Fund Manager Commentary

As of September 30, 2024

Fund Highlights

- Utilizes an active management framework seeking to maximize total return
- Employs a disciplined selection process in an attempt to build a broadly diversified portfolio
- Assesses the economic environment and recent developments occurring in the bond market to set specific duration levels, yield-curve structures, sector weightings and credit-quality targets
- Utilizes a team of sector specialists to recommend securities

Market Recap

The economy has continued to grow at a robust pace and the base case for investors remains a soft landing, especially now that the U.S. Federal Reserve Board (Fed) has begun normalizing interest rates. A balanced labor market along with wage gains and large increases in net worth have supported consumer spending. However, employment has cooled, and markets are worried the economy is not creating as many new jobs. Consequently, the Fed has shifted focus to this part of the economic environment, which was a contributor to its decision to cut the federal funds rate by 50 basis points (bps) in September.

In addition, continued disinflation and 'greater confidence' that it will return to the 2% target provided the Fed further data needed to begin cutting. The main area investors will be monitoring is the service side of inflation, which has remained elevated, largely because of shelter. Nevertheless, with inflation seemingly under control the emphasis is being placed on the labor market as Fed Chairman Jerome Powell has mentioned that the Federal Open Market Committee (FOMC) does not want to see 'further weakening' in employment. While non-farm payrolls show continued job growth, it has trended lower over the last couple quarters, and reports over the past year (ending March 2024) were revised down significantly.

For these reasons, the FOMC believes the downside risk for the labor market now outweighs inflation surprises. The unemployment rate has increased 0.7%, to 4.1% since the lows in 2023 as people have lost their jobs and others have re-entered the labor market. However, the number of people losing their jobs has remained relatively low and continued Fed cuts should strengthen more rate sensitive sectors of the economy. Separately, upward revisions to the Bureau of Economic Analysis's national accounts, including personal income and Gross Domestic Income, show that the average consumer is better off than previously expected.

This economic backdrop combined with the Fed's willingness to act more aggressively than previously anticipated increases the odds that the U.S. will avert a recession and has been a catalyst for rising asset prices. Lower inflation forecasts and expectations of rate cuts were a driver of meaningfully lower rates over the quarter, thus easing financial conditions. U.S. Treasury yields declined with the 10-year moving lower by 60bps over the quarter, ending around 3.8%. Additionally, the Treasury yield curve reversed the inversion it has exhibited for much of the last two years. In aggregate these rate moves resulted in a strong quarter for the Bloomberg U.S. Aggregate Bond Index.

Portfolio Review

The Touchstone Active Bond Fund (Class A Shares, Load Waived) outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended September 30, 2024.

The Fund's interest rate exposure was the largest driver of outperformance over the quarter. The Fund began the quarter slightly long duration and was biased longer for the first half of the quarter as rates were declining. This positioning was tactically adjusted throughout the second half of the quarter as rates trended lower but experienced volatility. Toward the end of the quarter the Fund was positioned modestly short duration relative to the benchmark as investors had recalibrated their expectations for fewer rate cuts. The aggregate impact from duration over the quarter was positive to relative performance.

(continued)

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Performance data quoted represents past performance, which is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data given. ***For performance information current to the most recent month-end, visit TouchstoneInvestments.com/mutual-funds.***

The Fund's sector allocation was a positive contributor to performance during the quarter. The primary driver was the overweight allocation to investment grade corporates as spreads tightened modestly over the quarter.

Security selection was a detractor to relative performance during the quarter, driven by securitized products. Within securitized, the Fund was overweight collateralized mortgage obligations which underperformed relative to agency passthroughs.

There were no significant changes to the Fund's sector positioning during the quarter as the risk budget target remained at 30%. Portfolio activity was largely focused on security selection opportunities within each sector. Interest rate positioning was adjusted throughout the quarter as investors began to increase their expectations for rate cuts. Additionally, the Fund significantly reduced the steepening bias following the larger decline in shorter rates, relative to longer rates, over the third quarter.

Outlook and Conclusion

The Fund's risk budget is targeting a modest overweight to risk representing 30% of the risk budget.

Economic activity has been robust over the last year despite expectations for slowing growth. Inflation remains above the Fed's 2% target but continues to decline. As a result of disinflation and a cooling labor market, the Fed cut interest rates by 50bps in September. Although this decision eased financial conditions and improved the odds of a soft landing, the federal funds rate is still expected to remain in restrictive territory for some time. As a result, U.S. economic resilience could be tested if headwinds currently affecting lower income households broaden.

Valuations generally reflect a high probability of a soft/no landing with a limited margin of safety. Despite our improved economic outlook, elevated asset prices result in only a modest overweight risk posture within the strategy.

The Fund's sector positioning reflects generally expensive valuations, relative value, and opportunities within each sector. Allocations were mostly unchanged during the quarter and primary risk exposures include:

The Fund's portfolio remains overweight to Investment Grade Credit (IG). Within the IG allocation, the Fund is increasingly weighted toward liquid, higher quality issues. We are maintaining a risk overweight to select sectors where compelling bottom-up opportunities exist such as midstream, media, and banks. In addition, the strategy is targeting investments in more esoteric front-end bonds to enhance yield.

Securitized Products remain an overweight exposure relative to the benchmark, focused within high quality non-agency commercial mortgage-backed securities and residential mortgage-backed securities (RMBS). The largest area of focus within the allocation is non-agency RMBS, specifically discount-priced AAA/AA-rated securities, which exhibit attractive relative value as prepayments have become more predictable and offer upside should housing turnover increase.

