Fort Washington Investment Advisors, Inc.

High Yield Fixed Income Quarterly Commentary

4Q16

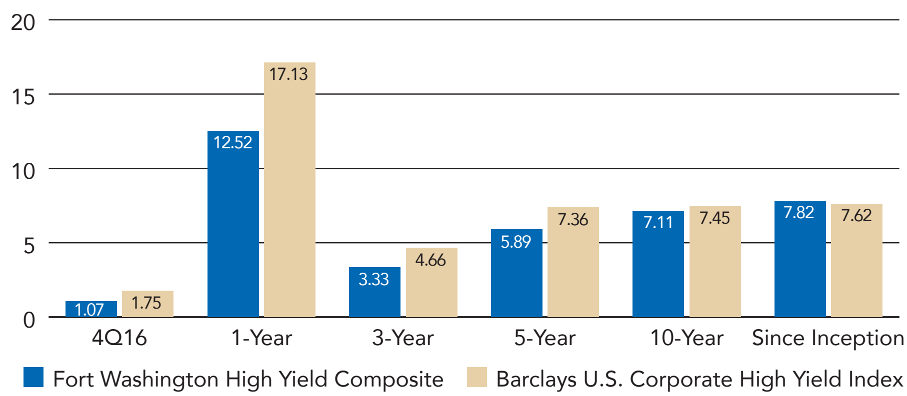
Fort Washington High Yield Fixed Income

Highlights

- The High Yield market continued its positive run during the fourth quarter producing a total return of 1.76%. The drivers behind fourth quarter performance remain the same: a persistent recovery in commodity prices which lent support to Energy and Basics; however, Treasury rates rose significantly in the quarter providing a headwind for higher quality issuers. The significant improvement of the default rate and upgrade/downgrade ratio since the first half of 2016 has also allowed lower rated securities to continue to lead performance.
- Our core strategy lagged the benchmark primarily due to our underweight allocation to lower quality securities, our underweight to Metals/Mining, and our modest overweight to Healthcare. Positive contributors to our performance were well distributed among sectors and Midstream Energy stood out as a large positive for security selection. Last, our minimal exposure to CCCs (4.70% qtd) and CCs (12.2% qtd) detracted from our relative performance.
- We continue to use the rally in high yield to gradually upgrade the quality of portfolios we manage. The largest overweights remain Cable/Satellite and Midstream Energy which we believe provide favorable risk/reward characteristics. The largest underweight is in Metals & Mining; however recent high quality additions have decreased the magnitude of this sector underweight.

Historical Performance

Annualized Net Return as of December 31, 2016



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

Top Issuer Attribution

	Attr	Rel Wgt
Unit Corp	+0.08	+0.61
Precision Drilling	+0.05	+0.42
Cablevision Systems	+0.04	+0.77
Concordia International	+0.04	-0.07
Nabors Industries	+0.04	+0.58

Bottom Issuer Attribution

	Attr	Rel Wgt
Sprint	-0.04	-0.72
Transocean	-0.04	-0.19
California Resources	-0.04	-0.14
EP Energy	-0.04	-0.16
Ensco International	-0.03	-0.31

Investment Professionals

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Senior Portfolio Manager
29 Years Experience

Timothy J. Jossart, CFA
Portfolio Manager
23 Years Experience

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Portfolio Manager
19 Years Experience

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24 Years Experience

Amy W. Eddy
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16 Years Experience

Helen H. Brennan
Credit Analyst
8 Years Experience

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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.

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Market Overview

In 4Q16, the High Yield market again produced a solid return as spreads tightened a material 71 basis points while the U.S. 10-year Treasury rate rose sharply, +85 basis points. The result was a total return of 1.8%, a significant slowdown from 2Q16 (+5.5%) and 3Q16 (+5.6%).

The primary influences in the quarter included U.S. election results, the Fed, and OPEC. The combination of aggressive fiscal stimulus talk out of the incoming Administration, the Republican election sweep, and a less dovish Fed led to a sharp spike in Treasury rates. Higher rates and increased economic optimism led lower quality issuers to continue to outperform due in part to their overall relatively short tenor (CCC duration, 3.3 years vs BB, 4.5). In the quarter, CCs were +12.2%, CCCs +4.7%, Bs +2.0%, and BBs +0.4%.

