



## FORT WASHINGTON EMERGING MARKETS DEBT — 4Q2023

### HIGHLIGHTS

- ▶ The Fort Washington Emerging Markets Debt Fixed Income strategy invests primarily in hard currency sovereigns, with up to 20% EM corporates and 10% local currency, with the objective to outperform the JP Morgan EMBI Global Diversified benchmark by 100 to 150 basis points gross of fees on an annualized basis over the course of a market cycle.
- ▶ During the fourth quarter our emerging markets debt (“EMD”) strategy returned 9.92% on a gross basis (9.76% net of fees), outperforming the EMBIG-D benchmark by 76bps gross (60bps net). Relative outperformance was supported by strong security selection and positive exposure to U.S. Treasuries. The best performing region was Asia, with Latin America also performing well. The top three contributors by country were Venezuela, Pakistan, and Indonesia. The top detractors were Brazil, South Africa, and Ukraine. For the full year, our EMD strategy returned 14.04% on a gross basis (13.37% net of fees), outperforming the EMBIG-D benchmark by 295bps gross (228bps net).
- ▶ The market overall had a major “risk-on” move during the fourth quarter of 2023. The S&P 500 returned 11.24% and the NASDAQ 13.56% as investors priced in a higher chance of a soft-landing with inflation expectations falling and growth projections remaining positive. The U.S. Treasury curve reacted accordingly, with the 10 year rate falling 70 bps over the quarter to end the year at 3.88%.
- ▶ EM hard currency sovereign debt, as measured by the JP Morgan EMBI Global Diversified (“EMBIGD”) benchmark, recorded a 9.17% total return during the quarter. The return was driven by both rates and spread compression, with the overall index 46 bps tighter during the quarter. For the full year 2023, the EMBIGD returned 11.09%, led by the high yield portion of the index which had a 15.38% return in the year.

### INVESTMENT PROFESSIONALS

**Daniel J. Carter, CFA**  
Managing Director  
Senior Portfolio Manager  
27 Years Experience

**Bojan Vidosevic, CFA**  
Portfolio Manager  
Senior Credit Analyst  
12 Years Experience

**Brian D. Cloutier, CFA**  
Portfolio Manager  
Senior Credit Analyst  
17 Years Experience

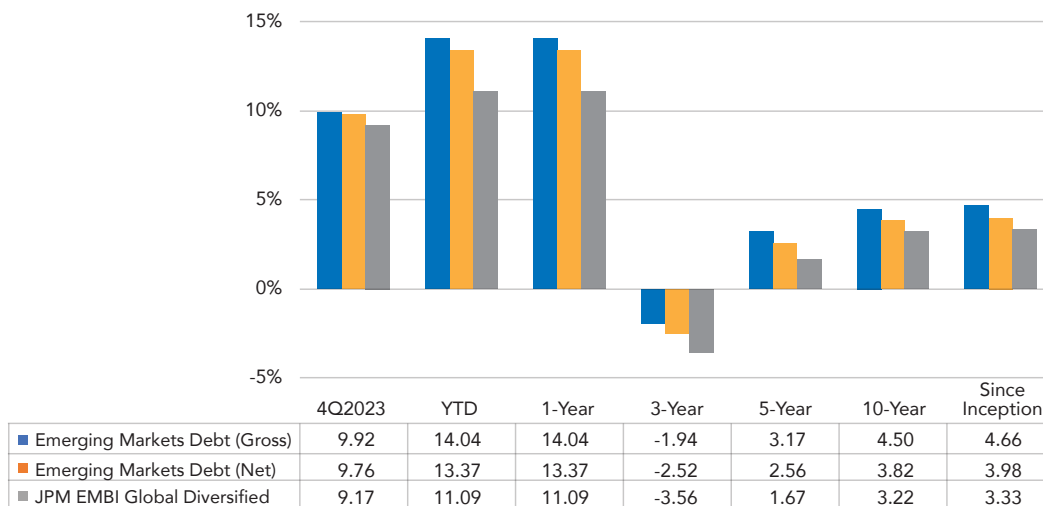
**Brian M. Nunes, CFA, CPA**  
Senior Credit Analyst  
23 Years Experience

