



INTRODUCTION TO STRATEGIC INCOME



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HIGHLIGHTS

- ▶ The Fort Washington Strategic Income Strategy is a multi-sector fixed income strategy designed to provide investors with a high level of current income and total return with a focus on capital protection with multiple sources of returns compared to traditional fixed income.
- ▶ The strategy may potentially provide investors with premium yield, high conviction security selection, diversified approach to sector allocation, duration management, and high quality bias.
- ▶ Strategic Income provides investors with an expanded investment opportunity set and increased flexibility compared to traditional Core and Core Plus strategies.
- ▶ Fort Washington's unique approach utilizes cause and effect relationships to assess relative value between asset classes and balances interest rate risk with credit risk. The strategy is implemented by an experienced team of 30+ investment professionals with proven track records overseeing +\$50 billion in fixed income assets.¹
- ▶ Our neutral view on the current economy coupled with attractive valuations supports an overweight to risk assets. The strategy currently has a 6.4% yield and is broadly diversified by sector.
- ▶ The strategy has produced top decile performance since inception compared to its peers and has historically outperformed the Bloomberg Aggregate since inception.²

WHAT IS THE FORT WASHINGTON STRATEGIC INCOME STRATEGY?

The Strategic Income strategy is a multi-sector fixed income strategy that seeks to produce a high level of current income and total return with a focus on capital protection through investing primarily in public fixed income securities. The strategy focuses on flexible sector diversification and high conviction security selection, resulting in attractive risk adjusted returns via multiple sources of yield and alpha.

¹ Assets as of 6/30/2022, across multiple strategies.

² Inception date of 7/1/2017. Past performance is not indicative of future results. Peer rankings are based on gross performance relative to the Morningstar US Multi-Sector Bond Universe.

HOW DOES STRATEGIC INCOME DIFFER FROM OTHER MULTI-ASSET FIXED INCOME STRATEGIES?

Premium Yield. Strategic Income has a yield well above the Bloomberg US Aggregate Index as well as traditional fixed income strategies.²

High Conviction Security Selection. Bottom-up security selection in fixed income has proven to be a reliable source of alpha. Strategic Income is a portfolio of typically 125 – 175 issuers, focusing on the best ideas of our investment teams.

Sector Diversification. Non-traditional fixed income strategies often have large concentrations in a single sector, such as high yield or preferred securities. Strategic Income is broadly diversified by sector, resulting in multiple sources of return.

Duration Management. Unconstrained fixed income strategies take large bets on the direction of interest rates, traditionally an unreliable source of alpha. Strategic Income uses duration as a risk mitigation tool, and seeks to avoid taking large duration positions due to the difficulty in predicting interest rates.

Quality Bias. Strategic Income has an above average yield without taking excessive risks. The average credit quality of the holdings in the strategy is Investment Grade rated, while the average credit quality of most portfolios in the peer group is rated as High Yield.

WHY INVEST IN THE STRATEGY TODAY?

Flexibility. Having the flexibility to react to market dislocations in a timely manner can be a benefit of non-traditional fixed income approaches such as Strategic Income.

Enhanced Return. Multi-Sector bond strategies have outperformed traditional strategies over the past 5, 10, and 15 year periods³ with only a moderate increase in risk.

Higher Yield. For investors looking for increased yield, Strategic Income, on average, is likely to provide a yield in excess of the Bloomberg Barclays US Aggregate by 2%,⁴ higher than most traditional strategies.

Expanded Opportunity Set. Traditional strategies are largely invested in sectors and securities that are represented in common market indices. Strategic Income goes beyond common market indices into areas that may be less trafficked, providing more opportunities for alpha.

Portfolio Diversification. Traditional strategies are often invested in the major index sectors of Investment Grade Corporates, Securitized, and Government Securities. Strategic Income provides dedicated exposure to diversifying fixed income asset classes with low correlation to traditional fixed income strategies.

WHAT IS THE INVESTMENT PROCESS?

1) Risk Appetite

Determine how much risk to take

- Consider the current state of the economy and asset valuations
- Balance interest rate risk with credit risk
- Measure risk through cause and effect relationships (“Recession Risk”)

2) Sector Allocation

Identify optimal sector combinations

- Maximize yield and total return in concert with risk appetite
- Focus on estimates of risk and return, and uncertainty around those estimates
- Seek small and niche market opportunities

3) Security Selection

Perform fundamental analysis

- High conviction approach allows for alpha generation (typically 125-175 issuers)
- Established sector track records of outperformance
- 30+ dedicated sector portfolio managers and analysts

³ Source: Morningstar Multisector Bond Universe and Intermediate-Term Bond Universe as of 6/30/2022.