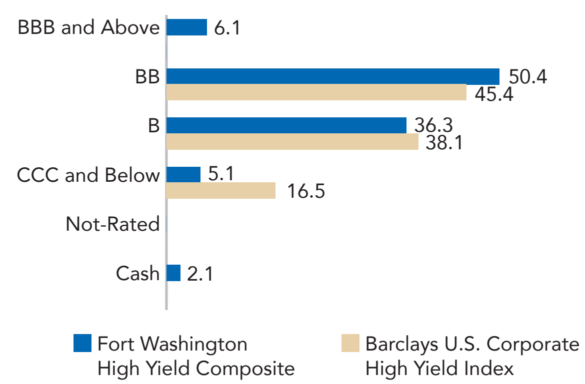
Again, related to the election, Pharmaceuticals (-6.6%) and Healthcare (-1.1%) were two of the worst performing sectors as the election campaign brought pharmaceutical inflation to the fore and the Republican sweep led to talk of repealing the ACA. Lastly, a production cut agreement signed by OPEC and non-OPEC members on November 30th drove oil to its highest level since mid-2015 and led Oil Field Services (+12.1%) and Independent Energy (+7.2%) to be the leading sectors in the quarter.

Statistics

	Composite	Benchmark
Quality	BA3/B1	B1/B2
Coupon	6.06	6.50
Price	101.1	99.8
Duration (OAD)	4.11	4.11
Current Yield	5.99	6.53
Yield to Worst	5.45	6.12
OAS	341	409
Number of Issues	456	2,086
Number of Issuers	238	967

Benchmark: Barclays U.S. Corporate High Yield Index

Credit Quality
(% of Market Value)



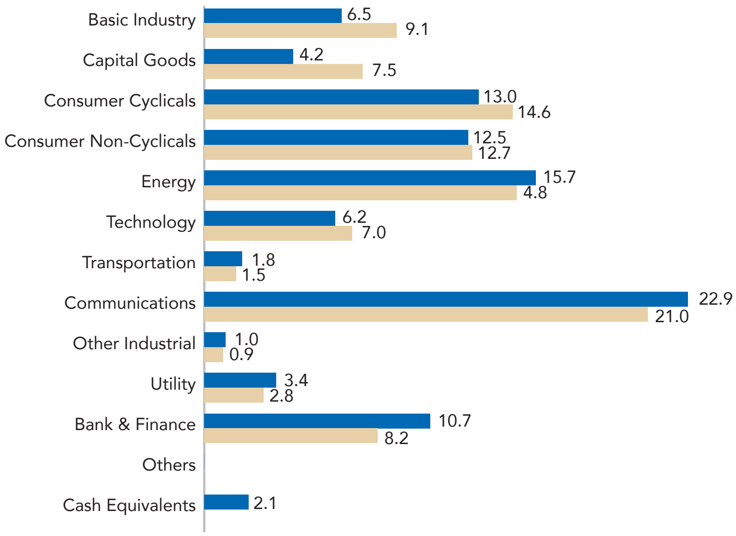
Portfolio Activity

We have utilized the recovery in commodity markets and rally in lower rated securities to gradually upgrade the quality of portfolios we manage and reduce many sector under/overweights; preferring to express our conviction more through credit selection than sector positioning at this stage of the economic cycle. While high yield spreads are fair at current levels for the expected default rate environment, overall leverage for the market remains near all-time highs which causes us to be cautious in our aggregate positioning.

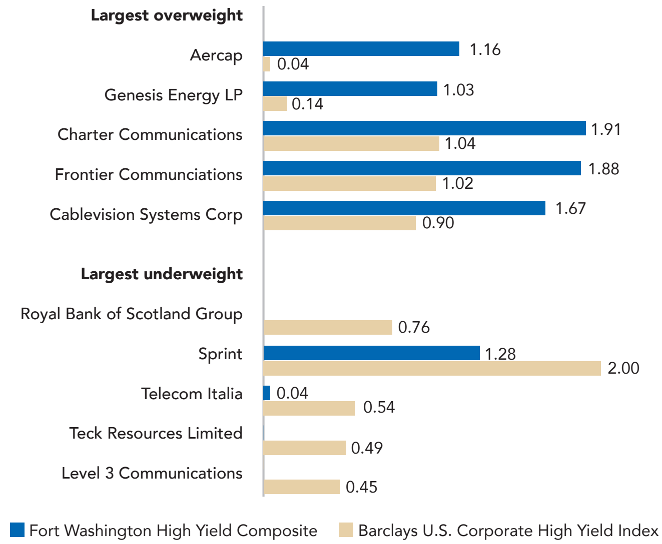
We remain overweight sectors with relatively stable business models such as Cable/Satellite and Midstream Energy. With the impressive compression of spreads since February 2016, we believe that these sectors offer attractive spread compensation for their stable cash flows and minimal expected default losses. An underweight to Metals & Mining continues to stem from the lower quality nature of many of the names in the sector; however, we have recently reduced the underweight through the addition of three higher quality credits. Lastly, we have begun to reduce exposure to BBB rated securities which had been added selectively earlier in the year and are now trading significantly tighter than where they were when purchased. We have used the reduction of these names to roll into a variety of issuers we view with solid balance sheets and business models that provide portfolios with higher spread compensation.

