



FORT WASHINGTON ACTIVE CORPORATE FIXED INCOME — 3Q2022

HIGHLIGHTS

- ▶ The Investment Grade Credit market, as represented by the Bloomberg U.S. Credit Index, returned -4.95% in the third quarter, bringing year-to-date returns to -18.07%, as interest rates rose and credit spreads widened 4 basis points to close at +147 basis points.
- ▶ The quarter saw spreads move tighter in July and August on expectations the Federal Reserve would soon slow the pace of monetary tightening. Risk assets, including both equities and credit, moved sharply lower in September as continued high inflation readings led traders to extend the forecasted tightening cycle.
- ▶ Negative returns drove continued steady outflows from mutual funds and ETFs throughout the quarter. All-in yields hit new post-GCF highs at 5.57%, bringing the average dollar price for the market to below \$90.
- ▶ The quarter saw primary market supply of \$297B, in line with expectations. Supply was heavy in July and August, given the stronger market tone, but fell in September with wider spreads and heightened interest rate volatility. Continued heavy issuance from financials and a \$10B inaugural debt deal from Meta Platforms highlighted the quarter.
- ▶ The Fort Washington Active Corporate Fixed Income strategy returned -4.19% (gross)/-4.27% (net) in the third quarter, outperforming the Bloomberg U.S. Credit Index by +76/+68 basis points on a gross/net basis.
- ▶ Sector allocation effects were slightly positive with no significant contributors or detractors.
- ▶ Security selection was highly positive as several names that underperformed in the first half saw a meaningful recovery. The strategy also benefited from an overweight to bank-preferred stocks, which outperformed the overall credit market. (See chart below for list of top issuer attribution and bottom issuer attribution.)

INVESTMENT PROFESSIONALS

Paul A. Tomich, CFA
Senior Portfolio Manager
17 Years Experience

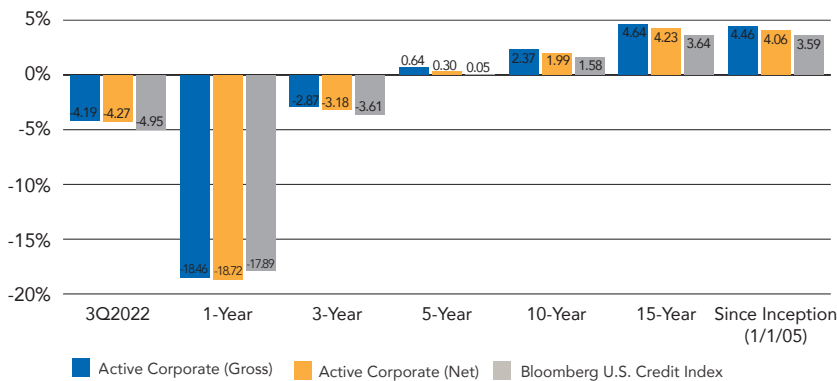
Jon P. Westerman, CFA
AVP, Portfolio Manager
16 Years Experience

Jay M. Devine
Fixed Income Trader
24 Years Experience

The portfolio management team is supported by the dedicated research teams of Global Investment Grade Credit, Securitized Assets, Leveraged Credit, and Emerging Markets, as well as the Chief Economist and Chief Investment Officers.

Historical Performance

Annualized Return as of September 30, 2022



Source: Fort Washington Investment Advisors, an investment advisor registered with the U.S. Securities and Exchange Commission. Past Performance is not indicative of future results. This supplemental information complements the Active Corporate GIPS Report.

Top Issuer Attribution			Bottom Issuer Attribution		
	Rel Wgt	Attr		Rel Wgt	Attr
Wisconsin Energy	1.4%	0.12	British Telecom	0.9%	-0.02
Netflix	1.4%	0.06	Warner Brothers Discovery	0.6%	-0.02
Wells Fargo	0.2%	0.05	PNC Financial	0.8%	-0.02
Charles Schwab	0.6%	0.05	FedEx	0.7%	-0.02
First Energy	0.8%	0.04	Paramount Global	0.2%	-0.02

Source: Eagle PACE. Past performance is not indicative of future results. The securities identified do not represent all of the securities purchased, sold, or recommended. This is not a recommendation with respect to the purchase or sale of any of these securities. For a complete list of all securities purchased or sold during the previous year, please contact Fort Washington.

