



FORT WASHINGTON HIGH YIELD FIXED INCOME — 4Q2023

HIGHLIGHTS

- ▶ After trading water in October, risk assets awoke from their slumber in November and December with hopes for a soft landing and a dovish central bank pivot fueling the move higher. The quarterly highlight was November, which saw stocks (S&P 500 +9.1%) and bonds (U.S. Bond Ag +4.5%) catch a bid, leading to strong quarterly performance across a wide array of asset classes; Nasdaq (+14.6%), Russell 2000 (+14.0%), S&P 500 (+11.7%), Gold (+11.6%), and Investment Grade (+8.5%). Energy was a material outlier as WTI (-21.2%) and Henry Hub (-32.5%) sold off.
- ▶ Our core strategy returned (+7.23%/+7.14%) on a gross/net basis or +7bps gross to the index return. Security selection was materially beneficial, offsetting the aggregate impact of a varied list of slight allocation detractors. Selection outperformers were a mix of owned (QVC and Gap) and avoided (CommScope and Level 3) issuers with no overall theme. Within underperformers, short duration was a common factor within holdings, including Wynn Macau and Turning Point Brands. In an extraordinarily strong quarter, numerous issuers still generated double-digit negative returns; the fund owned none of them. A handful of sectors detracted (-2bps) each from performance. Not surprisingly, energy exposure stood out with overweights to two energy sectors (Midstream and Oil Field Services) in this group.
- ▶ The word of the quarter was “pivot.” In early November, the combination of a benign Treasury Quarterly Refunding, weaker than expected October ISM manufacturing and a more dovish FOMC reignited the appetite for risk. A more clearly communicated pivot at the mid-December FOMC meeting added more fuel to the fire.

INVESTMENT PROFESSIONALS

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Portfolio Manager

26 Years Experience

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Portfolio Manager

30 Years Experience

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Senior Credit Analyst

21 Years Experience

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Assistant Portfolio Manager

Senior Credit Analyst

16 Years Experience

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Portfolio Manager

31 Years Experience

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23 Years Experience

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Portfolio Manager

15 Years Experience

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18 Years Experience

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14 Years Experience

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13 Years Experience

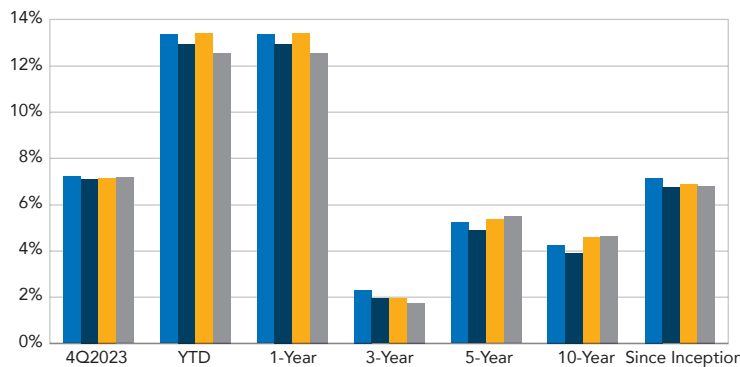
Satya N. Ghanta

Credit Analyst

7 Years Experience

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. Quality and sector distribution as well as portfolio attribution and allocation is subject to change at any time.

Annualized Total Returns as of December 31, 2023



	4Q2023	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
High Yield (Gross)	7.23	13.36	13.36	2.31	5.24	4.26	7.15
High Yield (Net)	7.14	12.97	12.97	1.95	4.88	3.93	6.75
Bloomberg U.S. Corporate High Yield	7.16	13.44	13.44	1.98	5.37	4.60	6.89
Bloomberg U.S. HY BA/B 2% Issuer Cap	7.19	12.56	12.56	1.75	5.49	4.64	6.78

Inception Date: 07/01/1994. Past performance is not indicative of future results. This supplemental information complements the High Yield GIPS Report.

