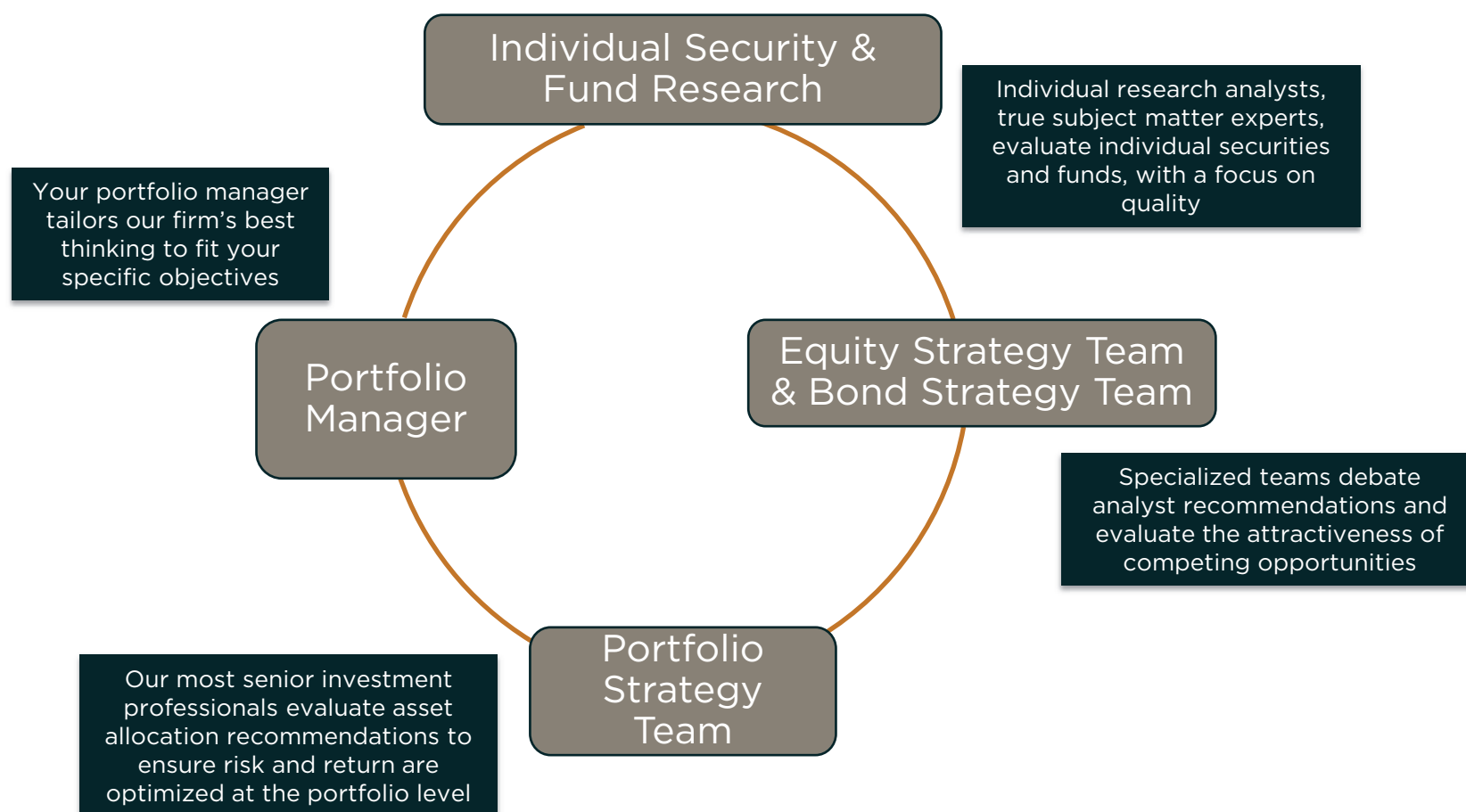
Bill Jung, CFA - Large Cap  
 Joe Abbott, CFA - International  
 David Christian CFA, CFP® - Portfolio Construction  
 Alex Wertz, CFP® - Communications  
 Landon Peterson - Communications

#### Fixed Income

**Michael Leisring, CFA**  
 Jason Jackman, CFA  
 Ryan Martin, CFA  
 David Theobald, CFA  
 Brandon Zureick, CFA  
 Emilia Connor-Brady, CFA  
 Kristen Curtiss, CFA  
 Alex Wirt, CFP®

## OUR PORTFOLIO CONSTRUCTION PROCESS

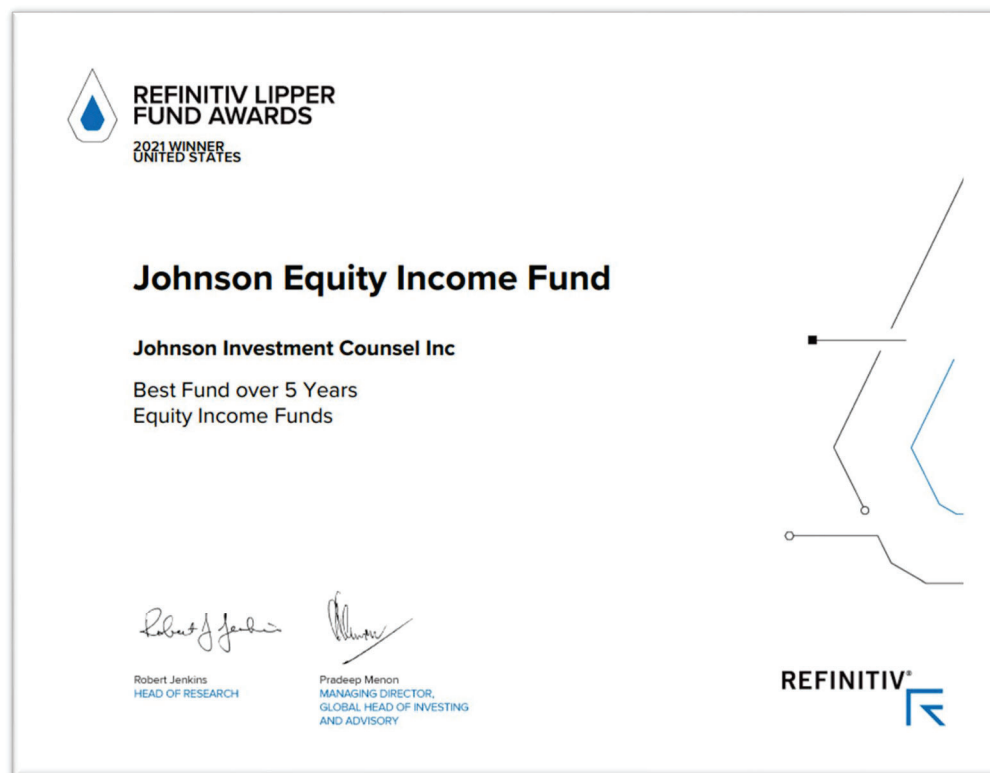
- » Before any investment is made, it moves through a multi-step process guided by our investment discipline.
- » Our team-based approach enables our Portfolio Managers to tailor our institutional investment research to accomplish your personalized goals.



## JOHNSON ASSET MANAGEMENT AWARD WINNING FUNDS

- » Johnson has had multiple funds win Lipper awards for strong performance in their respective peer groups.
- The Johnson Equity Income Fund is a 2021 winner of the Refinitiv Lipper Fund Award for “Best Fund over 5 Years” for Equity Income Funds.
- The Johnson Institutional Intermediate Bond Fund is a 2021 winner of the Refinitiv Lipper Fund Award for “Best fund over 3 years” AND “Best fund over 5 years” for Institutional Mutual Funds.

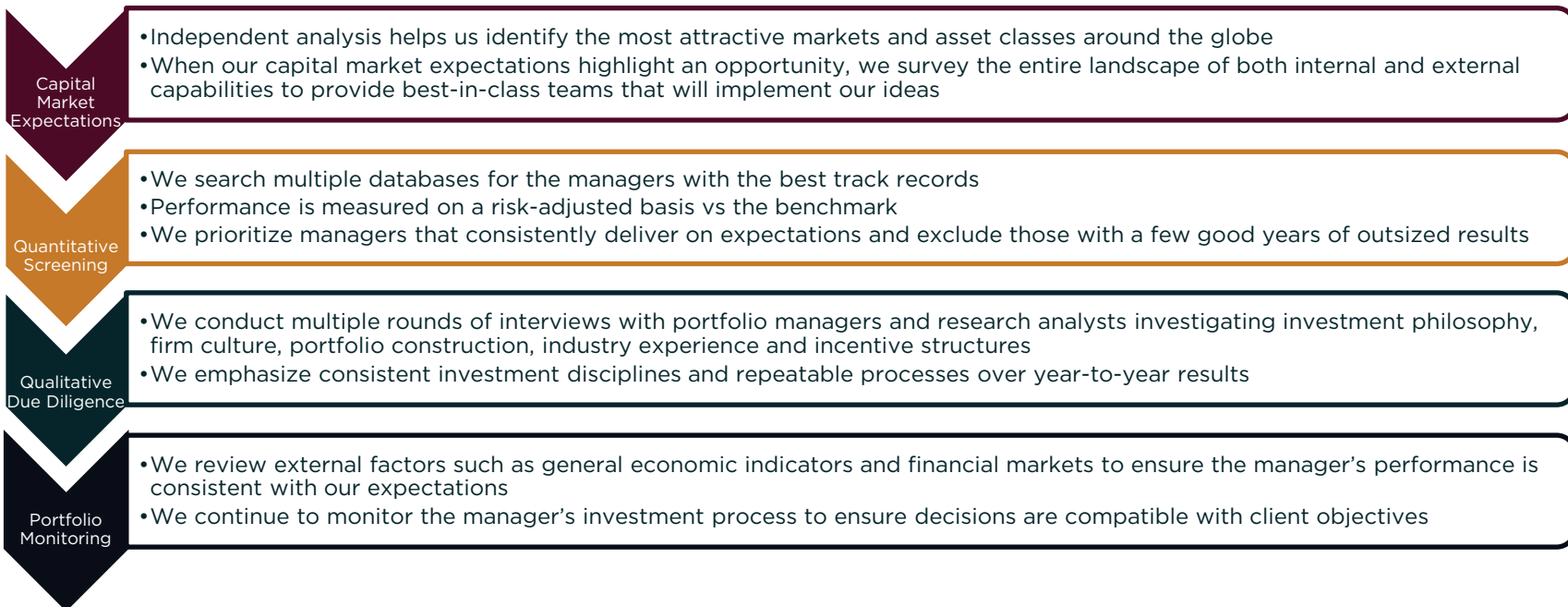
These honors are given to individual mutual funds that have outperformed peers based on risk-adjusted, consistent returns over three-, five-, and ten-years relative to their peers. Refinitiv Lipper designates award-winning funds in most individual classifications for the three-, five-, and ten-year periods.



NOTE: THE REFINITIV LIPPER FUND AWARDS, GRANTED ANNUALLY, HIGHLIGHT FUNDS AND FUND COMPANIES THAT HAVE EXCELLED IN DELIVERING CONSISTENTLY STRONG RISK-ADJUSTED PERFORMANCE RELATIVE TO THEIR PEERS. THE REFINITIV LIPPER FUND AWARDS ARE BASED ON THE LIPPER LEADER FOR CONSISTENT RETURN RATING, WHICH IS A RISK-ADJUSTED PERFORMANCE MEASURE CALCULATED OVER 36, 60 AND 120 MONTHS. THE FUND WITH THE HIGHEST LIPPER LEADER FOR CONSISTENT RETURN (EFFECTIVE RETURN) VALUE IN EACH ELIGIBLE CLASSIFICATION WINS THE REFINITIV LIPPER FUND AWARD. FOR MORE INFORMATION, SEE [LIPPERFUNDWARDS.COM](http://LIPPERFUNDWARDS.COM). ALTHOUGH REFINITIV LIPPER MAKES REASONABLE EFFORTS TO ENSURE THE ACCURACY AND RELIABILITY OF THE DATA CONTAINED HEREIN, THE ACCURACY IS NOT GUARANTEED BY REFINITIV LIPPER. THE AWARD MAY NOT BE REPRESENTATIVE OF EVERY CLIENT'S EXPERIENCE. THE AWARD IS NOT INDICATIVE OF FUTURE PERFORMANCE AND THERE IS NO GUARANTEE OF FUTURE INVESTMENT SUCCESS.

## THOROUGH OUTSIDE MANAGER DUE DILIGENCE

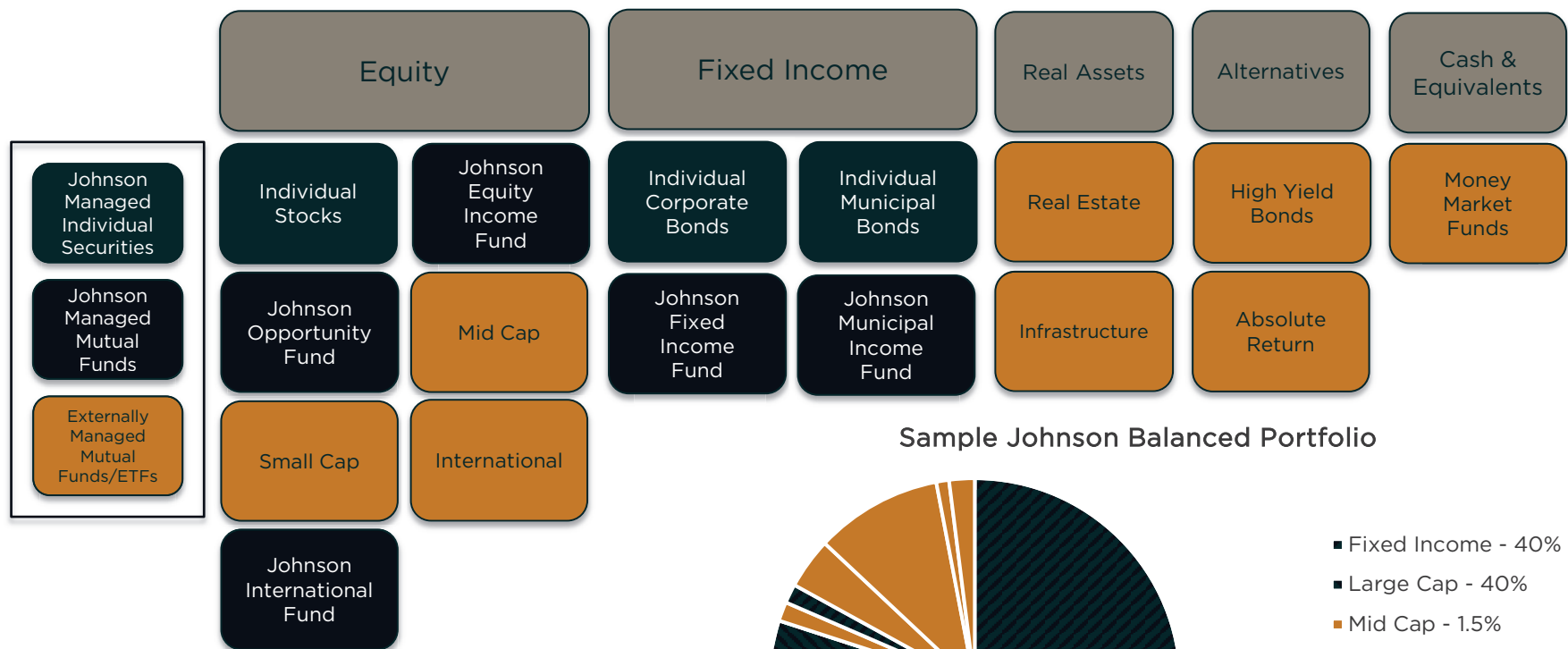
- » We are committed to providing best-in-class investment solutions to our clients, whether internally or externally managed.
- » We apply the same quality-oriented investment discipline to our evaluation of external partners.
- » Our portfolio strategy team follows an analytical screening process which identifies the world's best investment managers through a mixture of quantitative screening and qualitative analysis.
- » We maintain total independence throughout due diligence and monitoring process.