### PEER GROUP PERFORMANCE

	Percentile Rank <sup>1</sup> (Net)
4Q2023	44
1 Year	22
3 Years	37
5 Years	29
10 Years	6
Since Inception	5

Source: eVestment  
<sup>1</sup>Peer ranks are percentile rankings versus the eVestment Global Emerging Markets Fixed Income - Hard Currency Universe based on net performance relative to peer group. Past performance is not indicative of future results.

### Annualized Total Returns as of December 31, 2023



Source: Fort Washington Investment Advisors. Past performance is not indicative of future results. This supplemental information complements the Emerging Markets Debt GIPS Report. Inception date: 07/01/2013.

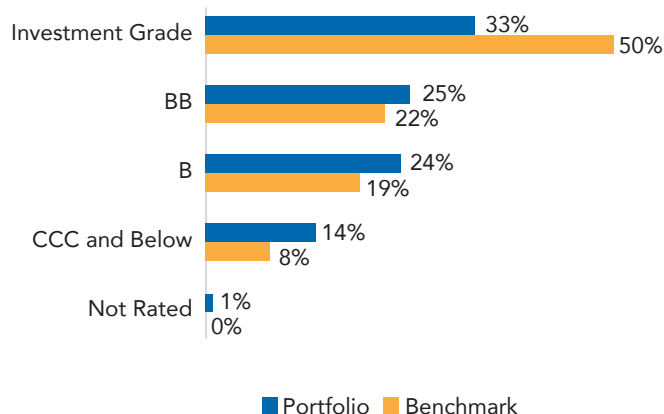
## MARKET COMMENTARY

- ▶ The fourth quarter proved to be a very positive environment for fixed income as the markets pivoted from pricing in a “higher for longer” Fed policy path to not only expecting an end of the hiking cycle, but even pricing in 5-6 cuts by the end of 2024. Indicators in the U.S. pointed to a resilient economy coupled with a decline of both realized inflation and inflation expectations.
- ▶ In October, the surprise attack by Hamas on border towns in Israel instigated an invasion by Israel into the Gaza Strip, which continues today. These events significantly raised the political risk in the region. Iran increased its use of a proxy group in Lebanon, Iraq, and Yemen to exert control over the region and increase the pressure on Israel and its Western allies. Jordan was forced to increase spending to stave off a popular uprising from its high native Palestinian population. Egypt closed its border with the Gaza Strip to prevent an influx of refugees from entering and putting a strain on their resources. We anticipate that this could result in the IMF being more accommodating to Egypt in the near future to reduce the risk of an economic collapse creating further instability in the region.
- ▶ In Argentina, the victory of outsider candidate Javier Milei ended up being a substantial market positive as he moderated from some of his more extreme economic policy ideas and implemented an aggressive orthodox policy package during his first weeks in office. The official exchange rate was adjusted 80% in an attempt to bring the real effective exchange rate (REER) into balance and a package reducing spending by up to 5% of GDP was introduced to bring fiscals into balance. Policy execution risk will remain high going into 2024.
- ▶ The Barbados Agreement between the United States and Venezuela outlined a path for a fairer electoral process in Venezuela in exchange for sanctions relief for the energy sector in the country. As part of the agreement, the ban on secondary trading of Venezuela bonds by the Office of Foreign Assets Control (OFAC) was lifted. Bonds rallied substantially as JP Morgan put the bonds on index watch for potential re-weighting in the index.
- ▶ In November, the IMF staff and the Pakistani authorities reached a staff-level agreement on the first review under Pakistan’s Stand-By Arrangement (SBA), subject to approval by the IMF’s Executive Board, which was delayed until January 2024. Upon approval, Pakistan will have access to SDR 528 million (around US\$700 million). Strong inflows into Pakistan followed the IMF review announcement with continued support from bilateral partners rolling upcoming maturities.
- ▶ In the distressed space progress was made in negotiations between creditors and the governments of Sri Lanka, Ghana, and Zambia; however, a finalized agreement remains elusive in all 3 cases. Ethiopia missed their coupon payment in December, which was well telegraphed to the market and did not come as a surprise. We are hopeful a resolution will be relatively quicker there.