Top Issuer Attribution

Bottom Issuer Attribution

	Attr	Rel Wgt		Attr	Rel Wgt
QVC	0.10	0.38	Wynn Macau	-0.05	0.89
CommScope	0.07	-0.37	MGM China	-0.05	1.18
Level 3 Communications	0.07	-0.35	Sunnova Energy	-0.04	0.59
Gap Inc.	0.07	0.66	Community Health Systems	-0.04	-0.51
Stagwell	0.06	0.74	Allstate	-0.03	0.75

MARKET OVERVIEW

- ▶ Several weak months of trading, ending in October, left risk assets ripe for a rally. Economic data (deflating inflation and stable employment) which appeared to point to a soft landing and notable dovish language in Federal Reserve communiques were sufficient to spark a furious rally in that environment. In addition to the aforementioned robust risk asset returns, the 10-year U.S. Treasury sharply rallied from the 4.99% cycle high on October 19th down to 3.79% on December 27th. In addition, futures markets have now priced in 150bps of cuts to the Fed Funds rate by the end of 2024. High quality assets led or kept pace early in the rebound; however, low quality (CCCs and small caps) caught the strongest bid in December.
- ▶ Though quality carried the day in High Yield, dispersion by rating was limited. BBs returned +7.36%, Bs +7.01% and CCCs were last at +6.78%. Duration was far more of a factor in light of the Treasury rally. The longest categories (6+ year and 5-6 year OAD) returned +12.0% and +10.6%, respectively. In contrast, short duration (0-3 year, +4.8% and 3-4 year, +7.4%) trailed.

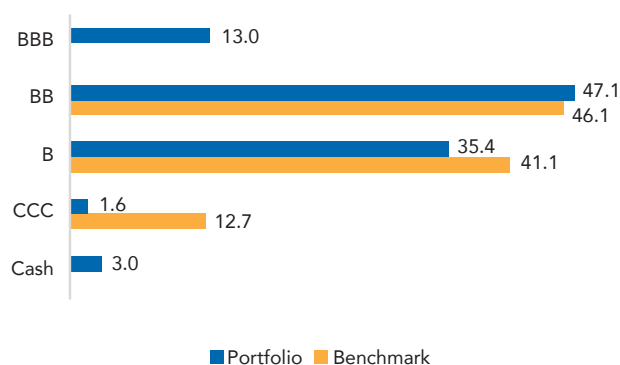
Leading sectors were driven by multiple factors including M&A (Brokerage, +11.8%), improved fundamentals (Retailers) and long duration (Banking). Weak energy prices dragged down related sectors including Oil Field Services (+3.12%) and Independent Energy (+4.68%).

- ▶ Weak markets in October coincided with a tepid pace for High Yield new issuance. Subsequent spread tightening led to a pickup in activity which overall matched the 3Q23 level. For the year, volume of \$176bb was +73% over 2022. The most significant shift in use of proceeds was towards loan refinancing which increased from 17% of issuance in 2022 to 33% last year. CCC-rated new issue remains severely depressed; lack of improvement here would support an elevated level of defaults and distressed debt exchanges in 2024 as the market faces relatively large maturity walls in 2025 and 2026. The default rate reached 3.84% at the end of November on an issuer count basis, a level rarely reached outside of recessions.

Statistics

	Composite	Benchmark
Quality	BB-	B+
Coupon	5.64	6.16
Price	95.96	94.54
Duration	3.07	3.15
Current Yield	5.82	6.54
Yield to Worst	6.76	7.64
OAS	239	329
Number of Issues	272	1919
Number of Issuers	179	904

Credit Quality (% of Market Value)



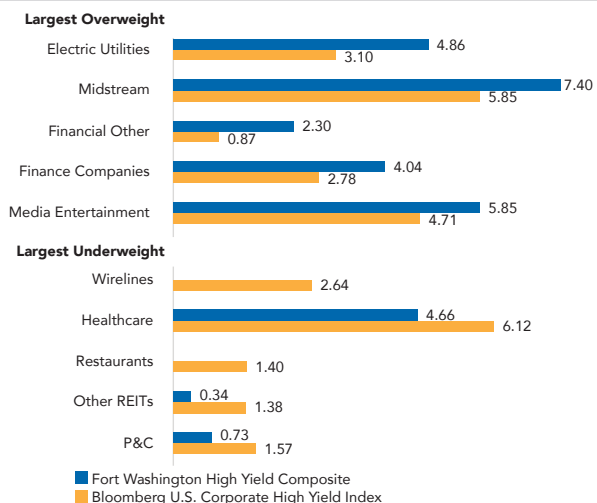
Source: Fort Washington Investment Advisors. Past performance is not indicative of future results. Quality and sector distribution as well as portfolio attribution and allocation is subject to change at any time. This supplemental information complements the High Yield GIPS Report.

