



FORT WASHINGTON EMERGING MARKETS DEBT — 2Q2022

HIGHLIGHTS

- ▶ Emerging markets debt (EMD) continued to be challenged by the global economic and geopolitical environment in the second quarter of 2022. Volatility in the U.S. Treasury market in the early part of the quarter suppressed credit market liquidity. In mid-June, a surprisingly high CPI reading for May followed by a hawkish response by the Fed pushed the market into a severe risk-off mode with the higher probability of a recession and/or a stagflationary environment.
- ▶ The JP Morgan EMBI Global Diversified (EMBIGD) benchmark returned -11.43% in the second quarter. This brings the year-to-date return to -20.31%. The relative outperformance of the high yield portion of the index in the first quarter reversed in the second quarter with high yield returning -14.55%.
- ▶ The risk-off tone was exemplified in the EMBIGD spread, which widened 142 basis points (bps) and finished the quarter at 542bps. The spread between high yield and investment grade securities within the index widened to 772bps. Both are levels historically only seen during periods of severe market stress.
- ▶ Technicals were challenging in the second quarter. Outflows from hard currency EM funds averaged \$500M - \$1B per week through April and May then accelerated to \$5.4B of outflows in June. Year-to-date outflows stand at -\$18B from dedicated hard currency EM funds.
- ▶ The Fort Washington EMD strategy realized a net return of -14.21% during the second quarter, underperforming the EMBIGD benchmark by 264bps. Year to date, the strategy realized a net return of -21.96% underperforming the EMBIGD benchmark by 147bps.

INVESTMENT PROFESSIONALS

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

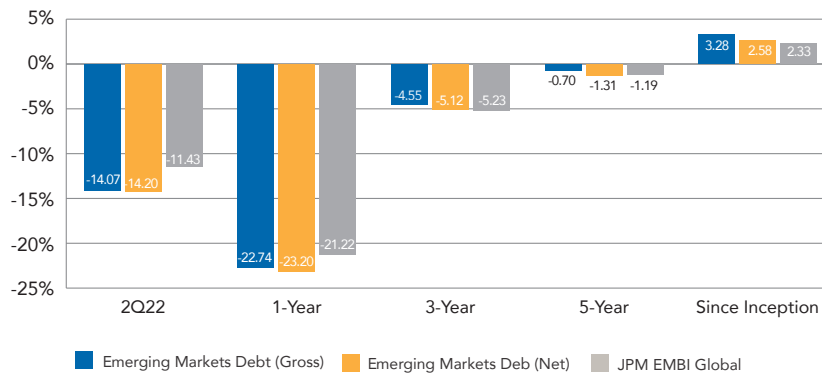
Bojan Vidosevic, CFA
 Assistant Portfolio Manager
 Senior Credit Analyst
 11 Years Experience
 Sovereign

Brian D. Cloutier, CFA
 Portfolio Manager
 Senior Credit Analyst
 16 Years Experience
 Sovereign & Corporate

Brian M. Nunes, CFA, CPA
 Senior Credit Analyst
 22 Years Experience
 Sovereigns & EM Credit

Historical Performance

Annualized Returns as of June 30, 2022



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 OVERVIEW

- ▶ The overall market theme in the second quarter was a risk-off tone, further magnified by 1) substantial asset class outflows 2) crowded positioning and 3) illiquid markets.
- ▶ Persistent and higher than expected inflation in the quarter forced the FOMC and ECB to tilt substantially more hawkish both in rhetoric and action. The Fed hiked interest rates by 75 bps in the June meeting and the market priced in the expectation for another 75 bps hike in July. The specter of Fed-driven demand coupled with persistently high energy costs, as the Russia/Ukraine conflict continues, led to a rapid repricing of risk in the market.
- ▶ The evolution of the war in Ukraine into a slower and more protracted engagement led to further negative sentiment not only in Ukrainian bonds, but in the markets as a whole (given the impact on a broad swathe of energy and commodity prices). China's zero-Covid policy further restricted movement and production in the country as authorities struggled to contain the spread of the Omicron variant. This included full lockdowns in major cities like Shanghai and Beijing. Attempts to reopen have proven difficult, with some areas reentering lockdown. Along with continued issues in global supply chains, the zero-tolerance policy also imposes a severe impact on the 280 million migrant workers in China and the 11 million annual college graduates entering the job market.
- ▶ The tightening of credit conditions led to the market pricing in likely restructurings in low quality credits that require continued market access, e.g Sri Lanka and El Salvador.
- ▶ Flare ups of political risk in Argentina and Ecuador impacted each country's credit market as some investors de-risked and others were unwilling to add risk at anything other than severely stressed levels, irrespective of each country's' fundamental credit situation.
- ▶ Colombia went through 3 rounds of elections to elect a new congress and president. New President-elect Gustavo Petro campaigned on market negative policies, particularly concerning the energy sector. However, his speeches and ministerial picks post-election have pointed to a moderation of his policy stance. In addition, a fractured congress will likely limit his ability to pass laws with materially negative impacts.
- ▶ Top performers in the Fort Washington EMD strategy for the quarter included:
 - Underweight to Sri Lanka sovereign credit as the country entered default and the market priced in a challenging restructuring
 - Overweight to a Trinidad & Tobago state-owned oil company which executed a market-friendly tender and new issue of secured bonds
 - Overweight to a Puerto Rican restructured development bank as the island works through the rest of the restructuring process and the entity is able to monetize non-performing assets
- ▶ Bottom performers in the Fort Washington EMD strategy for the quarter included:
 - Security selection in China with an underweight to short duration, high-quality state owned entities in the market sell-off
 - Overweight in Egypt which is negatively impacted by higher grain prices and by market beta given overall market positioning and flows
 - Overweight to a state owned oil company in Mexico which, despite high oil prices, is negatively impacted by market beta which is magnified by overall market positioning and flows

