Fort Washington
Investment Advisors, Inc.

High Yield Fixed Income Quarterly Commentary

3Q17

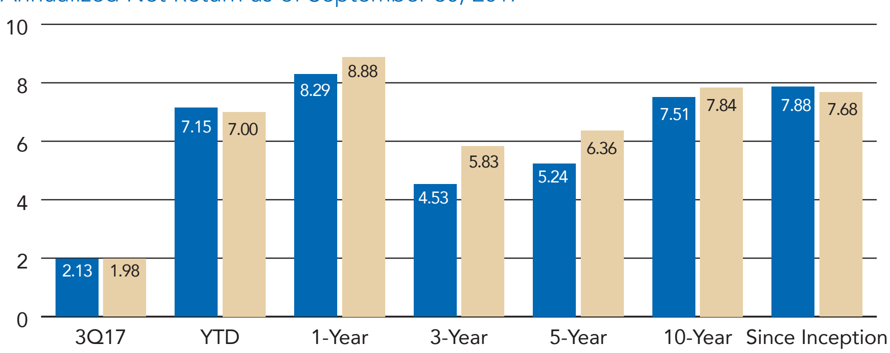
Fort Washington High Yield Fixed Income

Highlights

- The High Yield market again generated an above coupon result in 3Q17, posting a 1.98% return. Differentiation in returns by ratings bucket continued to decline with BBs +2.01%, Bs trailing at 1.75% and CCCs 2.50%. Energy sectors (Refining +8.4%, Oil Field Services +6.7%, and Independent Energy +5.0%) rebounded sharply driven both by a $6/bbl increase in WTI and tighter conditions resulting from shutdowns related to Hurricane Harvey.
- Our core strategy outpaced the benchmark by 23bps (gross) primarily due to security selection. Significantly positive selection was generated in a wide variety of sectors including Media Entertainment, Retailers, Supermarkets, Electric Utilities, and Healthcare. Though there was no common element to our results, the avoidance of particularly hard hit issuers in multiple sectors benefitted performance. Partially offsetting the overall positive selection was higher quality positioning in Oilfield Services, retail-related exposure in Consumer Cyclicals, and short duration positioning in Metals & Mining. Sector positioning was a slight negative with an overweight to Supermarkets, a notable drag.
- The Treasury rally from March to early September in combination with risk off behavior drove market-leading performance by BB-rated issuers. As a result, higher quality names have tightened to IG-like levels. We have sold down our exposure to tightly trading, longer paper and tilted reinvestment towards B-rated issuers. That said, the portfolio's risk positioning remains in the lower half of our expected range. Positioning within commodity-based sectors is conservative and slightly more so than in prior quarters. Overweights are to relatively stable cash flow sectors such as Midstream, Cable Satellite, and Food/Beverage.

Historical Performance

Annualized Net Return as of September 30, 2017



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

Top Issuer Attribution

	Attr	Rel Wgt
GenOn Energy	0.04	0.26
Windstream	0.04	-0.18
Unit Corp	0.04	0.76
PetSmart	0.03	-0.26
Hilcorp Energy	0.03	0.43

Bottom Issuer Attribution

	Attr	Rel Wgt
CenturyLink	-0.03	0.80
Frontier Communications	-0.03	0.25
Noble Holding International	-0.03	-0.21
Albertsons	-0.03	0.42
Cablevision Systems	-0.02	1.01

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

Jon P. Westerman, CFA
Credit Analyst
6 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 3Q17, the High Yield market produced a solid return as spreads tightened 17bps while the U.S. 10 year Treasury rate rose by 3bps resulting in a total return for the quarter of 1.98%. Performance by ratings bucket was not a material differentiator this quarter with BBs +2.01%, Bs 1.75% and CCCs 2.50%. Default experience again ticked lower in 3Q17; now 3.1% on a trailing 12-month basis. On a YTD basis, Energy-related issuers remain at the top by number of defaults with Retailers close behind. We expect a significant leg down in 4Q17 as the 24 issuers that defaulted in 4Q16 roll off. Six of these were greater than $1 billion in size.