PORTFOLIO ACTIVITY

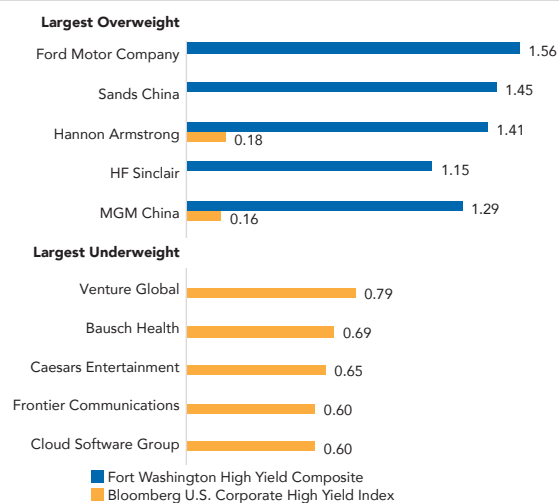
In spite of repeated episodes of tight financial conditions, including recessionary level lending standards and consistently high interest rates, U.S. economic activity was healthy in 2H22 and 1H23 and GDP growth even accelerated in 3Q23 to +4.9%. One factor behind this surprising strength was unexpectedly high Federal Government deficit spending. At the same time, multiple measures of inflation have steadily deflated since 2022 and unemployment remains historically low. Could the Federal Reserve achieve the immaculate soft landing? We are open to the possibility and expect 2024 to be the year in which that question is answered. Concerning factors include rapidly increasing credit card borrowing combined with material increases in delinquencies and depleting consumer savings. In addition, ISM data is weak, particularly Services employment; recently at 43. These latter trends and tight spreads, tightest decile for the Ba/B index, have us starting the year cautious. In an extremely strong quarter, the portfolio performed well in spite of it being maintained near the lower end of our risk range. Purchase/sale activity was balanced by rating. Investment Grade exposure reached an historically elevated level upon the upgrade of Ford to Investment Grade, a position which was then materially trimmed.

Markets have now priced in a highly optimistic economic, rates and earnings forecast for 2024. While not in the same camp, we have upgraded our Economy and Financial Conditions factors in light of recent data and market movement. Offsetting these positives is the impact of the material spread tightening seen in the fourth quarter that moved our market within reach of cycle lows and to a whopping 250bps tighter than late 2022 levels. With Ba/B spreads at the tightest spread decile, our rating on Valuation/Spreads is cut to Slightly Negative. In combination, these changes leave our overall Outlook unchanged at Slightly Negative. Under-risked positioning is being maintained and purchase activity will tilt towards noncyclicals.

