



## FORT WASHINGTON SMALL COMPANY EQUITY — 3Q2022

### HIGHLIGHTS

- ▶ The Fort Washington Small Company Equity strategy outperformed the Russell 2000 index in the third quarter.
- ▶ The third quarter was characterized by a return to volatility in the markets.
- ▶ Corporate profit outlook is uncertain, but small cap valuations are near record PE lows, creating attractive investment opportunity for high quality small cap portfolios.

### INVESTMENT PROFESSIONALS

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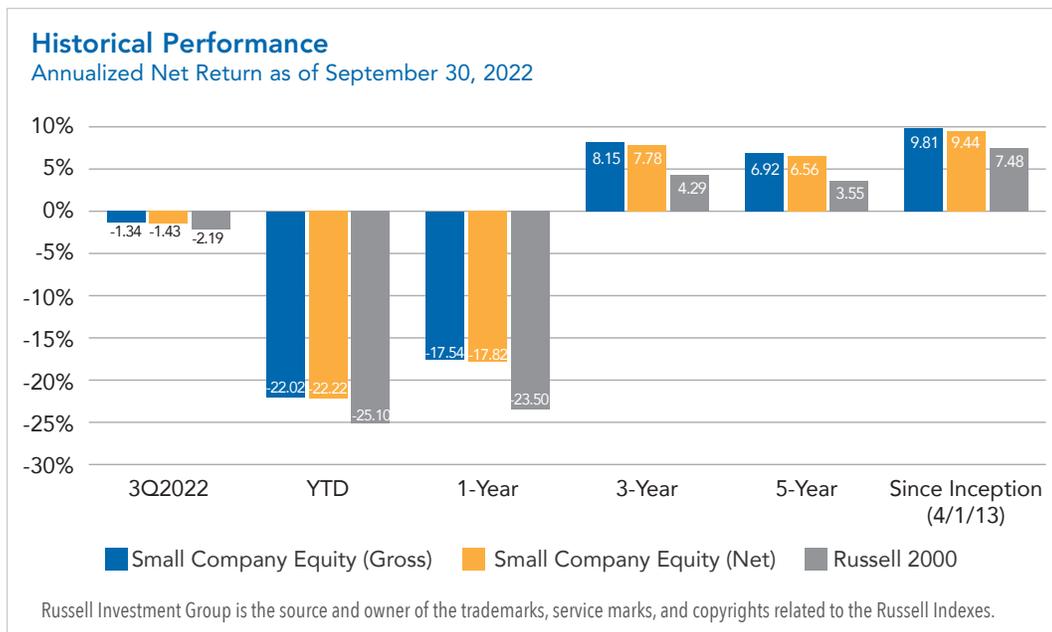
VP, Senior Portfolio Manager  
22 Years Experience

**John T. Stewart**

AVP, Senior Equity Research Analyst  
13 Years Experience

**Lenny A. Valvano, CFA**

Equity Research Analyst  
7 Years Experience



Source: Fort Washington Investment Advisors. Past performance is not indicative of future results. Quality and sector distribution as well as portfolio attribution and allocation is subject to change at any time.

### MARKET OVERVIEW

The small cap Russell 2000 Index declined 2.2% for the third quarter of 2022. While returns were slightly negative, the third quarter was characterized by return volatility. July returns were 9.6%, and the Russell 2000 Index continued to rally into mid-August, with returns close to 20% quarter-to-date on August 15. However, a sell-off ensued, and August returns finished down 2.1%, and September posted a decline of 9.6%, to put the quarter "in the red." In an interesting coincidence, the September negative return matched the July positive return. We believe that the rally through the first 45 days of the quarter was primarily due to investor hopes that higher inflation and interest rate expectations had peaked, which would spark a Federal Reserve policy "pivot." Additionally, we believe second quarter earnings resiliency buoyed investor hopes. The optimism quickly disappeared as the quarter progressed due to reasons we cited as being headwinds to markets for the foreseeable future. Specifically, the pandemic, pent-up demand, and unprecedented fiscal and monetary policy fueled unsustainable consumer and corporate demand across several sectors. Supply was slow to catch-up to this unprecedented demand, fueling inflationary cost pressures and higher interest rates. However, we are clearly seeing industry-by-industry dominos fall as supply catches up and exceeds demand. This environment is creating an uncertain outlook for corporate profits in the aggregate, which combined with higher interest rates, is reducing market valuations. We believe that earnings drive long-term equity returns and have favorable views on the long-term earnings outlook of portfolio holdings, but we still believe the corporate earnings above trend need to recalibrate and normalize.