### Top 10 Countries by Market Value

Country	% of Portfolio
Mexico	6.18%
Indonesia	5.80%
U.A.E.	4.46%
Brazil	3.63%
Oman	3.42%
Dominican Republic	2.58%
Romania	3.32%
Saudi Arabia	3.34%
Turkey	3.49%
Colombia	3.00%

### Credit Quality



Source: Fort Washington. This supplemental information complements the Emerging Market Debt GIPS Report. Quality distribution is subject to change at any time. The above data is rounded for informational purposes. Benchmark: J.P. Morgan Emerging Market Bond Index Global Diversified. Portfolio characteristics are subject to change at any time.

## Portfolio Statistics

	Portfolio	Benchmark
Yield to Maturity	9.83%	7.95%
Average Coupon	5.73%	5.34%
Duration	7.14	6.70
Average Life	11.39	11.45
Total # of countries	66	69
Number of Issuers	114	160
Number of Issues	240	922

Source: Fort Washington and Bloomberg. This supplemental information complements the Emerging Markets Debt GIPS Report. Portfolio characteristics are subject to change at any time. You cannot invest directly in an index. Past performance is not indicative of future results.

## PORTFOLIO REVIEW

The Emerging Markets Debt (“EMD”) strategy returned 9.92% on a gross basis (9.76% net of fees), outperforming the EMBIG-D benchmark by 76bps gross (60bps net). Relative outperformance was supported by strong security selection and positive exposure to U.S. Treasuries. The best performing region was Asia, with Latin America also performing well. The top three contributors by country were Venezuela, Pakistan, and Indonesia. The top detractors were Brazil, South Africa, and Ukraine. For the full year, our EMD strategy returned 14.04% on a gross basis (13.37% net of fees), outperforming the EMBIG-D benchmark by 295bps gross (228bps net).

## PORTFOLIO ACTIVITY

Portfolio activity in the fourth quarter focused on a reduction in overall exposure in Argentina given the outperformance there both heading into the election and on the back of the results. We increased our risk-on stance in Pakistan, expecting further normalization of the credit curve. With the sharp risk-on move in the market overall, we rotated some BB-rated names from outperformers to those that lagged the move. Positions were initiated in Ethiopia, Israel, Slovenia, and Tajikistan.

We maintained our spread risk budget at approximately 35% through the fourth quarter as valuations within the HY segment of the EMBIG-D tightened, and we turned more cautious in our macro-outlook. Given the large spread differential between HY and IG, and the fact that IG is trading near cycle tight, we favor an overweight to HY on valuation grounds. Within the HY segment we are cognizant of the fact that most of the value lies at the lowest levels of the quality spectrum but believe that a select number of valuable opportunities with idiosyncratic drivers exist that warrant an overweight. We pair this overweight to HY with CDX protection to manage our overall spread risk into a range that is appropriate given our cautious macro-outlook, and further pair it with a long duration position to help protect against a potential exogenous shock as we believe rates should rally in such a scenario. The excess carry from the overweight to HY helps offset the cost of protection and the long duration position. If a “soft landing” is indeed achieved, then we believe our modest overweight to HY should still perform well relative to the index.

## OUTLOOK

Going into the first quarter of 2024 we continue to favor a modest overweight to spread risk targeting 30% to 40% of our maximum budget. This is supported by valuations given the still wide divergence between HY and IG spreads with IG trading near cycle tight, as well as the availability of bottom-up opportunities within the HY space.