Balance sheets show recessionary levels of leverage and declining levels of cash interest coverage — both foreboding signs for a non-recessionary environment. The mixture of high leverage and low absolute yields has the potential to exacerbate the portfolio damage realized from any experienced default losses and is the primary driver of our 'up-in-quality' positioning. We are closely monitoring the outlook for economic growth as we believe that aggregate growth holds the key for whether or not high yield can continue to tighten from current levels. Increased focus on the domestic economy, potential tax reform, and business deregulation could all provide tailwinds that would allow high yield companies (which are predominately domestic focused) to grow their revenues and EBITDA in excess of recent balance sheet growth.

Sector Exposures
(% of Market Value)



Largest Issuer Exposures
(% of Market Value)



Outlook

Factor	Outlook	Comments
Economy	Slightly Positive	• First half GDP growth was tepid at 1.6% and 1.3% yoy; however, Q3 growth accelerated to 1.7% and we expect Q4 to be above 2%. • Wage growth continues to firm and ended 12/31 at +2.9% yoy; the unemployment rate declined to 4.7% at year-end; the consumer remains in good shape. • Top line growth and corporate profits are expected to increase for 2017; productivity growth and capex remain persistently low. • Near-term recession risk remains low due to the continued ease of financial conditions; we continue to closely watch the rise in Fed Funds, interest rates, and the strength of the USD.
Financial Conditions	Slightly Positive	• Senior Loan Officer Survey (SLOSs) are at 0% tightening (neutral, and improved); CCC issuance remains low as access to capital for the lowest credits remains difficult (negative). USD is strengthening with rates (negative). • Credit spreads have continued to tighten and are approaching post credit crisis lows. • Global central bank policies remain accommodative but less so than in 2016.
Interest Rates	Slightly Negative	• Fundamentally, upward pressure on nominal rates are likely to 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 will remain attractive in a global context.
Defaults	Slightly Positive	• Defaults ended the year at 5.1% (2.4% ex-commodities). • Upgrade/downgrade ratio is at 0.71, a low level. This ratio is a much improved 1.36 when looking at 2Q16 – 4Q16 on the back of commodity price stabilization and balance sheet repair activity. • Market is pricing in a 2%-4% default rate which we believe is fair given the level of financial leverage, decline of interest coverage ratios, and lack of CCC rated debt issuance.
Valuation/Spreads	Neutral	• High Yield spreads ended the quarter at +409bps; +407bps ex-commodities — 41st percentile ranking.* • Non-commodity BB/B spreads are at fair value given low expected default rates, high level of domestic economic exposure, and low level of maturities. • Commodity sectors are priced similar to non-commodity sectors leaving little room for error given their mix of operating and financial leverage and high exposure to the global macroeconomic environment. • Aggregate yields ended the quarter at 6.12% which is only at the 5th percentile level*; unattractive in a historic context and insufficient when defaults begin to increase.
Outlook & Positioning	**Neutral**	**• We are comfortable with high yield valuations and have a neutral outlook on the asset class.** **• Current spread levels offer fair value for the expected default rate environment and we expect coupon like returns for 2017.** **• Commodity sectors provide an unattractive risk/return profile given the weak nature of the global economic recovery and their high operating leverage; although the composition of the index has changed with the large number of fallen angels in 2016 (average quality has increased).** **• We are taking the opportunity to sell down some BBB credit exposure in portfolios and roll those proceeds into high quality BB/B names. This will have the effect of increasing the overall spread of the portfolio (increasing credit risk) while slightly decreasing duration (interest rate risk).**

**Ranking Barclays U.S. Corporate High Yield Index quarter against Index history.*

Composite Performance Disclosures

	4Q16	YTD	2015	2014	2013	2012	2011	2010	2009	2008	2007
High Yield Fixed Income (Gross)	1.14%	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)	1.07%	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]	1.75%	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%	0.40%	0.75%	0.15%	0.35%	0.56%	0.36%	0.89%	5.50%	3.00%	0.72%
Number of Accounts	18	18	20	21	17	21	19	15	14	10	12
Composite Assets ($ Millions)	$3,287.2	$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	7.20%	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 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 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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