



## FORT WASHINGTON STRUCTURED OPPORTUNITIES — 4Q2023

### HIGHLIGHTS

- ▶ The Fort Washington Structured Opportunities strategy focuses on moderate to high risk/return opportunities in securitized products with an emphasis on providing higher-quality, lower-volatility replacement for High Yield Corporate bonds.
- ▶ The Fort Washington Structured Opportunities Composite finished the quarter at 3.44% (net), underperforming the Bloomberg U.S. MBS Index by 304 basis points. For the trailing 12 months the Composite returned 4.66% (net) versus the index return of 5.05%.
- ▶ The resilience of the U.S. economy persisted during the fourth quarter and the Fed pivoted to a softer stance on monetary policy, increasing the possibility of a soft landing. The Fed remained on hold during the quarter at a funds rate of 5.25-5.50% and signaled potential cuts in 2024. Treasury rates fell by 25-75 basis points across the curve as markets began pricing in rate cuts as soon as March.
- ▶ Spreads across all securitized products moved sharply tighter into year end, with Agency MBS leading the way. Distressed CMBS prices began to firm during the quarter.
- ▶ Compensation for risk is attractive at current levels but not without doing upfront credit work. Given current Securitized Overnight Financing and Treasury rates, along with spreads that are still wider than normal across securitized products, strong carry still persists.

### INVESTMENT PROFESSIONALS

**Scott D. Weston**

Managing Director  
Senior Portfolio Manager  
31 Years Experience

**Richard V. Schneider**

Vice President  
Senior Portfolio Manager  
25 Years Experience

**Brent A. Miller, CFA**

Vice President  
Senior Portfolio Manager  
24 Years Experience

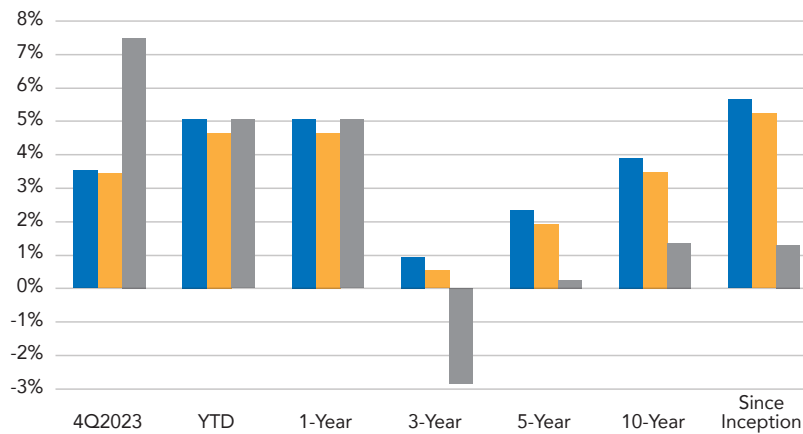
**Laura L. Mayfield**

Assistant Vice President  
Senior Portfolio Manager  
18 Years Experience

**Dimitar T. Kamacharov, CFA**

Assistant Portfolio Manager  
7 Years Experience

### Annualized Total Returns as of December 31, 2023



	4Q2023	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Structured Opportunities (Gross)	3.54	5.07	5.07	0.95	2.35	3.92	5.65
Structured Opportunities (Net)	3.44	4.66	4.66	0.55	1.93	3.50	5.24
Bloomberg U.S. MBS	7.48	5.05	5.05	-2.86	0.25	1.38	1.30

Source: Fort Washington Investment Advisors, an investment advisor registered with the U.S. Securities and Exchange Commission. Past performance is not indicative of future results. This supplemental information complements the Structured Opportunities GIPS Report.

## Portfolio Characteristics and Sector Allocation

	MV %	Cpn	YTW	OAS	OAD	OASD	DTS	Contr. to DTS	Avg. Rating
Bloomberg US MBS Index Statistics Index	100	3.1	4.7	47	5.9	5.6	3.2	3.2	AA+
Structured Opportunities Comp	100	5.1	9.2	437	2.3	3.3	13.7	13.7	BBB+
ABS	29	4.3	7.8	344	2.2	2.2	7.9	2.3	BBB
CLO	24	8.2	8.7	306	0.2	4.3	13.7	3.2	A-
CMBS	25	3.8	13.7	880	2.0	2.5	22.6	5.7	BBB
RMBS	16	4.7	6.8	244	4.9	6.1	14.2	2.2	BBB+
US Government	2	3.9	4.2	-	13.3	-	5.5	0.1	AA+
HY Corp	1	6.7	10.4	474	(0.2)	2.7	12.5	0.2	BB+
Cash	3	-	5.3	-	-	-	-	-	AAA

Source: Fort Washington. Data as of 12/31/2023. 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 Structured Opportunities GIPS Report.