⁴ Source: Bloomberg, Fort Washington.

HOW IS RELATIVE VALUE BETWEEN ASSET CLASSES ASSESSED?

The Fort Washington Strategic Income strategy takes a value investors approach to investing. This means the strategy focuses on measurement, not forecasting, and makes explicit measurements of risk and return. For each asset class, we make return estimates for two scenarios: growth shock, or recession, and normalized, or upside. Once these estimates of risk and return are made, it allows for an apples to apples comparison of the risk-adjusted attractiveness between different asset classes.

This forward looking approach based on cause and effect relationships is differentiated in the market place, where most investors use traditional relative value and risk metrics involving historical correlations and volatility.

HOW IS INTEREST RATE DURATION MANAGED?

Rather than taking large duration positions within the strategy, we use interest rate duration as a valuable risk mitigation tool. Interest rates often fall when risk assets sell off, as investors flee to less risky assets such as Treasuries. By maintaining exposure to interest rate duration, the strategy has downside protection in volatile environments—a characteristic often desired when investing in fixed income. The strategy has historically been managed with a duration between 4 and 5 years.

WHO MANAGES THE STRATEGY?

The Fort Washington Strategic Income strategy is managed by a deeply experienced team of 3 portfolio managers and over 30 sector portfolio managers and analysts. This same team, the multi-sector fixed income team, is also responsible for the management of the Fort Washington Core, Core Plus, Intermediate Fixed Income, and Short Duration strategies.

The portfolio management team consists of Dan Carter, Austin Kummer, and Brendan White, who average 22 years of experience and 13 years with the firm. This team is responsible for the overall risk appetite, sector allocation, duration, and macro positioning.

The strategy utilizes sub-sector portfolio managers (Investment Grade Corporate, High Yield, Structured Products, Emerging Markets Debt, etc.) for the composition of the sub-allocations (i.e., bottom up positioning). These portfolio managers have discretion over their sub-portfolios subject to overall portfolio risk, sector constraints, duration risk, and other targets set by the aforementioned portfolio management team (e.g., sector or duration may be constrained due to portfolio risk management).

The Strategic Income investment team manages over \$50 billion in assets across a variety of fixed income strategies.



*Includes assets under management as of 6/30/2022 by Fort Washington Investment Advisors, Inc. of \$67.1 billion and \$5.0 billion in commitments managed by Fort Washington Capital Partners Group, a division.

**Registration as an investment advisor does not imply any level of skill or training.

HOW IS THE PORTFOLIO POSITIONED TODAY?

We believe the macro environment remains supportive of risk assets despite increased risks. The strategy is positioned to benefit from outperformance of risk assets, as well as security selection opportunities identified by the team.

The team is targeting an overweight to spread risk representing 50% of the risk budget. This overweight is supported by 1) our view that the U.S. economy can withstand expected Fed tightening, largely supported by a healthy consumer, with any decline in activity likely to be shallow, and 2) valuations are generally above the 60th percentile relative to history.

Risks are squarely focused on the evolution of inflation and the resulting reaction from the Fed. While there are signs that the economy is slowing, inflation data has yet to take a decisive turn lower. The Fed is aggressively raising rates to combat inflation and is unlikely to change posture until they see a string of data that confirms inflation is heading back towards 2%. The effects of tighter monetary policy represent the biggest risk to growth, but we believe the underlying foundation is solid and there is a path to a "soft landing" for growth. As our view of the economy and monetary policy changes, we will adjust positioning as these risks evolve.

Sector positioning reflects our overall positive outlook on valuations, attractive relative value, and opportunities within each sector. Primary risk exposures and recent changes include:

- ▶ Exposure to Investment Grade Credit was largely unchanged during the quarter. The team has found incremental value in preferred securities and new issues priced with large concessions, and continues to favor positions lower in the capital structure within high quality financials and utilities.
- ▶ The strategy's allocation to Securitized products remained stable during the quarter. The team continues to favor non-agency exposure within the sector, and is positioned appropriately with overweight exposure to ABS, CLO, and CMBS.
- ▶ The strategy maintained its exposure to Emerging Markets Debt. Valuations remain attractive relative to domestic credit, especially in the HY portion of the market. Latin America remains the largest exposure within the sector.
- ▶ High Yield exposure was reduced during the quarter as risk/reward became unfavorable for the sector. Within High Yield, the strategy is broadly diversified by sector and the team is finding incremental value in higher quality BBs.

