Fort Washington Investment Advisors, Inc.

High Yield Fixed Income Quarterly Commentary

2Q17

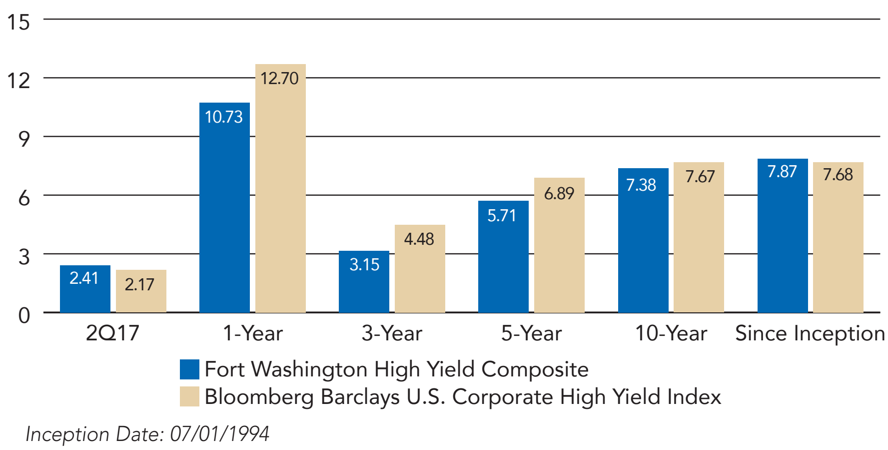
Fort Washington High Yield Fixed Income

Highlights

- The High Yield market generated a sixth consecutive quarter of strong performance in 2Q17, posting a 2.17% return. BBs led all ratings categories with a total return of 2.68% due to spreads tightening 25bps and the 10 year Treasury rallying another 8bps. Bs returned 1.71% while CCC rated securities returned 1.85%. Notably, Energy (Oil Field Services and Independent Energy) was the weakest sector on the quarter returning -2.91% on the back of weak commodity pricing and WTI decreasing from $51/bbl to $42.5/bbl by late June.
- Our core strategy led the benchmark by 30bps due to our underweight to CCC rated securities (especially within Energy) and an overweight to higher quality and slightly longer duration (+0.21 years) bonds. Outperformance for the quarter was broad based and almost entirely due to credit selection. Our higher quality positioning within commodity based sectors (Energy and Metals & Mining) and broad based security selection within Media were the largest contributors while positions within Midstream trailed. Sector positioning was not a meaningful contributor for the quarter.
- We have taken advantage of a strong first half of the year by reducing our positioning in downgraded CCC rated securities as valuations have approached fair value. Similar to 1Q17, we have chosen to reinvest those proceeds across a variety of sectors; preferring to express our conviction more through credit selection than through sector allocation. We remain conservatively positioned within commodity based sectors and continue to overweight more stable cash flow sectors at this part of the credit cycle such as Midstream, Cable, Food & Beverage, and Media.

Historical Performance

Annualized Net Return as of June 30, 2017



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

Top Issuer Attribution

	Attr	Rel Wgt
Noble Group	0.05	-0.06
EP Energy	0.04	-0.24
Noble Holding International	0.04	-0.23
Denbury Resources	0.03	-0.13
California Resources	0.03	-0.13

Bottom Issuer Attribution

	Attr	Rel Wgt
NGL Energy Partners	-0.04	0.85
Precision Drilling	-0.03	0.47
Unit	-0.03	0.96
Genesis Energy	-0.03	0.89
Telecom Italia	-0.03	-0.56

Investment Professionals

Brendan M. White, CFA
Senior Portfolio Manager
30 Years Experience

Timothy J. Jossart, CFA
Portfolio Manager
24 Years Experience

Garrick T. Bauer, CFA
Portfolio Manager
20 Years Experience

Casey A. Basil
Senior Credit Analyst
15 Years Experience

William H. Bunn, CFA
Senior Credit Analyst
31 Years Experience

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

Amy W. Eddy
Senior Credit Analyst
17 Years Experience

Helen H. Brennan
Credit Analyst
9 Years Experience

Patrick L. Burleson, CFA
Credit Analyst
7 Years Experience

Breen T. Murphy, CFA
Credit Analyst
9 Years Experience

Matthew J. Jackson, CFA
Leveraged Credit Trader
5 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

In 2Q17, the High Yield market produced solid returns of 2.17% as spreads tightened by 19bps and the U.S. 10 year Treasury rate declined by 8bps. Unlike previous quarters, returns were not dominated by risky assets or ratings; rather, returns were similar across ratings categories with BBs +2.68%, Bs +1.71%, and CCCs +1.85%. As high yield spreads tighten to the tightest quartile of their historic range, we would expect that returns among ratings categories compress as the excess spread compensation expected from CCC rated securities is unable to offset excess leverage and potential default losses.