In our opinion, a true “soft-landing” for the U.S. economy would be a positive for risk assets, but current valuations limit the upside to such an outcome. While the U.S. economy has so far been a relative bright spot globally, several events threaten the stability of markets. Wars continue to be fought both between Ukraine and Russia and between Israel and Hamas, the latter of which is rising tensions across the Middle East. Iran continues to use the Houthis in Yemen to disrupt trading routes through the Red Sea, which has forced an armed response from the U.S. and U.K. The election of a staunchly pro-independence President in Taiwan will likely elicit a response from China. And, of course, a highly contentious Presidential election in the U.S. will add substantial headline risk to the markets.

## COMPOSITE PERFORMANCE DISCLOSURES

	4Q2023	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013 <sup>1</sup>
Emerging Market Debt (Gross)	9.92%	14.04%	-17.13%	-0.24%	7.48%	15.33%	-4.18%	11.65%	12.33%	1.55%	8.87%	3.92%
Emerging Market Debt (Net)	9.76%	13.37%	-17.61%	-0.83%	6.84%	14.65%	-4.82%	10.83%	11.50%	0.80%	8.07%	3.53%
JPM EMBI Global Diversified	9.17%	11.09%	-17.78%	-1.80%	5.26%	15.04%	-4.26%	10.26%	10.15%	1.18%	7.43%	2.73%
Emerging Market Debt 3-Year Annual Standard Deviation <sup>2</sup>	--	12.74%	16.55%	13.20%	13.17%	5.05%	5.59%	5.43%	6.32%	--	--	--
JPM EMBI 3-Year Annual Standard Deviation <sup>2</sup>	--	10.70%	13.36%	10.67%	10.73%	4.85%	5.46%	5.04%	5.78%	--	--	--
Dispersion <sup>3</sup>	--	--	--	--	--	--	--	--	--	--	--	--
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ Millions)	\$264.6	\$264.6	\$231.8	\$280.2	\$282.0	\$262.8	\$227.9	\$237.8	\$213.0	\$110.2	\$108.4	\$99.6
Total Firm Assets (\$ Millions)	\$74,613	\$74,613	\$66,365	\$73,804	\$65,086	\$59,174	\$49,225	\$52,774	\$45,656	\$42,959	\$45,002	\$43,671

Composite inception and creation date: 07/01/13. <sup>1</sup>2013 returns are partial-year returns, reflecting the composite inception date of 07/01/13. <sup>2</sup>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. <sup>3</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 gross-of-fee returns for those portfolios held in the composite during the entire period. The benchmark for this composite is the JPM EMBI Global Diversified. You cannot invest directly in an index. Past performance is not indicative of future results.

Fort Washington's Emerging Markets Fixed Income strategy seeks to outperform the JP Morgan Emerging Markets Bond Index Global Diversified (JPM EMBI Global Diversified) on a total return basis. The strategy recognizes emerging markets fixed income as a continually evolving asset class as witnessed by the migration and dispersion of credit quality of the benchmark as well as by consistent addition of countries over the years. Therefore, the strategy first employs a forward looking top-down approach drawing on the four analytical pillars of policy, economics, politics, and markets to identify relative value among a truly global opportunity set. Once these opportunities are identified, the fund employs its bottom-up analytical framework to identify the most appropriate securities. All fee-paying, fully discretionary portfolios with at least \$25 million managed in the Emerging Markets style are included in this composite. The fee is 0.55% for the first \$100 million, and 0.50% on additional amounts over \$100 million for separate accounts, and 0.60% for the commingled vehicle. The benchmark for this composite is the JP Morgan Emerging Markets Bond Index Global Diversified. Portfolios in this composite include cash, cash equivalents, investment securities, interests 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. 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 under management 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 - 12/31/21. 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. 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. 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 Emerging Markets Debt strategy invests in fixed-income securities of both domestic and foreign issuers 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. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk.

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