MARKET OVERVIEW

The third quarter, much like the second quarter, saw negative returns for all risk asset classes, and investment grade credit was not spared despite fundamentals remaining strong for the vast majority of issuers. Credit curves steepened in the 2 to 10 year part of the curve, but flattened in from 10 to 30 year. Record low dollar prices and demand from liability-driven investors drove the relative outperformance of the 30 year part of the curve, while continued mutual fund and ETF outflows led to the underperformance of 5 to 10 year spreads. Continued uncertainty around the path and magnitude of rate hikes, as well as forecasts of increased potential for a recession, are having the greatest impact on spreads. Spread levels remain above the 70th percentile after spending most of 2021 in the bottom quartile. The combination of cheaper spread valuations, higher yields, and lower dollar prices should eventually drive support for credit markets, but volatility is expected to remain high in the near term, limiting the ability for a sustained spread rally.

Near-term performance of spreads will be dependent on the market fully pricing in Fed tightening, signs inflation has stabilized or is declining, de-escalation of conflict in Ukraine, and credit fundamentals holding up in the face of a macroeconomic slowdown. While valuations are at levels that offer strong upside return potential, heightened attention to credit fundamentals and valuations should be paramount to future performance relative to the benchmark, given spread risk could skew further to the downside on adverse macro events.

Sector Allocation

	Portfolio		Index		Relative	
	MV %	Spread Risk	MV %	Spread Risk	MV %	Spread Risk
US Government	1.0	-	-	-	+1.0	-
<i>TIPS</i>	-	-	-	-	-	-
Investment Grade Credit	91.7	7.4	95.4	5.6	-3.7	+1.9
<i>Basic Industry</i>	1.7	0.2	2.0	0.2	-0.3	+0.0
<i>Capital Goods</i>	7.1	0.4	4.6	0.3	+2.5	+0.2
<i>Communications</i>	6.9	0.8	7.3	0.7	-0.3	+0.1
<i>Consumer Cyclical</i>	6.2	0.4	5.8	0.3	+0.4	+0.1
<i>Consumer Non-Cyclical</i>	13.0	1.1	12.6	0.8	+0.4	+0.3
<i>Energy</i>	6.1	0.6	5.9	0.4	+0.2	+0.2
<i>Financials</i>	33.9	2.3	28.6	1.5	+5.3	+0.7
<i>Other Industrial</i>	-	-	0.4	0.0	-0.4	-0.0
<i>Technology</i>	6.7	0.4	8.1	0.5	-1.4	-0.1
<i>Transportation</i>	2.4	0.2	2.0	0.1	+0.4	+0.1
<i>Utility</i>	6.9	0.9	7.1	0.5	-0.3	+0.4
<i>Other</i>	0.8	0.1	10.9	0.2	-10.1	-0.1
Securitized	0.7	0.0	-	-	+0.7	+0.0
<i>RMBS</i>	-	-	-	-	-	-
<i>ABS</i>	0.7	0.0	-	-	+0.7	+0.0
<i>CLO</i>	-	-	-	-	-	-
<i>CMBS</i>	-	-	-	-	-	-
High Yield	3.6	0.3	-	-	+3.6	+0.3
Emerging Markets Debt	2.6	0.4	4.6	0.4	-2.0	-0.0
Preferred Stock	0.5	0.1	-	-	+0.5	+0.1
Other	-	-	-	-	-	-
Cash	(0.0)	-	-	-	-0.0	-

Source: Bloomberg PORT. Sector Analysis chart is for illustrative purposes only; this illustrates the portfolio's allocation of dollars and risk compared to the benchmark. Information is subject to change at any time without notice. Index is the Bloomberg U.S. Aggregate Bond Index. This should not be considered investment advice or a recommendation of any strategy, product, or particular security. See disclosures for important information about derivatives. This supplemental information complements the Core Plus GIPS Report.