From a sector perspective, Health Care (+6.5%) and Energy (+5.7%) were the only positive sectors in the Russell 2000 Index. Consumer Discretionary (-1.7%) and Financials (-2.2%) modestly outperformed. The bottom three performing sectors were Real Estate (-12.6%), Communication Services (-11.4%), and Consumer Staples (-7.9%). Utilities (-7.6%), Information Technology (-4.6%), Materials (-4.2%), and Industrials (-3.5%) also underperformed.

## STRATEGY ACTIVITY

### Sector Positioning

We are overweight Industrials, and this is our largest sector allocation. We added two new positions. The first is a leading global technology solutions provider to the food and beverage industry, as well as a supplier of critical equipment to the air transportation industry. The second is a leader in mechanical and electrical construction services, as well as industrial, energy infrastructure, and building services. We exited one position that is a global leader in the coatings industry across automotive and industrial end markets.

We are overweight Health Care, and this is our second largest sector allocation. We added three new positions. The first is a medical device manufacturer focused in the cardiology, radiology, and oncology markets. The second is a provider of healthcare technology solutions focused on ambulatory healthcare providers. The third is a leading healthcare at home company providing home health, hospice, and high-acuity care services.

We are overweight Consumer Discretionary, and this is our third largest sector allocation, moving up from fourth but with no change in total weight. There was no position activity in the third quarter.

We are overweight Information Technology, and this is our fourth largest sector allocation, but the weight was reduced in the third quarter. We exited two positions. The first is a provider of communication services. The second is a provider of performance marketing services to the financial services and home services industries.

Financials is our fifth largest sector allocation, and we increased our allocation, but we are underweight the benchmark. We added two positions. The first is a regional bank, and the second is a real estate investment trust focused on open-air retail centers in the Sun Belt.

### Contributors/Detractors

The following were the top three contributors for quarter. One is North America's leading provider of environmental and industrial services, such as end-to-end hazardous waste management, and

also North America's largest re-refiner and recycler of used oil. The company executed well in the first half of the year to capitalize on robust demand for their services and report significant increases in earnings, as well as increase earnings targets. The second is the provider of the world's largest security awareness training and simulated phishing platform. The company is experiencing strong demand for their solutions with revenue growth expected to be over 30% this year. The third is a leading fertility benefits management company. The company reported a strong second quarter with revenue growth of 52%, as well as margin expansion, and raised their outlook for 2022 for revenue to grow 50%-55% and profitability higher.

The following were the top three detractors for the quarter. One is the largest provider of dredging services in the United States. The company experienced a myriad of operational challenges in the second quarter, which resulted in a lower earnings outlook for 2022. We believe these issues are transitory. Additionally, the pipeline for new contract awards appears robust and accelerating, which should benefit 2023 earnings. The second is a company that operates an online automotive platform including its industry-leading listings marketplace and wholesale platform. The stock has underperformed due to challenging conditions in the United States used car market, as a combination of a lack of inventory and high prices is driving lower consumer demand. While industry conditions are difficult, we believe this company is positioned to benefit from both an industry cyclical improvement and secular technology shifts in the future. The third is a leading provider of medication management products and automated solutions for health systems and pharmacies. Demand for the company's products and revenue growth are north of 20% in 2022, but cost challenges are limiting earnings growth below 10% expected in 2022. The primary reason for the underperformance has been multiple contraction due to the slower than expected earnings growth.

## TOP TEN HOLDINGS (AS OF 9/30/2022)

| Name                        | Sector                 | % of Portfolio |
|-----------------------------|------------------------|----------------|
| Clean Harbors               | Industrials            | 2.6%           |
| Corporate Office Properties | Real Estate            | 2.5%           |
| Premier Inc                 | Health Care            | 2.5%           |
| Webster Bank                | Financials             | 2.4%           |
| Box                         | Information Technology | 2.2%           |
| Silgan Holdings Inc         | Materials              | 2.2%           |
| KBR Inc                     | Industrials            | 2.2%           |
| Onto Innovation Inc         | Information Technology | 2.0%           |
| Malibu Boats Inc            | Consumer Discretionary | 2.0%           |
| Steve Madden Ltd            | Consumer Discretionary | 1.9%           |
| <b>Total</b>                |                        | <b>22.5%</b>   |

