



## FORT WASHINGTON SECURITIZED TOTAL RETURN — 3Q2024

### HIGHLIGHTS

- ▶ The Fort Washington Securitized Total Return strategy focuses on low to moderate risk/return opportunities in securitized products with an emphasis on providing a higher-quality, lower-volatility replacement for Investment Grade Corporate bonds.
- ▶ The Fort Washington Securitized Total Return Composite returned 5.11% (net) during the third quarter, compared to 5.53% for the Bloomberg US MBS Index.
- ▶ The Federal Reserve (Fed) delivered its first rate cut of the cycle in September, lowering the target rate by 50 basis points. Moves in the Treasury yield curve were a significant driver of returns during Q3, providing a strong tailwind for fixed income performance.
- ▶ Economic data overall has remained resilient and supportive of a soft landing, with the unemployment rate at 4.1% for September and GDP above expectations at 3.0% for Q2.
- ▶ The MBS Index exhibited strong returns during the quarter, driven by spread tightening in Agency MBS. Spreads across private label (non-index eligible) securities also tightened but couldn't keep pace with Agency MBS. This led to underperformance for our composite, which has a significant overweight to non-Agency securities.
- ▶ Compensation for risk is fair at current levels but still offers upside due to supportive fundamentals. Elevated carry persists given the current Securitized Overnight Financing and Treasury rates, along with spreads that are near long-term median levels across securitized products.

### INVESTMENT PROFESSIONALS

**Scott D. Weston**

Managing Director  
Senior Portfolio Manager  
32 Years Experience

**Brent A. Miller, CFA**

Vice President  
Senior Portfolio Manager  
25 Years Experience

**Richard V. Schneider**

Vice President  
Senior Portfolio Manager  
26 Years Experience

**Laura L. Mayfield**

Assistant Vice President  
Senior Portfolio Manager  
19 Years Experience

**Dimitar T. Kamacharov, CFA**

Assistant Portfolio Manager  
10 Years Experience

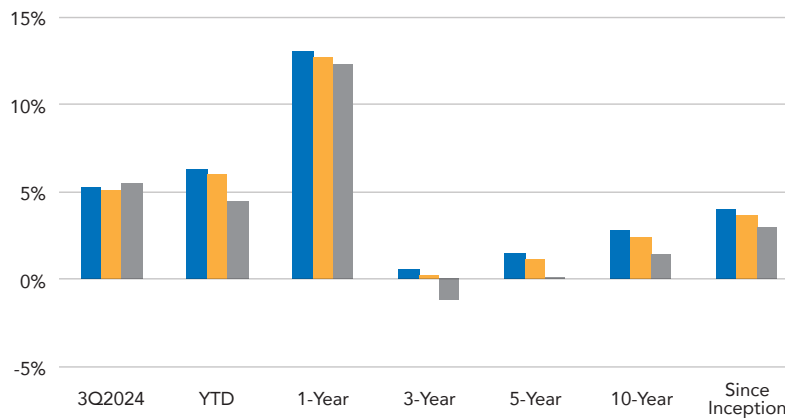
**Beth N. Turner**

Senior Fixed Income Analyst  
10 Years Experience

**Charles D. Buggage**

Senior Fixed Income Analyst  
7 Years Experience

### Annualized Total Returns as of September 30, 2024



	3Q2024	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Securitized Total Return (Gross) (%)	5.20	6.31	13.09	0.56	1.52	2.78	4.04
Securitized Total Return (Net) (%)	5.11	6.03	12.70	0.22	1.18	2.41	3.67
Bloomberg U.S. MBS (%)	5.53	4.50	12.32	-1.20	0.04	1.41	3.01

Source: Fort Washington. \*Inception date 01/01/2005. Past performance is not indicative of future results. This supplemental information complements the Securitized Total Return GIPS Report.

