



Nationwide WCM Focused Small Cap Fund*

Quarterly Commentary

Mutual funds

Commentary

Q3 2018

Asset class: U.S. Equity
Objective: Seeks long-term capital appreciation

Morningstar category:
Small Blend
Class A: NWGPX
Class C: NWGQX
Class R6: NWKEX
Inst Svc: NWGSX

Overall Morningstar Ratings™



Out of 652 investments. An investment's overall Morningstar Rating, based on Institutional Service Class risk-adjusted return, is a weighted average of its applicable 3-, 5- and 10-year Ratings. See disclosures on back page.

Executive summary

- *The Fund outperformed for the quarter, despite a continued dominance by growth in the market, which is challenging for the investment style of the strategy*
- *Strong stock selection in information technology and consumer discretionary, along with an overweight to industrials, were the largest contributors for the quarter*
- *Focus remains on the long term, with potential volatility creating new and exciting investment opportunities*

NATIONWIDE'S MARKET REVIEW

Equity markets rallied for the second consecutive quarter, with the S&P 500® Index delivering a positive return in 21 of the last 23 quarters. Following volatility in the first quarter of the year on fears of inflation, interest rates, geopolitical stress and trade disagreements, investors have refocused on the strong fundamental backdrop. The economy is strong, with GDP growth of 3.2% forecast for the third quarter, following 4.2% in the second quarter. Consumer, small business and executive confidence remains near record levels, and appears to be driving improved consumer and capital spending. Corporate profits provide strong support for equity market returns, with growth for the S&P 500 expected at 21% and the S&P Small Cap 600 could grow 35%. Corporate share repurchases are contributing to earnings and generating demand for shares, with buyback authorizations likely to top \$1 trillion this year. Each month of the quarter had positive performance, with the S&P 500 returning 11% for the year.

During the third quarter, the S&P, Dow Jones Industrial Average and NASDAQ Composite Index returned +7.7%, +9.0% and +7.4% respectively. For the S&P 500, it was the best performance since 2013. Growth stocks outperformed value, and large-caps outperformed small. Leading sectors for the quarter included health care, industrials and technology, while materials, energy and real estate lagged. During the quarter, the Federal Open Market Committee (FOMC) raised their Federal Funds target rate by 0.25% (third hike this year), with an expectation for one additional hike for 2018. The Fed's "dot plot" points to three additional hikes for 2019, bringing the range to between 3.00% and 3.25%, though the futures market is suggesting a more gradual pace. Interest rates rose for the fifth-straight quarter, with the 10-year yield closing near a seven-year high of 3.05%. The yield curve flattened, with the spread between the 10-year and 2-year Treasury yields

Portfolio management



WCM Investment Management



Jon Detter, CFA
Portfolio Manager and Business Analyst
Fund tenure since 2017



Anthony Glickhouse, CFA
Portfolio Manager and Business Analyst
Fund tenure since 2017



Pat McGee, CFA
Portfolio Manager and Business Analyst
Fund tenure since 2017

* Formerly known as Nationwide HighMark Small Cap Core Equity Fund.

falling to 0.25%. Despite the rising rates, tightening credit spreads allowed the Bloomberg Barclays U.S. Aggregate Bond Index to deliver a slight positive return. While positive, international equity markets lagged on concerns over global growth and trade tensions, with the MSCI EAFE® Index returning +1.4% and the MSCI Emerging Markets® Index returning -1.0%.

PERFORMANCE REVIEW

Our stocks performed well in the third quarter despite continued growth stock outperformance, which is typically a tough environment for our investing style. Longer-term returns compare favorably with the benchmark and our peers. As always, whether we outperform or underperform, we caution against judging performance on any single quarter or year. Long-term results are our sole focus and, we believe, the real measure of success.

CONTRIBUTORS

Almost all sectors were positive contributors this quarter. Industrials was the largest contributor, thanks to strong selection and overweighting in the sector. Stock selection in Information Technology and Consumer Discretionary provided two additional strong contributors. In a reversal from last quarter, underweighting and strong stock selection in Real Estate were contributors in the third quarter.

Security name	Period return	Portfolio impact
America's Car-Mart	+26.33%	+135 bps
Manhattan Associates	+16.15%	+84 bps
HFF, Inc.	+23.67%	+71 bps
EnerSys	+16.98%	+58 bps
Crane Co.	+23.21%	+44 bps

Country/Sector	Period return	Portfolio impact
Industrials	+4.86%	+179 bps
Consumer Discretionary	+19.01%	+171 bps
Information Technology	+5.04%	+106 bps

Source: WCM Investment Management, 09/30/18.