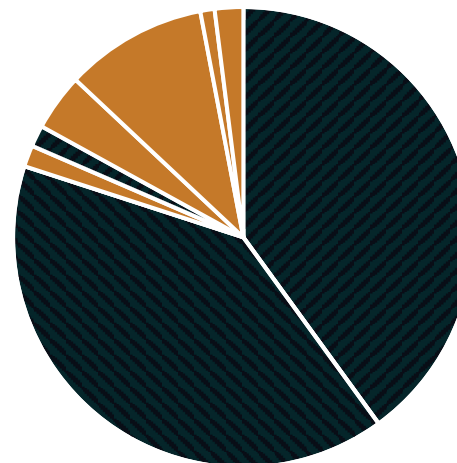
Our scale enables us to provide favorable terms for our clients when making fund selection decisions

## SAMPLE PORTFOLIO: IN-HOUSE VS. EXTERNALLY MANAGED

- » We leverage a combination of our in-house asset management expertise as well as best in class external managers, leveraging our firm scale for cost savings and portfolio efficiency.
- » Our internal capabilities ensure a single fee layer for the majority of the portfolio.



Sample Johnson Balanced Portfolio



- Fixed Income - 40%
- Large Cap - 40%
- Mid Cap - 1.5%
- SMID Cap - 1.5%
- Small Cap - 4.0%
- International - 10.0%
- Real Estate - 1.0%
- Infrastructure - 2.0%

Across Large Cap, Fixed Income and Mid Cap, over 80% of the sample portfolio is managed by our in-house investment management teams



# OUR OUTLOOK



## ANNUAL RETURNS BY ASSET CLASS

2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
Small Cap 38.82%	Real Estate 27.24%	Real Estate 2.14%	Small Cap 21.31%	International Equities 27.19%	Cash 1.83%	Large Cap 31.49%	Small Cap 19.96%	Real Estate 38.99%	Commodities 13.57%
Large Cap 32.39%	Large Cap 13.69%	Large Cap 1.38%	High Yield 17.13%	Large Cap 21.83%	Fixed Income 0.01%	Real Estate 28.92%	Large Cap 18.40%	Large Cap 28.71%	Cash 0.63%
Balanced Benchmark 15.96%	Balanced Benchmark 8.80%	Balanced Benchmark 0.58%	Large Cap 11.96%	Balanced Benchmark 14.71%	High Yield -2.08%	Small Cap 25.52%	Balanced Benchmark 13.98%	Commodities 27.11%	Fixed Income -14.61%
International Equities 15.29%	Fixed Income 5.97%	Fixed Income 0.55%	Commodities 11.77%	Small Cap 14.65%	Balanced Benchmark -3.39%	International Equities 21.51%	International Equities 10.65%	Small Cap 14.82%	High Yield -14.74%
High Yield 7.44%	Small Cap 4.89%	Cash 0.03%	Balanced Benchmark 7.59%	Real Estate 9.84%	Real Estate -4.03%	Balanced Benchmark 21.22%	Fixed Income 7.51%	Balanced Benchmark 13.83%	Balanced Benchmark -20.18%
Real Estate 1.77%	High Yield 2.45%	Small Cap -4.41%	Real Estate 7.56%	High Yield 7.50%	Large Cap -4.38%	High Yield 14.32%	High Yield 7.11%	International Equities 7.82%	Large Cap -23.87%
Cash 0.05%	Cash 0.03%	High Yield -4.47%	International Equities 4.50%	Fixed Income 3.54%	Small Cap -11.01%	Fixed Income 8.72%	Cash 0.54%	High Yield 5.28%	Small Cap -25.10%
Fixed Income -2.02%	International Equities -3.87%	International Equities -5.66%	Fixed Income 2.65%	Commodities 1.70%	Commodities -11.25%	Commodities 7.69%	Commodities -3.12%	Cash 0.04%	International Equities -26.50%
Commodities -9.52%	Commodities -17.01%	Commodities -24.66%	Cash 0.26%	Cash 0.81%	International Equities -14.20%	Cash 2.21%	Real Estate -5.29%	Fixed Income -1.54%	Real Estate -28.35%

SOURCE: BLOOMBERG DATA THROUGH 9/30/22

BALANCED BENCHMARK = 50% S&P 500, 10% MSCI ACWI EX US, 40% BLOOMBERG US AGGREGATE; SMALL CAP = RUSSELL 2000; LARGE CAP = S&P 500; INTERNATIONAL EQUITIES = MSCI ACWI EX US; HIGH YIELD = BLOOMBERG US HIGH YIELD; REAL ESTATE = DOW JONES US REAL ESTATE; CASH = BLOOMBERG 1-3 MO. T-BILL; FIXED INCOME = BLOOMBERG US AGGREGATE; COMMODITIES = BLOOMBERG COMMODITIES INDEX.

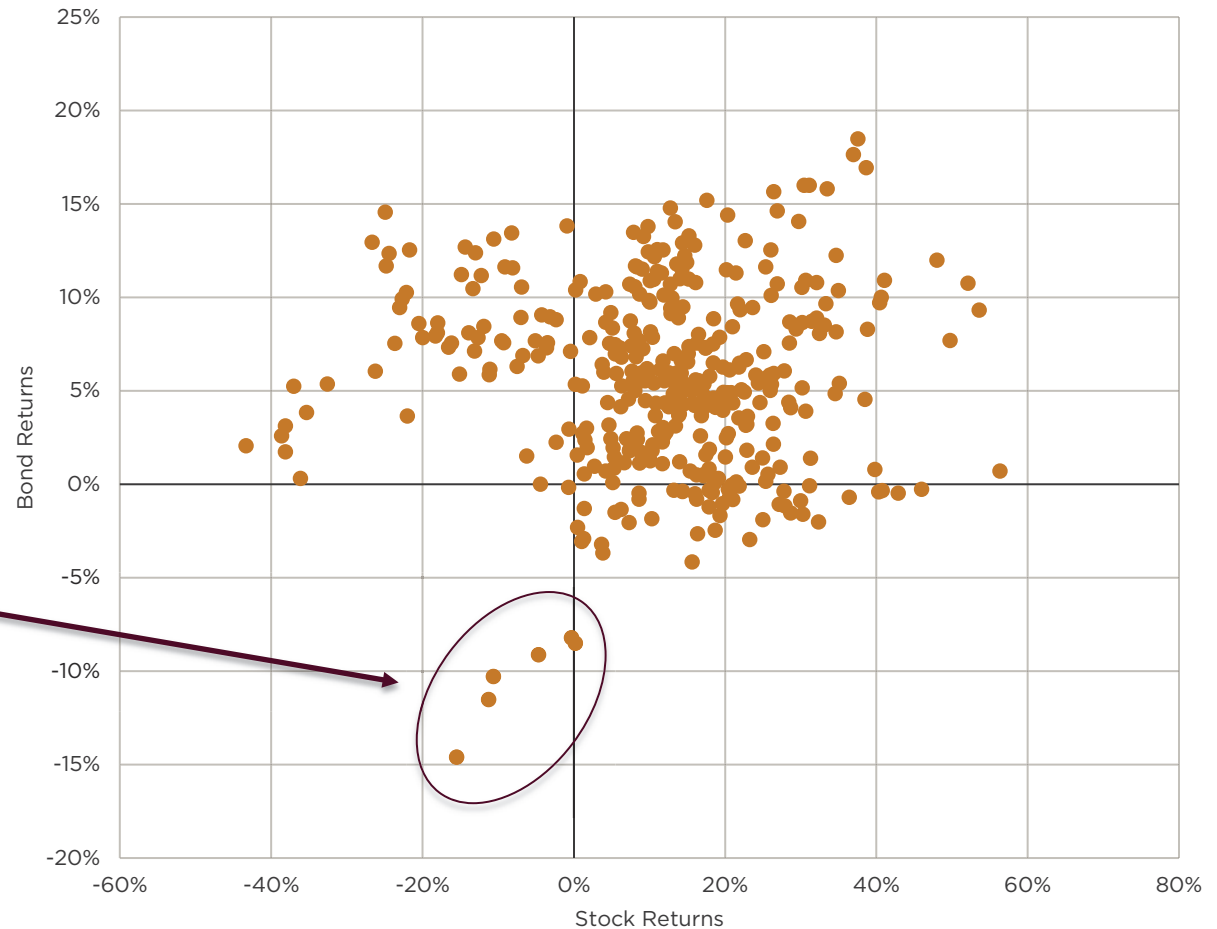
## RARE TO SEE BOTH STOCKS AND BONDS DOWN TOGETHER

Rolling 12-Mo. Stock & Bond Returns since 1990

In 2022 we have seen both the stock market and the bond market selloff dramatically at the same time. Looking at the chart to the right, we can see just how unique these market conditions have been.

The worst rolling 12-month periods, circled in red, have all occurred ending in 2022. From top to bottom, the circled periods are as follows:

1. 9/30/2022
2. 8/31/2022
3. 6/30/2022
4. 7/31/2022
5. 5/31/2022
6. 4/30/2022



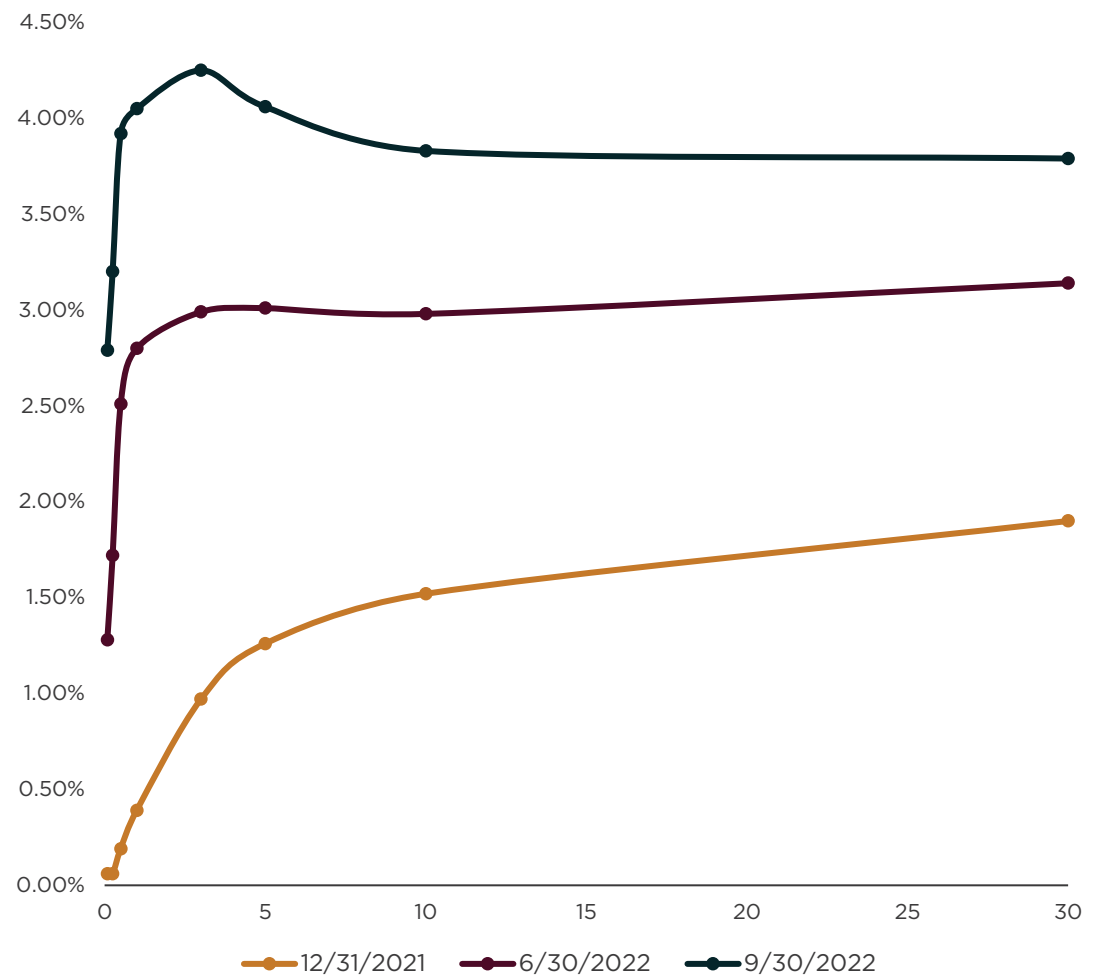
NOTE: BOND RETURNS FROM BLOOMBERG US AGGREGATE INDEX, STOCK RETURNS FROM S&P 500 INDEX  
SOURCE: BLOOMBERG DATA AS OF 9/30/22