Energy-related sectors were again notable in the quarter due to WTI rising nearly $6/bbl in 3Q17. This drove low quality energy credits up sharply in September (Oil Field Services +5.44% and Independent E&P +4.14%). Supporting factors included the U.S. oil rig count peaking in August and falling steadily thereafter, strong demand statistics and reports of OPEC compliance remaining around 100%.

In early August, a wave of new issues and rhetoric related to North Korea led to the second sharp High Yield market selloff of the year. However, as occurred in March, the market soon began to tighten, ending the quarter near YTD lows. This occurred in spite of Hurricanes Harvey (late August) and Irma (mid-September) causing severe physical and economic damage to southeast Texas/Houston and Florida, respectively. Though temporary, this combination of storms is expected to dampen GDP growth in 3Q17. Anticipated effects include lower than previously forecasted payrolls, an uptick in auto sales and a slowdown in housing.

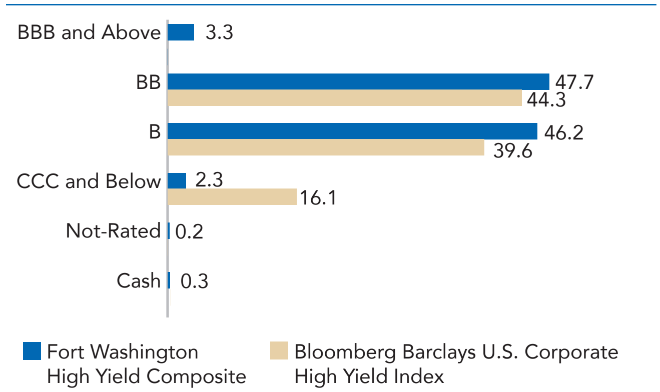
**HY market represented by the Bloomberg Barclays US Corporate High Yield Index*

Statistics

	Composite	Benchmark
Quality	BA3/B1	B1/B2
Coupon	6.01	6.43
Price	103.40	101.86
Duration (OAD)	3.93	3.78
Current Yield	5.83	6.32
Yield to Worst	4.81	5.45
OAS	281	347
Number of Issues	429	2041
Number of Issuers	243	933

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

Credit Quality
(% of Market Value)