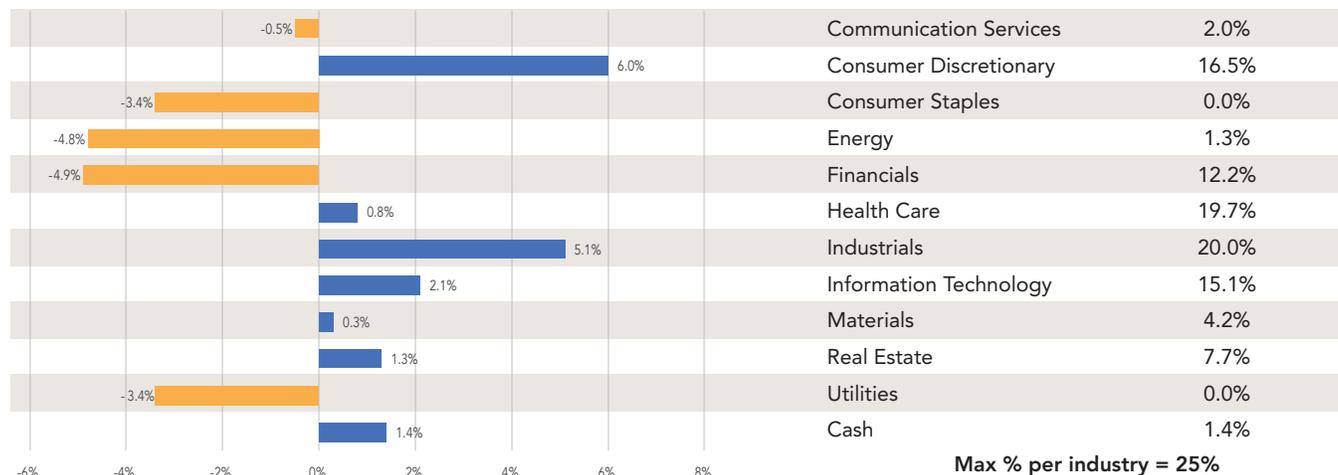
Source: Fort Washington. The above data is rounded for informational purposes. Totals reflect actual value and may not match the sum based on rounded values. Holdings subject to change at any time without notice. The securities identified do not represent all of the securities purchased, sold, or recommended. It should not be assumed investments in securities identified were or will be profitable. This is not a recommendation with respect to the purchase or sale of any securities disclosed.

## Sector Over/Underweight vs. Russell 2000 Index<sup>1</sup>

As of 9/30/2022

## Sector Portfolio Weight

As of 9/30/2022



Source: Fort Washington, data above includes cash. Portfolio characteristics are estimates as of the reported date and are subject to change at any time without notice. Due to rounding, numbers may not total 100%. <sup>1</sup>Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes

## Portfolio Characteristics

|                            | Small Company Equity | Russell 2000 |
|----------------------------|----------------------|--------------|
| Number of holdings         | 77                   | 1,970        |
| Price/Prospective Earnings | 15X                  | 11X          |
| Earnings Growth            | 14%                  | 10%          |
| Alpha*                     | 2.8%                 | -            |
| Beta*                      | 0.9                  | 1.0          |
| Sharpe Ratio*              | 0.5                  | 0.4          |
| Active Share               | 95%                  | -            |

Source: Fort Washington. \*Data is calculated Since Inception. Characteristics above are subject to change at any time without notice. Peer group data source is eVestment Alliance, LLC eASE Analytics US Small Cap Core Equity Universe. Past performance is not indicative of future results. This supplemental information complements the Small Company Equity Composite Presentation. Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

## OUTLOOK

We believe economic growth rates will continue to moderate due to a slow down and normalization in demand across several sectors that benefitted from pent-up demand and fiscal and monetary stimulus. We also expect inflationary pressures and higher interest rates to negatively impact economic growth. We expect these dynamics to negatively impact corporate profits. Corporate earnings forecasts peaked in the second quarter. We expect earnings forecasts to continue to weaken due to moderating economic growth and higher costs. We expect increased earnings variability at the industry level.

However, as previously mentioned, we already witnessed supply running ahead of demand across an increasing number of industries as the third quarter progressed. We expect increasing supply and moderating demand to reduce inflationary pressures looking ahead, leading to an eventual peak in interest rate expectations followed by a Federal Reserve "pivot." We believe that the mid-term election results will provide better visibility on the political environment over the next year, but currently we believe material legislative changes impacting the economic outlook positively or negative seem unlikely.

Small cap equities are trading at their lowest price-to-earnings valuation since the Great Financial Crisis. While we expect earnings forecasts to decline, we believe high quality, free cash flow generating companies with strong balance sheets have increasingly attractive expected forward returns.

We believe that earnings drive long-term equity performance and we continue to consistently execute our stock selection process with a focus on profitable, higher quality small cap equities, which demonstrate favorable return and risk characteristics across cycles.