Duration increased modestly during the quarter to 4.9 years. We believe interest rates have fully priced potential moves by the Fed and the level of yields is more attractive from a risk/reward perspective. Economic growth is expected to slow further as the Fed tightens. Provided inflation also moderates, interest rates have likely peaked for 2022.

Our economic outlook remains positive despite ongoing risks of sustained inflation and tightening financial conditions. As such, we believe an overweight to credit sectors should benefit investors as valuations appear compelling at current levels. The strategy continues to generate an above average yield through a high conviction multi-sector approach, and should also perform well in a stable environment through its excess carry. The strategy's yield has risen to historically high levels and should help offset potential risks. In today's volatile and uncertain environment, we believe Strategic Income provides a compelling solution for fixed income investors due to its flexible and risk-oriented approach.

Portfolio Characteristics (As of 6/30/2022)

- ▶ Weighted Average Yield to Worst 6.4%
- ▶ Effective Maturity (years) 9.5
- ▶ Effective Duration (years) 4.9
- ▶ Number of Issuers 192

Credit Quality (% of Fixed Income)		Sector Allocation	
AAA	21%	Investment Grade Credit	25%
AA	0%	High Yield Corp	18%
A	8%	U.S. Treasuries	17%
BBB	31%	Securitized	22%
BB	15%	Emerging Markets Debt	9%
B	10%	Private Debt/BDCs	3%
CCC and Below	2%	Public Equity	5%
NR	7%	Cash	2%

Source: Fort Washington and Bloomberg PORT. Past performance is not indicative of future results. Portfolio characteristics subject to change at any time without notice. See Strategic Income GIPS Report on next page for complete performance information and disclosures.

Assets as of 6/30/2022. Includes assets under management by Fort Washington of \$67.1 billion and \$5.0 billion in commitments managed by Fort Washington Capital Partners Group (FW Capital), a division.

STRATEGIC INCOME COMPOSITE PERFORMANCE DISCLOSURES

	2Q2022	2021	2020	2019	2018	2017 ¹
Strategic Income (Gross)	-6.67%	3.24%	10.72%	12.84%	0.49%	3.10%
Strategic Income (Net)	-6.73%	2.99%	10.42%	12.80%	0.45%	3.08%
Bloomberg U.S. Aggregate	-4.69%	-1.54%	7.51%	8.72%	0.01%	1.24%
Strategic Income 3-Year Annual Standard Deviation ²	--	6.68%	6.87%	--	--	--
Bloomberg Aggregate 3-Year Annual Standard Deviation ²	--	3.35%	3.36%	--	--	--
Dispersion ³	--	--	--	--	--	--
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ millions)	\$712.40	\$1,053.40	\$385.60	\$285.50	\$57.50	\$51.10
Total Firm Assets (\$ millions)	\$67,112	\$73,804	\$65,086	\$59,174	\$49,225	\$52,774

Composite inception and creation date: 07/01/17. ¹2017 returns are partial-year returns, reflecting the composite inception date of 07/01/17. ²The 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. ³Dispersion 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 gross-of-fee returns for those portfolios held in the composite during the full measurement period. As of 12/31/2021, the Fort Washington Flexible Income Composite was renamed the Fort Washington Strategic Income Composite. Past performance is not indicative of future results.

The Strategic Income strategy employs a high conviction, yield oriented investment approach coupled with sector diversification and diligent risk management resulting in attractive risk adjusted returns via high levels of income. The primary objective of Strategic Income is to produce a high level of current income with a secondary objective of capital appreciation. The strategy will invest in public fixed income, private fixed income, common stock and derivatives. The strategy will incorporate the best investment ideas available to Fort Washington, exploiting Fort Washington's core competencies of bottom up credit and structure analysis. Risk monitoring, performance measurement, and active management is a key component to achieving attractive risk adjusted returns. All fee-paying, fully discretionary portfolios, managed in the Strategic Income style, with a minimum of \$100 million under our management, are included in this composite. Effective 10/26/18, the Strategic Income fee is 0.40% for separate accounts. The benchmark for this composite is the Bloomberg U.S. Aggregate Bond Index. This benchmark covers the USD-denominated, investment grade, fixed-rate, and taxable areas of the bond market. 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. 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. 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 - 12/31/20. 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.

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