The Fund's portfolio has maintained its neutral weighting to emerging market debt. Investment grade and high yield emerging market debt are trading at historically tight levels skewing the risk/reward to the downside.

The Fund holds domestic high yield credit default swap index protection as spreads are at historically tight levels, limiting the upside return of the sector to carry.

Regarding interest rates, we are currently positioning portfolios to neutral duration relative to the benchmark as we believe long rates are fairly valued. The yield curve steepened meaningfully during the third quarter as investors began pricing in quicker rate cuts. As a result, the Fund's steepening bias was reduced. Portfolios are only marginally overweight the intermediate part of the curve and underweight long maturities relative to the index. Now that the first rate cut is behind us, we anticipate investors will focus on the magnitude of cuts and are likely to continue adjusting forecasts to incoming economic data.

The Fund is positioned to perform well in a stable to improving environment for risk assets. We believe a modest overweight to credit sectors is prudent as valuations are tight of historical medians, limiting potential upside. However, the current economic environment should support tighter spreads and if they persist, the Fund is positioned well to benefit from additional yield relative to the benchmark. However, if economic growth slows materially, the Fund is also in a position to add exposure opportunistically as risk assets would likely experience weakness. Additionally, we believe positive security selection can benefit the Fund in many different market environments and tactical duration management allows the Fund to take advantage of elevated rate volatility.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	10/03/94	**TOBAX**	89154W502	0.97%	0.83%
C Shares	10/03/94	**TODCX**	89154W601	2.15%	1.56%
Y Shares	04/12/12	**TOBYX**	89154W791	0.72%	0.58%
INST Shares	04/12/12	**TOBIX**	89154W783	0.63%	0.50%
Total Fund Assets	**$262.4 Million**				

Expense ratio is annualized. Data as of the current prospectus. Touchstone Advisors has contractually agreed to waive a portion of its fees and/or reimburse certain Fund expenses in order to limit certain annual fund operating expenses (excluding Acquired Fund Fees and Expenses "AFFE," and other expenses, if any) to 0.83% for Class A Shares, 1.56% for Class C Shares, 0.58% for Class Y Shares and 0.50% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/25.

Share class availability differs by firm.

Annualized Total Returns

	3Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	5.23%	5.47%	12.60%	-1.30%	0.96%	2.05%	4.38%
C Shares	5.11%	4.88%	11.69%	-2.03%	0.22%	1.43%	4.11%
Y Shares	5.30%	5.67%	12.89%	-1.05%	1.21%	2.30%	4.49%
INST Shares	5.32%	5.73%	12.98%	-0.98%	1.27%	2.39%	4.52%
Benchmark	5.20%	4.45%	11.57%	-1.39%	0.33%	1.84%	4.69%
Including Max Sales Charge							
A Shares	1.82%	2.00%	8.92%	-2.37%	0.55%	1.56%	4.21%
C Shares	4.11%	3.88%	10.69%	-2.03%	0.22%	1.43%	4.11%

Max 3.25% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

Benchmark - Bloomberg U.S. Aggregate Bond Index

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The performance presented for Class Y and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 10/03/94, with the performance since the inception date of each share class.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years.

The indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible. Unmanaged index returns do not reflect any fees, expenses or sales charges.

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus and the summary prospectus contain this and other information about the Fund. To obtain a prospectus or a summary prospectus, contact your financial professional or download and/or request one at TouchstoneInvestments.com/resources or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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Not FDIC Insured | No Bank Guarantee | May Lose Value

A Word About Risk

The Fund invests in fixed-income securities which can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. When interest rates rise, the price of debt securities generally falls. Longer term securities are generally more volatile. The Fund invests in investment grade debt securities which may be downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to below investment grade status. The Fund invests in mortgage-backed securities and asset-backed securities which are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. The Fund invests in non-investment grade debt securities which are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and has had more frequent and larger price changes than other debt securities. The Fund invests in U.S. government agency securities which are neither issued nor guaranteed by the U.S. Treasury and are not guaranteed against price movements due to changing interest rates. The Adviser engages a sub-adviser to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-adviser who achieves superior investment returns relative to other similar sub-advisers. The Fund invests in derivatives and securities such as forward foreign currency exchange contracts, futures contracts, options and swap agreements. Derivatives can be highly volatile, illiquid and difficult to value, subject to counterparty and leverage risks and there is risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Gains or losses from speculative positions in a derivative may be much greater than the original cost and potential losses may be substantial. The Fund invests in foreign securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The Fund invests in emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. The Fund invests in sovereign debt securities which are issued by foreign governments whose respective economies could have an important effect on their ability or willingness to service their debt which could affect the value of the securities. The Fund invests in mortgage dollar rolls which involve increased risk and volatility, as the securities the Fund is required to repurchase may be worth less than the securities that the Fund originally held. The Fund may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. The Fund invests in Collateralized Loan Obligations (CLOs) that have risks that largely depend on the type of underlying collateral and risks may include illiquidity, limited active market, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the potential for a decline in the quality of the collateral, and can bear the risk of default by the loans. Events in the U.S. and global financial markets, including actions taken to stimulate or stabilize economic growth may at times result in unusually high market volatility, which could negatively impact Fund performance and cause it to experience illiquidity, shareholder redemptions, or other potentially adverse effects. Banks and financial services companies could suffer losses if interest rates rise or economic conditions deteriorate. The Fund's service providers are susceptible to cyber security risks that could result in losses to a Fund and its shareholders. Cyber security incidents could affect issuers in which a Fund invests, thereby causing the Fund's investments to lose value. Current and future portfolio holdings are subject to change.

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