

Fort Washington  
Investment Advisors, Inc.

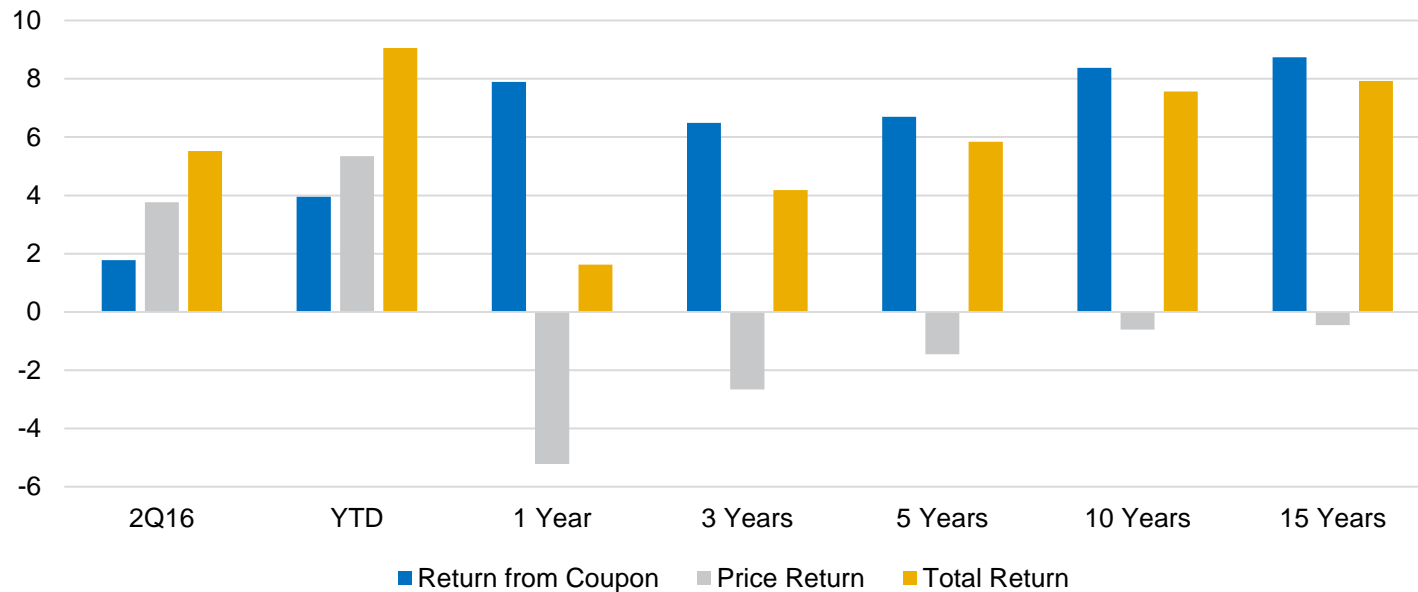
## **The Case for High Yield** September 2016

See important disclosures at end of publication.



- High yield has historically been an attractive asset class on both an absolute return basis and a risk adjusted basis. Since 1993, high yield returns have approached 8% annually. For investors requiring or desiring income, the predominance of returns in high yield comes from interest payments.

