

## A Large Cap Growth Investor

*Identifying and buying companies that are achieving growth at the right price is quite a formidable task. Johnson Growth Fund manager Jeff Cornell and his research team succeed in it by having a long-term focus on just 30-40 holdings at a time and trying to buy companies that they think are leaders or have the ability to be leaders within the industry over time.*

**Q: What is your investment philosophy?**

**A:** The basic investment philosophy of Johnson Growth Fund is to look at quality large-cap companies that, we believe, will be growing revenue, earnings, cash flows and dividends faster than the S&P 500 index, which we consider to be the overall market. We believe in focusing on the long-term potential of these companies and hence our investment horizon in most cases is three to five years.

We do invest in some mid-cap companies, because we try to buy companies that we feel are either leaders or have the ability over time to become leaders within their industry. We believe such companies will give us long-term superior performance based upon their competitive strengths, management talents, and their superior products. However, our overall philosophy dictates that we cannot invest in “sin” stocks, namely, those belonging to the alcohol, tobacco and gambling sectors.

**Q: What kind of earnings do you focus on - historical or forward-looking earnings?**

**A:** We focus on forward-looking earnings and cash flows. We consider ourselves fundamental investors so we are cognizant of historical earnings, but the key factor for us is to analyze market expectations. We try to discover if there is a catalyst in place, such as a new product or technology, that has the potential to allow the company to exceed expectations.

We strive to understand the drivers for earnings, revenues, cash flows and margins. We look broadly at these key variables and then drill down from there. We are looking to find companies which have the potential to exceed expectations over a longer time period. We spend lot of time understanding these key drivers.

**Q: What is your investment strategy? Do you prefer certain industries or you don't really have a bias?**

**A:** We do not have any bias. Except that we cannot own any “sin” stocks as dictated by our philosophy, we can invest in whichever industry or sector that we want.

The S&P 500 is our benchmark, but again, we are not overly constrained by any sector.

We may be called GARP investors, as we place great emphasis on valuation given our outlook for growth. Many valuation methods are used, as some different methods may be more appropriate for different industries.

Our goal is to build a portfolio that can outperform over full market cycles. For example, higher growth companies may outperform when the market is up, but probably will not do so when the market is down. Other more stable/consistent growth companies may underperform in an up market and outperform in a down market. We attempt to own a blend of both types of these companies for more consistent portfolio returns.

We pay a lot of attention to how the portfolio performs in an up market versus a down market. As a “core” type portfolio, we are attempting to generate positive alpha without taking undue risk over a longer time period

**Q: How is your research process organized? How do you gather ideas?**

**A:** We believe in good research-driven ideas for long-term, above-average investment performance. Our research staff focuses on company fundamentals, such as the balance sheet, income statements, the management,



**JEFF CORNELL**, CFA is the manager of the Johnson Growth Fund. He also manages the Johnson Dynamic Growth Fund. Cornell has been involved in investment research and portfolio management since 1991.

Cornell has been with Johnson Investment Counsel since 2001.

**“We look at reasonably priced, quality large-cap companies that, we believe, have the potential to grow revenue, earnings, cash flows and dividends faster than the S&P 500, which we consider to be the overall market.”**

the market share and the strength of the company's products/services. We want to understand the drivers of the key variables important to us, such as revenue, asset turnover and margins.

We also attempt to identify some key secular trends that are impacting the global economy. These include key themes such as internet/wireless growth within technology and new products/services to address healthcare concerns for an aging population. Within these themes, we will focus on companies that can meet our investment criteria.

Investment ideas can come from anywhere within the company. After thorough review by our analysts, ideas are discussed and debated during meetings of our investment committee. All purchases and sales are approved by this committee.

**Q: Can you give some examples of stock selections that explain your thinking process?**

**A:** One example is Boeing. We looked at Boeing for a long time as the company had been losing market share to Airbus. We knew the company had great new products, such as the 787 Dreamliner, coming into production and we expected the company to start gaining market share. Although the Dreamliner has seen some recent production delays, we think the new plane has a lot of competitive advantages that should lead to lower operating costs and higher efficiencies for Boeing customers.