## INTEREST RATES ARE DRIVING BOTH STOCK AND BOND MARKETS

10-Yr. Treasury Yields



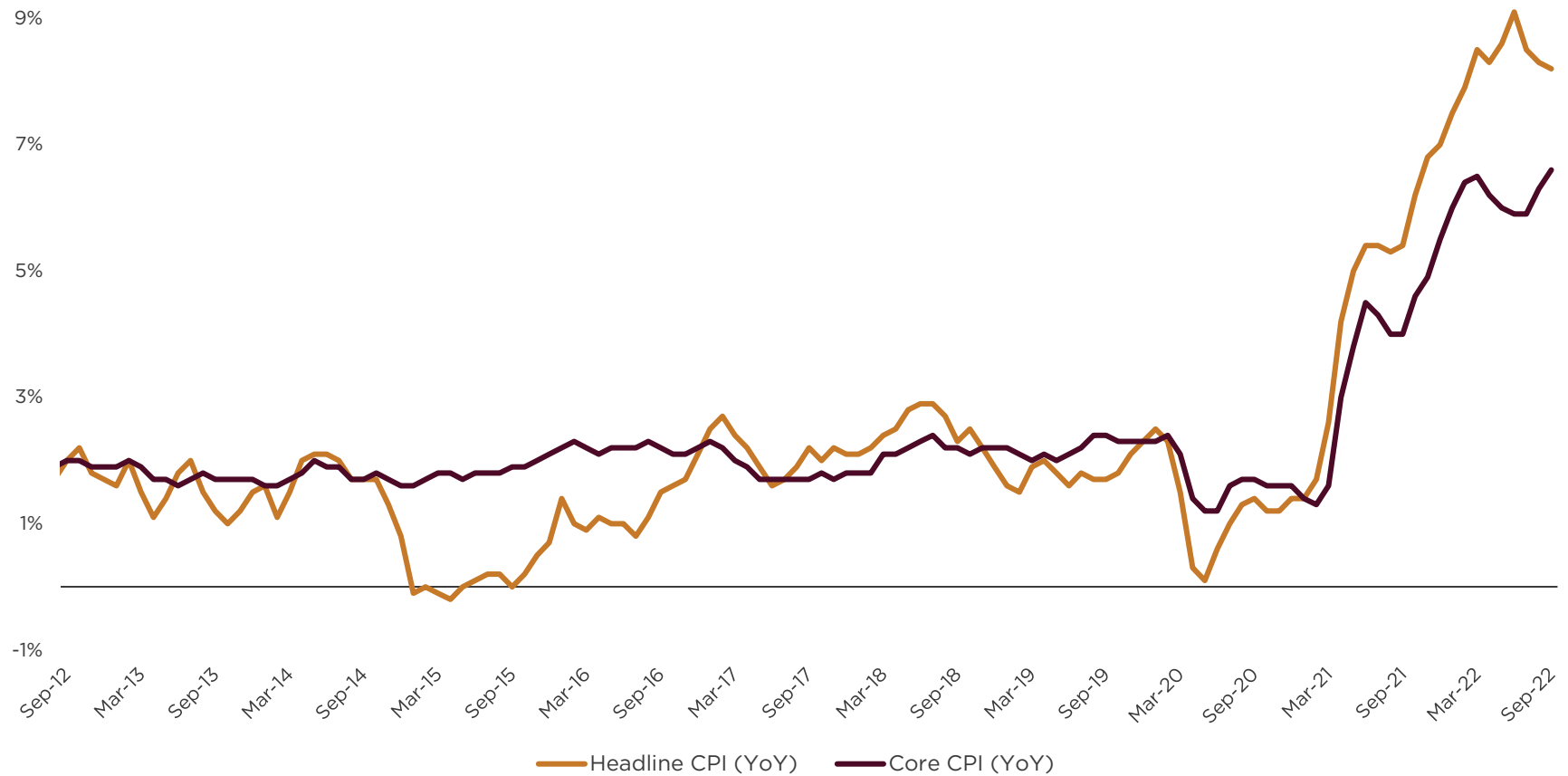
UST Yield Curve



SOURCE: BLOOMBERG DATA AS OF 9/30/22

## INFLATION DRIVING INTEREST RATES HIGHER

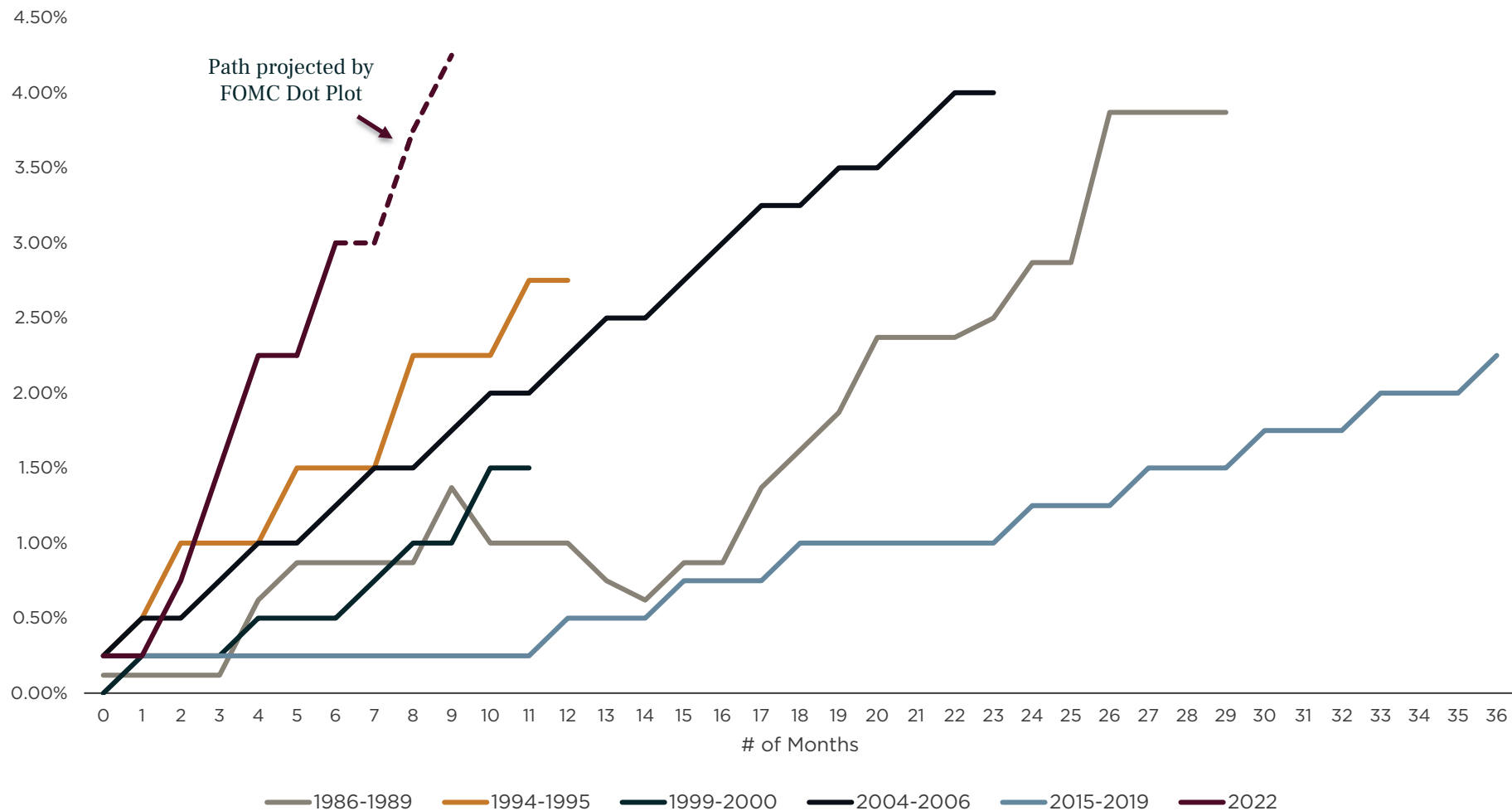
U.S. Consumer Price Index (CPI)