The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

DETRACTORS

There were few detractors this quarter, as the portfolio performed well against the benchmark. Two minor detractors were holding cash in a rising market and our avoidance of the Utilities sector.

Security name	Period return	Portfolio impact
Jones Lang LaSalle Incorporated	-13.06%	-46 bps
Dycom Industries	-10.49%	-42 bps
Virtus Investment Partners	-10.79%	-28 bps
Cass Information Systems	-5.03%	-22 bps
Beacon Roofing Supply	-12.03%	-22 bps

Country/Sector	Period return	Portfolio impact
Financials	-0.38%	-7 bps
Consumer Staples	-1.77%	-2 bps

Source: WCM Investment Management, 09/30/18.

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PORTFOLIO POSITIONING

Building on activity in the second quarter of 2018, we continued to put our excess cash to work during the third quarter. Four of our foothold positions became core positions and are detailed below. We also added one new foothold position. Per our normal practice, we will detail our thesis in this business if or when we establish it as a core position. Additionally, we exited two positions (one as a result of a takeout) and made several repositioning trades to existing holdings.

BUYS AND SELLS

Security Name	Initial Buy Date	Rationale for Purchase
Emerald Expositions Events	8/22/2018	Added opportunity due to valuation
Enstar Group	9/17/2018	Added to opportunity due to valuation
Versum Materials	9/10/2018	Added to opportunity due to valuation
Beacon Roofing Supply Inc.	9/10/2018	Added opportunity due to valuation
Crane Co.	9/25/2018	Added opportunity due to valuation

Security Name	Sell Date	Rationale for Sale
Flir Systems, Inc.	8/28/2018	Portfolio Considerations (Trim)
HFF, Inc.	9/25/2018	Portfolio Considerations (Trim)
J & J Food Snacks Corp.	9/17/2018	Sold due to expanding valuations (Full Sell)
Thermon Group Holdings	7/20/2018	Portfolio Considerations (Trim)
Manhattan Associates Inc.	9/17/2018	Portfolio Considerations (Trim)

MARKET ENVIRONMENT

Small caps followed up a strong Q2 with an impressive third quarter. The markets roared higher in July and August before pulling back in September. Growth returned to the top of the heap in small caps, where it has been for most of the past 9+ years.

OUTLOOK

While it's anyone's guess as to what narrative will be in favor next, the one thing we feel confident in is that FSC's companies will continue to successfully navigate what's ahead.

That confidence stems from what we consider our edge: the focus on owning strong businesses with durable competitive advantages run by stakeholder-friendly management while trading at a discount to our calculated intrinsic values.

We say this often, but that doesn't make it any less true: it's that very edge that keeps us sanguine about our outlook. Turmoil in the world – perhaps the closest to a “new normal” we know – creates exciting and abundant new investment opportunities. It refocuses the market on structurally high quality businesses rather than mediocre businesses benefitting from temporary cyclical phenomena. That plays to our strengths.

Average annual total returns (%)

Share class	QTD	YTD	1-year	3-year	5-year	10-year
Class A (without sales charge)	4.69	7.54	9.91	16.27	11.50	11.24
Class A (with 5.75% max sales charge)	-1.33	1.36	3.59	13.99	10.18	10.59
Class C	4.49	6.95	9.07	15.40	10.69	10.44
Class R6	4.76	7.82	10.28	16.69	11.90	11.61
Institutional Service Class	4.75	7.73	10.19	16.58	11.82	11.57
Russell 2000 Index	3.58	11.51	15.24	17.12	11.07	11.11
Small Blend Category	2.79	8.24	12.14	14.73	9.71	10.67

Performance returns assume the reinvestment of all distributions. Returns for periods less than one year are not annualized. Total returns reflect a contractual expense limitation for direct annual Fund expenses for all classes for certain periods since inception, without which returns would have been lower. Pre-inception historical performance for newer share classes is based on the corresponding share class performance of a Fund's predecessor fund. If no predecessor Fund applies, historical performance is based on that of the longest existing share class, adjusted for sales charges if applicable.