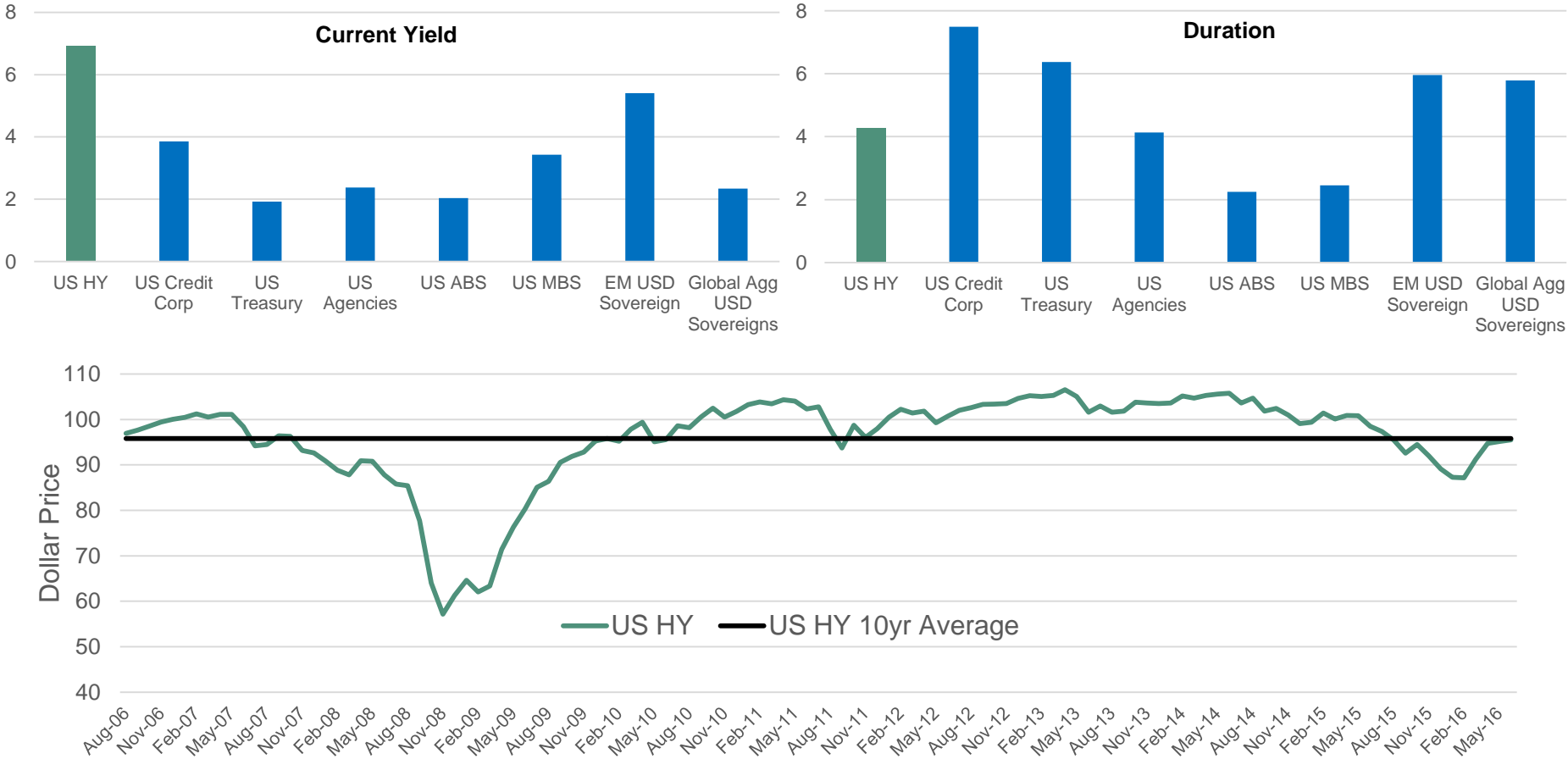
### Barclays US Corporate High Yield Index



# High yield versus other fixed income asset classes



- In a world of persistently low interest rates and slow global economic growth, high yield is generally attractive versus other asset classes: prices are below par, spreads are in excess of expected default rates, and current yield is at 6.6%. Additionally, in a rising interest rate environment, the shorter duration of the assets could mean an investor has a greater likelihood of realizing their current yield or a similar yield to maturity.