### MARKET COMMENTARY

The U.S. economy remains resilient despite withstanding higher interest rates for a longer period. Unemployment remains low at 3.7%, with nonfarm payrolls still seeing increases of 175-200k per month. However, the labor market has started to see better balance with slower growth and increased layoffs. Consumer spending is still well supported by lower unemployment and elevated wages, but we are starting to see more cracks in the lowest income cohorts. Business spending has been on the sluggish side as companies look to reduce costs to preserve margins. Lending on both the business and consumer side remains toward the tighter end, but there are signs of loosening as we are possibly at the high end of Fed Funds.

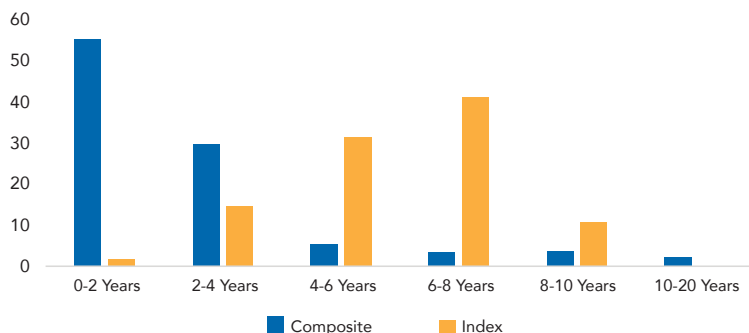
After a prolonged tightening period, the Federal Reserve did not raise rates this quarter. Fed Funds held at the 5.25-5.50% level as inflation has come down closer to the Fed's 2% target. Shelter inflation still remains high but is trending towards pre-COVID levels. The Fed dot plots from the December meeting have changed from the end of Q3 with the Fed seeing the funds rate at 4.625% by the end of 2024. The biggest question will be the timing of those cuts over the course of the year.

Given the change in tone from the Fed and improving inflation data, interest rates dropped 25-75bps across the curve during the quarter but with extreme volatility. The month of October saw the 10-year U.S. Treasury rise to over 5.00%, but November was a complete about face as rates rallied across the curve with 6 month to 2-year U.S. Treasuries down 20-40bps and longer-end Treasuries down 60bps. December continued to see rates rally with the 2-year to 10-year Treasuries down 40bps on average.

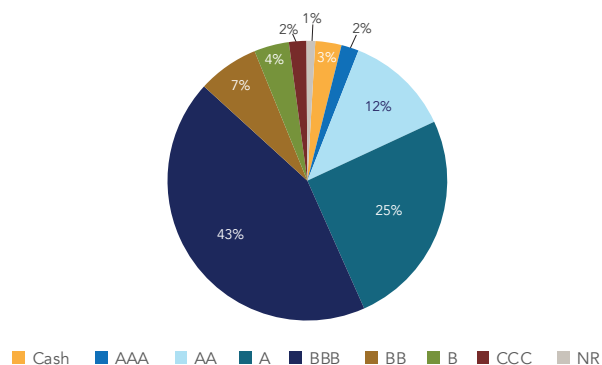
Given the move and stabilization in interest rates, both equity markets and credit spreads rallied. The S&P 500 finished 2023 with more than a 24% return and a gain of over 11% for the 4th quarter alone. The strong rally in Agency MBS started in November and continued alongside all securitized products. Corporate credit continued its tightening as the 4th quarter proved to be one of the better quarters for risk across all asset classes.

Higher rates caused a drag for securitized products spreads in October with stress across most sectors, but as economic and inflation data turned in early November, spreads took a dramatic turn tighter. By the end of the quarter, there was strong demand across all subsectors of the securitized world. Even commercial real estate saw interest across the capital stack with improving bids and anticipation that we have possibly reached stabilization, although there are still many issues out there.

## Duration Distribution



## Credit Quality



Source: Fort Washington. Characteristics are subject to change without notice. This supplemental information complements the Structured Opportunities GIPS Report.

## PORTFOLIO REVIEW

The Fort Washington Structured Opportunities Composite returned 3.54% (gross) and 3.44% (net) during the fourth quarter, compared to 7.48% for the Bloomberg U.S. MBS Index. For the one year, the Composite returned 5.07% (gross) and 4.65% (net) versus the Index at 5.05%. The strategy underperformed due to its shorter duration relative to the index. Having only one third the duration of the index was the largest driver of performance, as well as tightening in Agency MBS relative to other securitized sectors.