Share class	Expense ratios		Inception date
	Gross (%)	Net (%)	
Class A	1.34	1.34	03/01/2007
Class C	2.09	2.09	03/01/2007
Class R6	0.99	0.99	09/18/2013
Institutional Service Class	1.09	1.09	03/01/2007

The expense ratios are as shown in the most recent prospectus. Expenses include underlying fund expenses. Please see the Fund's prospectus for more details.

Top Holdings

	% of portfolio
America's Car-Mart, Inc.	6.0
UniFirst Corporation	5.7
Manhattan Associates Inc	5.1
Cass Information Systems, Inc.	4.8
SP Plus Corporation	4.8
Jones Lang LaSalle Incorporated	4.1
MAXIMUS Inc	4.0
EnerSys	3.9
Brown & Brown, Inc.	3.8
Natus Medical Incorporated	3.6

Holdings are provided for informational purposes and should not be deemed as a recommendation to buy or sell the securities.

Portfolio characteristics

Total Net Assets (all classes)	\$83.4M
Total Number of holdings	32
P/E ratio	27.2x
Sharpe Ratio*	1.1
Standard deviation*	13.6
Alpha*	-0.3
Beta*	1.0
R-Squared*	91.5
Turnover	96%

Portfolio characteristics are based on Institutional Service Class shares.

*Rolling 36 months

Top Sectors



The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. To obtain the most recent month-end performance, go to nationwide.com/mutualfunds or call 800-848-0920.

Class A - max front end sales charge of 5.75%, 0.25% 12b-1 fee (investment size may reduce or eliminate front-end sales charge). Class C - 1.00% Contingent Deferred Sales Charge, 1.00% 12b-1 fee. Class R6 shares - no sales charge, no 12b-1 fee. Institutional Class shares - no sales charge, no 12b-1 fee.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

Important Disclosures

This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

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DEFINITIONS: **Average annual total returns** are the annual compounded returns that would have produced the cumulative total return if fund performance had been constant during the given period. **P/E ratio** is the price of a stock divided by trailing 12-month earnings per share. **Sharpe ratio** measures excess return per unit of risk (standard deviation). A higher Sharpe ratio suggests better risk-adjusted performance. **Standard deviation** measures performance fluctuation, may not be indicative of future risk and is not a predictor of returns. **Alpha** represents the excess returns of a fund relative to its benchmark. A positive alpha is the added value an active manager has contributed over the benchmark returns. **Beta** measures volatility in relation to the fund's benchmark. A beta of less than 1.0 indicates lower volatility, while a beta of more than 1.0 indicates higher volatility relative to the benchmark. **R-Squared** measures the percentage of a fund's movements that can be explained by movements in a benchmark. **Turnover** measures how frequently investments are bought and sold within a fund during a 12 month period. The portfolio turnover rate is as of the fund's fiscal year end and is usually expressed as a percentage of the total value of a fund.

Principal Risks: Investing in mutual funds involves risk, including the possible loss of principal. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. There is no assurance that the investment objective of any fund will be achieved. The Fund is subject to the risks of investing in equity securities (including small companies). Smaller companies are usually less stable in price and less liquid than larger, more established companies. Smaller companies are more vulnerable than larger companies to adverse business and economic developments and may have more limited resources. Therefore, they generally involve greater risk. The Fund may invest in more-aggressive investments such as derivatives (which create investment leverage and are highly volatile). The Fund also is subject to the risks of investing in foreign securities (which may be more volatile, harder to price and less liquid than U.S. securities). The Fund may hold larger positions in fewer securities and financial instruments than other funds; therefore a change in value of a single security or instrument may have a substantial impact on the Fund's value and total return. Please refer to the most recent prospectus for more detailed information.

Market Indexes: Market index performance is provided by a third-party source Nationwide Funds Group deems to be reliable. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses have been reflected. Individuals cannot invest directly in an index. **The S&P SmallCap 600® Index:** measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. **NASDAQ Composite Index:** a market capitalization-weighted index that measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market. **Russell 2000 Index:** An unmanaged index that measures the performance of the small-cap segment of the U.S. equity universe. **S&P 500® Index:** An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance. **Bloomberg Barclays US Aggregate Bond Index:** An unmanaged, market value-weighted index of U.S. dollar-denominated, investment-grade, fixed-rate, taxable debt issues, which includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). **MSCI EAFE Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in developed markets as determined by MSCI; excludes the United States and Canada. **MSCI Emerging Markets Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in emerging-country markets as determined by MSCI.

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