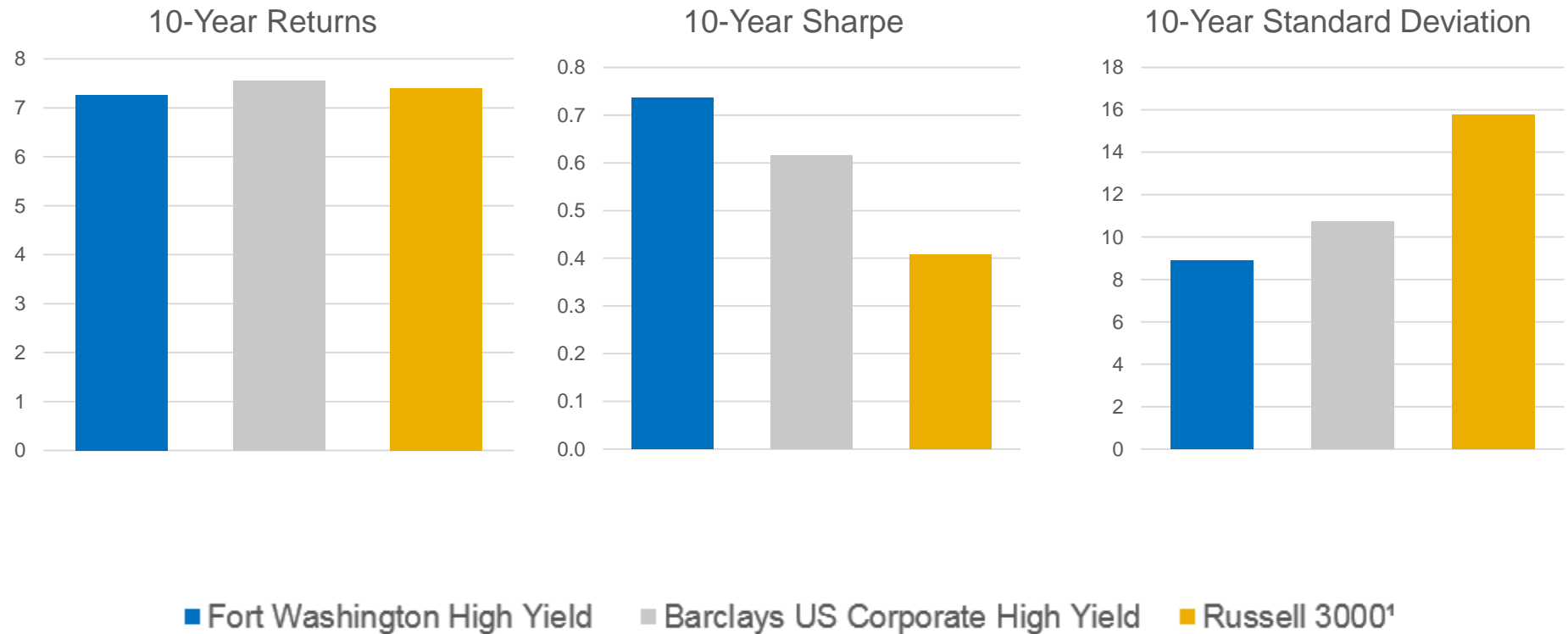


Source: Barclays Point. Data as of June 30, 2016. Past performance is not indicative of future results. US HY is represented by the Barclays U.S. Corporate High Yield Index.

# Historically, high yield has a higher Sharpe Ratio



- ◆ In addition to its absolute return profile, risk adjusted returns have been attractive. Over the long-term, high yield has generated returns nearly equal to that of equities but with less than 60% of the volatility, resulting in a meaningfully better Sharpe Ratio.



Source: eVestment Alliance. Past performance is not indicative of future results. Fort Washington returns are shown net of fees. This supplemental information complements the High Yield Presentation as of 06/30/16. Sharpe Ratio is defined as a portfolio's excess return over the risk-free rate (90-day U.S. T-Bill) divided by the portfolio's standard deviation. <sup>1</sup>See appendix for complete Russell disclosure.

# Correlation with other major asset classes



- High yield bonds can also be a useful tool in portfolio construction given their correlation to other major asset classes. As such, the inclusion of high yield in a broader portfolio could actually reduce the overall risk (volatility) of the portfolio.