Notably in the quarter, the Energy sector was the only negative returning sector as Oil Field Services returned -4.70% and Independent Energy returned -2.20%. Low quality energy credits weakened substantially in the latter weeks of the quarter as OPEC extended but did not deepen production cuts; oil declined from a high of $51/bbl in May to $42.5/bbl by late June. Many of the lower quality names within the Energy sector require higher WTI prices in order to deleverage their balance sheets and grow into their capital structures. Oil has now been range bound between $40 - $55/bbl for the past two years and the effects continue to ripple through the lower quality weaker names.

Similar to 1Q17, long duration assets performed strongly as the 10 year Treasury declined by 25bps from 2.39% at the start of the quarter until hitting 2.14% on June 26 and ending the quarter at 2.30%. This, along with BB spreads tightening by 25bps, was enough to cause long duration assets to produce a return of 2.95% for the quarter.

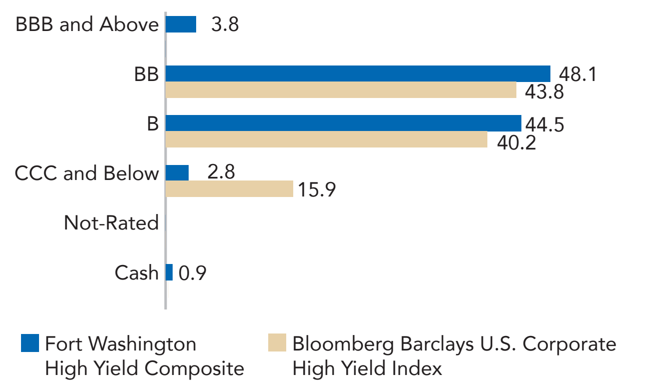
**HY market represented by the US Corporate High Yield Index*

Statistics

	Composite	Benchmark
Quality	BA3/B1	B1/B2
Coupon	6.01	6.45
Price	102.64	101.53
Duration (OAD)	4.10	3.89
Current Yield	5.87	6.36
Yield to Worst	4.96	5.62
OAS	296	364
Number of Issues	436	2043
Number of Issuers	242	946

Benchmark: Bloomberg Barclays U.S. Corporate High Yield Index

Credit Quality
(% of Market Value)



Composite Activity

Fundamentals within High Yield continue to improve as revenue and EBITDA growth broadly turned positive while debt growth has flattened. Our decision to sell BBBs in late 2016 and reinvest in BB/Bs performed well for the strategy as spreads have continued to tighten to current levels. During the second quarter, we took the opportunity to sell some of our downgraded CCC rated securities as they approached fair value and CCCs, as an asset class, approach their tightest quartile of valuations. We reinvested the proceeds from these sales into BB/B rated securities across a variety of sectors and names. The portfolio continues to be overweight Midstream, Media and Healthcare while being underweight Telecommunications, Packaging, and Metals & Mining. Sector positioning has moved marginally over the past quarter as we continue to prefer to express our conviction through credit selection more than through sector allocation in the current market environment.

We are comfortable with high yield valuations and have a neutral outlook on the asset class as we balance the current level of spreads/ yields with positive credit fundamentals and our positive economic outlook. GDP continues to grow at low single digits while wage growth and unemployment continue to improve; leaving the consumer and the economy in good shape in our view. Financial conditions remain favorable as credit spreads remain low, credit remains available to the marginal borrower, and central banks continue to be accommodative (although less so than in the past). Recession risks remain low which is favorable for leveraged credit as we expect default rates to remain low and high yield should continue to accrue excess spread above default losses especially within BB/B rated securities.

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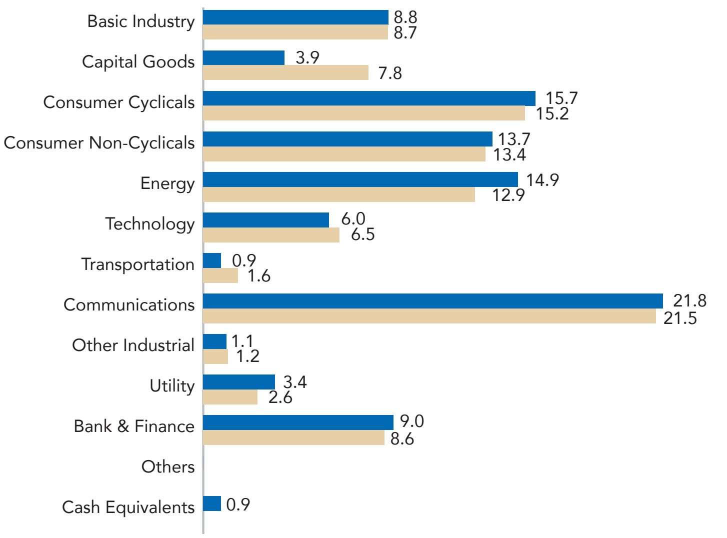
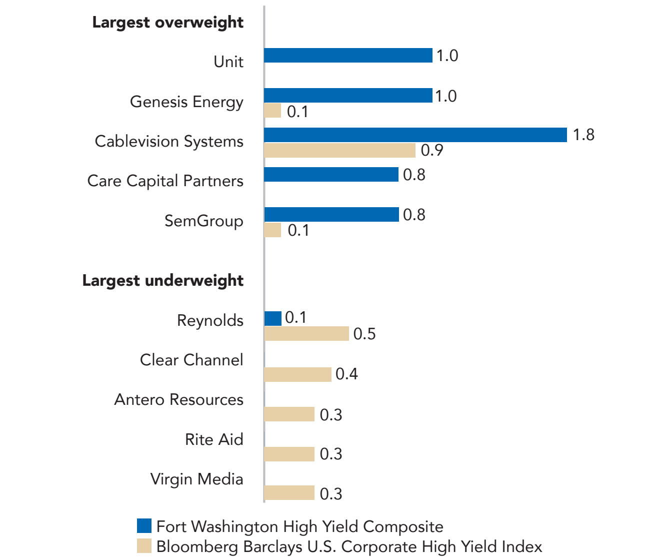
Sector Exposures
(% of Market Value)



