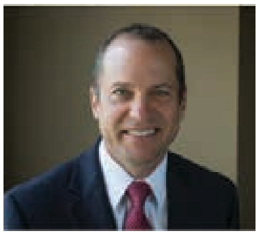
JOHNSON
INVESTMENT COUNSEL

QUARTERLY INSIGHT

LETTER FROM THE PRESIDENT



As we enter a new year, I want to personally express my gratitude for your loyalty to our firm. We are humbled by your trust and confidence in us, and this motivates us to continue to pursue our mission in the year ahead and beyond.

This past year was a successful one for the firm on multiple fronts. It was a tremendous year for investment results in both absolute and relative terms. While we believed our "slowing but growing" economic outlook could provide a decent backdrop for the stock market, the returns exceeded our expectations. Our equity income approach to stock investing provided exceptional results. 2019 was the fourth consecutive year of net-of-fee outperformance relative to the S&P 500 Index. In addition, our outstanding track record of bond investing continued. These results reflect the excellent work of our dedicated team of portfolio managers and analysts.

We continue to invest in our people to provide the service and expertise you expect. Our firm remains a destination for talented professionals, and we've hired more this past year to ensure we provide personalized, comprehensive service. Our team now stands 140 strong, and I'm confident in our ability to provide the service and counsel you need for whatever life may bring.

We are grateful for another year of growth in the number of clients we serve and assets we manage. Each of our divisions and geographic locations are growing, and we now manage more than $12.9 billion for clients in 48 states. As the number of clients we serve has grown, so has our ability to specialize and to reinvest in our company. Our size, scale, and comprehensive service offering have brought us recognition on a regional and national level.

As we grow, we remain committed to our founding principles. Our mission is to provide you with financial peace of mind through trusted counsel and exemplary service, delivered by a team with a genuine heart to serve. This focus on our mission brings clarity to the organization, from the people we hire, to the services we offer, and our commitment to remain independent.

So many of you have paid us the ultimate compliment by referring your friends and family. This has allowed us to thrive, and we are thankful. The trust you place in us throughout life's journey is something we do not take for granted. It is because of you that Johnson Investment Counsel is flourishing. As we look into the future, our promise to you is that we will never lose sight of our mission and its impact on our clients, employees, and the communities we serve.

Sincerely,

Jason O. Jackman, CFA, President

2019: FOURTH QUARTER

FEATURING

TOTAL RETURNS

	4Q2019	2019
S&P 500	9.1%	31.5%
Dow Jones Industrial Average	6.7%	25.3%
NASDAQ	12.5%	36.7%
Russell 2000	9.9%	25.5%
MSCI EAFE (International)	8.2%	22.7%
Barclays Aggregate Bond Index	0.2%	8.7%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

MARKET UPDATE

STOCKS SOAR IN 2019, CAPPING A STRONG DECADE

As 2019 began, expectations for stock market returns were low. The market had taken a big hit in the fourth quarter of 2018, falling nearly 20%. That pessimism proved overdone, as the S&P 500 Index proceeded to rally more than 13% in the first quarter alone on better-than-expected earnings, easing trade tensions, and positive economic growth. After hitting a bump in May related to trade tensions (-6%), the index bounced 7% in June as U.S. and Chinese officials met at the G20 summit, and the Fed signaled intentions of keeping rates lower. Stocks took a breather in the third quarter before rallying again in the fourth quarter, when the index jumped another 9%. Bonds were overshadowed by the heady stock market returns, but also finished with nice gains. The Barclays Aggregate Index returned 8% as interest rates fell significantly throughout the year.

There was broad strength across stock market styles and sectors, but technology stocks led the way with a 50% return for the year. Energy and health care stocks gained 12% and 21% respectively, not bad for the two weakest sectors overall. In the end, the Index returned 31% for the year, putting an exclamation point on a fantastic decade of stock returns.

In the last decade, following the lows of the Financial Crisis, the S&P 500 delivered an annualized total return of 13.6% (257% cumulative). The return numbers are even more impressive since the 2009 market lows: 18% annualized, 498% cumulative. During that time, technology stocks led the way, and the U.S. market significantly outperformed international stocks.

