



## FORT WASHINGTON SMALL COMPANY EQUITY — 2Q2022

### HIGHLIGHTS

- ▶ The Fort Washington Small Company Equity strategy outperformed the Russell 2000 index in the second quarter.
- ▶ This was a challenging quarter for small cap equities due to concerns about an economic slowdown and higher costs hurting corporate profits.
- ▶ Small cap valuations are increasingly attractive with price to earnings at their lowest valuation since the great financial crisis.

### INVESTMENT PROFESSIONALS

**Jason V. Ronovech, CFA**  
VP, Senior Portfolio Manager  
22 Years Experience

**Mark C. Militello, CFA**  
VP, Senior Equity Research Analyst  
26 Years Experience

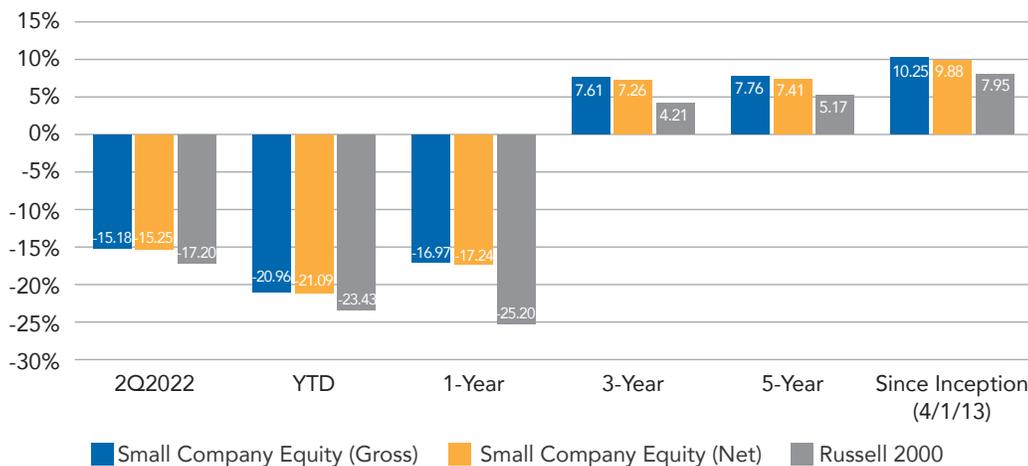
**John T. Stewart**  
AVP, Senior Equity Research Analyst  
13 Years Experience

**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.

### Historical Performance

Annualized Net Return as of June 30, 2022



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### MARKET OVERVIEW

The small cap Russell 2000 Index declined 17.2% for the second quarter of 2022. April was a challenging month, with a decline of 9.9%; May was essentially flat with a 0.2% return; and then markets weakened again in June with an 8.2% decline. The second quarter was the worst for the Russell 2000 since 1979, and the year-to-date decline of 23.4% was the worst first half since 1973. On a positive note, in the ten previous most challenging first two quarters of the year, the average return over the balance of the year was 12%.

We believe that the market weakness is fairly straightforward and being driven by concerns about corporate profits. The pandemic, pent-up demand, and unprecedented accommodative fiscal and monetary policy fueled unsustainable consumer and corporate demand across several sectors. Fiscal and monetary tailwinds have turned to headwinds, and pent-up demand seems to have been satisfied with the exception of the first full summer of travel and entertainment. Supply was slow to recover to pent-up demand due to pandemic restrictions, which has driven inflationary cost pressures, and higher interest rates. The confluence of slowing demand and higher costs is creating an uncertain outlook for corporate profits. We believe that earnings drive long-term equity returns and are favorably disposed to the long-term earnings outlook of portfolio holdings, but acknowledge the corporate earnings above trend need to recalibrate and normalize.

From a sector perspective, there were no positive return sectors. Consumer Staples (-2%), Utilities (-4%), Financials (-12%), Energy (-13%), and Industrials (-16%) outperformed the benchmark. Communication Services (-30%), Information Technology (-22%), Consumer Discretionary (-21%), Real Estate (-20%), Health Care (-19%), and Materials (-18%) underperformed the benchmark.

## STRATEGY ACTIVITY

### Sector Positioning

We are overweight Industrials, and this is our largest sector allocation. Industrials moved to our highest allocation driven by a combination of relative price outperformance during the quarter and one net position increase. We added two new positions — one is a company that manufactures highly engineered filtration and fluid control products, composites, and diagnostic testing solutions for the aviation, defense, utility, space, and industrial markets globally. We believe their end markets provide relative stability and a significant backlog of orders to ship will drive earnings growth above the overall market over the intermediate-term. The other is a leading global designer, manufacturer and supplier of products and total solutions that serve municipal, governmental, industrial, and commercial customers. We believe their dominant market share positions them well to capitalize on expanded infrastructure funding over the next several years to drive earnings growth above the overall market. We exited a leading manufacturer of products and services for the renewable energy, residential, agtech, and infrastructure markets, due to concerns about a decline in earnings from residential markets looking forward, and uncertainty around the timing of an improvement in profits in the renewable solar market.

We are overweight Health Care, and this is our second largest sector allocation. The allocation was down compared to last quarter due to the exit of three positions. One is a manufacturer of products for the treatment of chronic diseases at home, which we sold due to concerns about their balance sheet heading into a period of tighter monetary conditions, as well as how COVID-19 changed industry demand dynamics. The other two positions exited were both acquired — one is a provider of post-acute home health and hospice services, and the other is a provider of animal health products and services.

We are overweight Information Technology, and this is our third largest sector allocation. The allocation was down slightly compared to last quarter. We exited one position that is being acquired — a manufacturer of analog semiconductor solutions.

We are overweight Consumer Discretionary, and this is our fourth largest sector allocation. We reduced our Consumer Discretionary allocation slightly during the quarter. There were no new or exited positions.