SOURCE: BLOOMBERG DATA AS OF 9/30/22

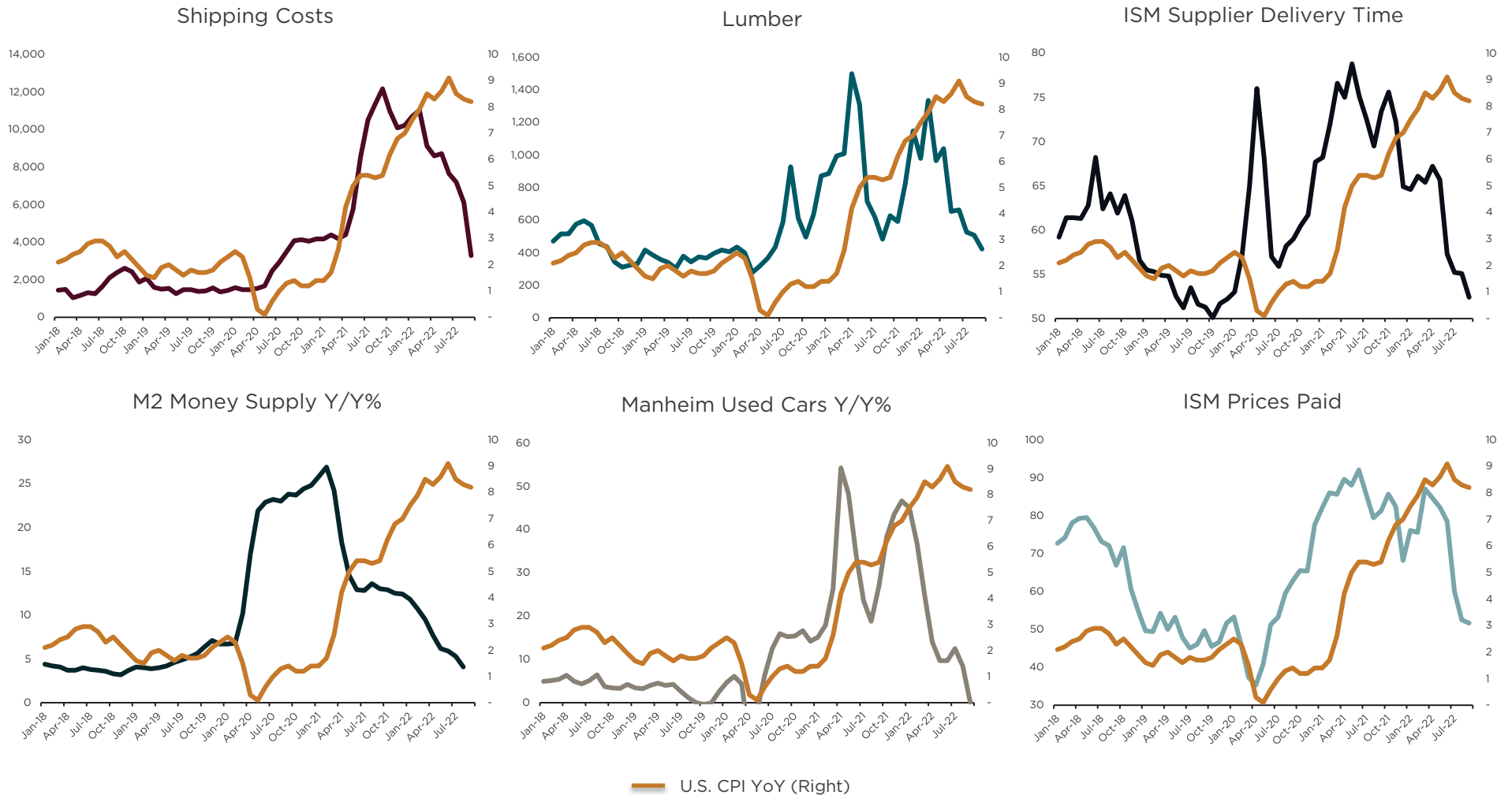
## HISTORIC PACE OF FED RATE HIKES

Pace of Fed Hiking Cycles



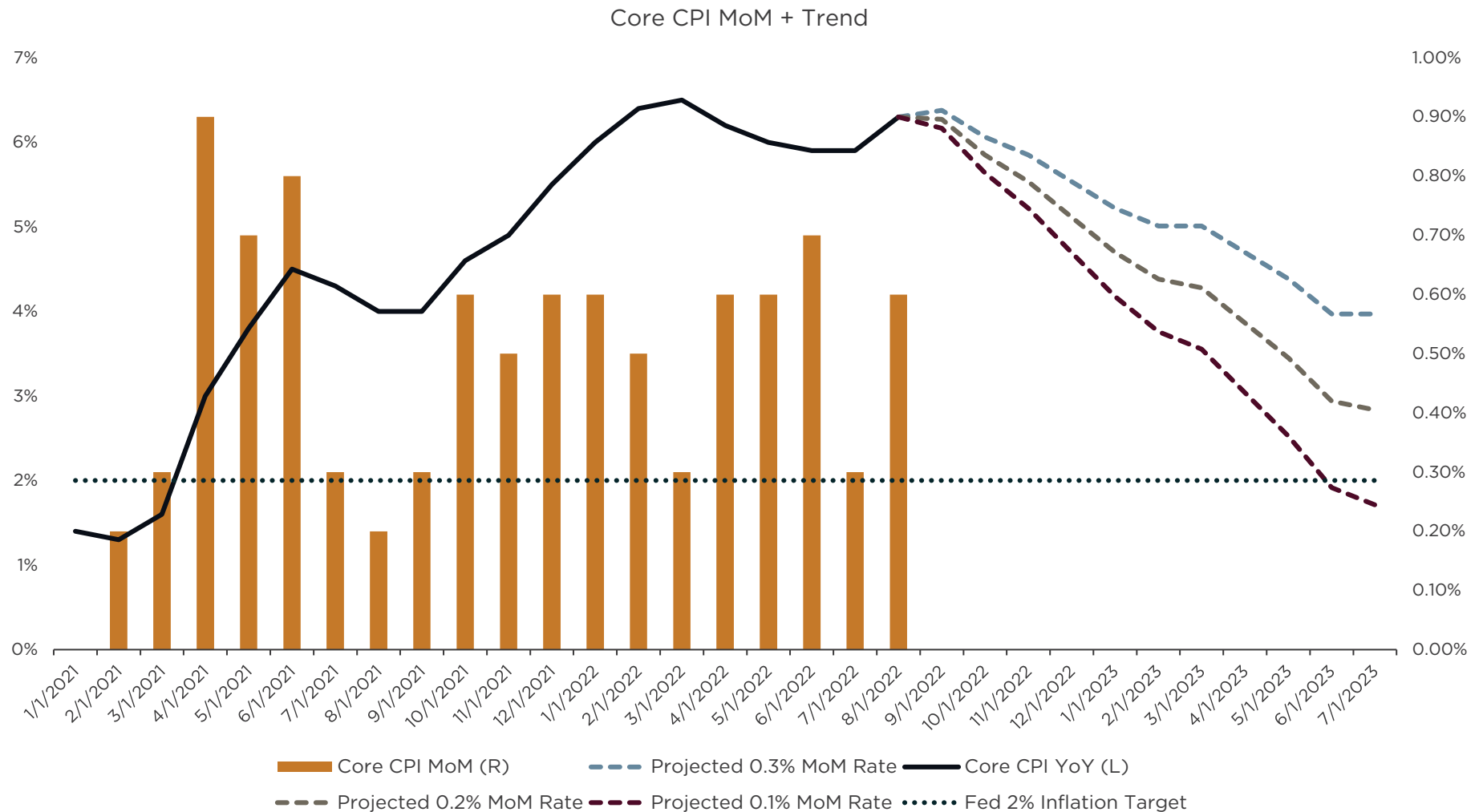
SOURCE: BLOOMBERG DATA AS OF 9/30/22

## GAUGES OF INFLATION ARE BEGINNING TO TURN



SOURCE: BLOOMBERG DATA AS OF 9/30/22

## RETURN TO FED'S INFLATION TARGET COULD TAKE TIME

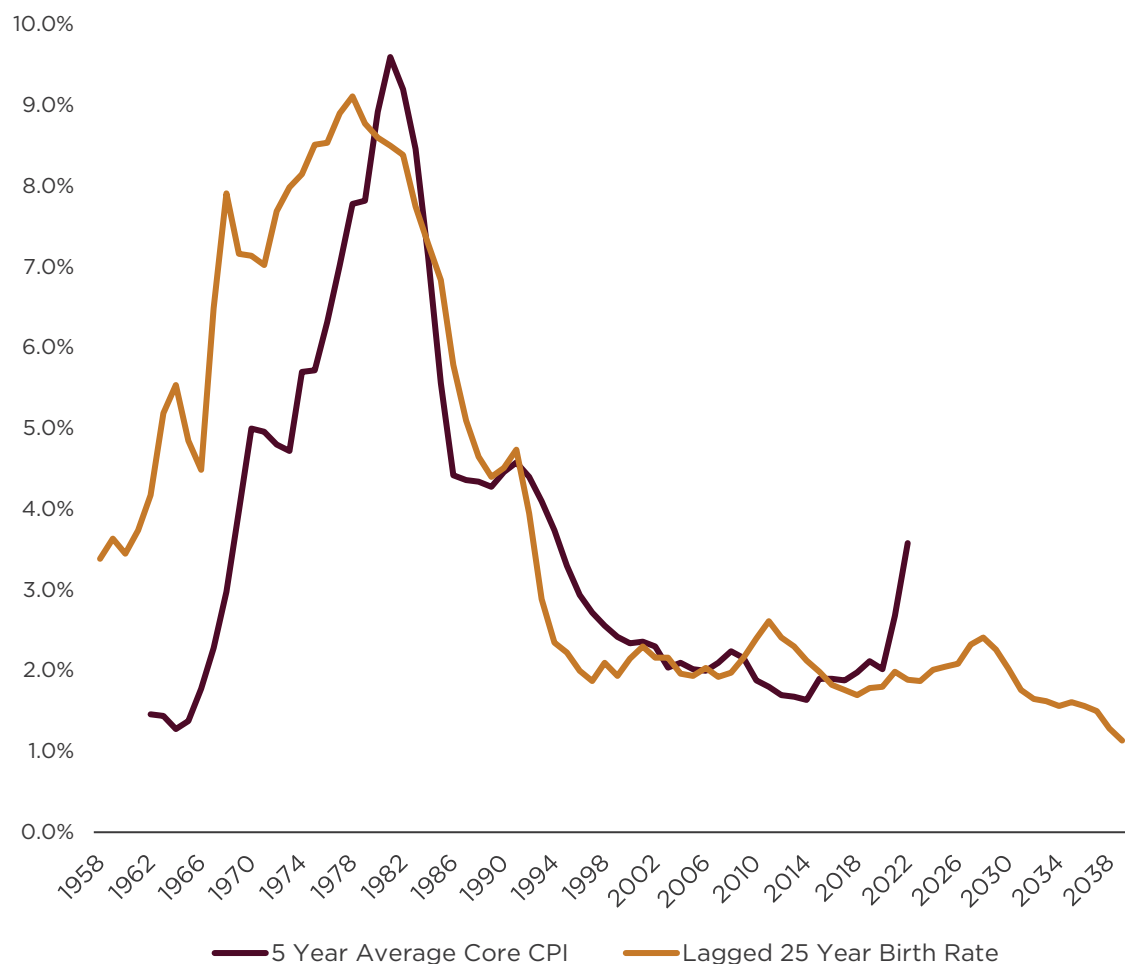


SOURCE: BLOOMBERG DATA AS OF 9/30/22

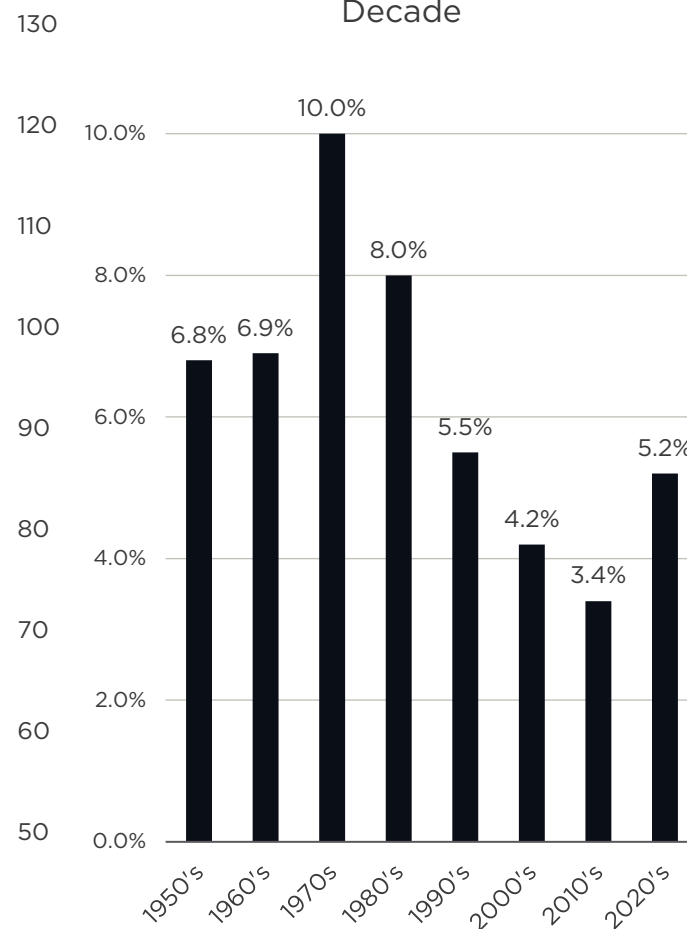


## STRUCTURAL INFLATION REMAINS UNLIKELY

Inflation Follows Population Growth

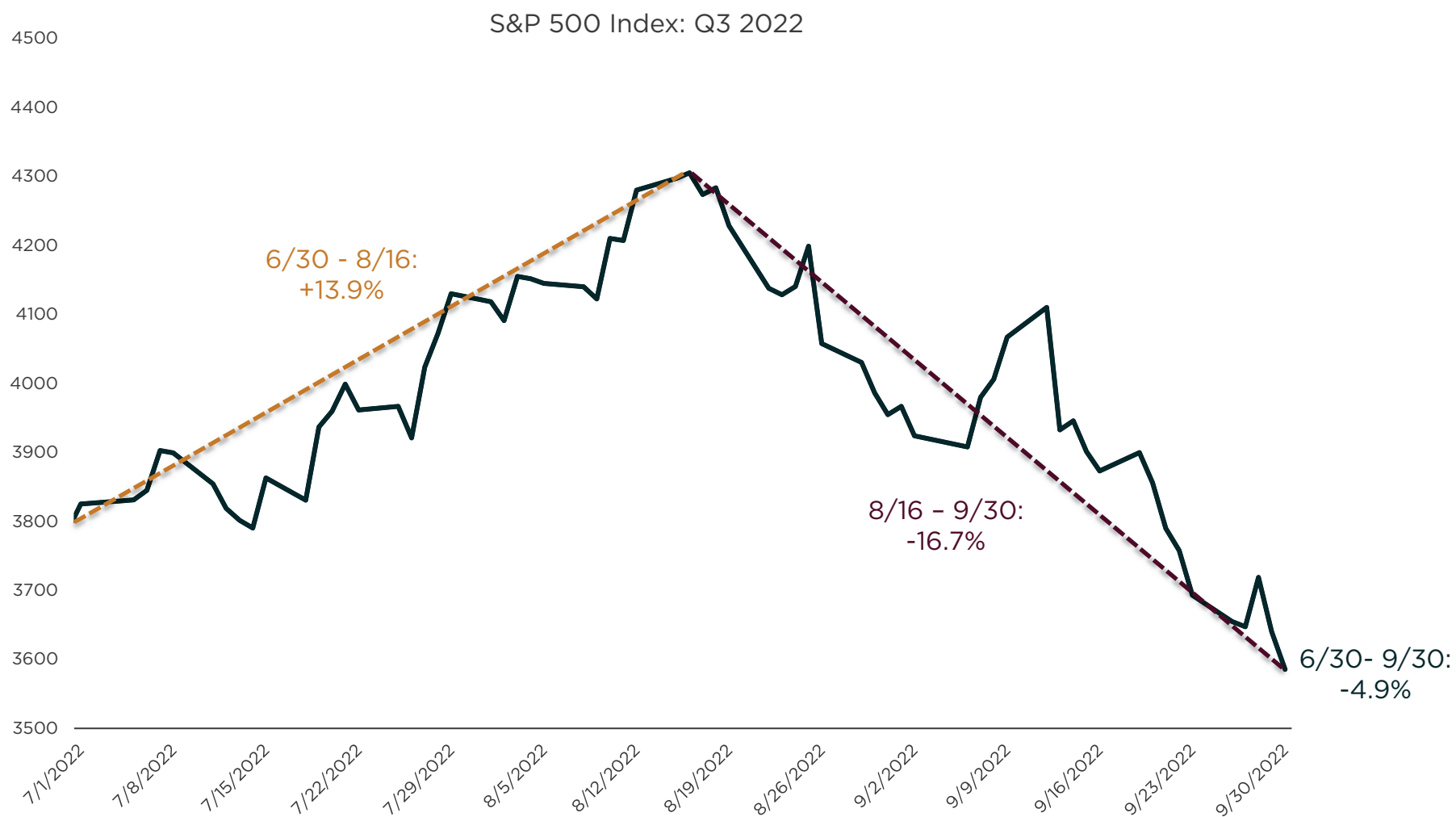


Avg. Nominal GDP Growth by Decade



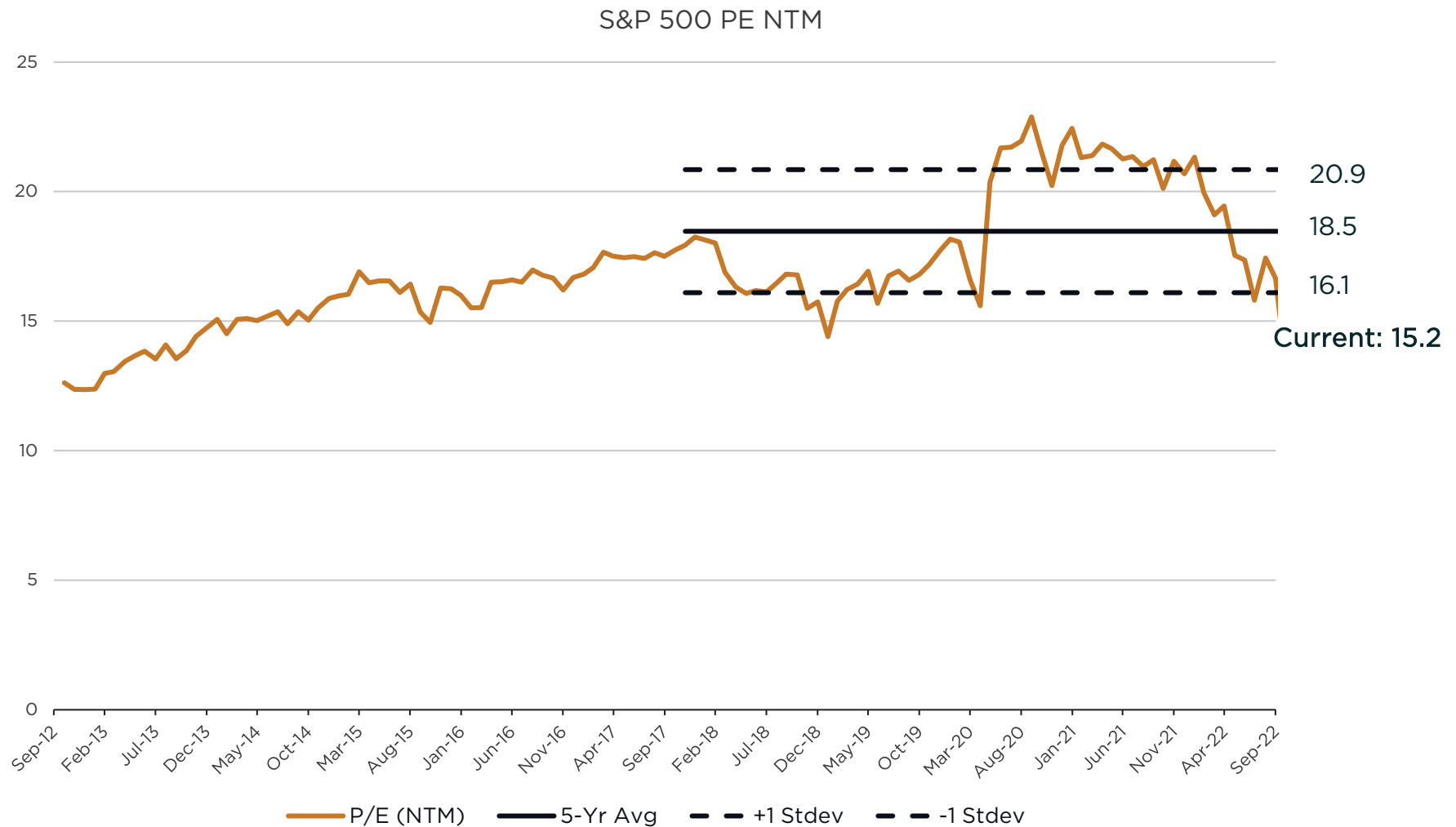
SOURCE: BLOOMBERG DATA AS OF 9/30/22

## ROLLERCOASTER THIRD QUARTER FOR S&P 500 RETURNS



SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG DATA AS OF 9/30/22

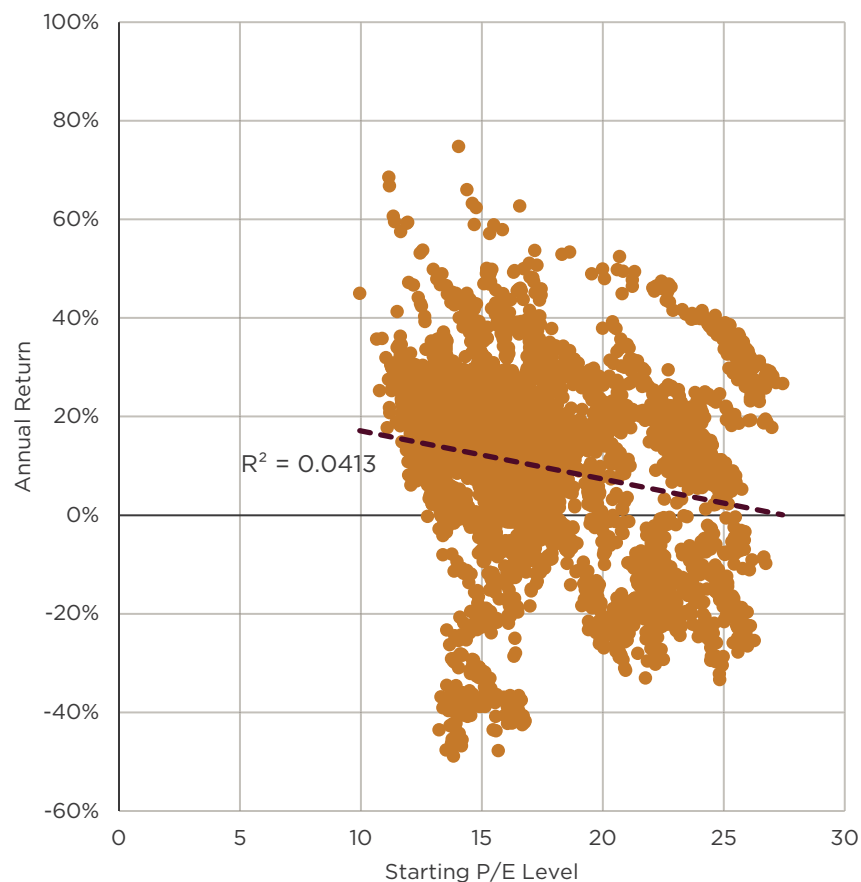
## 2022 DOWNTURN DRIVEN BY VALUATION CORRECTION



