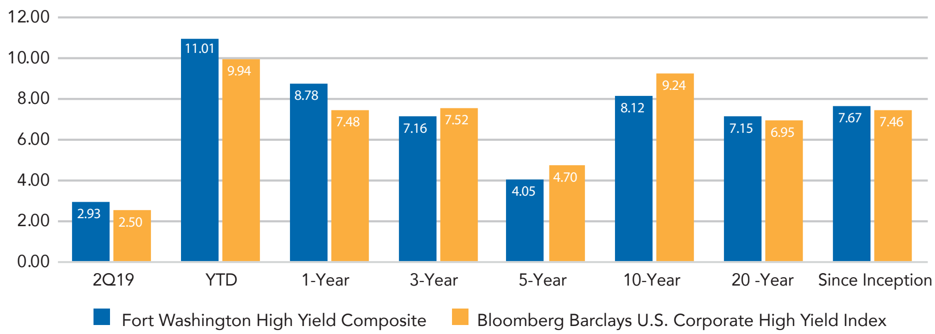
Fort Washington Investment Advisors, Inc.
A member of Western & Southern Financial Group
Uncompromised Focus®

FORT WASHINGTON HIGH YIELD FIXED INCOME — 2Q19

HIGHLIGHTS

- The broad-based recovery seen in 1Q19 slowed in 2Q19 with riskier assets not keeping pace with larger and less volatile asset classes. BBB credit returned +4.80%, High Yield +2.50%, and EM 3.88%. High Yield spreads ended June at +377bps or 14bps tighter on the quarter and 149bps tighter YTD. BBs and Bs saw their spreads tighten while CCCs saw spread widening.
- Our core strategy exceeded the benchmark in 2Q19 with sector allocation being neutral and security selection being significantly positive. The portfolio returned +3.01% (gross) or +51bps to the index return of +2.50%. A multitude of factors led security selection to be the primary driver of this outperformance. These included idiosyncratic news which positively affected multiple holdings, long duration exposures, and the avoidance of distressed commodity-focused issuers (particularly Energy). Overweight allocations to BB/B rated securities also significantly benefitted performance in the quarter as CCC rated securities materially lagged.
- Fundamentals within High Yield are likely to be mixed in the near term as GDP growth in the U.S. has slowed while aggregate financial conditions remain accommodative. Dovish central bank communications have been supportive; causing the Treasury market to rally and bringing yields of High Yield bonds to a low of 5.87% at June 30. We expect default rates to remain low as the economic expansion continues and maturity walls have been pushed out. We find BB/B spreads attractive in the current environment; however, at dollar prices at or above par and overall yields of 5.87%, our expectations are for coupon like returns for the remainder of the year.

Historical Performance
Annualized Net Return as of June 30, 2019



Inception Date: 07/01/1994. Past performance is not indicative of future results.

Top Issuer Attribution	Attr	Rel Wgt	Bottom Issuer Attribution	Attr	Rel Wgt
Weatherford	0.11	-0.23	Gulfport Energy	-0.08	0.50
Cimpress	0.04	0.74	Teva Pharmaceutical	-0.07	0.71
JBS	0.03	0.26	Unit Corp	-0.07	1.14
Hexion	0.03	-0.06	Mallinckrodt	-0.06	0.88
Sabra Health	0.03	0.65	PetSmart	-0.05	-0.29

INVESTMENT PROFESSIONALS

Garrick T. Bauer, CFA
Portfolio Manager
22 Years Experience

Timothy J. Jossart, CFA
Portfolio Manager
26 Years Experience

Casey A. Basil
Senior Credit Analyst
17 Years Experience

Patrick L. Burleson, CFA
Senior Credit Analyst
9 Years Experience

Bernard M. Casey, CFA
Senior Credit Analyst
27 Years Experience

Amy W. Eddy
Senior Credit Analyst
19 Years Experience

Breen T. Murphy, CFA
Senior Credit Analyst
11 Years Experience

Helen H. Brennan
Credit Analyst
11 Years Experience

Jon P. Westerman, CFA
Credit Analyst
14 Years Experience

Matthew J. Jackson, CFA
Senior Leveraged Credit Trader
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 broad-based recovery seen in 1Q19 slowed in 2Q19 and saw varied returns across asset classes with riskier assets not keeping pace with larger and less volatile asset classes. Within equities, the S&P 500 returned +4.30%, the Russell 2000 +2.09%, and Emerging Market equity +0.69%. Within credit markets, BBB credit returned +4.80%, High Yield +2.50%, and EM 3.88%. High Yield spreads ended June at +377bps or 14bps tighter on the quarter and 149bps tighter YTD. BBs and Bs saw their spreads tighten (8bps and 3bps respectively) while CCCs saw spread widening (9bps). The Treasury market rallied significantly with the ten year Treasury starting the quarter at 2.41% and ending at 2.00%; significantly assisting the total returns of long duration assets. WTI had a volatile quarter hitting a high of $66 in April and a low of $51 in June but ending little changed at $58.
- While a return of 2.50% is a solid quarter for High Yield, performance by ratings category was mixed. BBs returned +3.08%, Bs +2.66%, and CCCs +0.29%. Long duration bonds performed well (+4.58%) due to the mixture of the higher quality bias and the rally in the underlying Treasury market. Performance by sector was broadly positive with the exception of Energy which posted negative returns due to the volatility of WTI and the recurring fears of a prolonged global slowdown.

