



Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

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About Fort Washington Investment Advisors:

- Founded in 1990 as the primary investment arm of its parent, Western & Southern Financial Group
- Expertise across fixed income, public equity, and private equity¹
- \$51.3 billion in total assets under management²
- 136 full-time employees, 87 of which are investment professionals
- Specialize in a variety of fixed income capabilities including Total Return Credit and Asset Liability Management

Why Active Fixed Income Wins Over Time

Highlights

- Active fixed income managers have an abundance of tools they can use to outperform their respective benchmarks, and the majority do.
- Distinct characteristics of securities, indices, and investor objectives create alpha opportunities for active fixed income managers.
- Fee differential between active and passive fixed income funds is negligible while active funds deliver superior long-term performance.

Introduction

Today, it seems every financial expert is extolling the virtues of low-fee, passive index funds. While index funds can be an attractive option for some investment needs, the view that every asset class should be indexed is misguided. Many asset classes have nuances, inefficiencies, and liquidity constraints that an experienced manager can exploit to generate consistent alpha over the long-term. We believe the following will highlight why fixed income, particularly investment grade credit, is especially well-suited for active management.

Market Inefficiencies

Investment grade corporate bonds have several liquidity and trading characteristics that make passive investing challenging.

- High fragmentation – The Bloomberg Barclays U.S. Credit Index has 862 individual tickers and over 6,000 unique securities.
- No central exchange – Many securities in the index do not trade regularly and there are no dedicated market makers.
- Higher transaction costs – Bid offer spreads in corporate bonds are sizeable.

Index Composition & Market Participants

Index composition rules with respect to rebalancing, credit ratings, and bond characteristics create opportunities for alpha. The varied objectives of market participants can also present pricing inefficiencies.

- Frequent rebalancing – The makeup of the index changes monthly as debt matures and new debt is issued. Changes in credit ratings also create a regular need to rebalance.
- Non-index opportunities – Many alpha opportunities exist in securities that are not eligible for index inclusion due to issue size, SEC registration, credit rating, floating-rate coupons, or bond structure. The primary market also provides opportunities for alpha prior to index inclusion.
- Market participants – Many fixed income investors are focused on yield and income rather than total return. This can create pricing inefficiencies that an active manager can exploit.



Summary

Passive investment strategies have changed the landscape, but they are not always the best option. Passive fixed income funds may be useful to get short-term exposure to the market, but long-run performance will likely trail the index after fees. **For investors with a longer-term horizon, active management in fixed income can provide superior results.**

	YTD Q3	1 Year	3 Years	5 Years	10 Years
Active Investing³					
Fort Washington Active Corporate Net	6.03%	2.84%	4.86%	3.68%	6.30%
Median IG Credit Manager	5.49%	2.70%	4.34%	3.93%	6.34%
Bloomberg Barclays U.S. Credit Index	5.08%	1.96%	3.87%	3.24%	5.54%
Excess Return of Fort Washington Active Corporate	0.95%	0.88%	0.99%	0.44%	0.76%
Excess Return of Median Manager	0.41%	0.74%	0.47%	0.69%	0.80%
Passive Investing – ETF⁴					
Liquid IG Corporate Bond ETF - LQD	5.75%	1.80%	4.22%	3.48%	5.86%
Markit iBoxx USD Liquid IG Index	5.85%	1.92%	4.52%	3.69%	6.23%
Excess Return	-0.10%	-0.12%	-0.30%	-0.21%	-0.37%
Median Fee of Active Manager ³	0.30%				
LQD Fee ⁴	0.15%				

1. Fort Washington is a registered investment advisor with expertise in fixed income, public equity, and private equity. Clients include institutions and high-net-worth individuals throughout the country. Private equity is managed by FW Capital, a division of Fort Washington.
2. Fort Washington Investment Advisors, Inc. Assets as of 9/30/17. Includes assets under management by Fort Washington Investment Advisors, Inc. (Fort Washington) of \$47.89 billion, and \$3.46 billion in commitments managed by Fort Washington Capital Partners Group (FW Capital), a division, and Peppertree Partners LLC, a subsidiary.
3. eVestment: median performance and fee derived from the U.S. Corporate Fixed Income peer group which includes around 90 observations.
4. Morningstar. Performance stated net of fees.

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Composite Performance Disclosures

	3Q17	YTD	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07
Active Corporate Fixed Income (Gross)	1.43%	6.35%	8.15%	-0.24%	8.44%	-2.69%	9.92%	9.63%	9.85%	20.35%	-2.37%	4.31%
Active Corporate Fixed Income (Net)	1.33%	6.03%	7.71%	-0.63%	8.01%	-3.12%	9.46%	9.14%	9.39%	19.80%	-2.37%	4.27%
Bloomberg Barclays U.S. Credit Index	1.35%	5.08%	5.63%	-0.77%	7.53%	-2.01%	9.39%	8.35%	8.47%	16.04%	-3.08%	5.11%
Active Corporate Fixed Income 3-Year Annual Standard Deviation ²	—	—	4.46%	4.32%	4.33%	4.60%	3.78%	4.57%	—	—	—	—
Bloomberg Barclays U.S. Credit Index 3-Year Annual Standard Deviation ²	—	—	4.40%	4.06%	3.94%	4.23%	3.64%	4.66%	—	—	—	—
Dispersion ³	—	—	—	—	—	—	—	—	—	—	—	—
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ millions)	\$190.2	\$190.2	\$126.6	\$80.8	\$81.1	\$78.5	\$54.9	\$66.3	\$60.5	\$77.5	\$63.2	\$44.3
Composite % of Firm Assets	0.40%	0.40%	0.28%	0.19%	0.18%	0.18%	0.13%	0.18%	0.17%	0.26%	0.25%	0.17%

Composite inception and creation date: 01/01/05.

Benchmark returns include interest income, but as an unmanaged fixed income index, it does not include transaction fees (brokerage commissions), and no direct comparison is possible. The index includes domestic, taxable, and dollar-denominated securities and covers the U.S. investment-grade fixed rate corporate bond market. The Barclay's indices were formally known as the Lehman indices prior to 12/31/08.

¹The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean.

²Dispersion 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. Please see performance disclosures on the next slide.

In Fort Washington's Active Corporate Fixed Income strategy, our investment grade credit analysis process is centered on a relative value analysis. This is combined with solid fundamental credit analysis and efficient execution to build long-term value. Sector specialists and credit analysts evaluate the sector to determine the optimal mix of securities within that sector. The process is not ratings driven, but focuses on risk premiums, potential for downgrade, and the most effective combination on the risk free rate and credit risk premium. The portfolio is actively traded with the goal of outperforming a credit index.

All fee-paying, fully discretionary portfolios, managed in the Active Corporate Fixed Income style with a minimum of \$3 million under our management, are included in this composite. Effective 01/22/14, the Active Corporate Fixed Income strategy fee schedule is 0.30% on the first \$25 million and 0.25% on the next \$25 million and over. The benchmark for this strategy is the Bloomberg Barclays U.S. Credit 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.

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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 – 12/31/15. 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.