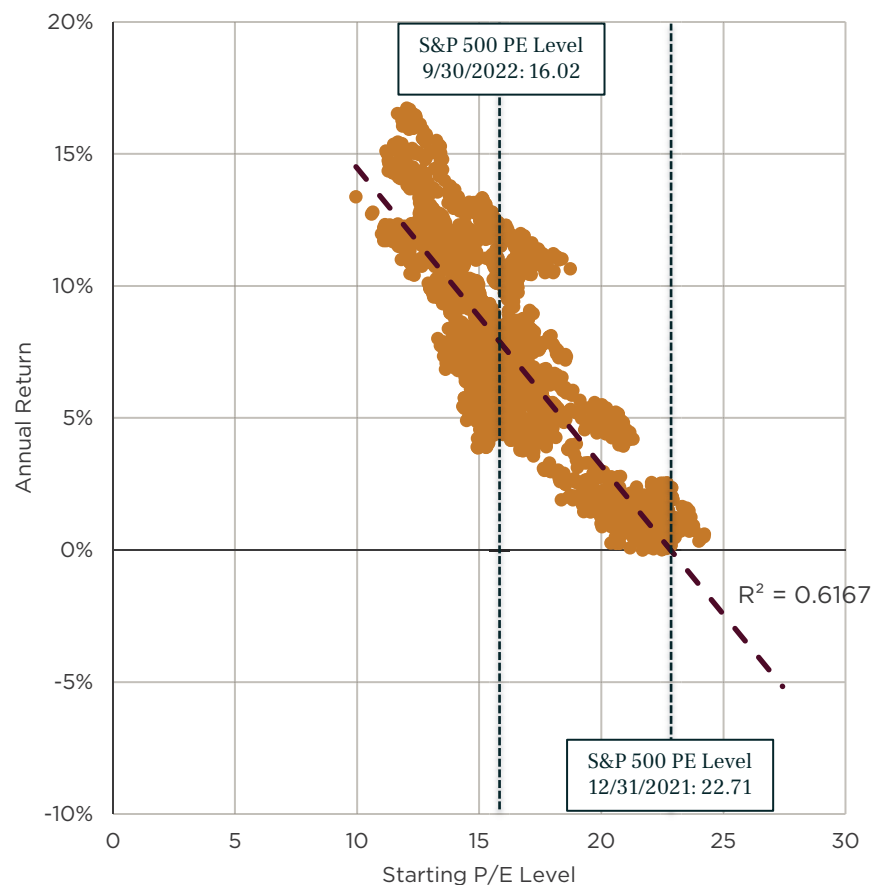
SOURCE: FACTSET DATA AS OF 9/30/22

## VALUATION CORRECTIONS BODE WELL FOR LONG-TERM INVESTORS

1-Year Annualized S&P 500 Returns vs.  
Starting P/E Levels

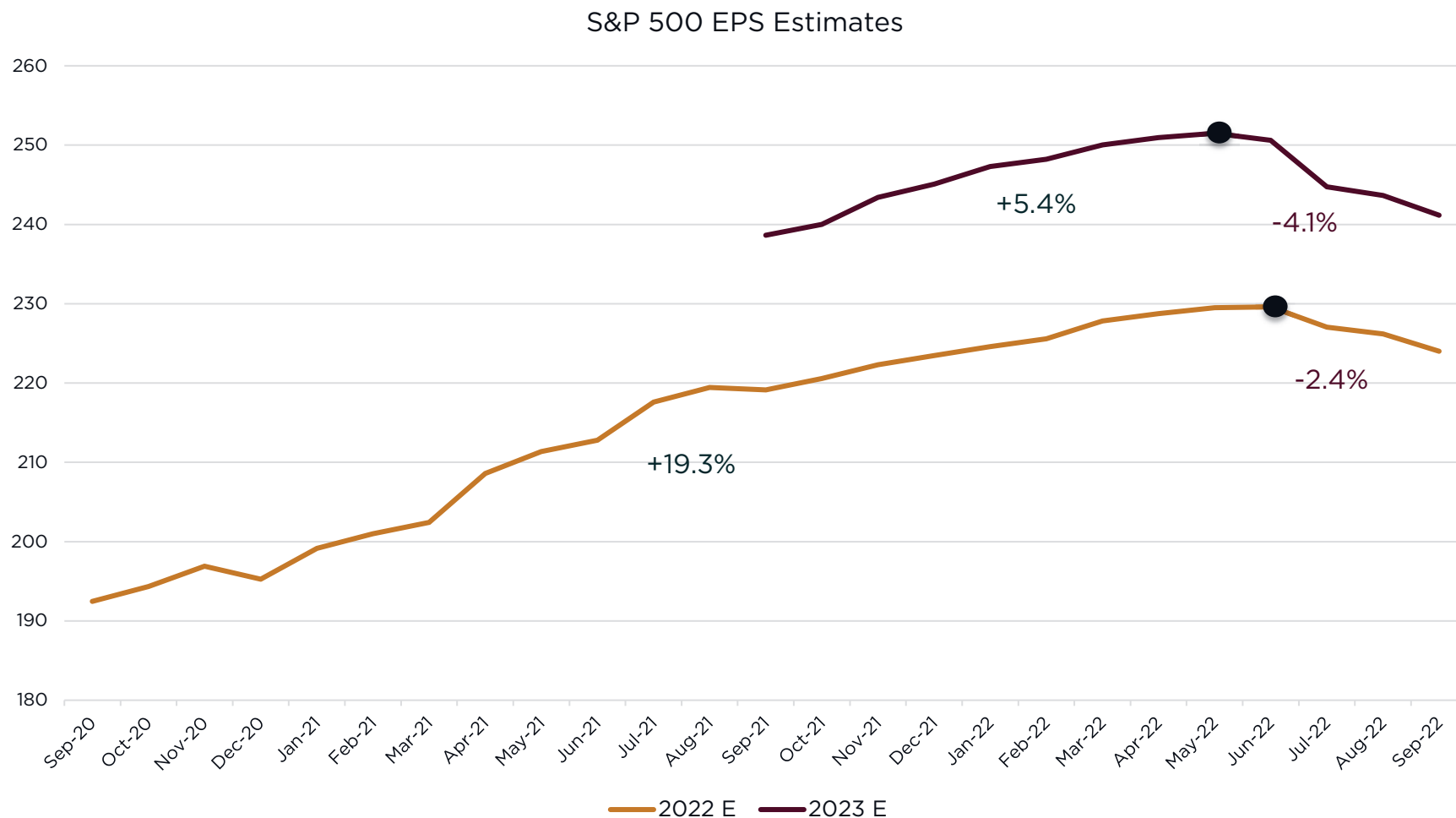


10-Year Annualized S&P 500 Returns vs.  
Starting P/E Levels



NOTE: 1-, 10-YEAR ANNUALIZED RETURNS CALCULATED USING DAILY INDEX VALUES AND STARTING P/E LEVELS  
SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG DATA FROM 9/30/1990 - 9/30/22

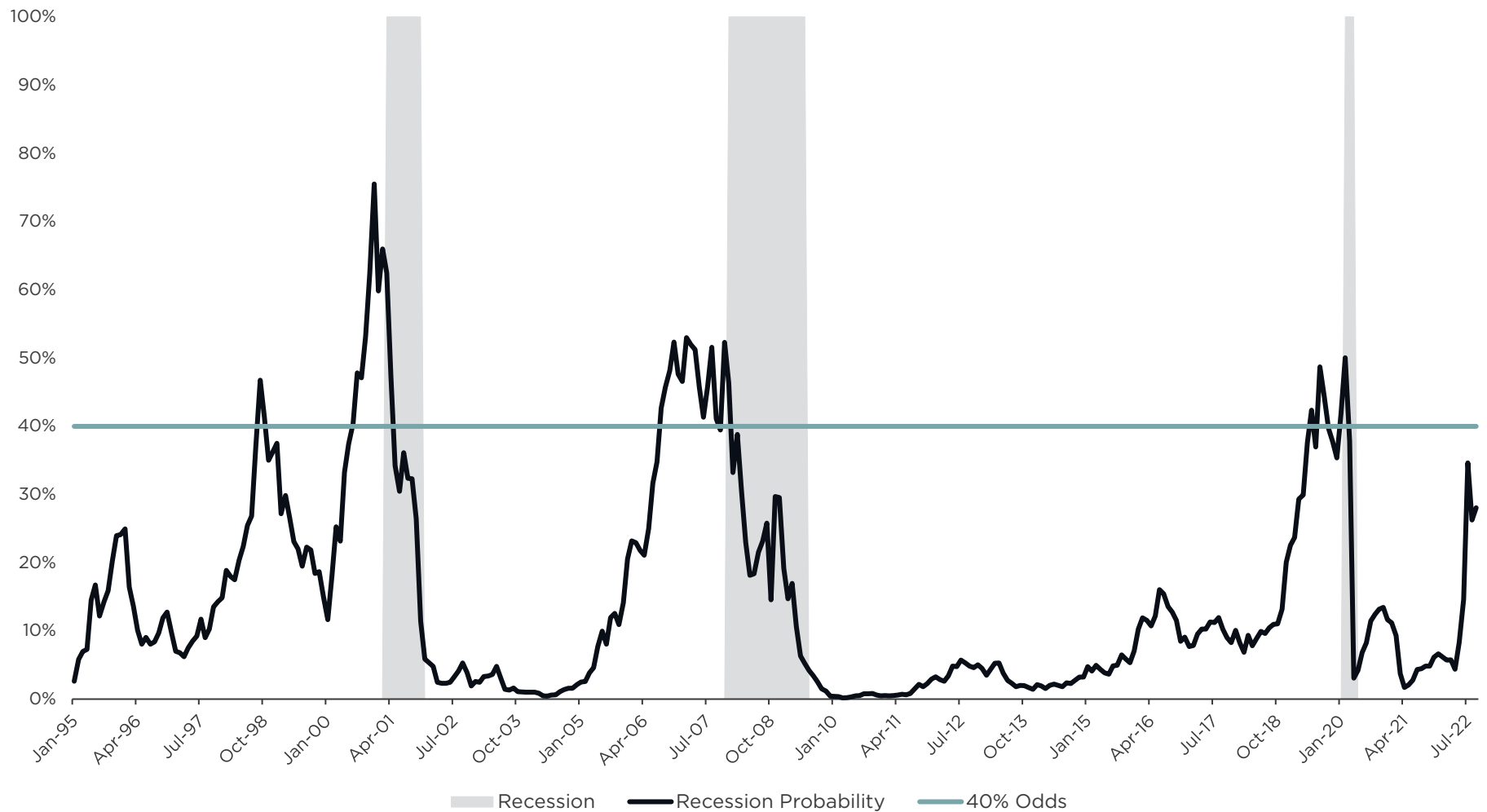
## EARNINGS HAVE BEEN RESILIENT, STARTING TO WEAKEN



SOURCE: FACTSET DATA AS OF 9/30/22

## RECESSION PROBABILITY INCREASING

Recession Probability Model



SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG DATA AS OF 9/30/22

## CURRENT RECESSION INDICATORS MIXED

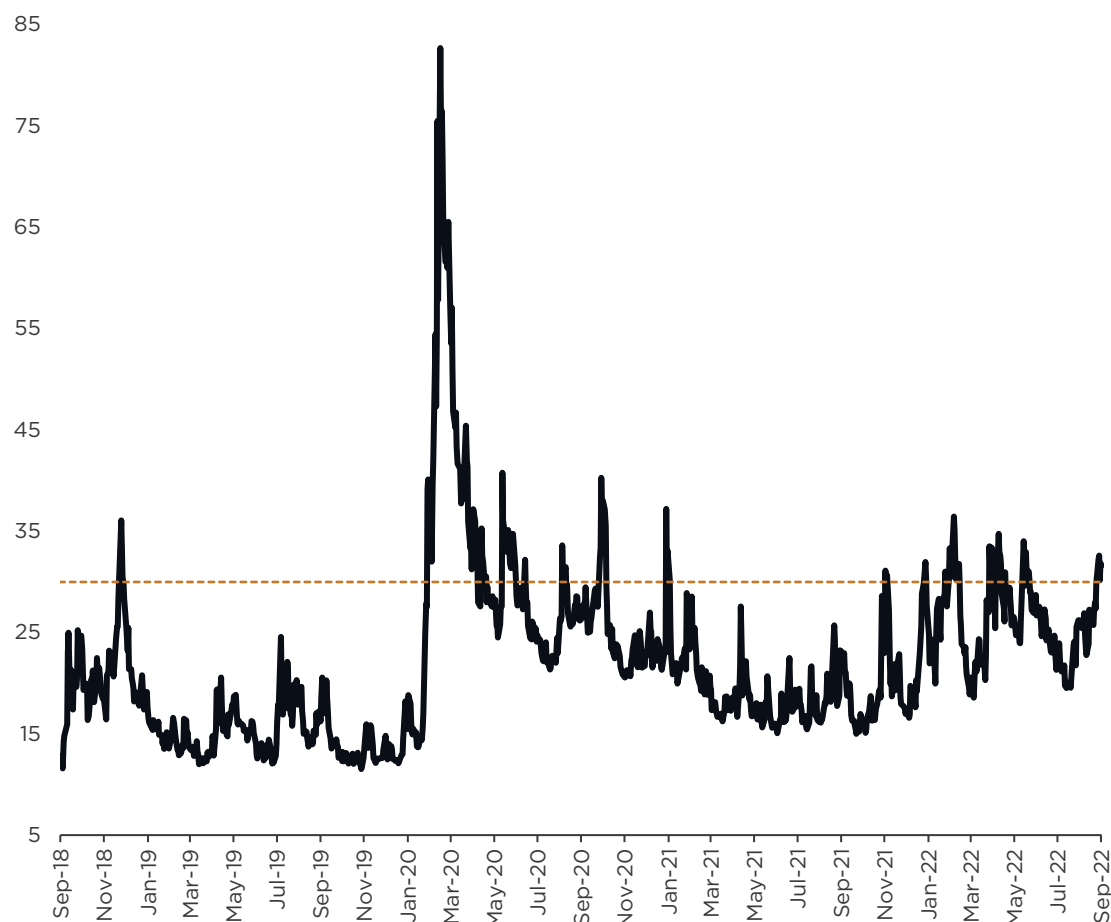
INDICATOR	RECESSION RULE	RECENT SIGNAL	RECESSION Y/N	2007	2001	1990
<b><u>MARKET-BASED:</u></b>						
YIELD CURVE	10YR – FF IS NEGATIVE	0.70%	NO	YES	YES	NO
IG CORP SPREADS	ABOVE 150	159	YES	YES	YES	NO
HY CORP SPREADS	ABOVE 500	552	YES	YES	YES	NO
STOCK MARKET	DECLINE 11% FROM PEAK	-25.3%	YES	NO	YES	NO
<b><u>LABOR MARKET:</u></b>						
JOBLESS CLAIMS (4 WK AVG)	ABOVE 360K	207k	NO	NO	YES	YES
UNEMPLOYMENT RATE	+0.5% FROM BOTTOM	+0.2%	NO	YES	NO	NO
TEMP EMPLOYMENT	BELOW -1% YOY	10.4%	NO	YES	YES	NO
AVG WEEKLY HOURS	-0.5% YOY	-0.6%	YES	NO	YES	YES
<b><u>BROAD ECONOMY:</u></b>						
LEADING INDICATORS	-2% YOY	-1.0%	NO	YES	YES	NO
COIN/LAGGING INDEX	96.3 OR BELOW	94.2	YES	NO	NO	NO
ECRI	-10% OR BELOW	-10.3%	YES	NO	NO	NO
<b><u>MANUFACTURING:</u></b>						
ISM MANUFACTURING	BELOW 47	50.9	NO	NO	YES	YES
CAPACITY UTILIZATION	4 PTS BELOW PEAK	-0.2	NO	NO	YES	NO
NONDEFENSE CAP GOODS EX. AIRCRAFT	3-MTH AR -10% OR BELOW	9.6%	NO	NO	YES	NO
<b><u>CONSUMER:</u></b>						
HOUSING STARTS	-35% YOY	-0.1%	NO	YES	NO	NO
RETAIL SALES EX. GAS	3-MTH RATE BELOW 0%	4.9%	NO	YES	YES	NO
CONSUMER SENTIMENT	15 PTS BELOW PEAK	-42.4	YES	YES	NO	NO