## Correlation Matrix

Time Period: 8/1/2011 to 7/31/2016

Source Data: Net Return

	1	2	3	4	5	6	7	8	9	10	11	12
1 BofAML US High Yield Cash Pay TR USD	1.00											
2 Russell Top 200 TR USD	0.76	1.00										
3 Russell Mid Cap TR USD	0.80	0.94	1.00									
4 Russell 2000 TR USD	0.73	0.87	0.95	1.00								
5 Russell Micro Cap TR USD	0.69	0.81	0.90	0.98	1.00							
6 Barclays US Agg Bond TR USD	0.18	-0.17	-0.12	-0.19	-0.25	1.00						
7 Barclays US Treasury US TIPS TR USD	0.38	0.03	0.11	0.02	-0.05	0.84	1.00					
8 Barclays US MBS TR USD	0.11	-0.14	-0.10	-0.17	-0.22	0.89	0.74	1.00				
9 Wilshire US REIT TR USD	0.61	0.58	0.65	0.58	0.51	0.39	0.44	0.35	1.00			
10 MSCI EM GR USD	0.81	0.76	0.78	0.70	0.64	0.08	0.34	0.03	0.59	1.00		
11 MSCI EAFE GR USD	0.81	0.87	0.86	0.76	0.72	-0.09	0.15	-0.07	0.55	0.84	1.00	
12 Bloomberg Commodity TR USD	0.60	0.43	0.47	0.41	0.40	-0.01	0.20	0.00	0.22	0.60	0.51	1.00