Portfolio Statistics

Characteristics			Credit Quality		
	Active Corporate Composite	Bloomberg U.S. Credit		Core Plus Composite	Bloomberg U.S. Credit
Effective Duration	6.80 yrs	6.89 yrs	AAA	1%	8%
Yield to Worst	6.17%	5.57%	AA	4%	9%
Effective Maturity	12.64	10.76	A	20%	38%
Average Quality	BAA1/BAA2	A2/A3	BBB	71%	45%
			BB	4%	0%
			B	0%	0%
			CCC and Below	0%	0%
			Not Rated / Other	0%	0%
			Cash	0%	0%

Source: Bloomberg PORT. Sector and duration allocation are subject to change at any time. Quality distribution subject to change. See the appendix for important information about derivatives. Totals may not equal 100 due to rounding. This supplemental information complements the Active Corporate GIPS Report.

STRATEGY ACTIVITY

Risk levels were decreased throughout the quarter while overall trading activity remained low compared to history. The strategy decreased risk as bank-preferred stocks were sold in favor of higher rated subordinated bank debt. Risk was also decreased due to the relative outperformance of several large overweights in the portfolio, including Wisconsin Energy and Netflix. The strategy is currently at 60% of risk budget with a targeted range of 60-70%. In general, the strategy remains comfortable going down in credit in defensive, less cyclical sectors such as staples, utilities, and healthcare while also adding to select opportunities in cyclicals, technology, and financials on weakness. Excess yield to the benchmark remains an important component of expected returns with the portfolio exceeding the benchmark yield by 60 bps at quarter-end. The overall composition of the strategy is still offensively positioned, targeting additional return versus the benchmark from relative spread movements compared to the index.

OUTLOOK

Factor	Outlook	Comments
Economic	Negative	<ul style="list-style-type: none"> US economic growth slowing amid tighter financial conditions Consumer spending supported by labor market, but inflation remains a headwind Business spending subject to further downside risk; cost pressures and supply constraints waning Latest inflation data showed moderation in some prices, but further evidence needed Commodity declines will moderate headline inflation further in 2H2022, lowering risk of pass-through to core Fed focused on compelling evidence that inflation is on downward path before changing hawkish stance
Financial Conditions	Negative	<ul style="list-style-type: none"> Financial conditions tighter as rates increase and risk weakens; Fed pushback against perceived pivot Volatility in risk assets driven by implications of aggressive Fed tightening Treasury yields, especially short-end, increase to reflect aggressive tightening expectations
Valuations	Credit: Positive	<ul style="list-style-type: none"> Credit valuations are compelling as they have widened to reflect uncertainties. Resilience of US economy provides support
	Equities: Neutral	<ul style="list-style-type: none"> Equities are compelling based on relative valuations and fair on an absolute basis, but risks to earnings downside remain
	Rates: Neutral	<ul style="list-style-type: none"> Risk/reward has become more balanced. Risks to lower interest rates from slowing global growth and/or a quicker slowing in inflation. Risks to higher interest rates include sustained higher inflation and a further acceleration in Fed policy.
Risk Budget		
50%	<p>Summary: We remain comfortable with a modest allocation to risk assets. Growth is clearly slowing amid tighter financial conditions. Slowing growth, above target inflation, further tightening of monetary policy, as well risks to growth in Europe and China represent uncertainties. The US economy has shown resilience and can sustain somewhat tighter policy, offering a path to a soft landing or shallow recession. Valuations have adjusted to more compelling levels and support a moderate overweight to risk.</p>	

Source: Fort Washington. This is for informational purposes only and should not be construed as investment advice. Outlook reflects subjective judgments and assumptions subject to change without notice. Unexpected events may occur, there can be no assurance that developments will transpire as forecast. Past performance not indicative of future results.