SOURCE: BLOOMBERG, ECRI DATA AS OF 9/30/22

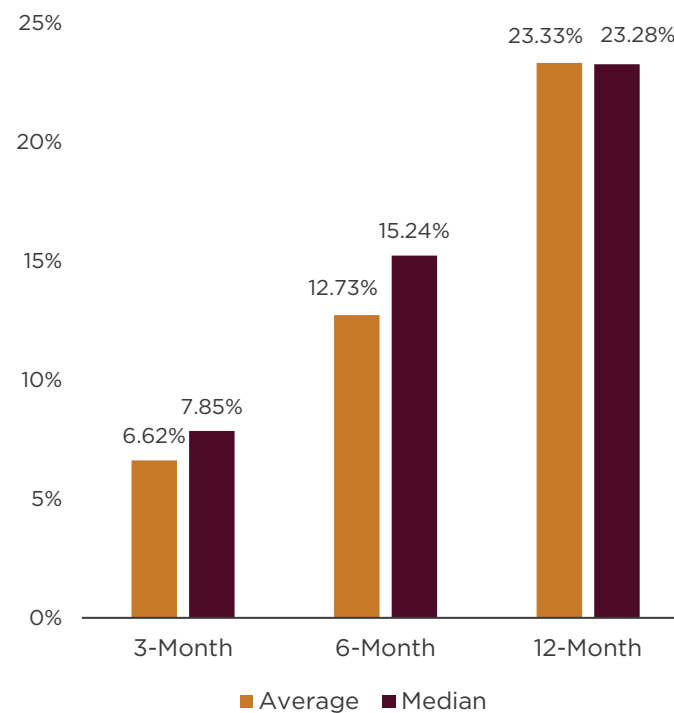
Any expectations presented here should not be taken as any guarantee or other assurance as to future results. Our opinions reflect our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by JIC.

## HIGH VOLATILITY CAN CREATE OPPORTUNITIES

CBOE Volatility Index (VIX)



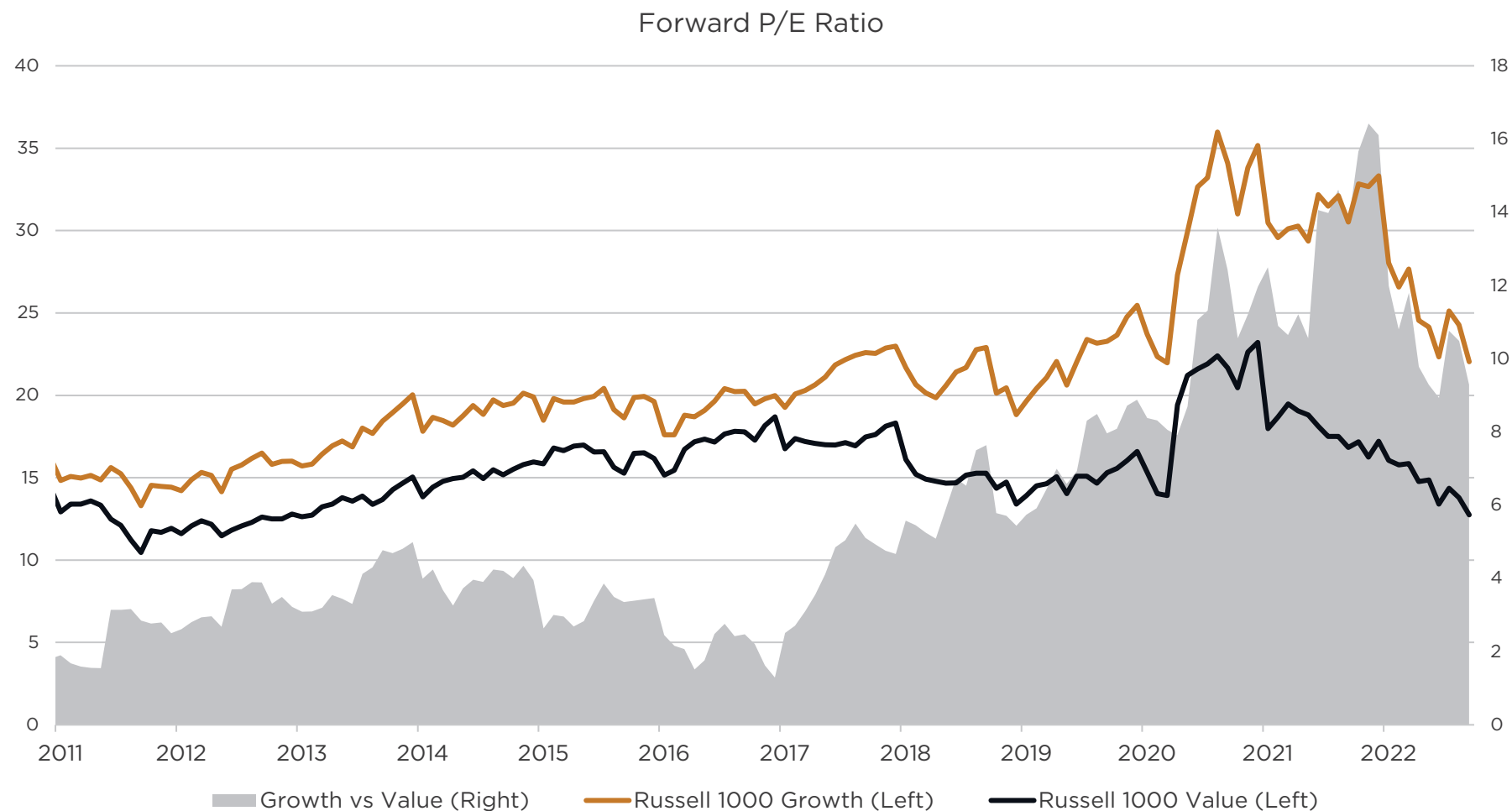
S&P 500 Returns Following VIX 30+ Since 1990



NOTE: AVERAGE AND MEDIAN FORWARD RETURNS CALCULATED 3-, 6-, 12-MONTHS FORWARD FROM DAILY INSTANCE OF VIX LEVEL OF 30+  
 SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG DATA FROM 9/30/1990 - 9/30/22



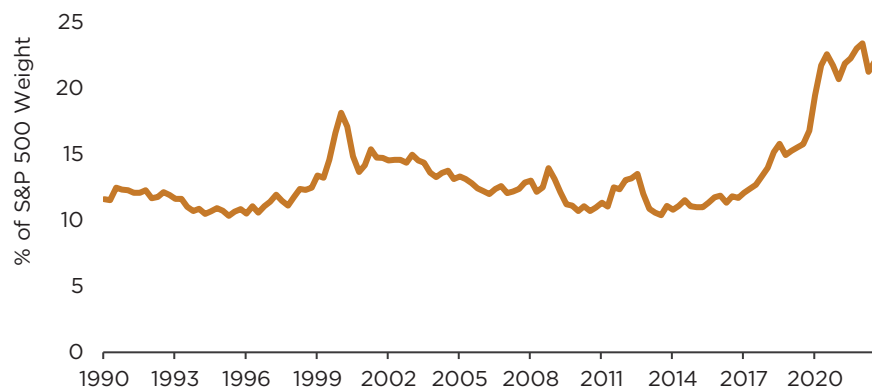
## RELATIVE VALUATION HAS NARROWED, GROWTH STILL EXTENDED



SOURCE: BLOOMBERG DATA AS OF 9/30/22

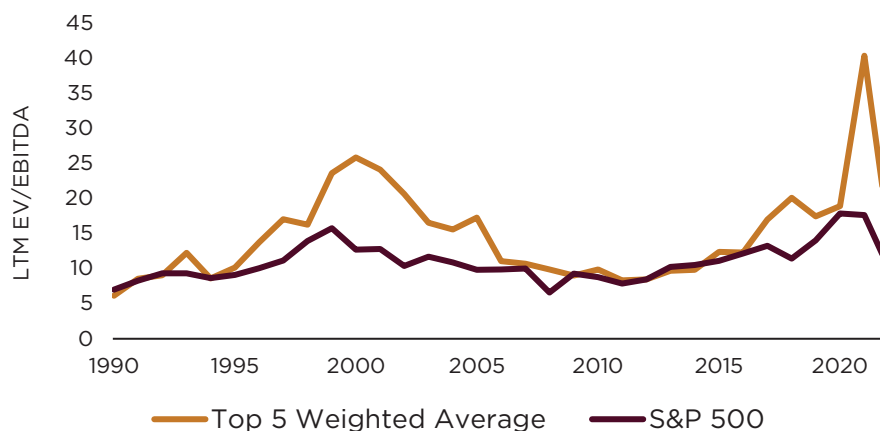
## MARKET CONCENTRATION STILL IMPACTFUL

Historical Weight of Top 5 in S&P 500

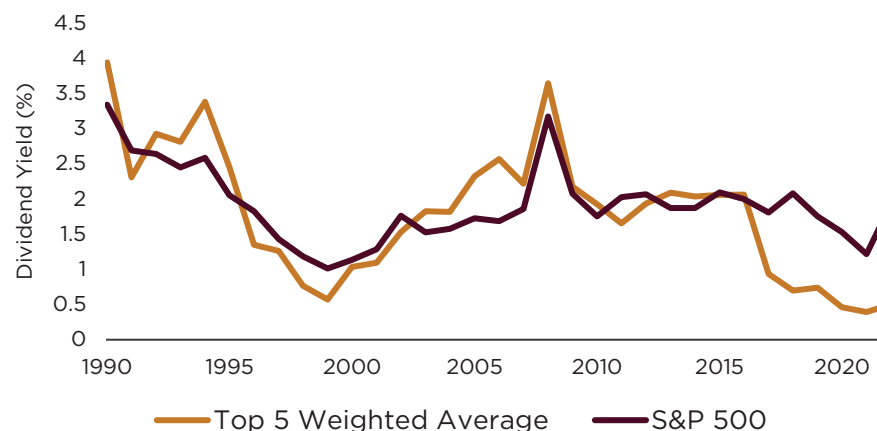


S&P 500 Top 5 Constituents						
	Apple	Microsoft	Amazon	Tesla	Alphabet	S&P 500
Weight (%)	6.9	5.8	3.3	2.3	3.6	
LTM EV/EBITDA	17.7	17.5	23.3	57.2	12.0	12.1
Div. Yield (%)	0.6	1.0	0.0	0.0	0.0	1.8

