Fund Manager Commentary

As of March 31, 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 first quarter of 2024 saw ongoing rate volatility and strong performance of risk assets as the economy continues to perform well. However, this strong performance caused market participants to adjust their expectations for rate cuts. Initially projecting over 150 basis points (bps) of cuts for 2024, with the first anticipated in March, forecasts were revised due to higher-than-expected inflation reports and positive economic data. These datapoints indicated potentially persistent inflation. The market is currently pricing in 75bps of cuts for the year, aligning more closely with the Federal Reserve's (Fed) forecast. This shift in sentiment led to a rise in rates; however, risk assets performed well as GDP growth expectations for 2024 increased by about 1% to 2.2%.

The focus over the quarter, which is likely to persist, remained on inflation as the market seeks confirmation regarding the timing and scale of potential Fed rate cuts. While core inflation has shown a year-over-year deceleration (currently 2.8%), recent data indicated a pickup, underscoring the challenge of achieving a full return to 2%. The primary driver of elevated inflation remains shelter costs, predominantly due to the delayed impact of this data.

However, due to the likelihood that shelter inflation will continue falling, the recent inflation uptick had a minimal impact on the Fed's outlook. Following the March meeting, Powell remarked in his speech that the Federal Open Market Committee anticipates inflation reaching its 2% target "over time," acknowledging potential obstacles along the way but emphasizing the overarching trajectory. The market welcomed this affirmation that rate cuts are still on the table after the yield curve had increased, and flattened, since the start of the year.

Although a soft/no landing is still consensus, the notion that the Fed may prolong its stay in restrictive territory appears to be giving some investors pause. Despite this cause for potential hesitation, risk assets have been resilient as credit spreads have moved tighter. Investment grade spreads (10yr BBB Industrials) have moved 9bps tighter since the end of December to the18th percentile and high yield (single B corporates) tightened 44bps and ended at the 2nd percentile. However, rates were more significant to performance than spread moves as the Bloomberg U.S. Aggregate Bond Index returned -0.78% for the quarter.

Robust economic data, particularly labor market figures, has improved growth expectations. Job gains remain strong, with the ratio of job openings to unemployed individuals remaining above pre-COVID levels. Although recent reports noted a slight increase in the unemployment rate, this was primarily attributed to a contraction in the workforce. Additionally, wage growth continues to outpace long-term trends, sustaining consumer spending, while productivity enhancements have helped keep unit costs largely in check.

Monitoring the U.S. consumer for signs of weakness will be a focal point over the coming quarters. While spending has kept growth robust, excess savings are likely depleted and consumer debt is now increasing faster than the pre-COVID trend. These present risks to the 'soft landing' narrative even though expectations for material slowing have largely faded. With credit spreads near historically tight levels, global conflicts continuing, and uncertain consumer and corporate demand, we believe it is appropriate to maintain modest levels of risk in portfolios.

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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 March 31, 2024.

Security selection was the largest driver of outperformance over the quarter, driven by securitized and investment grade corporates. Within securitized, the Fund was overweight non-agency sectors, namely, commercial mortgage backed securities (CMBS) and residential mortgage backed securities (RMBS), which experienced meaningful spread tightening to begin the year. In investment grade credit, the Fund's subordinated positions within banking and utilities contributed positively to performance.

The Fund's sector allocation was also a positive contributor during the quarter. Specifically, allocations to emerging market debt and investment grade credit were the largest sector contributors. Spreads were tighter over the quarter as growth expectations improved and this impact was more pronounced in lower rated securities where the emerging market debt allocation was overweight.

The Fund's interest rate exposure detracted from performance over the quarter. The Fund tactically adjusted duration as interest rates experienced volatility driven by the market's reaction to new economic data. Separately the Fund maintained a bias for a steeper curve which detracted from performance. While the entire curve moved higher, the curve flattened marginally over the quarter as longer-term interest rates increased less than the shorter end of the curve.

Over the quarter, the risk budget target remained at 40% with marginal changes to sector allocations. The Fund maintained risk overweight positions in investment grade credit and securitized assets. However, the emerging market debt allocation was eliminated following strong performance. Credit risk is hedged by owning protection on high yield index credit derivatives. Interest rate positioning was adjusted throughout the quarter as investors shifted their expectations for rate cuts.