We feel as though Boeing should be able to take advantage of the secular growth within the commercial airline market that is being driven largely by growth in emerging markets and the replacement cycle for less efficient aircraft. Management is very focused on creating long-term shareholder value.

**Q: How is your portfolio constructed? How many holdings do you have?**

**A:** Since we are primarily large cap investors, the majority of our holdings fall into these types of stocks. We do hold some mid-cap names, but typically large cap accounts for 75%-85% of the overall portfolio holdings.

We generally try to limit our holdings to 30-40 names. We want to own the companies where we have the highest conviction from our research team. Typically, a name in our portfolio will have between 2% to a 4% position. From time to time, we may trade around the position size. For example, if a stock falls in price, we will add to that position, as long as our funda-

mental opinion has not changed. Likewise, if a stock rises faster than we had anticipated, we may trim the holding back.

We diversify within sector and industry. Currently, our biggest sector weighting is about 17%. Our weighted average cap in this portfolio is about \$87 billion. This is very close to the \$94 billion of our index, the S&P 500.

**Q: What is your buy-sell discipline?**

**A:** We are investors who value the potential growth of a company but we are not going to overpay for that growth. Hence our buy-sell decisions are based on the valuation models that we put together for every stock we look at or own.

Our buys and sells are always research driven. We will have targeted buy price/valuation levels and we will wait for names to get to these levels.

There are three reasons why we sell. One, if valuation looks extended given our outlook, we may sell or cut back a position. Two, if the reason we bought the company in the first place is no longer valid, we get out of it. For example, if the competitive strengths of a company are deteriorating or the catalysts for owning a company are diminishing, it's usually time to get out.

The third reason is if the management does something that we just don't think makes sense for the company. For example, if management makes an acquisition that we do not feel is in alignment with the longer term goals for the company, it's usually time to sell.

**Q: How do you measure and control risk?**

**A:** Our primary measure of risk is volatility. We monitor how the portfolio performs during up and down periods versus the S&P 500 over a long time period. We monitor very closely and try to maintain a standard deviation within this portfolio that is less than the S&P 500 over a given market cycle.

Appropriately diversifying portfolio sector and industry holdings is very important in achieving the types of consistent returns we desire.

As we all know, volatility in an equity portfolio is something that cannot be totally mitigated. We know companies will miss estimates, sell side opinions will change and stocks will suffer a period of underperformance. By doing solid, fundamental research, we believe our longer-term investment horizon allows us to take advantage of opportunities presented by the markets. **T**

## Johnson Growth Fund

Website	<a href="http://www.johnsoninv.com">www.johnsoninv.com</a>
Address	Johnson Investment Counsel Inc 3777 West Fork Road Cincinnati, OH 45247
Tel. No.	800-541-0170
Inception	01/04/1993

PORTFOLIO	
Total Net Assets*	\$53.1
Avg Mkt Cap (\$ Weighted)*	\$84,400
Average Price/Earnings Ratio	20.99x
Average Price/Book Ratio	4.8x
Turnover Ratio	91%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$2,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	N/A

RISK (AGAINST S&P 500 DAILY REINV IX - 3 YRS)	
Alpha	0.11
Beta	0.87
R-Squared	0.84
Ann. Std Deviation	7.28
Sharpe Ratio	0.66

RETURNS VS. S&P 500 DAILY REINV INDEX		
	Fund	Index
1 Year (Cum.)	11.94%	5.49%
3 Year (Ann.)	2.73%	8.89%
5 Year (Ann.)	8.42%	11.87%

RETURNS VS. RUSSELL MID CP TR IX INDEX		
	DOIGX	Index
1 Year (Cum.)	11.94%	15.79%
3 Year (Ann.)	2.73%	6.19%
5 Year (Ann.)	8.42%	8.42%

FEES AND EXPENSES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	0.95%

PORTFOLIO MANAGER	
Jeff Cornell	2006

\*millions

Data through: 12/31/2007

Source: Company Documents; Lipper

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