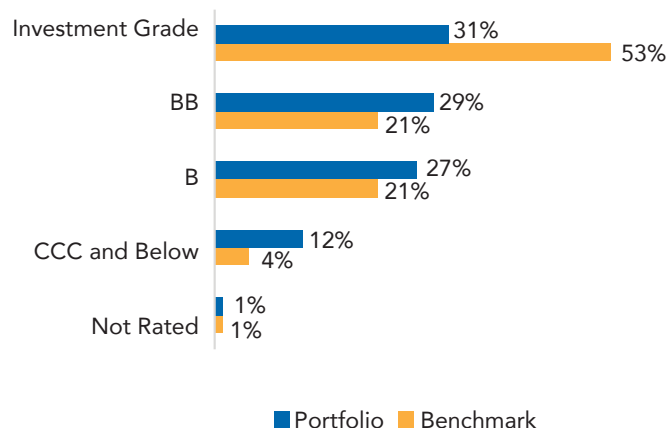
Top 10 Countries by Market Value

Country	% of Portfolio
Indonesia	6.27%
Mexico	6.19%
South Africa	5.65%
Brazil	5.20%
Egypt	4.05%
Malaysia	3.91%
Colombia	3.69%
Argentina	3.59%
Oman	3.24%
Dominican Republic	3.11%

Portfolio Statistics

	Portfolio	Benchmark
Yield to Maturity	13.29%	8.39%
Average Coupon	5.64%	5.03%
Duration	7.11	6.71
Average Life	12.49	11.66
Total # of countries	59	72
Number of Issuers	105	194
Number of Issues	210	928

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.

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 ACTIVITY

- ▶ Portfolio risk was slightly reduced, utilizing 60-70% of the strategy risk budget. This resulted from bottom up analysis and a natural result of the relative performance of the strategy over the quarter. Duration is ended the quarter slightly long, at 0.31 years long versus the EMBIGD.
- ▶ In Indonesia, we participated in a debut issue of a joint venture between a state-owned entity and multinational corporate in the mining sector and added a sub-10y bond of a private utility company. Both were done on swap by selling state owned entities in the mining and oil sectors. In addition, we added exposure to a corporate bond in the coal mining sector.
- ▶ A sovereign credit in Bahrain was sold to buy the credit of a wholly state-owned entity in the oil industry.
- ▶ Added exposure to sovereign bonds of Papua New Guinea.
- ▶ In Morocco, sold the bonds of a state-owned entity in the fertilizer sector to buy sovereign credit.
- ▶ Reduced exposure to a state owned oil company in Kazakhstan and increased exposure to Angola sovereign credit and Mozambique sovereign credit.
- ▶ In Brazil, purchased the bonds of a corporate in the sugar and ethanol production sector and reduced exposure to corporate bonds in the healthcare and paper pulp sectors.
- ▶ Participated in a new issue of Bahamas sovereign credit that carries a partial guarantee from the Inter-American Development Bank.
- ▶ Exited the bonds of an Argentina private utility company.

COMPOSITE PERFORMANCE DISCLOSURES

	2Q2022	2021	2020	2019	2018	2017	2016	2015	2014	2013 ¹
Emerging Market Debt (Gross)	-14.07%	-0.24%	7.48%	15.33%	-4.18%	11.65%	12.33%	1.55%	8.87%	3.92%
Emerging Market Debt (Net)	-14.20%	-0.83%	6.84%	14.65%	-4.82%	10.83%	11.50%	0.80%	8.07%	3.53%
JPM EMBI Global Diversified	-11.43%	-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 ²	..	13.20%	13.17%	5.05%	5.59%	5.43%	6.32%	-	-	-
JPM EMBI 3-Year Annual Standard Deviation ²	..	10.67%	10.73%	4.85%	5.46%	5.04%	5.78%	-	-	-
Dispersion ³	-	-	-	-	-	-
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ Millions)	\$218.9	\$280.2	\$282.0	\$262.8	\$227.9	\$237.8	\$213.0	\$110.2	\$108.4	\$99.6
Total Firm Assets (\$ Millions)	\$67,112	\$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. ¹2013 returns are partial-year returns, reflecting the composite inception date of 07/01/13. ²The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean. ³Dispersion is not calculated for years in which the composite contains five portfolios or less. Dispersion is calculated as the equal weighted standard deviation of the returns for those portfolios held in the composite during the entire period. The benchmark for this composite is the JP Morgan Emerging Market Bond Index Global Diversified. Past performance is not indicative of future results. The Fort Washington Emerging market Fixed Income strategy seeks to outperform the JP Morgan Emerging Market Bond Index Global Diversified on a total return basis. The strategy recognizes emerging market 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 the next \$100 million and over for separate accounts, and 0.60% for the commingled vehicle. 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 - 12/31/20. 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 fortwashingt.com.

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. 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.

© 2022 Fort Washington Investment Advisors, Inc.



**Fort Washington
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

▾ **Uncompromised Focus®**