U.S. CHINA TRADE THE BIG STORY OF 2019

The back and forth between the U.S. and China was a key driver of markets throughout the year, at times boosting markets, at times sending them down. In December, the two sides agreed to a "Phase 1" trade deal. The U.S. promised to reduce some of the tariffs already in place, and remove some others, particularly those on consumer goods. It also agreed to continue negotiations. China agreed to scrap plans to increase tariffs on imported U.S. goods, promised "massive purchases" of agricultural, energy, and manufactured goods, and said it would strengthen intellectual property protection and enforcement.

While this was a good start and came as a relief, the market was somewhat disappointed by the deal relative to expectations. It's a good sign that the parties were able to come to a partial agreement, but the particulars are not enough to kick start economic growth or boost earnings estimates for 2020. For that to occur a material reduction in the 25% tariff rate would likely be needed. It's reasonable to expect more of the same in 2020 as the two sides hash out a "Phase II" agreement.

ECONOMY STILL GROWING, SLOWLY

The markets have been supported by a continuation of the longest post-war economic expansion, which has now stretched into its eleventh year. One reasonable explanation for its length is that it has also been the slowest post-war expansion. While the slower rate of growth is disappointing, a silver lining is that it may result in a longer expansion before the next recession. While manufacturing activity has slowed, typical recession indicators are not showing signs of danger, and most are at healthy levels. U.S. consumers are faring well, the labor market is strong, and financial market indicators are also healthy. In addition, most measures of inflation remain subdued, and the Fed remains in a supportive posture.

EARNINGS GROWTH AND VALUATION

Valuations increased in 2019 as measured by price-to-earnings ratios, while earnings growth was relatively weak, around 3%. This means valuation expansion accounted for most of the 2019 total return. Part of that valuation increase, though, was the recovery of the washout that occurred late in 2018. Taken together, the 25% gain over the last two years was largely attributable to earnings growth. Today, valuations are generally above average, but still below peak levels of prior bull markets. As a result, the stock market could potentially have more room to run if other headwinds don't knock it off course. Earnings growth in particular will be something to watch in the year ahead. Continued weakness would likely make it difficult for the market to move much higher.

2020: HERE WE GO AGAIN

Risk is an inevitable reality of investing, and 2020 appears to have its fair share. Investors, as always, will be watching the economy and corporate earnings. But that information will be digested in the context of global events, not least of which is the looming 2020 elections. In addition to the U.S. election, the trade war between the U.S. and China will continue to be in focus. Meanwhile, the U.K. is working on officially exiting the European Union in 2020, which could impact economic growth in Europe. The list goes on, but the reality of successful investing remains: stay disciplined and focus on the long term.

THE SECURE ACT

NEW LAW IMPACTS RETIREMENT AND ESTATE PLANNING FOR MANY AMERICANS

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law in December 2019 as part of a broader government spending package. The law includes many provisions designed to make saving for retirement easier and more accessible. However, other changes related to distributions from retirement accounts may not be as favorable. Changes have been made to the rules for various accounts, including 401(k) plans, IRAs, pension plans, and 529 plans. These reforms will undoubtedly impact existing and future financial and estate planning strategies for savers and retirees alike. Of particular note are the significant changes made to the existing rules regarding IRAs, including the elimination of the "Stretch IRA."

We summarize below the basics of some of the changes, the potential impacts, and possible strategies to address them.

CONGRESS' BALANCING ACT

The Act includes changes intended to make retirement and education savings accounts simpler and more cost effective, especially for less-affluent savers. As a result, a number of changes would likely lower tax revenue for Uncle Sam. Under current law, this revenue reduction must be offset by additional changes that would generate more tax revenue. This resulted in the elimination of the Stretch IRA.

On the positive side for taxpayers, the main changes include:

- Eliminating the maximum age of 70 ½ for deducting contributions to a traditional IRA;
- Increasing the required minimum distribution (RMD) starting age from 70 ½ to 72;
- Allowing employers wider safe harbors to offer annuities within a 401(k) plan;
- Allowing small employers to combine their interests to sponsor a retirement plan;
- Allowing new parents to take penalty-free withdrawals from retirement plans of up to $5,000; and
- Allowing withdrawals of up to $10,000 from 529 plans to pay student loans.