Financials is our fifth largest sector allocation, but we are underweight the benchmark. We added one new regional bank and exited one regional bank during the quarter. We exited a position due to concerns about the significant growth in their balance sheet potentially hurting the company's capital position, particularly if a recession unfolds and drives credit losses across the industry. We added a regional bank with operations in Arkansas, Florida, Texas, Alabama, and New York City. We believe the company positioned itself well through the pandemic and zero interest rate environment by building strong capital levels, reserves, and liquidity, which positions it well for higher interest rates and a more challenging economic environment to drive earnings growth above other regional banks.

### Contributors/Detractors

The following were the top three contributors for the quarter: a leading healthcare improvement company providing data and analytics, consulting services, and supply chain solutions to more than 4,400 hospitals and health systems and 225,000 other providers; a provider of animal health products and services being acquired by private equity; and, a leading global provider of IoT connectivity products, services, and solutions.

The following were the top three detractors for the quarter: an online automotive platform for buying and selling vehicles through its industry-leading marketplace and online wholesale platform; a leading Software as a Service provider of unified communications and contact center software; and, a regional bank.

## TOP TEN HOLDINGS (AS OF 6/30/2022)

Name	Sector	% of Portfolio
Corporate Office Properties	Real Estate	2.9%
Box	Information Technology	2.3%
Clean Harbors	Industrials	2.3%
Malibu Boats Inc.	Consumer Discretionary	2.3%
KBR Inc.	Industrials	2.3%
Silgan Holdings Inc.	Materials	2.2%
Crane	Industrials	2.2%
Webster Bank	Financials	2.2%
NuVasive	Health Care	2.2%
Onto Innovation Inc.	Information Technology	2.1%
<b>Total</b>		<b>23.0%</b>

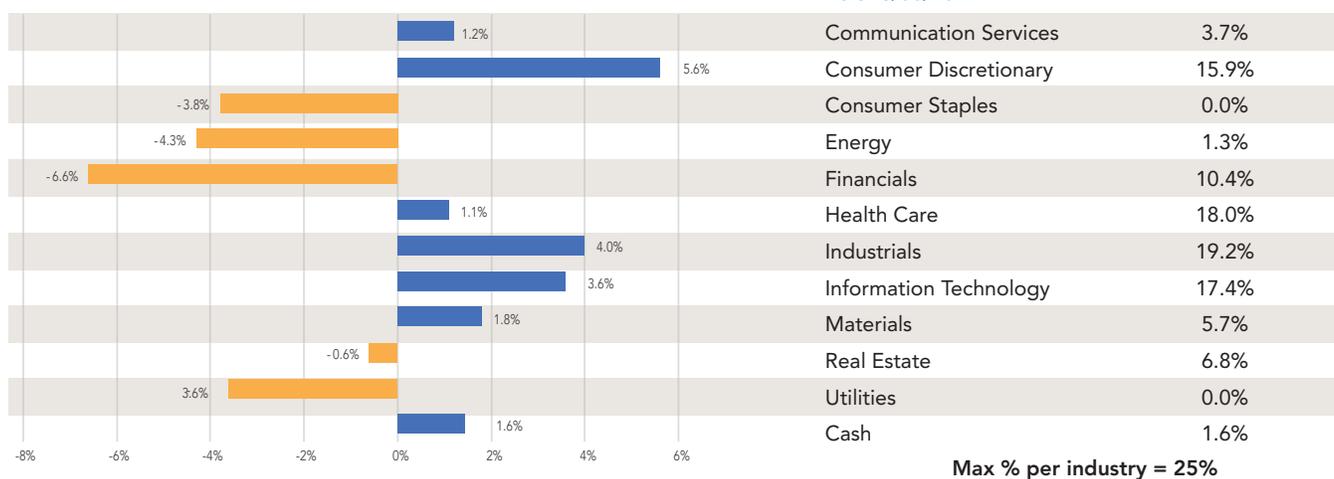
Source: Fort Washington. The above data is rounded for informational purposes. Totals reflect actual value and may not match the sum based on rounded values. Holdings subject to change at any time without notice. The securities identified do not represent all of the securities purchased, sold, or recommended. 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 6/30/2022

## Sector Portfolio Weight

As of 6/30/2022



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	74	1,991
Price/Prospective Earnings	15X	11X
Earnings Growth	14%	10%
Alpha*	2.8%	-
Beta*	0.9	1.0
Sharpe Ratio*	0.6	0.5
Active Share	94.7%	-

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. However, we are seeing clear signs across sectors that moderating demand and increasing supply should moderate inflation looking forward, with price levels declining in certain areas of the economy. The Federal Reserve has followed through on a more aggressive plan to raise interest rates. While we expect short-term rates to continue to increase in the third quarter and early fourth quarter, expectations could peak as inflation and growth moderate. We believe that the political environment is having a negative impact on consumer and business sentiment. However, material legislative changes impacting the economic outlook positively or negatively seem unlikely. Small cap earnings forecasts peaked in May. We expect earnings forecasts to continue to weaken due to moderating economic growth and higher costs.

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

	2Q2021	2021	2020	2019	2018	2017	2016	2015	2014	2013
Small Company Equity (Gross)	-15.18%	24.68%	19.01%	22.59%	-7.44%	18.75%	20.71%	-0.41%	7.71%	20.52%
Small Company Equity (Net)	-15.25%	24.27%	18.61%	22.19%	-7.73%	18.34%	20.29%	-0.76%	7.33%	20.21%
Russell 2000 Index	-17.20%	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>	--	--	--	--	--	--	--	--	--	--
Number of Accounts	8	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ Millions)	\$933.7	\$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)	\$72,150	\$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 fortwashingt.com.

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