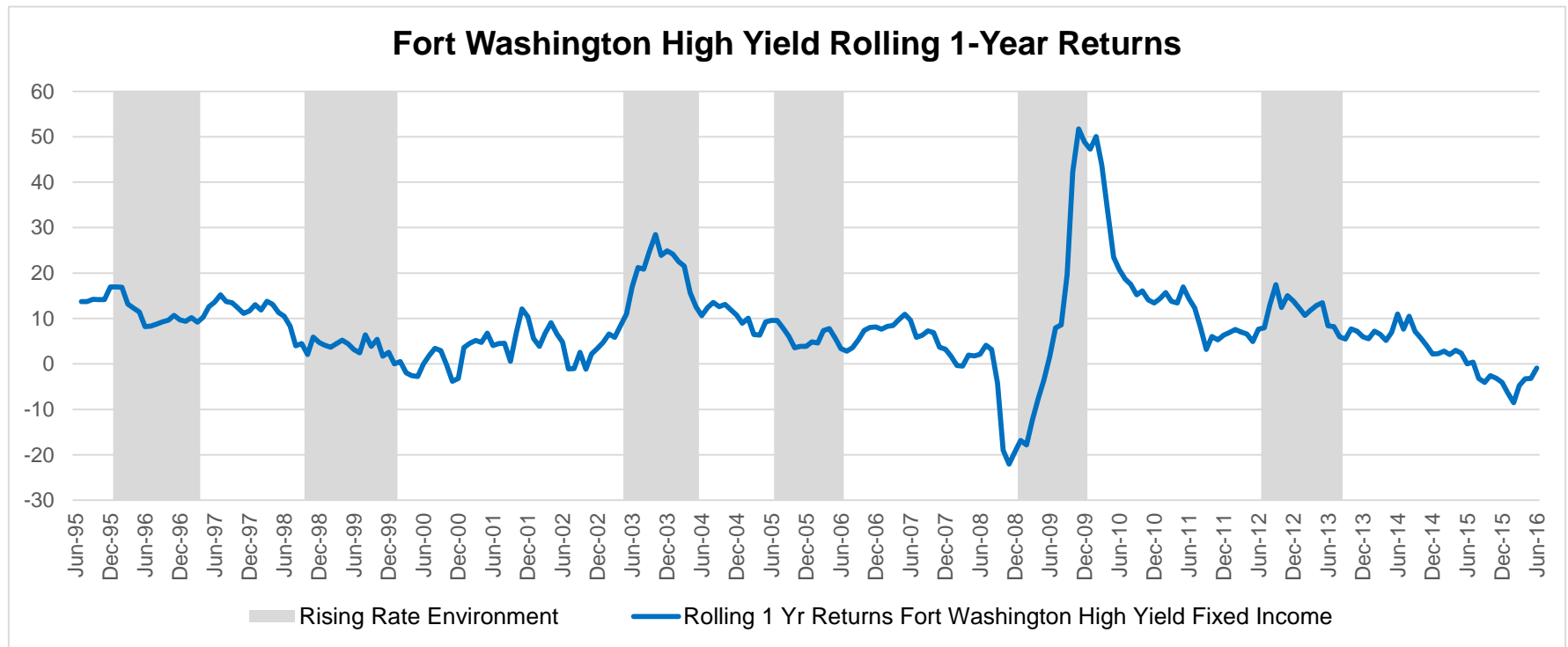
■ 1.00 to 0.50  
■ 0.00 to -0.50

■ 0.50 to 0.00  
■ -0.50 to -1.00

# High yield has less rate sensitivity than IG credit

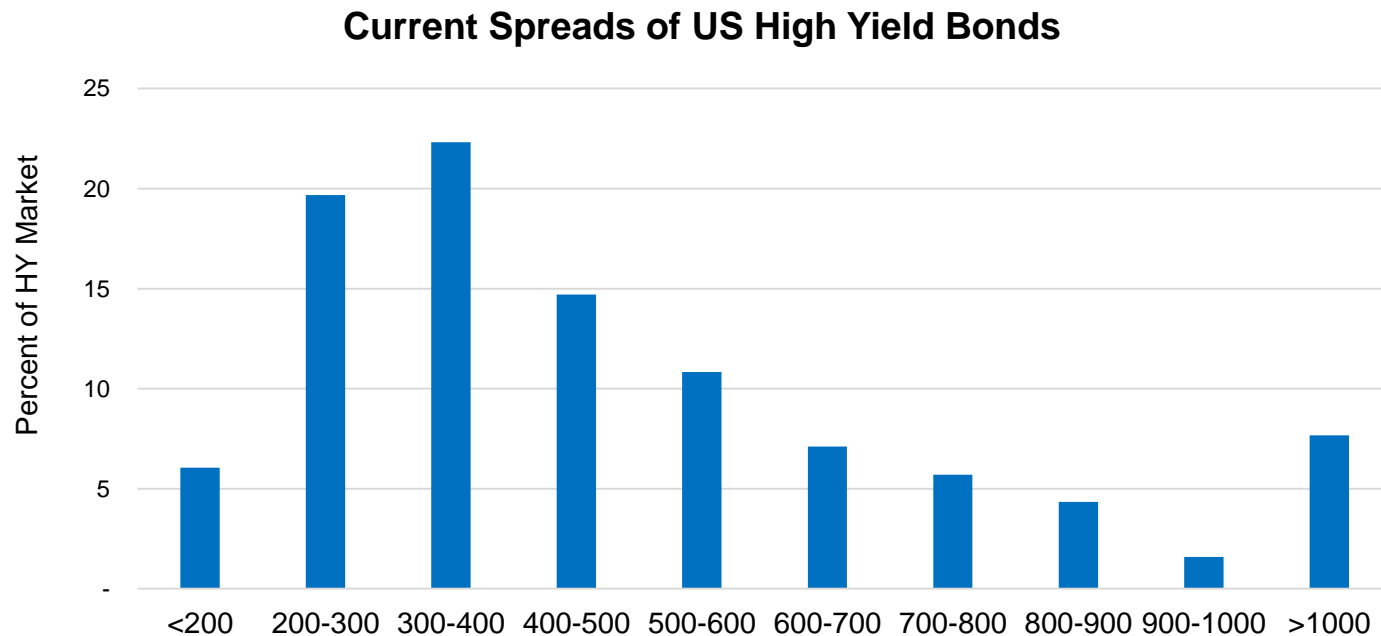


- ◆ As for the prospects of rising interest rates, high yield has generally been less rate-sensitive than investment grade rated bonds. Pressure on high yield due to rising interest rates has historically been partially offset by tightening spreads resulting from corresponding growth in the economy.
- ◆ High yield does still have rate sensitivity, just less than investment grade generally.