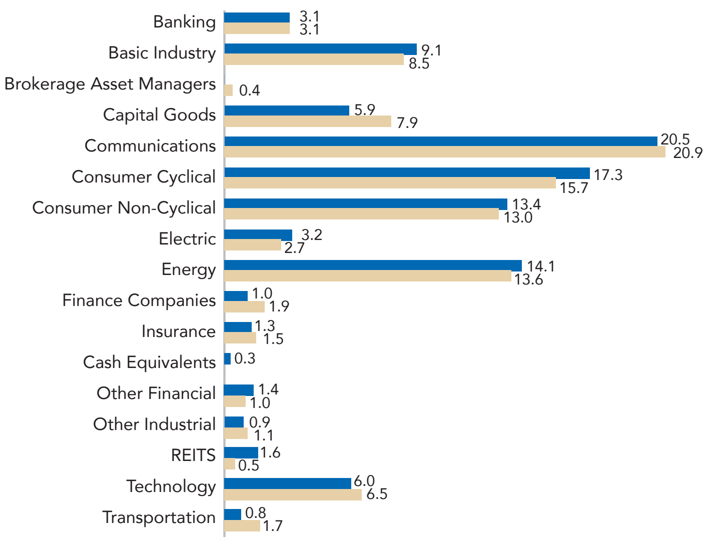


Composite Activity

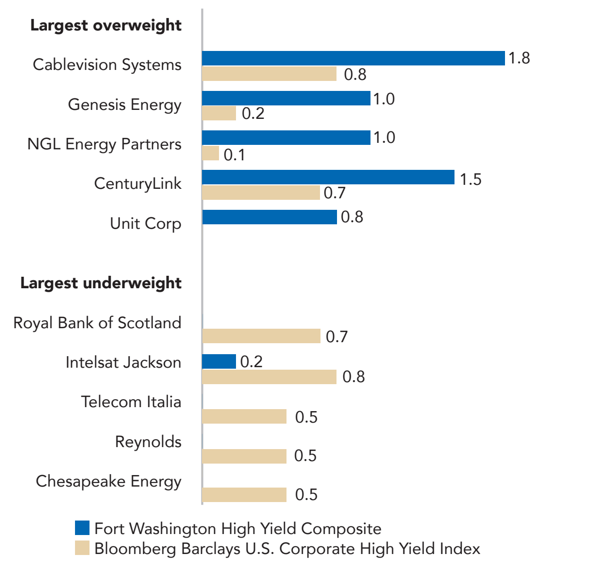
Fundamentals within High Yield remain on the upswing with revenue and EBITDA growth broadly positive while leverage is declining. With these factors in mind and in light of certain BB holdings trading at IG-like levels, we have moved to trim higher quality positions. Reinvestment of the proceeds from these sales has been tilted towards B-rated securities across a variety of sectors and names. Sector positioning has been materially neutralized over the past several quarters as we prefer to express our convictions through credit selection rather than through sector allocation in the current market environment. At this time, the portfolio is 200bp or more overweight just one sector, Midstream. Other lesser overweights include Cable Satellite and Food/Beverage. The richly trading Packaging sector remains underweight as is positioning in Wireless and Pharmaceuticals, a recent overweight.

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 improving credit fundamentals and our increasingly positive economic outlook. U.S. GDP growth is solidly growing in the low single digits while wage growth and unemployment continue to improve; leaving the consumer and the economy in good shape. Financial conditions have gradually become more favorable throughout 2017 with credit spreads declining, the U.S. dollar weakening and interest rates drifting lower. 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, and we expect already low default rates to stabilize. High yield should continue to accrue excess spread above default losses especially within BB/B rated securities.

Sector Exposures
(% of Market Value)



Largest Issuer Exposures
(% of Market Value)



Outlook

Factor	Outlook	Comments
Economy	Slightly Positive ← →	• 1Q17 growth was 1.2% while growth in 2Q17 jumped to 3.0%. Hurricane impacts likely slowed growth this past quarter, but a rebound is expected in 4Q2017. • Wage growth is firm and continues to grow at 2.5% – 3.0%; the unemployment rate declined to 4.2% 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 ← →	• Senior Loan Officer Surveys (“SLOSs”) are at -3.9% tightening (positive); CCC issuance is available (positive); USD has weakened year-to-date (positive). • Credit spreads are near 2017 lows having reversed two material selloffs (March and August) and remain close to post credit crisis tights. • The Federal Reserve is slowly increasing interest rates and has now committed to begin balance sheet reduction in October 2017. Market rhetoric around these increases is mixed while the 10-year Treasury is currently in the middle of its YTD range at 2.33%.
Interest Rates	Slightly Negative ← →	• Fundamentally, upward pressure on nominal rates will continue due to rising inflation expectations. • The rise in rates is expected to be muted due to uncertainty in the global economy and low growth globally; U.S. rates will 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 3.1% 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 adequate market liquidity.
Valuation/Spreads	Slightly Negative ← →	• High Yield spreads ended the quarter at +347bps; 26th 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. • Overall spread level is near the March low, even though multiple sectors (low quality E&P and OFS, Supermarkets, Retailers and Wirelines) have sold off materially since early in the year. • Aggregate yields ended the quarter at 5.45% which is only at the 3rd percentile level; unattractive in an 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.** • **We have been selling credits trading at IG levels and slightly increasing risk positioning by tilting reinvestment towards Bs.**

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

	3Q17	YTD	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
High Yield Fixed Income (Gross)	2.21%	7.38%	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)	2.13%	7.15%	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]	1.98%	7.00%	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]	0.08%	0.26%	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)	$3,040.2	$3,040.2	$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	6.35%	6.35%	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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