Relative Valuation

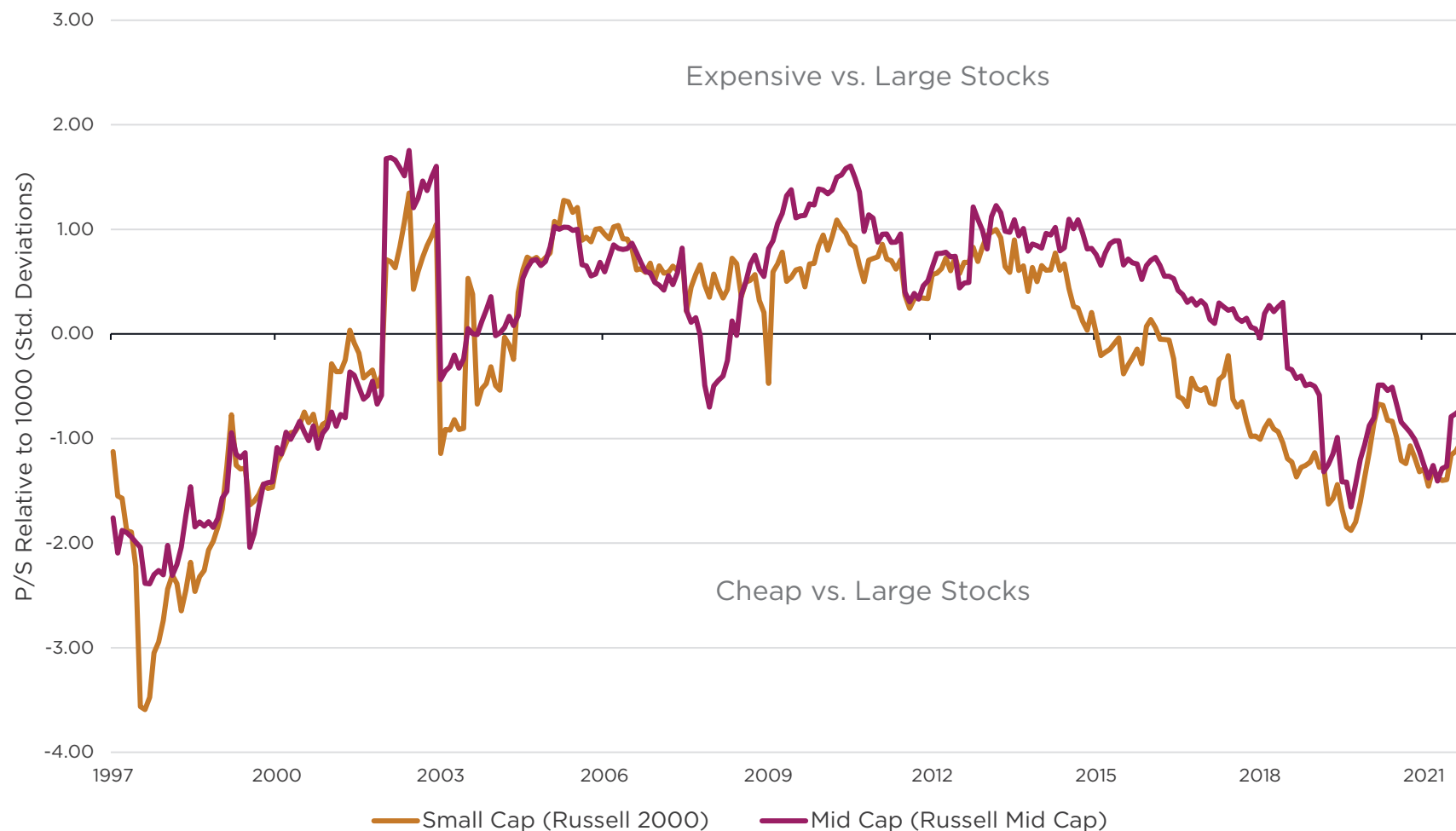


Relative Dividend Yield



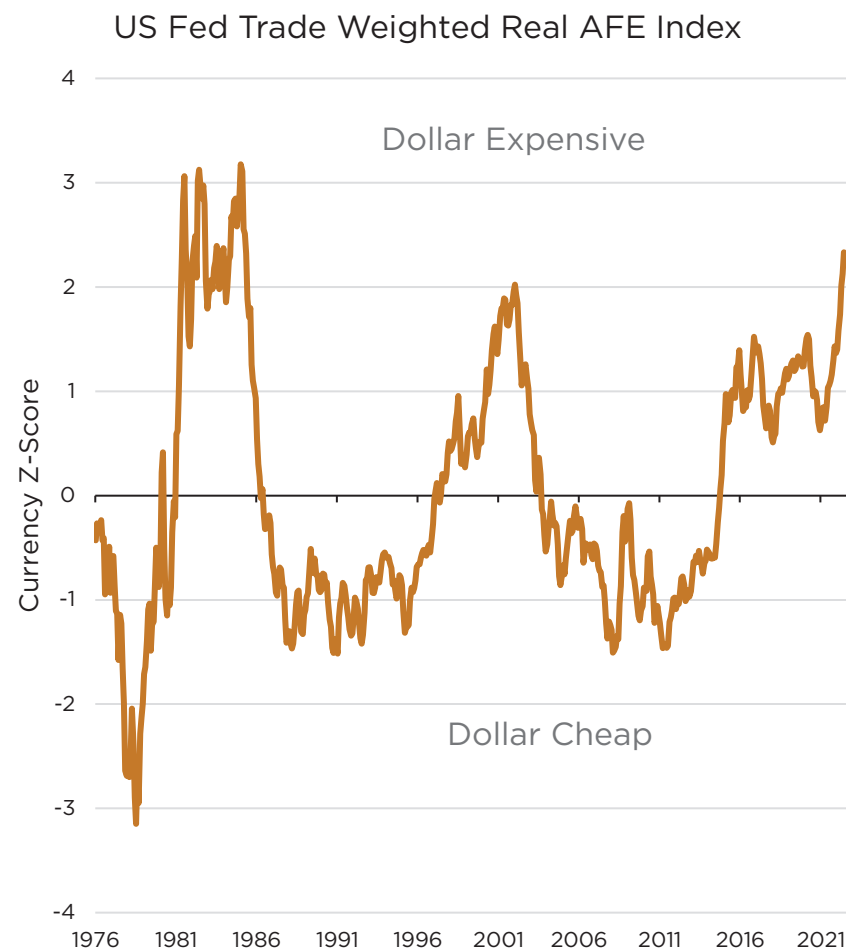
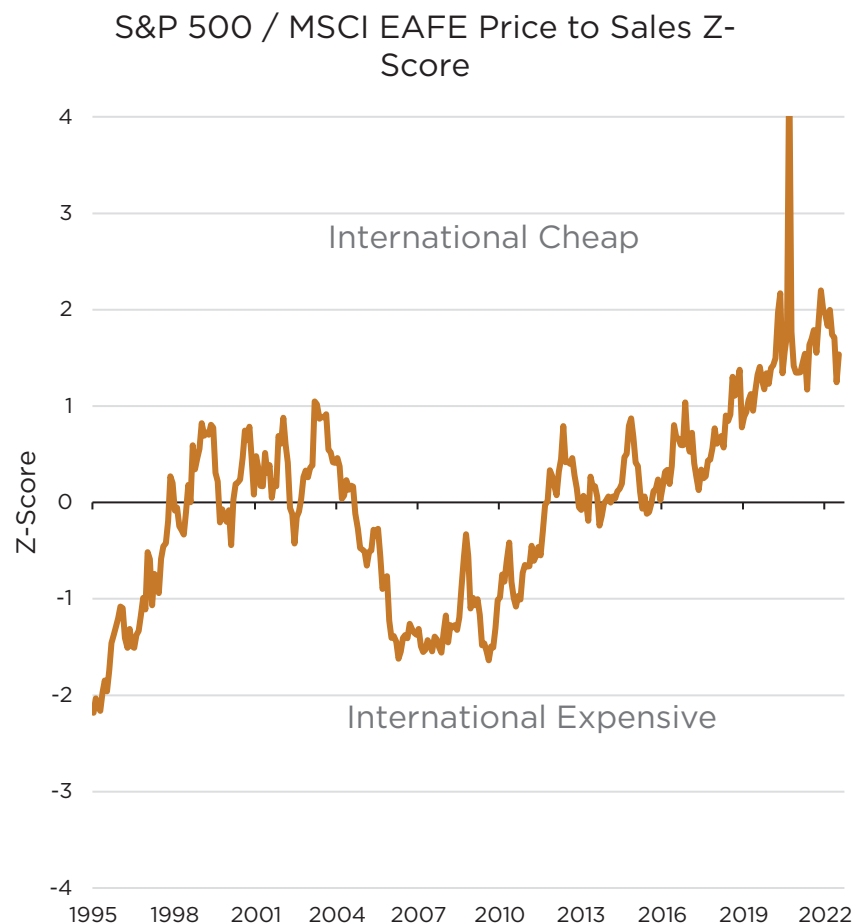
HISTORICAL WEIGHT OF TOP 5 SECURITIES IN S&P 500 CHART WAS CALCULATED ON QUARTERLY BASIS. GOOG AND GOOGL WERE COMBINED AND VIEWED AS ONE SECURITY IN THE ANALYSIS, AND GOOGL WAS USED WHEN CALCULATING VALUATION AND DIVIDEND YIELD METRICS. VALUATION AND DIVIDEND YIELD CHARTS WERE CALCULATED ON ANNUAL BASIS. BAC AND C STOCKS WERE EXCLUDED FROM RELATIVE VALUATION CHART WHEN THEY WERE IN TOP 5 GIVEN THAT THEY DID NOT REPORT EBITDA DATA.  
SOURCE: FACTSET, JOHNSON ASSET MANAGEMENT RESEARCH, DATA AS OF 9/30/22

## SMALLER COMPANIES RELATIVELY ATTRACTIVE



SOURCE: BLOOMBERG, FACTSET DATA AS OF 9/30/22

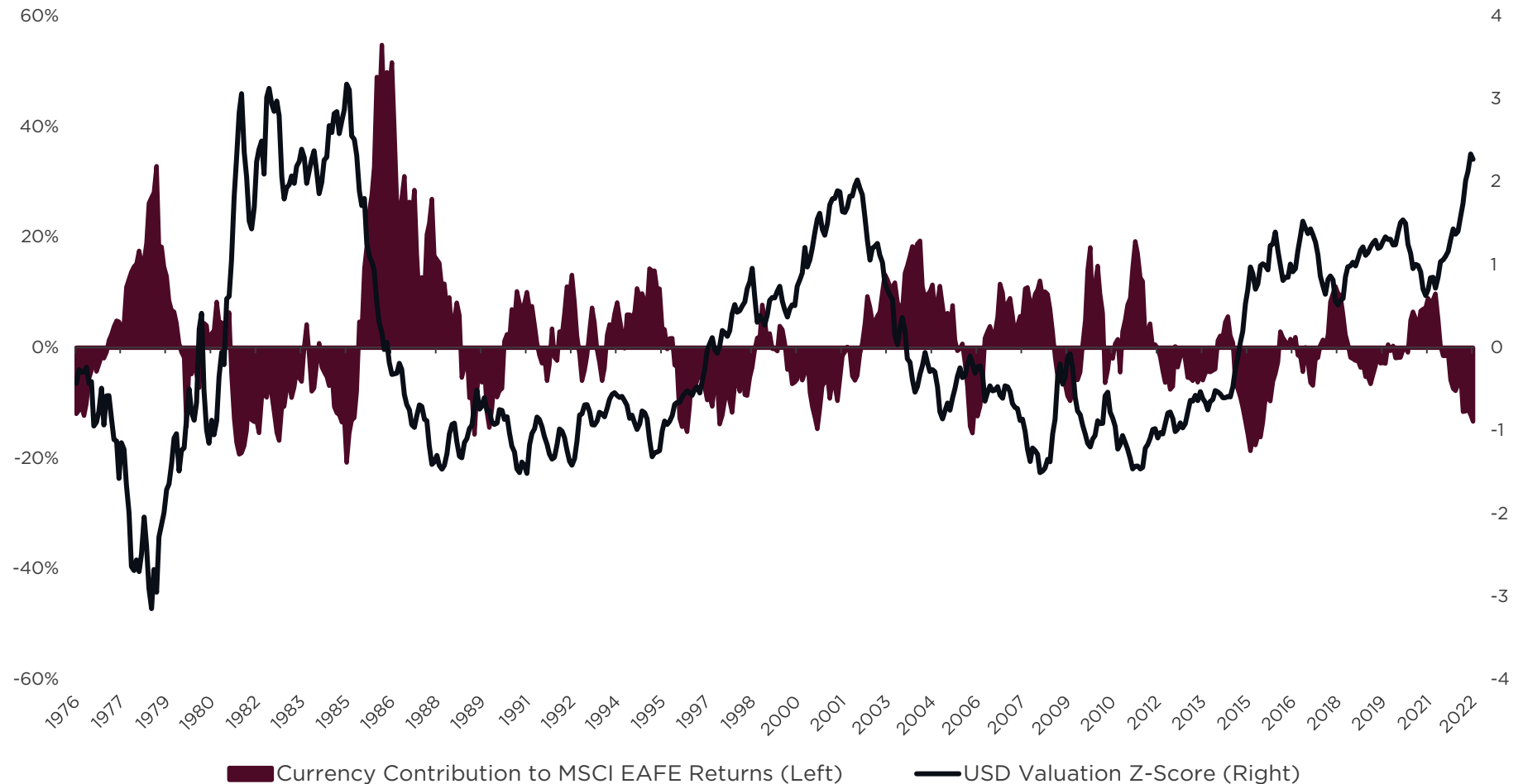
## INTERNATIONAL STOCKS ATTRACTIVELY VALUED



NOTE: TRADE WEIGHTED DOLLAR IS US FED TRADE WEIGHTED REAL AFE INDEX  
 SOURCE: BLOOMBERG, FACTSET, JOHNSON ASSET MANAGEMENT RESEARCH DATA AS OF 9/30/22

## STRONG DOLLAR SUPPORTS INTERNATIONAL ALLOCATION

Currency Impact on International Returns



NOTE: CURRENCY CONTRIBUTION TO MSCI EAFE RETURN MEASURED AS TOTAL RETURN MINUS LOCAL CURRENCY RETURN  
 SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG, DATA FROM 1/1/1976 - 9/30/2022

## STRONG DOLLAR SUPPORTS INTERNATIONAL ALLOCATION

### S&P 500 – MSCI EAFE Returns, Indexed

Shaded areas denote periods where USD is >2 std. dev. expensive



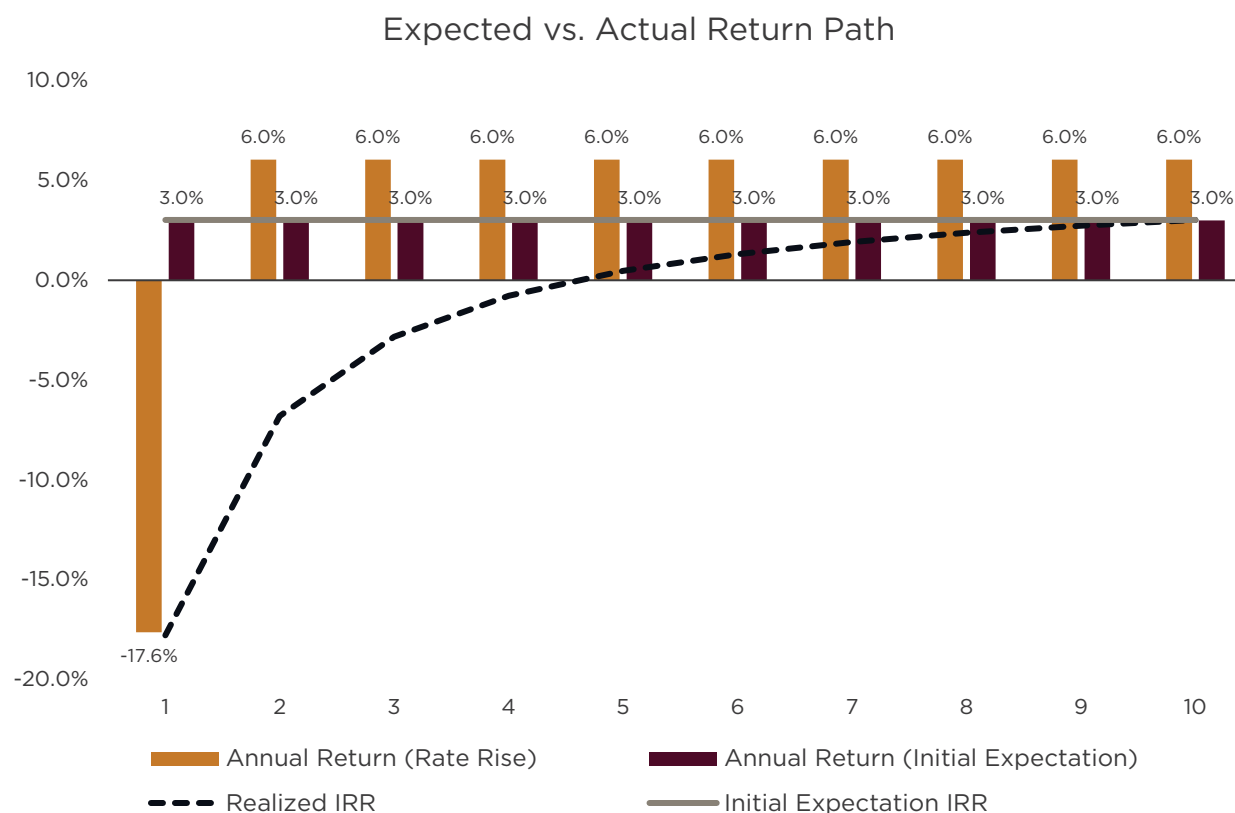
International Relative Returns During Period:						
		USD Returns		Local Currency Returns		
Initial Flag (>2 Std. Dev. Expensive)	Near-term Relative Return Trough	Cumulative	Annualized	Cumulative	Annualized	% of Intl. Outperformance Driven by Currency
6/30/1981	11/30/1988	69.8%	7.4%	23.2%	2.9%	66.7%
2/28/2002	2/29/2008	60.1%	8.2%	4.9%	0.8%	91.8%

SOURCE: JOHNSON ASSET MANAGEMENT, BLOOMBERG, DATA FROM 1/1/1970 – 9/30/2022

## THE “SELF-HEALING” NATURE OF BOND MATH

Consider two return paths for a single 10-year bond held to maturity:

- 1) Initial Expectation – 10-year bond purchased with a 3.0% YTM leads to an expectation of 3.0% annual rate of return and IRR after 10 years of 3.0% on the investment, holding rates constant.
- 2) Rate Rise in Year 1 – Because rates have risen in Year 1, the 10-year bond has decreased in price, leading to a negative annual rate of return. However, with rates remaining at the elevated level for the life of the bond, reinvestment results in higher annual rates of return, leading to the same IRR of 3.0% after 10 years.