- ◆ As for current valuations, we think default risk is being adequately discounted based upon our view that a recession is unlikely in the near-term. However, we do view the market with something of a bifurcated construct and are concerned with stressed commodity issuers and CCC issuers.
- ◆ As such, we favor issuers and sectors with less stress that might offer less yield but a fairer risk-return trade-off. Additionally, given the recent rally in high yield, a pause or modest pull-back would not be surprising.





**Default risk** – risk that companies won't be able to pay required payments on their debt obligations

- This risk is greater for non-investment grade debt than for investment grade debt

**Liquidity risk** – ability to buy or sell an investment quickly at a reasonable price

- Depending on the market conditions and issuer, high yield securities can sometimes be less liquid than investment grade bonds

**Interest rate risk** – risk that an investment's value will change due to a change in interest rates

- Interest rate changes usually affect bonds prices inversely



# High Yield Composite Performance



	2Q16	YTD	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	12/31/06
High Yield Fixed Income (Gross)	4.35%	6.76%	-3.82%	2.50%	6.26%	14.08%	6.63%	13.62%	49.08%	-19.18%	3.36%	8.34%
High Yield Fixed Income (Net)	4.28%	6.62%	-4.09%	2.23%	6.01%	13.83%	6.38%	13.40%	48.79%	-19.35%	3.14%	8.12%
ML-Barclays Linked Benchmark <sup>1</sup>	5.52%	9.06%	-4.55%	2.45%	7.39%	15.44%	4.51%	15.24%	56.14%	-26.21%	2.15%	11.64%
High Yield Fixed Income 3-Year Annual Standard Deviation <sup>2</sup>	--	--	5.59%	4.53%	5.75%	5.89%	9.02%	--	--	--	--	--
ML-Barclays Linked Benchmark 3-Year Annual Standard Deviation <sup>2</sup>	--	--	5.27%	4.42%	6.33%	6.93%	10.77%	--	--	--	--	--
Dispersion <sup>3</sup>	0.30%	0.28%	0.75%	0.15%	0.35%	0.56%	0.36%	0.89%	5.50%	3.00%	0.72%	0.42%
Number of Accounts	18	18	20	21	17	21	19	15	14	10	12	13
Composite Assets (\$ millions)	\$3,307.6	\$3,307.6	\$3,474.8	\$3,868.0	\$4,057.0	\$4,285.5	\$3,063.4	\$2,820.5	\$1,970.4	\$968.2	\$1,297.7	\$1,386.0
Composite % of Firm Assets	7.30%	7.30%	8.09%	8.60%	9.29%	10.09%	8.09%	7.79%	6.59%	3.87%	4.72%	5.16%

Composite inception and creation date: 07/01/94.

<sup>1</sup>Effective 01/01/16, the benchmark for this composite is the 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.

<sup>2</sup>The 3-Year annualized ex-post standard deviation is calculated using monthly returns to measure the average deviations of returns from its mean.

<sup>3</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 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.

# High Yield Composite Performance Disclosures



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 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 - 12/31/14. 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](http://FortWashington.com).



Past performance is not indicative of future results. This publication has been distributed for informational purposes only and should not be considered as investment advice. Investing involves risk, including the potential loss of principal. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete. Opinions expressed are based on current market conditions and are subject to change without notice. There is no assurance that developments will transpire as forecast, as unexpected events may occur.

#### Russell 3000:

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 Russell Index data. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in Fort Washington's presentation thereof.