Largest Issuer Exposures
(% of Market Value)



Outlook

Factor	Outlook	Comments
Economy	Slightly Positive	• 1Q17 growth was 1.4% while the second quarter has trended closer to 2.0%-3.0%. Low single digit growth is consistent with our expectations for 2017. • Wage growth is firm and continues to grow at 2.5% – 3.0%; the unemployment rate declined to 4.4% at quarter end; the consumer remains in good shape. • Near-term recession risk remains low due to the accommodative level of financial conditions; we continue to closely watch the rise in Fed Funds, interest rates, and U.S. and international growth.
Financial Conditions	Neutral	• SLOSs are at -2.80% tightening (neutral and stable); CCC issuance is available (positive); USD has weakened year-to-date (positive). • Credit spreads have been range bound since 1Q17 and continue to be close to post credit crisis tights. • The Federal Reserve continues to slowly increase interest rates as the economy improves. Market rhetoric around these increases continues to grow as the market adapts to higher (but still accommodative) interest rates.
Interest Rates	Slightly Negative	• Fundamentally, upward pressure on nominal rates will continue due to rising inflation expectations. • Rise in rates should remain muted due to uncertainty in global economy and continued low growth globally; U.S. rates should remain attractive in a global context.
Fundamentals	Slightly Positive	• Net leverage is declining albeit from a high level while interest coverage is also slightly declining. • Revenue and EBITDA growth rates are broadly positive and increasing. • 65-70% of High Yield issuance YTD has been for refinancing of existing indebtedness, aiding balance sheet repair. • Defaults ended the quarter at an estimated 3.8% as the default wave of 2016 rolls off. • Market is pricing in a 1.5-2.0% forward default rate which we believe is fair given current balance sheet leverage, improving financial fundamentals, and continued market liquidity.
Valuation/Spreads	Slightly Negative	• High Yield spreads ended the quarter at +364bps; 31st percentile ranking. • BB/B spreads are at fair value given low expected default rates, high level of domestic economic exposure, and low level of maturities. • The lower rated portions of the energy sector have begun to weaken on the back of sustained oil prices in the $40-$50 range. • Aggregate yields ended the quarter at 5.62% which is only at the 3rd percentile level; unattractive in a historic context and insufficient when defaults begin to increase.
Outlook & Positioning	**Neutral**	• **We are comfortable with high yield valuations ex-CCCs which drives our neutral outlook.** • **Current spread levels offer fair value for the expected default rate environment and we expect coupon-like returns for the remainder of 2017.** • **In commodity sectors, portfolios are focused on higher quality credits that do not require significant increases in commodity pricing in order to grow into their capital structures.**

Source: Fort Washington. The above outlook reflects subjective judgments and assumptions; subject to change at any time. Unexpected events may occur so 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

	2Q17	YTD	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
High Yield Fixed Income (Gross)	2.48%	5.07%	12.84%	-3.82%	2.50%	6.26%	14.08%	6.63%	13.62%	49.08%	-19.18%	3.36%
High Yield Fixed Income (Net)	2.41%	4.91%	12.52%	-4.09%	2.23%	6.01%	13.83%	6.38%	13.40%	48.79%	-19.35%	3.14%
ML-Barclays Linked Benchmark[1]	2.17%	4.93%	17.13%	-4.55%	2.45%	7.39%	15.44%	4.51%	15.24%	56.14%	-26.21%	2.15%
High Yield Fixed Income 3-Year Annual Standard Deviation[2]	—	—	5.82%	5.59%	4.53%	5.75%	5.89%	9.02%	—	—	—	—
ML-Barclays Linked 3-Year Annual Standard Deviation[2]	—	—	6.01%	5.27%	4.42%	6.33%	6.93%	10.77%	—	—	—	—
Dispersion[3]	0.07%	0.20%	0.40%	0.75%	0.15%	0.35%	0.56%	0.36%	0.89%	5.50%	3.00%	0.72%
Number of Accounts	17	17	18	20	21	17	21	19	15	14	10	12
Composite Assets ($ Millions)	$2,945.6	$2,945.6	$3,287.2	$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
Composite % of Firm Assets	6.24%	6.24%	7.20%	8.09%	8.60%	9.29%	10.09%	8.09%	7.79%	6.59%	3.87%	4.72%

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. Please see performance disclosures below.

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.

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