The Fund began the quarter short duration following the strong rally in rates at the end of last year. However, this positioning was tactically adjusted during the quarter as rates were extremely volatile. At the end of the quarter the Fund was positioned with a neutral duration relative to the benchmark and maintained an overweight to the intermediate portion of the yield curve. In addition, the Fund rotated into TIPS as a hedge against increasing inflation expectations. The aggregate impact from duration over the quarter was a slight detraction from relative performance.

The Fund was positioned to benefit from a steeper yield curve which was a modest detraction from performance over the quarter. The curve flattened slightly two years and out as investors reduced their expectations for rate cuts, driving the entire yield curve higher. As the Fund was overweight the intermediate part of the curve, this resulted in marginal underperformance.

Outlook and Conclusion

The Fund's portfolio is targeting a modest overweight to risk representing 40% of the risk budget.

Economic growth has surprised to the upside over the last year, but downside risks remain elevated from the cumulative effects of the Fed's aggressive and restrictive monetary policy, tightening bank lending standards, and increased geopolitical risks.

Inflation continues to decelerate but remains above the Fed's 2% target. The Fed is expected to begin easing monetary policy in 2024 as inflation trends toward its target but will remain in restrictive territory for some time. Although the U.S. economy has shown resilience thus far, a soft landing is not ensured as risks remain elevated and consumer strength is challenged.

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

Sector positioning reflects generally expensive valuations, relative value, and opportunities within each sector. Allocations were adjusted marginally in the quarter and primary risk exposures include:

The Fund remains overweight to Investment Grade Credit (IG). Within the IG allocation, the Fund has been reducing overall risk as spreads tighten amidst positive sentiment. We are maintaining a risk overweight to select sectors where compelling bottom-up opportunities exist such as midstream, banks, and utilities. In addition, the Fund is looking for incremental opportunities to increase liquidity in the event of a spread widening opportunity.

Securitized Products remain an overweight exposure relative to the benchmark, focused within non-agency CMBS and RMBS. The Fund has biased credit quality up given the spread between tranches (AAA, AA, etc.) has flattened and investors are not being compensated to take on additional risk across much of the sector. In our view, high-quality CMBS that has widened in concert with broader CMBS disruptions from distressed office properties offers compelling value, although this overweight has been reduced following strong performance.

The Fund mostly eliminated the emerging market debt (EMD) allocation this quarter, following strong performance. Both investment grade and high yield EMD are trading at historically tight levels skewing the risk/reward to the downside.

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

We are currently positioning portfolios neutral duration relative to the benchmark with an overweight to the intermediate part of the yield curve. Portfolios are also generally underweight long maturities relative to the index to benefit as the yield curve steepens. Powell has indicated the

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Fed is prioritizing the larger trend of inflation rather than making frequent adjustments to their projections in response to short-term fluctuations. However, we expect the market to adjust to incoming economic reports, which should lead to volatility and present opportunities for tactical adjustments.

The Fund is positioned to perform well in a stable/improving environment for risk assets. Currently, we are targeting using 40% of the risk budget. We believe a modest overweight to credit sectors is prudent as valuations are tight of historical medians, limiting potential upside, while the improving economic environment should support tighter spreads. If these conditions continue, the Fund is positioned well to benefit from additional yield relative to the benchmark. If economic growth slows more than expected, the Fund is also in a position to add exposure opportunistically if risk assets experience weakness. Additionally, we believe positive security selection can benefit the Fund in many different market environments.

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	**$252.2 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

	1Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-0.18%	-0.18%	2.84%	-2.48%	0.93%	1.63%	4.26%
C Shares	-0.37%	-0.37%	2.16%	-3.19%	0.18%	1.02%	3.99%
Y Shares	-0.01%	-0.01%	3.21%	-2.20%	1.21%	1.90%	4.37%
INST Shares	-0.09%	-0.09%	3.19%	-2.16%	1.26%	1.97%	4.40%
Benchmark	-0.78%	-0.78%	1.70%	-2.46%	0.36%	1.54%	4.59%
Including Max Sales Charge							
A Shares	-3.46%	-3.46%	-0.54%	-3.55%	0.52%	1.14%	4.08%
C Shares	-1.36%	-1.36%	1.17%	-3.19%	0.18%	1.02%	3.99%

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

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.*** *From time to time, the investment adviser may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.*

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.

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.

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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