## Portfolio Characteristics and Sector Allocation

	MV %	Cpn	YTW	OAS	OAD	OASD	DTS	Contr. to DTS	Avg. Rating
Bloomberg US MBS Index	100	3.3	4.5	42	5.7	5.3	3.1	3.1	AA+
Securitized Total Return Comp	100	2.8	5.3	130	6.0	5.2	6.2	6.2	AA
ABS	9	3.3	5.8	215	3.1	3.1	6.1	0.6	BBB
CLO	5	6.8	6.4	171	0.9	3.9	6.8	0.3	AA-
CMBS	13	1.5	8.1	377	1.5	1.9	5.9	0.6	A+
RMBS	69	3.3	4.8	83	6.9	6.5	5.2	4.3	AA+
US Government	4	2.5	4.1	-	15.9	-	8.5	0.4	AA+
IG Credit	0	3.5	4.1	28	10.3	10.2	4.7	-	AAA
Cash	1	-	4.9	-	-	-	-	-	AAA

Source: Fort Washington. Data as of 09/30/2024. Portfolio characteristics are as of the reported date and are subject to change without notice. Past performance is not indicative of future results. This supplemental information complements the Securitized Total Return GIPS Report.

## MARKET OVERVIEW

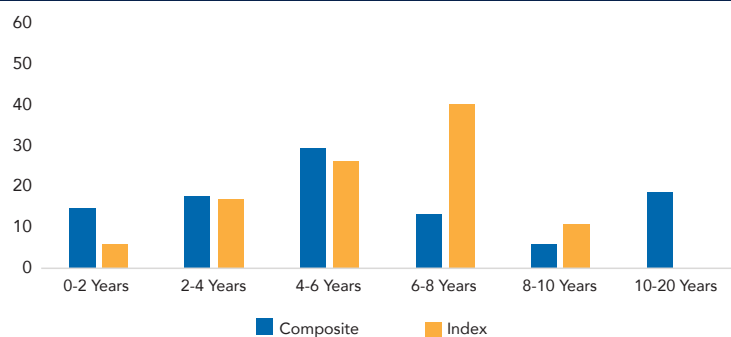
Broad market performance was strong during Q3, with both equities and fixed income generating positive returns despite a complicated narrative unfolding beneath the surface. At the beginning of the quarter, markets were pricing in 50 basis points of Fed rate cuts by year-end 2024. Economic data had proven resilient, and the unemployment rate had ticked up to a manageably weaker 4.1% for June. The Fed's carefully engineered soft landing seemed to be coming into focus.

This trajectory changed course in mid-July, however, as a variety of concerns began to escalate. Soft earnings reports called into question valuations of tech companies, which had largely driven the equity market rally in the first half of the year. Simultaneously, weaker CPI and a few other economic data releases cast doubt on the soft landing narrative. Treasuries rallied sharply toward the end of July and early August, as markets recalibrated to a more urgent rate-cutting scenario. This sharp rally in U.S. Treasuries coincided with a Bank of Japan rate hike (and hawkish rhetoric), exposing a broad Yen carry trade in the market, and prompting its unruly unwinding. Meanwhile, the year-to-date rout in Chinese equities continued into Q3, contrasting sharply with global stocks' strong run and heightening concerns about the strength and stability of the world's second-largest economy. On August 2, the Bureau of Labor Statistics released a worse-than-expected unemployment rate of 4.3%, triggering the Sahm Rule, which indicates that a recession may have already begun. These stressors became too much for markets to sustain in equilibrium, and in the first week of August, the Chicago Board Options Exchange Volatility Index (VIX) spiked to a level not seen since 2020.

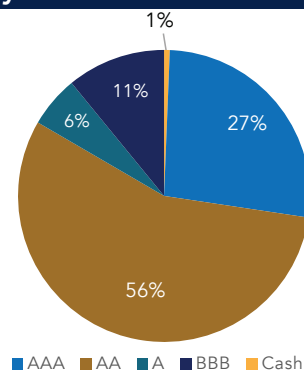
This culmination of negativity in early August marked an inflection point for the quarter. The flow of economic data through the rest of the quarter was seen as more supportive of the soft landing narrative. The unemployment rate for July rose 0.2% to 4.3%, and GDP exceeded forecasts at 3% for Q2. Fed Chairman Jerome Powell expressly assured markets that the time had come to begin cutting rates, and then delivered the first cut of 50 basis points at the Fed's September meeting. Meanwhile, Japan's newly-appointed Prime Minister Shigeru Ishiba responded to the Yen carry trade unwind by assuring markets that Japan does not need further rate hikes—a sentiment which Bank of Japan Governor Kazuo Ueda appeared to support, albeit cautiously. Late in the quarter, China announced an aggressive stimulus package aimed at restoring confidence in the economy, driving a 27% rally in the CSI 300 Index during the second half of September—another stabilizing factor for markets globally.