Largest 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 GIPS Report. 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 ▲	<ul style="list-style-type: none"> GDP grew 4.9% in 3Q23; up from 2.1% growth in 2Q23 and up from 2.7% in the year ago period; expectations for 4Q are above 2.5%. GDP expectations for 2024 are for growth of 1.25%. Employment remains healthy with solid payroll numbers, low unemployment (3.7%) and strong wage growth (4-6%). Consumer confidence and sentiment are stable on labor market strength; core inflation is cooling; headline is still elevated with service components elevated. Business confidence shows softness with most ISM numbers below 50; service components just above 50.
Financial Conditions	Slightly Negative ▲	<ul style="list-style-type: none"> Financial conditions eased in the quarter with Senior Loan Officer Survey showing 33.9% tightening (down from 51%) and IG and HY spreads meaningfully falling. Aggregate conditions remain tight and there remains uncertainty with bank balance sheets due to commercial real estate and overall credit exposures. The Fed held rates steady at its September, November, and December meetings to await more data. Market expectations have shifted from pricing in another hike to now pricing in 100-150bps of rate cuts in 2024; a meaningful shift in expectations. Credit spreads for BBB Industrials and High Yield tightened on the quarter; all-in High Yield yields were 7.59%.
Rates	Slightly Positive ◀▶	<ul style="list-style-type: none"> The U.S. 10 year Treasury rallied on the quarter on the back of the Fed signaling the likely end of its hiking cycle. UST10 ended at 3.88%; -69bps on the quarter. Ten year TIPS breakevens are trading near 2.17%; real yields are +171bps. U.S. rates remain in line to higher than many other developed market levels; making them attractive in a global context and leading to significant strength in the dollar; although off its peak from 2022.
Fundamentals	Slightly Negative ◀▶	<ul style="list-style-type: none"> Resilient GDP has allowed for top line and EBITDA growth both yoy and qoq although at a very slow pace. Issuer leverage leveled off in 3Q23 (5.3x) while interest coverage declined slightly to 4.7x; issuers with floating rate leveraged loan exposures have meaningfully lower coverage ratios at 3.2x but that is 4.37x for public issuers and only 2.08x for private issuers. Bond issuance for the quarter was \$41.5B in 4Q23 vs \$41.2B in 3Q23 and \$15.5B in 4Q22. Defaults ended November at 3.84%; up from 3.2% in the previous quarter and 1.5% one year ago. We expect default rates to increase over the next several quarters as tight financial conditions continue to be a headwind as the economy slows.
Valuation/ Spreads	Slightly Negative ▼	<ul style="list-style-type: none"> High Yield spreads tightened -71bps and ended the quarter at +323bps (16th percentile). BBs tightened -63bps (10th), Bs -89bps (10th), and CCCs -72bps (48th). Aggregate yields at December end were 7.59%; down meaningfully on the quarter with the decline in spreads and rates. Dollar price was \$94.54. BB/B rated bonds outperformed CCC rated peers as duration and the rally in Treasuries more than offset the excess yield/carry.
Outlook & Positioning	Slightly Negative ◀▶	<ul style="list-style-type: none"> We are holding our opinion on High Yield at Slightly Negative due to financial conditions, declining company fundamentals, and tight spreads; partially offset by a resilient economy and attractive all-in yields. We expect defaults to increase over current levels; however, we also anticipate bond defaults to be lower than previous cycles as the quality of High Yield is higher than historic periods. We expect spreads to widen as the economy slows and unemployment increases while recognizing that yields at current levels are attractive in a longer term context. Portfolio activity is being focused towards maintaining a higher quality bias while maximizing income and a preference for less cyclical exposure. We will look to maintain risk near current levels; relying on credit selection in this uncertain risk environment.

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

	4Q2023	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
High Yield Fixed Income (Gross)	7.23%	13.36%	-10.02%	4.97%	4.55%	15.30%	-1.94%	7.75%	12.84%	-3.82%	2.50%	6.26%
High Yield Fixed Income (Net)	7.14%	12.97%	-10.33%	4.60%	4.19%	14.93%	-2.24%	7.44%	12.52%	-4.09%	2.23%	5.93%
ML-Bloomberg Linked Benchmark ¹	7.16%	13.44%	-11.19%	5.28%	7.11%	14.32%	-2.08%	7.50%	17.13%	-4.55%	2.45%	7.39%
High Yield Fixed Income 3-Year Annual Standard Deviation ²	--	8.73%	11.24%	8.96%	9.11%	4.02%	4.01%	5.32%	5.82%	5.59%	4.53%	5.75%
ML-Bloomberg Linked 3-Year Annual Standard Deviation ²	--	8.24%	10.97%	9.00%	9.24%	4.02%	4.62%	5.59%	6.01%	5.27%	4.42%	6.33%
Dispersion ³	0.06%	0.12%	0.23%	0.19%	0.62%	0.13%	0.07%	0.24%	0.40%	0.75%	0.15%	0.35%
Number of Accounts	8	8	9	9	9	10	11	15	18	20	21	17
Composite Assets (\$ Millions)	\$1,603.6	\$1,603.6	\$1,532.8	\$1,746.8	\$1,791.3	\$1,897.5	\$2,085.3	\$2,916.2	\$3,287.2	\$3,474.8	\$3,868.0	\$4,057.0
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: 07/01/94. ¹Effective 01/01/16, the benchmark for this composite is the Bloomberg 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. ²The 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. 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 gross-of-fee returns for those portfolios held in the composite during the entire 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 and 0.45% on additional amounts over for separate accounts. The benchmark for this composite is the Bloomberg 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 - 12/31/21. 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 High Yield 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. The High Yield Fixed Income strategy invests in non-investment grade debt securities which are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and has had more frequent and larger price changes than other debt securities. The High Yield Fixed Income 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.

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