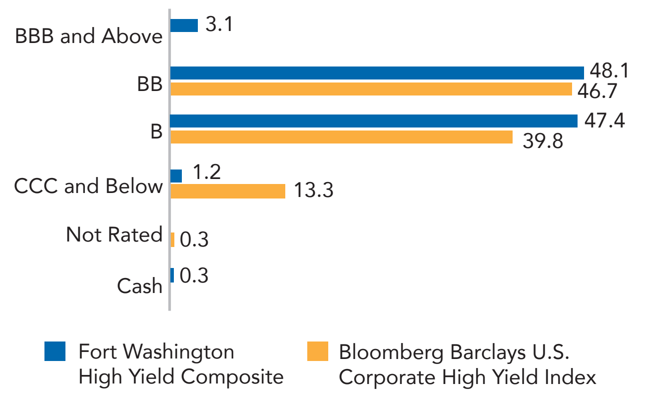
*High yield market represented by the Bloomberg Barclays US Corporate High Yield Index

- Federal Reserve communications continued to read dovish during the quarter even though there was no rate cut in June. However, the Fed lowered its rates forecast and the market has begun to price in 50bps of rate cuts in 2019 and an additional 50bps of rate cuts in 2020. Bonds and stocks rallied on the moves as the market began to price in a ‘lower longer’ normal rate that balances low growth with low inflation and easier monetary policy.
- Hard data remain weak particularly in Europe and China and global PMIs have traced slightly below 50. Government yields around the world declined (with many being negative) on worries of a pervasive global economic slowdown. U.S. data during the quarter was mixed with GDP indicators slowing from 1Q19, wages and jobs data remaining strong, and inflation expectations remaining below the Fed desired rate of 2.0%.
- In a direct reversal from 2018, High Yield experienced significant inflows ($12bb+ YTD) while the leveraged loan market has experienced nine consecutive months of outflows ($19.9bb YTD). Similarly, high yield has seen a healthy new issue calendar which is +15-20% YTD while loan supply is down 46% YTD. Also of note, 77% of High Yield proceeds from debt issuance has been related to debt repayment or refinancing; further mitigating near term maturity concerns for many issuers.

Statistics

	Composite	Benchmark
Quality (Average)	B+	B+
Coupon (Average)	6.01	6.35
Price (Average)	101.30	100.77
Duration (Average)	3.53	3.20
Current Yield (Average)	5.93	6.41
Yield to Worst (Average)	5.62	5.88
OAS	349	377
Number of Issues	337	1911
Number of Issuers	217	910

Credit Quality
(% of Market Value)



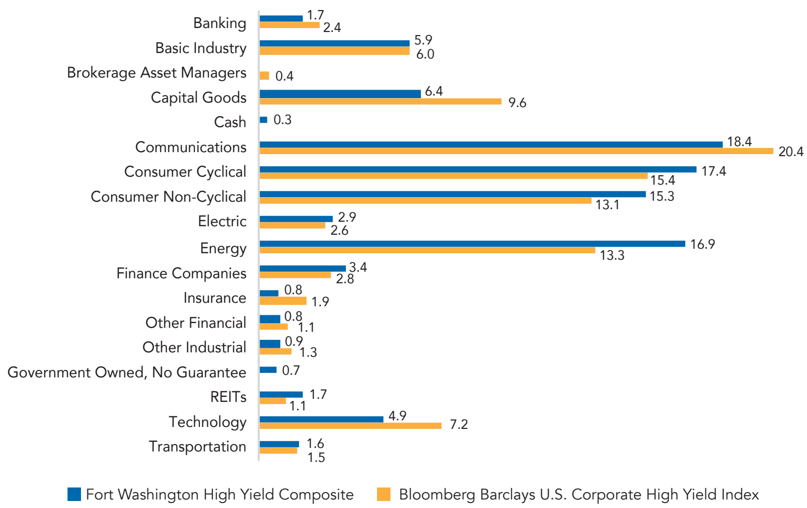
Source: Fort Washington Investment Advisors. Past performance is not indicative of future results. Quality and sector distribution as well as portfolio attribution and allocation is subject to change at any time.