U.S. Treasury rates ended the quarter considerably lower vs. Q2, with the 10 year rallying by 62 basis points, and the 1-2 year part of the curve rallying by more than 100 basis points. The 2s/10s curve reverted to a positive slope during September, after spending more than two years in inverted territory. Over the course of the quarter, markets transitioned from expecting a total of two rate cuts by year-end 2024, to already having two cuts during Q3, and expecting another three by the end of December. Spreads across fixed income were briefly volatile during the July/August selloff but recovered through the remainder of the quarter.

## Duration Distribution



## Credit Quality



Source: Fort Washington. Characteristics are subject to change without notice. Totals may not equal 100 due to rounding. This supplemental information complements the Securitized Total Return GIPS Report.

## PERFORMANCE

The Fort Washington Securitized Total Return Composite returned 5.20% (gross) and 5.11% (net) during the first quarter, compared to 5.53% for the Bloomberg US MBS Index. Underperformance was mostly due to a 55% overweight to private-label securitized products compared to the Index. The Bloomberg US MBS Index, which is 100% Agency MBS, saw strong excess returns during the quarter. In contrast, our composite has a strategic overweight to private-label sectors (Non-Agency RMBS, CMBS, ABS, and CLOs), and those sectors saw mixed performance. With the large rally in interest rates and a modest duration short entering the quarter, yield curve effects also detracted from performance relative to the Index.

## PORTFOLIO ACTIVITY

The largest changes in positioning during Q3 were an increased exposure to discount AAA-rated Non-Agency RMBS, backed by prime jumbo mortgages and non-qualified mortgages and an increase in exposure to 5% coupon Agency Pass-Throughs. The allocation to Non-Agency RMBS was based on relative value, with high quality RMBS trading at dollar prices in the \$85-\$95 range, standing out as one of the cheaper asset classes in securitized products, with spreads in the 50th-60th percentile historically.

Portfolio credit quality improved due to the addition of AAA RMBS and remained roughly neutral. Credit quality is high at an average rating of AA. After the end of Q3, duration stood at 5.9 years, 0.2 years longer than the Index.

## OUTLOOK

While we believe the U.S. economy is showing positive signs, there are inherent risks, and no prediction can guarantee future outcomes. Labor market deterioration seems to be manageable, while consumer spending continues to be supported by healthy balance sheets and jobs/wages. Slowing Personal Consumption (PCE) indicates meaningful progress toward the Fed's 2% inflation target, although price increases in shelter and certain other non-discretionary categories remain elevated.

The fundamentals in each of the strategy's broad sectors—ABS, CMBS, RMBS, and CLOs—continue to support valuations. Consumer fundamentals have weakened in the lower income cohorts due to the impact of inflation, high borrowing costs, and a softer labor market, but remain sound overall as shown by delinquency trends in both ABS and RMBS. CMBS is the most challenged sector—there will be winners and losers, and tens of billions of dollars have been raised to buy dislocated assets. We are beginning to see deployment of this capital, but it remains slow. Cap rates are still high and could continue to stress the CRE markets.

Spreads have rallied in all credit markets with IG and high yield spreads near historical tight. Securitized spreads started the year in fair-value-to-slightly-cheap territory but are now on the tighter side of fair with most spreads in the 10th to 60th percentile range. CMBS is bifurcated with distressed segments like office trading at wider spreads. We are still finding pockets of value in certain RMBS and ABS sub-sectors, including seasoned prime jumbo RMBS and tier 2 whole business securitizations. We are also selectively taking advantage of opportunities in the CMBS space.