The strongest nominal subsector returns within the strategy for Q4 came from RMBS at 5.10% on spread tightening and rate moves. The ABS sector returned 4.30% and CLO 2.65%. CMBS was the laggard at 2.45%. Duration in the form of Treasury yields was additive, returning 10.75%.

## PORTFOLIO ACTIVITY

There were notable sector allocation changes this quarter as CMBS dropped from 29% to 25%, ABS increased from 25% to 29%, and Cash increased from 1% to 3% at the end of fourth quarter.

Risk positioning remained fairly stable during the fourth quarter with a credit quality of BBB.+ There was no significant move in duration for the quarter.

## OUTLOOK

While the U.S. economy has remained resilient to the Fed's rate hikes so far, we are cautious about the potential downside recession risk stemming from the Fed's hawkish determination to bring inflation down to its 2% target rate. In the rising rate environment of the past year and a half, we have outperformed the benchmark significantly. We are actively monitoring rates and look to maintain a neutral interest rate risk position. The portfolio currently contains some exposure to commercial real estate. While we like our current exposure, we are closely monitoring it due to the risks associated with the sector.

With the Fed signaling an end to rate hikes and a possible pivot, securitized products markets will remain very competitive as investors look to lock in both attractive rates and spreads. Although we do not see a significant reallocation across the portfolio, we do think there will be opportunities that continue to present themselves in the securitized space. These opportunities will require stringent credit work and ongoing monitoring.

## COMPOSITE PERFORMANCE DISCLOSURES

	4Q2023	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Structured Opportunities (Gross)	3.54%	5.07%	-6.28%	4.47%	2.19%	6.83%	4.72%	6.10%	5.87%	4.46%	6.43%	9.07%
Structured Opportunities (Net)	3.44%	4.65%	-6.65%	4.05%	1.78%	6.36%	4.30%	5.68%	5.44%	4.04%	6.00%	8.62%
Bloomberg U.S. Mortgage Backed Securities Index	7.48%	5.05%	-11.81%	-1.04%	3.87%	6.35%	0.99%	2.47%	1.67%	1.51%	6.08%	-1.41%
Structured Opportunities 3-Year Annual Standard Deviation <sup>1</sup>	--	3.25%	6.27%	6.07%	6.01%	1.31%	1.19%	1.03%	0.91%	1.45%	3.09%	--
Bloomberg U.S. Mortgage Backed Securities Index 3-Year Annual Standard Deviation <sup>2</sup>	--	7.66%	5.62%	1.71%	2.17%	2.15%	2.26%	1.75%	2.11%	2.31%	2.22%	--
Dispersion <sup>3</sup>	--	--	--	--	--	--	--	--	--	--	--	--
Number of Accounts	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5	≤5
Composite Assets (\$ millions)	\$356.9	\$356.9	\$336.4	\$358.9	\$287.2	\$280.9	\$258.9	\$179.9	\$92.7	\$68.0	\$65.1	\$61.2
Total Firm Assets (\$ millions)	\$74,613	\$74,613	\$66,365	\$73,804	\$65,086	\$59,174	\$49,225	\$52,774	\$45,656	\$42,959	\$45,002	\$43,671

Composite inception and creation date: 10/01/11. <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>The 3-Year annualized ex-post standard deviation of the index is calculated using monthly returns to measure the average deviations of returns from its mean. <sup>3</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 quarterly gross-of-fee returns for those portfolios held in the composite during the full measurement period. Past performance is not indicative of future results.

Fort Washington's Structured Opportunities strategy focuses on non-index, structured securities with higher return potential relative to a blended benchmark. Typical securities utilized include private label mortgage-backed securities, agency mortgage-backed securities, asset backed securities, commercial mortgage-backed securities, agency debentures, Treasuries, and cash securities. The portfolio duration target is between 2 and 8 years and there are no quality constraints. All fee-paying, fully discretionary, non-restricted portfolios managed in the Structured Opportunities style, with a minimum of \$25 million under our management, are included in this composite. Effective 03/22/22, the Structured Opportunities Fixed Income fee schedule is 0.40% on the first \$75 million and 0.35% on additional amounts over \$75 million. The benchmark for this composite is a blend consisting of 50% HY Ba/B and 50% U.S. Securitized. Previously the benchmark was the Bloomberg Mortgage Index. Benchmark returns include interest income, but as an unmanaged fixed income index, transaction fees (brokerage commissions) are not included and no direct comparison is possible. 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. 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. Fort Washington has been independently verified for the periods 7/1/94 - 12/31/21. 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. 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. 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 Structured Opportunities 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 and 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.

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