PORTFOLIO ACTIVITY

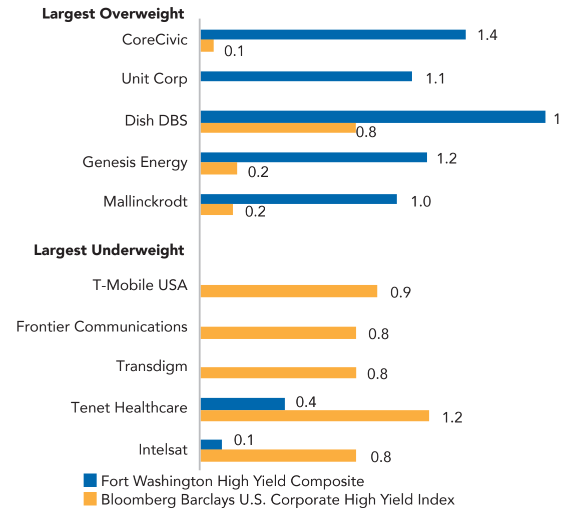
GDP growth in 1Q19 significantly surprised to the upside at +3.1% while wage data, jobs reports, and unemployment all continued to show strength. Risk assets materially rallied throughout the first quarter, essentially regaining much of what was lost in 4Q18, and then continued to grind higher for much of 2Q19 on solid domestic fundamentals. Though recession risk is low, concerns over economic growth remain with Europe appearing particularly precarious. The largest sources of volatility at this time appear to come from two places: 1) concerns over prolonged tariff/trade wars (primarily between the U.S. and China) and 2) concerns over significantly slowing or stagnating global growth and the potential for spillover effects in emerging economies and trading partners.

With the significant tightening in spreads seen YTD, investment activity has slightly leaned towards Bs though risk positioning was little changed as we recognize that we are in the later stages of an extended credit cycle. The combined effect of the tightening of spreads (predominately in 1Q19) along with the rally in the Treasury market (especially 2Q19) has driven overall valuations towards fair value leading us to having a Neutral opinion on the asset class. BB/B spreads remain attractive given the outlook on growth, inflation, and expected defaults; however, this outlook is tempered by low overall yields which ended the quarter at 5.87% (BB/B was 5.11%). The balance between reasonable spread levels, dollar prices at or slightly above par, and aggregate yields that are near their tightest decile lead us to expect coupon like returns for the remainder of the year. Earning above coupon like returns would likely require a significant rally in CCC rated securities and/or tightening in the widest spreading sectors of the High Yield market (Energy). While we find B rated securities slightly more attractive than BB rated securities at current levels, investment activity will be balanced between the two and we would expect little change to our overall risk exposure. Our portfolio focus remains on credit selection over sector allocation as we do not see many actionable sector excesses, though within sectors there has been a reduction in cyclical exposure and there are sectors where we have a higher quality bias. The largest sector overweights are in Consumer Cyclical Services and Midstream while the largest underweights continue to be Technology and Wireless Communications.

Sector Exposures
(% of Market Value)



Largest Issuer Exposures
(% of Market Value)



Source: Fort Washington and PORT. Holding allocations are subject to change. Weights shown are subject to rounding. This supplemental information complements the High Yield Composite Presentation. This should not be construed as investment advice or a recommendation of any particular security, strategy, or investment product.

OUTLOOK

Factor	Outlook	Comments
Economy	Neutral ◀▶	• Growth positively surprised in 1Q19 (+3.1%) driven by inventory and exports. Trade rhetoric appears to be negatively impacting recent economic activity; a 2Q19 slowdown is expected. • Wage growth cooled but remains above 3.0%; the unemployment rate and jobless claims have leveled off at historically low rates, 3.7% and 220,000, respectively. • Near-term recession risk is low, though survey data has been poor and bears watching. Global growth has slowed.
Financial Conditions	Neutral ◀▶	• SLOSs are -4.2% tightening (improving), HY issuance is up (+18% YTD) and the USD has stabilized. • Credit spreads are near YTD lows and well below end of 2018 levels. • The Federal Reserve has halted its hiking cycle and has consistently leaned dovish in commentaries. Market expectations are for 100bps of rate cuts by mid/late 2020. After a brief pause, the 10 year Treasury resumed its rally ending the quarter at 2.01%; lowest level since late 2016.
Rates	Slightly Positive ▲	• The 10 year Treasury has rallied 125bps since November 2018 on global growth concerns and increasingly dovish global central bank communications. • Global growth concerns and trade war rhetoric appear to have placed a ceiling on rates; U.S. rates remain attractive in a global context (German 10 year: -0.36%).
Fundamentals	Slightly Positive ◀▶	• Revenue and EBITDA growth rates are mixed recently; estimates are for a slowdown in 2019. • Outstanding high yield debt has grown in 2019 as net new issuance exceeded calls/redemptions and incremental leveraged finance moved from the leveraged loan market to the high yield bond market. • Defaults ended the quarter at 2.30% (0.89% par value) and are expected to be stable. • Market is pricing in a 2-3% default rate which we believe is fair given current balance sheet leverage, stable financial conditions, and adequate market liquidity.
Valuation/ Spreads	Neutral ◀▶	• High yield spreads tightened, ending the quarter at +377bps; 38th percentile ranking. • BB/B spreads are attractive given low expected default rates, high level of domestic economic exposure, stable fundamentals, and low level of maturities. • Aggregate yields at June-end were 5.87% which is at the 9th percentile level.
Outlook & Positioning	Neutral ◀▶	• Overall outlook is unchanged on limited movement in inputs from 1Q19 levels. • Current spread levels offer attractive value for the expected default rate environment and we expect coupon-like returns going forward as the dollar price of High Yield has recovered to around par. • At current levels, we find shorter duration Bs most attractive for the reinvestment of coupons and tender/call proceeds and have focused our efforts there. That said, the effect on risk positioning is expected to be limited. Overall risk positioning remains slightly elevated relative to BB/B indices.