Year	1	2	3	4	5	6	7	8	9	10
Annual Return (Rate Rise)	-17.6%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Annual Return (Initial Expectation)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Realized IRR	-17.8%	-6.8%	-2.8%	-0.8%	0.5%	1.3%	1.9%	2.4%	2.7%	3.0%
Initial Expectation IRR	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

SOURCE: JOHNSON ASSET MANAGEMENT

## ASYMMETRY OF BOND TOTAL RETURN POTENTIAL AS RATES RISE

Higher levels of income at higher yields help cushion bonds from the price impact of rising rates, leading to asymmetry of potential total returns which increase with the duration of the bond/portfolio.

- A simple formula to calculate the Total Return for a bond due to a change in interest rates is the following:

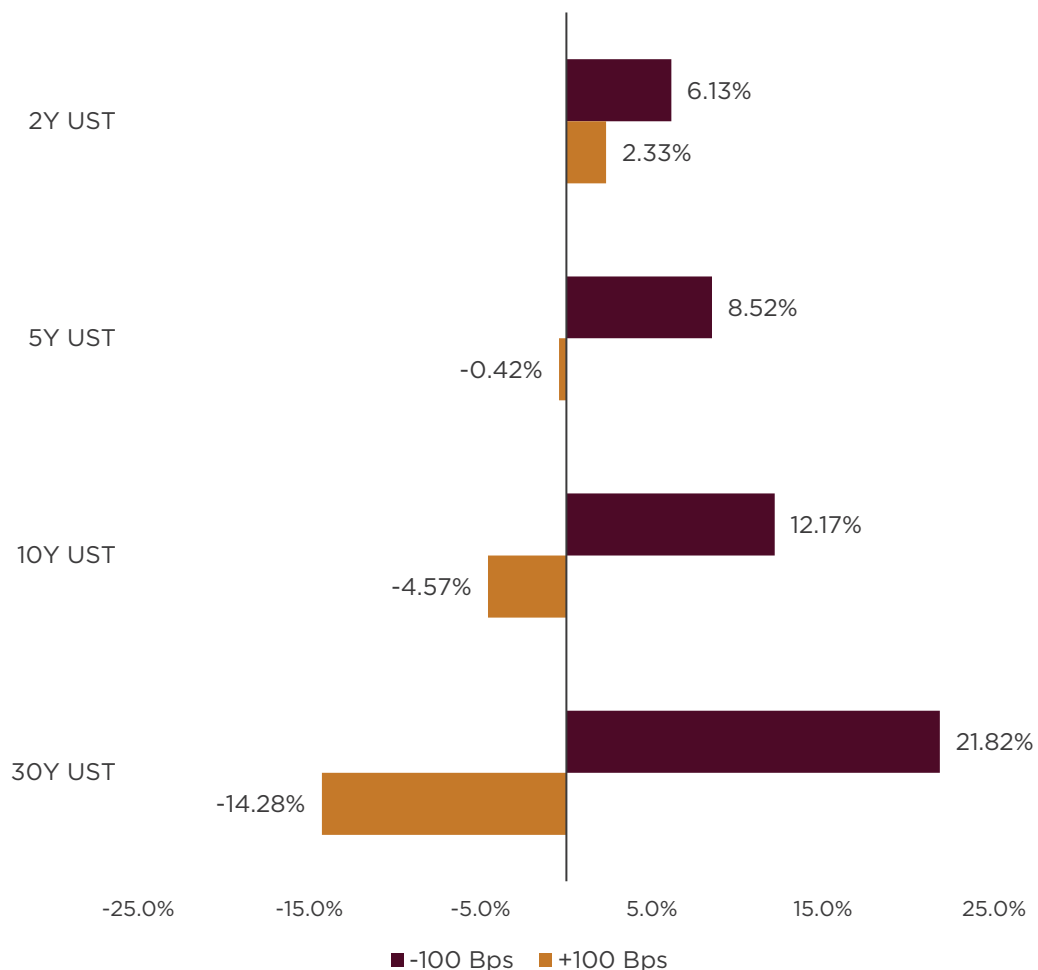
Bps Total Return = (-Duration \* Bps Change in Rates) + Bps Yield

- To use the 10-Yr Treasury as an example, with the characteristics listed below, if interest rates fall by 1%, the total return looks like this:  $[(-8.37 * -100) + 380] = 12.17\%$ . Conversely, if rates were to rise by 1% the total return would be:  $-4.57\%$ .

We've illustrated the total return scenario for current US Treasury tenors, using the characteristics below, as of 9/30/2022:

	Duration	Yield
2Y UST	1.90	4.23%
5Y UST	4.47	4.05%
10Y UST	8.37	3.80%
30Y UST	18.05	3.77%

UST Total Returns: +/- 1% Rate Scenario

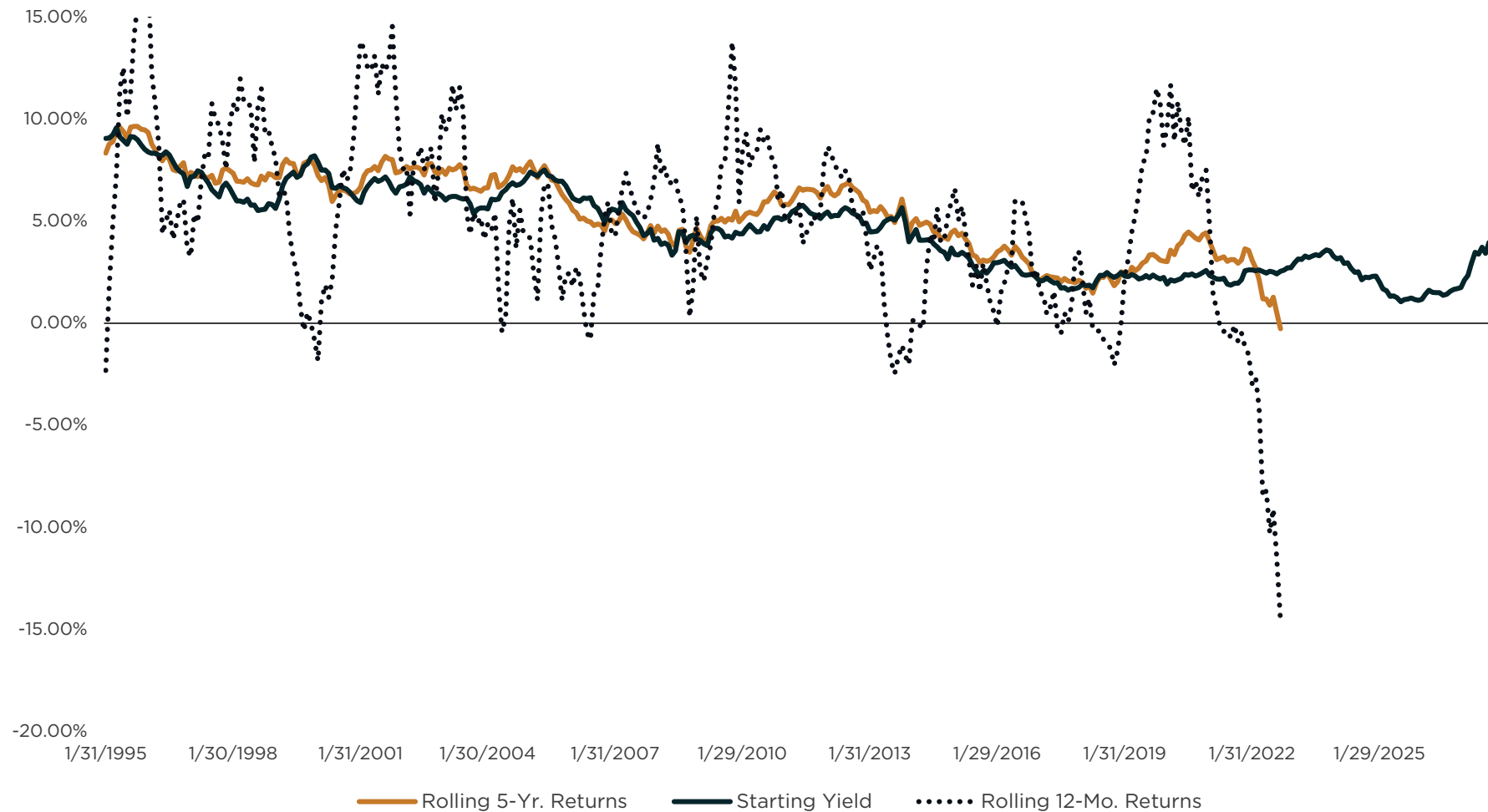


SOURCE: BLOOMBERG DATA AS OF 9/30/22



## BONDS RETURNS FOLLOW STARTING YIELDS

Starting Yield & Total Returns - Bloomberg Aggregate Index



SOURCE: BLOOMBERG DATA AS OF 9/30/22



## STRATEGIC ASSET ALLOCATION MARKET BAROMETER



*Note: We cannot promise future results. Our opinions are a reflection of our best judgement at the time this presentation was created, and we disclaim any obligation to update or alter forward looking statements as a result of new information, future events or otherwise.*

## STRATEGIC ASSET ALLOCATION SCALE

ASSET CLASS	Conservative Higher Returns for Bond Risk		Moderate- Conservative		Moderate Higher Returns for 60/40 Balanced Risk		Moderate- Aggressive		Aggressive Stock Returns at Lower Risk	
	GOAL %	STRATEGIC RANGE %	GOAL %	STRATEGIC RANGE %	GOAL %	STRATEGIC RANGE %	GOAL %	STRATEGIC RANGE %	GOAL %	STRATEGIC RANGE %
<b>Equities</b>	<b>19.1%</b>	<b>0-30%</b>	<b>38.2%</b>	<b>20-50%</b>	<b>57.3%</b>	<b>40-70%</b>	<b>71.6%</b>	<b>55-85%</b>	<b>86.0%</b>	<b>70-100%</b>
U.S. Equities - Large Cap	13.4%		26.7%		40.1%		50.09%		60.10%	
U.S. Equities - Mid Cap	1.1%		2.2%		3.4%		4.20%		5.04%	
U.S. Equities - Small Cap	1.3%		2.6%		3.8%		4.80%		5.76%	
International Equities	3.3%		6.7%		10.0%		12.54%		15.05%	
<b>Fixed Income</b>	<b>80.0%</b>	<b>40-90%</b>	<b>60.0%</b>	<b>30-70%</b>	<b>40.0%</b>	<b>20-50%</b>	<b>25.00%</b>	<b>10-30%</b>	<b>10.00%</b>	<b>0-10%</b>
Investment Grade	80.0%		60.0%		40.0%		25.00%		10.00%	
TIPs	0.0%		0.0%		0.0%		0.00%		0.00%	
<b>Alternatives</b>	<b>0.0%</b>	<b>0-30%</b>	<b>0.0%</b>	<b>0-25%</b>	<b>0.0%</b>	<b>0-20%</b>	<b>0.0%</b>	<b>0-20%</b>	<b>0.0%</b>	<b>0-20%</b>
High Yield Bonds	0.0%		0.0%		0.0%		0.0%		0.0%	
Absolute Return	0.0%		0.0%		0.0%		0.0%		0.0%	
<b>Real Assets</b>	<b>0.9%</b>	<b>0-30%</b>	<b>1.8%</b>	<b>0-25%</b>	<b>2.7%</b>	<b>0-20%</b>	<b>3.4%</b>	<b>0-20%</b>	<b>4.1%</b>	<b>0-20%</b>
Commodities	0.0%		0.0%		0.0%		0.0%		0.0%	
MLPs	0.0%		0.0%		0.0%		0.0%		0.0%	
Infrastructure	0.6%		1.2%		1.8%		2.3%		2.7%	
Gold/Precious Metals	0.0%		0.0%		0.0%		0.00%		0.0%	
Real Estate	0.3%		0.6%		0.9%		1.13%		1.35%	
<b>Cash</b>	<b>0.0%</b>	<b>0-10%</b>	<b>0.0%</b>	<b>0-10%</b>	<b>0.0%</b>	<b>0-10%</b>	<b>0.00%</b>	<b>0-10%</b>	<b>0.00%</b>	<b>0-10%</b>

\*Goal percentages may not total 100% due to rounding.



## EXECUTIVE SUMMARY

- » Year-to-date investment performance across asset classes has been broadly negative and is being driven by a reset lower in valuation levels.
- » The valuation shock is being driven primarily by changes in interest rates.
- » Interest rates are increasing primarily due to Federal Reserve policy changes in reaction to higher inflation.
- » Thus far, corporate fundamentals have been relatively unaffected by restrictive policy. We are, however, starting to see some signs of slowing as the economy weakens.
- » For long-term investors, higher rates and lower equity market multiples are a positive sign for future returns. Fundamental risks are higher than normal in the near-term due to restrictive policy and slowing growth.
- » There are still some pockets of valuation risk – particularly in the largest and most growth-oriented companies. Diversification across company size and geography remains important.
- » While the timing and magnitude of a potential recession remains uncertain, the current environment warrants a cautious stance in portfolios. Bonds and real assets are attractive. Quality security selection is the key to all-weather risk control in investment portfolios.

# THANK YOU!

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