On the negative side, for those who will eventually inherit an IRA from a non-spouse, is the aforementioned elimination of the Stretch IRA (with some notable exceptions). The good news here is that the change does not affect those who have already inherited an IRA, but rather those who inherit an IRA from someone who dies after December 31, 2019.

DEFINING THE STRETCH IRA

Under the previous law, and what is still true for existing inherited IRAs, non-spousal beneficiaries of an IRA were able to "stretch" withdrawals from an IRA over their (presumably) longer life-spans, a valuable tax-planning and estate-planning strategy. Every year, non-spousal beneficiaries were required to take a distribution from the inherited IRA. The amount was calculated based on the IRS factor for their life expectancy and the balance of the account on the last day of the prior year. Their annual required distributions were often smaller than the original IRA owner's would have been given the ability to use their longer expected life span. These smaller distributions allowed the beneficiary to stretch the IRA over a longer time period and potentially pay less in taxes than the original IRA owner would have.

PLANNING IMPLICATIONS - FEDERAL INCOME TAX

The law changed such that beginning on January 1, 2020, when an IRA owner dies, their non-spousal inheritors are required to fully withdraw the IRA within ten years. (There are exceptions to this rule for some who qualify as disabled, chronically ill, or who are fewer than ten years younger than the deceased IRA owner.) In most cases, this will result in a much higher distribution rate than under the prior rules. It's clear that Uncle Sam is doing the math and has no plans to take in less revenue with this new law. There is some flexibility, in that inheritors are not required to take a distribution every year. It does not matter when and how much is distributed in that period of time, as long as the account is fully distributed by the end of the ten-year period. For example, one could wait until the latter years before taking any distributions if their income will be lower at that time compared to the earlier years.

Some potential ways to soften this impact before the original IRA owner passes away include:

- Re-evaluating a conversion to a Roth IRA;
- Re-evaluating who should inherit a traditional versus a Roth IRA;
- Specifically targeting beneficiaries by age and income so as to minimize marginal tax impact; or
- More aggressive use of charitable gifting strategies, such as charitable remainder trusts benefiting children, funded at the IRA owner's death.

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THE SECURE ACT

PLANNING IMPLICATIONS – ESTATE PLANNING

It appears the owners of large IRAs are in the crosshairs of the federal government given the impact of the elimination of the stretch provision. Many owners of larger IRAs often name a trust as the beneficiary so as to control the distributions and maintain the IRA after death. While there are different types of trust provisions that control an IRA's distribution to the ultimate beneficiaries (e.g. conduit or accumulation trusts), the intention of these estate planning tools is to provide flexibility, asset protection, and ensure the longest distribution period to the beneficiaries. Two key components of these trusts have been, first, reliance on the ability to stretch the distributions, and second, not mandating a complete payout of the trust assets after ten years, as the new law will require. These strategies need to be re-evaluated to determine if they are still appropriate under the new rules.

BOTTOM LINE

As this shift in the landscape demonstrates, it's critical to stay up to date on these changes, and to lean on your team of advisors who can coordinate your financial plan from all angles. As always, we will work hard to ensure the success of our clients as circumstances continue to change in the years ahead. If you have family and friends who could benefit from our advice on this topic or any other, please use this article as a resource and have them contact us for help.

JIC NEWS

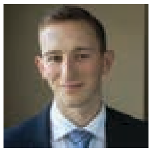
PROMOTIONS

We are pleased to announce the promotion of Ryan Easter to Director of Operations and Information Technology. Ryan has been with JIC since 2014 and is a shareholder of the firm. Ryan holds the Project Management Professional (PMP®) designation.

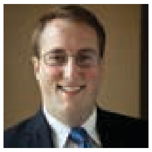
Easter

NEW DESIGNATIONS

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistants Christian Brandetsas, CFP®, and Andrew Kucia, CFP® who have earned their Certified Financial Planner® designations.



Brandetsas



Kucia

NEW ADDITIONS TO THE TEAM

- **Ann Grimaldi**
  Trust Administration Assistant
- **Jacqui Wright**
  Corporate Accountant

Grimaldi

Wright

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

JOHNSON
INVESTMENT COUNSEL

ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio's largest independent wealth management firms, managing more than $12.9 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

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