Source: Fort Washington. The above outlook reflects subjective judgments and assumptions; subject to change at any time. Unexpected events may occur and there can be no assurance that developments will transpire as forecast. This is for informational purposes only and should not be construed as investment advice or a recommendation of any particular security, strategy, or investment product. Past performance is not indicative of future results. Fort Washington rankings of Bloomberg Barclays U.S. Corporate HY Index statistics for quarter, against Index history.

COMPOSITE PERFORMANCE DISCLOSURES

	2Q19	YTD	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
High Yield Fixed Income (Gross)	3.01%	11.19%	-1.94%	7.75%	12.84%	-3.82%	2.50%	6.26%	14.08%	6.63%	13.62%	49.08%
High Yield Fixed Income (Net)	2.93%	11.01%	-2.24%	7.44%	12.52%	-4.09%	2.23%	6.01%	13.83%	6.38%	13.40%	48.79%
ML-Bloomberg Barclays Linked Benchmark[1]	2.50%	9.94%	-2.08%	7.50%	17.13%	-4.55%	2.45%	7.39%	15.44%	4.51%	15.24%	56.14%
High Yield Fixed Income 3-Year Annual Standard Deviation[2]	–	–	4.01%	5.32%	5.82%	5.59%	4.53%	5.75%	5.89%	9.02%	–	–
ML-Bloomberg Barclays Linked 3-Year Annual Standard Deviation[2]	–	–	4.62%	5.59%	6.01%	5.27%	4.42%	6.33%	6.93%	10.77%	–	–
Dispersion[3]	0.04%	0.10%	0.07%	0.24%	0.40%	0.75%	0.15%	0.35%	0.56%	0.36%	0.89%	5.50%
Number of Accounts	11	11	11	15	18	20	21	17	21	19	15	14
Composite Assets ($ Millions)	$2,239.8	$2,239.8	$2,085.3	$2,916.2	$3,287.2	$3,474.8	$3,868.0	$4,057.0	$4,285.5	$3,063.4	$2,820.5	$1,970.4
Composite % of Firm Assets	3.94%	3.94%	4.24%	5.53%	7.20%	8.09%	8.60%	9.29%	10.09%	8.09%	7.79%	6.59%

Composite inception and creation date: 07/01/94. [1]Effective 01/01/16, the benchmark for this composite is the Bloomberg Barclays U.S. Corporate High Yield Index. Prior to 01/01/16, the benchmark for this composite was the Merrill Lynch U. S. Cash Pay High Yield. Given the strong similarity between the benchmarks, the change was made to enhance portfolio analysis capabilities. [2]The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean. [3]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 quarterly returns for those portfolios held in the composite during the full measurement period. Past performance is not indicative of future results. Fort Washington's High Yield strategy seeks to outperform over a full market cycle (typically 3-5 years) by protecting principal in periods of market decline while providing a stable base of income across all periods. The focus is on the higher-quality credits exhibiting lower default risk and mature sectors that can be expected to weather a full market cycle. All fee-paying fully discretionary portfolios managed in the High Yield Fixed Income style, with a minimum of $20 million under our management, are included in this composite. Effective 01/22/14, the High Yield Fixed Income fee is 0.50% for the first $100 million, 0.45% for the next $100 million and over for separate accounts, and 0.55% for the commingled vehicle. The benchmark for this composite is the Bloomberg Barclays U.S. Corporate High Yield 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. Fort Washington has been independently verified for the periods 7/1/94 – 12/31/16. A copy of the verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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.

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