## COMPOSITE GIPS REPORT

	3Q2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Securitized Total Return (Gross)	5.20%	5.85%	-9.28%	0.40%	4.83%	6.71%	2.06%	3.43%	3.24%	3.66%	6.88%
Securitized Total Return (Net)	5.11%	5.49%	-9.58%	0.06%	4.49%	6.34%	1.65%	3.02%	2.82%	3.23%	6.42%
Bloomberg US Mortgage Backed Securities Index	5.53%	5.05%	-11.81%	-1.04%	3.87%	6.35%	0.99%	2.47%	1.67%	1.51%	6.08%
Securitized Total Return 3-Year Annual Standard Deviation <sup>1</sup>	--	5.97%	4.81%	3.10%	3.28%	1.94%	1.83%	1.54%	1.90%	2.15%	2.15%
Bloomberg US Mortgage Backed Securities Index 3-Year Annual Standard Deviation <sup>1</sup>	--	7.66%	5.62%	1.71%	2.17%	2.15%	2.26%	1.75%	2.11%	2.31%	2.22%
Dispersion <sup>2</sup>	--	--	--	--	--	--	--	--	--	--	--
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ millions)	\$343.2	\$347.7	\$328.4	\$380.0	\$367.9	\$398.3	\$234.7	\$230.0	\$149.5	\$105.8	\$102.1
Total Firm Assets (\$ millions)	\$81,043	\$74,613	\$66,365	\$73,804	\$65,086	\$59,174	\$49,225	\$52,774	\$45,656	\$42,959	\$45,002

Composite inception date: 01/01/2005. <sup>1</sup>The 3-Year annualized ex-post standard deviation is calculated using monthly gross-of-fee returns to measure the average deviations of returns from its mean. <sup>2</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 gross-of-fee returns for those portfolios held in the composite during the entire period. Past performance is not indicative of future results. The benchmark for this composite is the Bloomberg US Mortgage-Backed Securities Index. The Bloomberg US Mortgage-Backed Securities Index tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon, and vintage. The index accounts for interest payments by incorporating them into the total return calculation. Fort Washington's Securitized Total Return strategy seeks to achieve superior return on mortgage-related investments by investing in both index and non-index securities and employing an active intra-sector relative value framework. Typical securities utilized include agency mortgage-backed securities, private label mortgage-backed securities, asset backed securities, commercial mortgage-backed securities, agency debentures, Treasuries and cash securities. Portfolio duration will target +/- 1 year relative to the duration of the Bloomberg Barclays's Mortgage index. Average quality to be investment grade. All fee-paying, fully discretionary, non-restricted portfolios managed in the Securitized Total Return style, with a minimum of \$10 million under our management, are included in this composite. Effective 01/22/2014, the Securitized Total Return fee is 0.30% on the first \$25 million and 0.25% on additional amounts over \$25 million. Portfolios in this composite include agency mortgage-backed securities, private label mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, agency debentures, Treasuries and cash securities. 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. 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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Fort Washington has been independently verified for the periods 7/1/94 - 12/31/22. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Policies for valuing investments, calculating performance, and preparing GIPS Reports 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.

## RISK DISCLOSURES

The Fort Washington Securitized Total Return strategy invests primarily in securitized asset instruments, including mortgage-backed securities, asset-backed securities and other securities. The market prices of securities may go up or down, sometimes rapidly or unpredictably, due to general market conditions, such as real or perceived adverse economic, political, or regulatory conditions, recessions, inflation, changes in interest or currency rates, lack of liquidity in the bond markets, or adverse investor sentiment. Investments in the strategy are subject to possible loss due to the financial failure of issuers of underlying securities and their inability to meet their debt obligations. When interest rates rise, the prices of fixed-income securities in the strategy will generally fall. Conversely, when interest rates fall, the prices of fixed-income securities in the strategy will generally rise. The value of mortgage-related and asset backed securities will be influenced by factors affecting the real estate market and the assets underlying those securities. These securities are also subject to prepayment and extension risks and risk of default.

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete. Past performance is not indicative of future results.

© 2024 Fort Washington Investment Advisors, Inc.



**Fort Washington  
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

▾ **Uncompromised Focus®**