## COMPOSITE PERFORMANCE DISCLOSURES

|  | 3Q2022   | 2021      | 2020     | 2019      | 2018      | 2017      | 2016      | 2015    | 2014      | 2013      |
|--|----------|-----------|----------|-----------|-----------|-----------|-----------|---------|-----------|-----------|
| Small Company Equity (Gross)                                       | -1.34%   | 24.68%    | 19.01%   | 22.59%    | -7.44%    | 18.75%    | 20.71%    | -0.41%  | 7.71%     | 20.52%    |
| Small Company Equity (Net)   | -1.43%   | 24.27%    | 18.61%   | 22.19%    | -7.73%    | 18.34%    | 20.29%    | -0.76%  | 7.33%     | 20.21%    |
| Russell 2000 Index   | -2.19%   | 14.82%    | 19.96%   | 25.52%    | -11.01%   | 14.65%    | 21.31%    | -4.41%  | 4.89%     | 23.52%    |
| Small Company Equity 3-Year Annual Standard Deviation <sup>1</sup> | --       | --        | --       | 15.30%    | 15.79%    | 13.91%    | 15.76%    | --      | --        | --        |
| Russell 2000 Index 3-Year Annual Standard Deviation <sup>1</sup>   | --       | --        | --       | 15.71%    | 14.99%    | 13.90%    | 15.86%    | --      | --        | --        |
| Dispersion <sup>2</sup>  | 0.10%    | --        | --       | --        | --        | --        | --        | --      | --        | --        |
| Number of Accounts   | 8        | ≤5        | ≤5       | ≤5        | ≤5        | ≤5        | ≤5        | ≤5      | ≤5        | ≤5        |
| Composite Assets (\$ Millions)                                     | \$908.4  | \$1,103.9 | \$939.0  | \$1,072.5 | \$1,114.9 | \$1,295.3 | \$1,147.8 | \$907.5 | \$1,073.1 | \$1,374.4 |
| Total Firm Assets (\$ Millions)                                    | \$64,027 | \$73,804  | \$65,086 | \$59,174  | \$49,225  | \$52,774  | --        | --      | --        | --        |

\*2013 returns are a partial period from 4/1/13-12/31/13. Small Company Equity Composite inception date is 4/1/13 and the creation date is 1/1/18. <sup>1</sup>The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean. 2013-2015 figures are not presented because 36 monthly returns are not available.

<sup>2</sup>Dispersion is not calculated for years in which the composite contains five portfolios or less. Dispersion is calculated as the equal weighted standard deviation of returns for those portfolios held in the composite during the entire period. The benchmark for this composite is the Russell 2000 Index. Past performance is not indicative of future results. The Small Company Equity strategy seeks to invest primarily in common stocks of small-capitalization companies that Fort Washington believes are high quality, have superior business models, solid management teams, and are attractively valued. The strategy normally invests at least 80% of its assets in small-capitalization companies. For this purpose, small capitalization companies are companies that have market capitalizations within the range represented in the Russell 2000 Index (between approximately \$11 million and \$7.7 billion as of September 30, 2018). The market cap range of the Russell 2000 Index will change with market conditions. The strategy may invest without limitation in foreign securities, although only where the securities are trading in the U.S. or Canada and only where trading is denominated in U.S. or Canadian dollars. The benchmark for this composite is the Russell 2000 Index. The Frank Russell Company (FRC) is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information pertaining to FRC and unauthorized use, disclosure, copying, dissemination, or redistribution is strictly prohibited. This is a Fort Washington Investment Advisors, Inc. presentation of the data and FRC is not responsible for the formatting or configuration of this material or any inaccuracy in the presentation thereof. This benchmark is comprised of the smallest 2,000 companies in the Russell 3000 Index. Portfolios in this composite include cash, cash equivalents, investment securities, 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. Past performance is not indicative of future results. Performance from 4/1/2013 through 10/31/2017 was attained by an investment team employed by Sentinel Asset Management and lead by the current Senior Portfolio Manager. As a result of the Sentinel Small Company Fund acquisition by Fort Washington's affiliate Touchstone Investments, Inc., the Senior Portfolio Manager and Small Company investment team are also responsible for the performance results shown from 11/1/2017 to current for Fort Washington. 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. 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

Fort Washington's Small Company Equity strategy invests in stocks of small-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. The strategy invests in foreign securities, which carry the associated risks of economic and political instability, market liquidity, currency volatility, and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The strategy may focus its investments in a particular industry and/or market sector which may increase the strategy's volatility and magnify its effects on total return. 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 the strategy's performance and cause it to experience illiquidity, shareholder redemptions, or other potentially adverse effects.

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