COMPOSITE PERFORMANCE DISCLOSURES

	3Q2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Active Corporate Fixed Income (Gross)	-4.19%	-0.55%	11.70%	15.90%	-2.35%	7.38%	8.23%	-0.24%	8.44%	-2.69%	9.92%
Active Corporate Fixed Income (Net)	-4.27%	-0.87%	11.33%	15.50%	-2.73%	6.96%	7.80%	-0.63%	8.01%	-3.12%	9.45%
Bloomberg US Credit Index	-4.95%	-1.08%	9.35%	13.80%	-2.11%	6.18%	5.63%	-0.77%	7.53%	-2.01%	9.39%
Active Corporate Fixed Income 3-Year Annual Standard Deviation ¹	--	7.72%	7.64%	3.56%	4.01%	4.13%	4.45%	4.32%	4.33%	4.60%	3.78%
Bloomberg US Credit Index 3-Year Annual Standard Deviation ¹	--	6.49%	6.41%	3.48%	3.52%	3.72%	4.00%	4.06%	3.94%	4.23%	3.64%
Dispersion ²	0.15%	0.15%	--	--	--	--	--	--	--	--	--
Number of Accounts	7	7	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ millions)	\$764.7	\$966.3	\$886.3	\$344.4	\$204.9	\$192.1	\$126.6	\$80.9	\$81.1	\$78.5	\$54.9
Total Firm Assets (\$ millions)	\$64,027	\$73,804	\$65,086	\$59,174	\$49,225	\$52,774	\$45,656	\$42,959	\$45,002	\$43,671	\$42,465

Composite inception and creation date: 01/01/05. Benchmark returns include interest income, but as an unmanaged fixed income index, it does not include transaction fees (brokerage commissions), and no direct comparison is possible. The index includes domestic, taxable, and dollar-denominated securities and covers the U.S. investment-grade fixed rate corporate bond market. The 3-Year annualized ex-post standard deviation is calculated using monthly gross-of-fee returns to measure the average deviations of returns from its mean. ²Dispersion is not calculated for years in which the composite contains five portfolios or less. Dispersion is calculated as the equal weighted standard deviation of gross-of-fee returns for those portfolios held in the composite during the entire period. Past performance is not indicative of future results.

In Fort Washington's Active Corporate strategy, our investment grade credit analysis process is centered on a relative value analysis. This is combined with solid fundamental credit analysis and efficient execution to build long-term value. Sector specialists and credit analysts evaluate the sector to determine the optimal mix of securities within that sector. The process is not ratings driven, but focuses on risk premiums, potential for downgrade, and the most effective combination on the risk free rate and credit risk premium. The portfolio is actively traded with the goal of outperforming a credit index. All fee-paying, fully discretionary portfolios, managed in the Active Corporate Fixed Income style with a minimum of \$3 million under our management, are included in this composite. Effective 01/22/14, the Active Corporate Fixed Income strategy fee schedule is 0.30% on the first \$25 million and 0.25% on additional amounts over \$25 million. The benchmark for this strategy is the Bloomberg US Credit Index. Portfolios in this composite include cash, cash equivalents, investment securities, interest and dividends. Cash is maintained, within each separately managed account segment, in accordance with our asset allocation ratio. The U.S. dollar is the base currency. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the actual management fees charged. Individual portfolio returns are calculated on a daily valuation basis. Prior to 01/01/97, individual portfolio returns were calculated on a monthly basis using a time-weighted return method. Past performance is not indicative of future results. Fort Washington Investment Advisors, Inc. (Fort Washington), a wholly owned subsidiary of The Western and Southern Life Insurance Company, is a registered investment advisor and provides discretionary money management to a broad range of investors, including both institutional and individual investors. Assets under management include all portfolios managed by Fort Washington and exclude assets managed by and marketed as its Private Equity business unit. Fort Washington claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Fort Washington has been independently verified for the periods 7/1/94 - 12/31/20. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. To receive a complete list and description of composites, contact Fort Washington by phone at 888.244.8167, in writing at 303 Broadway, Suite 1200, Cincinnati, Ohio 45202, or online at fortwashington.com.

RISK DISCLOSURES

The Fort Washington Active Corporate Fixed Income strategy invests in fixed-income securities which can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. Events in the U.S. and global financial markets, including actions taken to stimulate or stabilize economic growth may at times result in unusually high market volatility, which could negatively impact strategy performance and cause it to experience illiquidity, shareholder redemptions, or other potentially adverse effects. Banks and financial services companies could suffer losses if interest rates rise or economic conditions deteriorate.

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. The securities identified do not represent a complete list of all securities purchased, sold, or recommended; please contact Fort Washington for a complete listing of securities held, sold, or purchased over the last year. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete. Past performance is not indicative of future results.



**Fort Washington
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

▾ **Uncompromised Focus®**

© 2022 Fort Washington Investment Advisors, Inc.