Fund Manager Commentary

As of December 31, 2024

Fund Highlights

- Seeks to exploit market inefficiencies using a proprietary income, price and volatility framework
- Construct portfolios that generate consistent tax-free income by capturing diversified sources of credit, liquidity and term premiums
- Control price sensitivity at the portfolio level by managing duration and yield curve positioning
- Identify and purchase bonds that the Sub-Adviser believes are attractively priced relative to historical averages and adds positions in a risk-controlled manner
- Municipal issues are analyzed through a proprietary approach for various environmental, social and governance (ESG) criteria

Market Recap

Municipal yields began the year at the lows and ended near peak levels, due to the fourth quarter selloff. Yield volatility was a symptom of market expectations not aligning with actual economic data. The Bloomberg Municipal Bond Index ended the quarter down -1.22% though still positive for the 2024 calendar year at 1.05%.

For the near future, nearly every sector of the municipal market remains stable to improving, with a limited number of concerns relegated to issuer-specific risks. The U.S. Bureau of Labor Statistics released state-level unemployment data for November, revealing that unemployment rates increased year-over-year (YoY) in 32 states (including DC), remained unchanged in three, and decreased in 16. Despite these positive signs, many municipal entities, including local governments, are continuing to deal with significant staffing shortages, attrition, and the inability to fill critical roles due to lack of desirability. That may soon change as private sector jobs become more scarce and unemployed workers are forced to take what they can get.

According to U.S. Census Bureau data, state tax revenues increased 4.7% to $339.2 billion in the third quarter compared with the same period last year. Tax receipts rose $15.3 billion from last year and fell $103.3 billion, or 23%, from the previous quarter. Among the 10 biggest states by tax revenues, California increased the most, up 15% YoY to $56.7 billion, and Michigan fell the most, down 4.7% YoY to $10.5 billion. However, sales tax revenue decreased 0.7% YoY to $31.6 billion in November, according to U.S. Census Bureau data for 31 states compiled by Bloomberg. Connecticut fell the most, down 23.7% YoY, and North Carolina rose the most, up 22% YoY. Sage continues to watch California and New York for signs of accelerating economic or revenue slowdown as both states are leading indicators for broad market activity. Currently, these two states had to deal with budget deficits, but both have been able to resolve them for the current fiscal year.

From a credit ratings perspective, upgrades outpaced downgrades throughout most of 2024, according to Bloomberg. The three major raters upgraded nearly $384 billion of total par in 2024, down from $658 billion in 2023; while downgrades rose to more than $111 billion of par from nearly $97 billion. Part of the rationale has been expanded tax collections and improved balance sheets. These are tailwinds for now, but the softening economy and end of pandemic aid will shrink them. On a ratio basis, upgrade-to-downgrades at 3.4 to 1 declined from the nearly 7 to 1 ratio in 2023, indicating credit improvements may have reached a peak.

A common theme across all sectors was a significant increase in debt issuance, fueled by a period of lower interest rates and industry-specific drivers. Despite this record borrowing, all sectors have a stable credit outlook. For state and local governments, budgets continue to be balanced, and revenue challenges will ensure additional focus on expenditure reductions for the next fiscal year.Prepaid gas bonds ended 2024 with record issuance levels, which was met with significant investor demand and helped to drive strong spread compression across the sector. Still, we continue to see

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value in prepaids due to the sizable yield advantage over similarly rated municipal bonds. Given the current interest rate environment, we anticipate that 2025 will be another strong year for prepaid gas bond issuance, though we do not expect to see any material spread widening, as investor demand continues to outpace supply.

Within municipal bonds, rates repriced across the curve during the fourth quarter, leading to significant negative returns across maturities of 3-years and beyond. Lower credit quality outperformed as spreads tightened and yield carry persisted. Sector returns for the quarter gave back some of the stellar YTD performance of higher volatility credits. The returns of the top 10 states were all negative, ranging from -1.1% (New Jersey) to -1.4% (Texas).

Portfolio Review

The Touchstone Core Muni Bond Fund (Class A Shares, Load Waived) outperformed its benchmark, the Bloomberg Municipal Bond Index, for the quarter ended December 31, 2024.

The direction and volatility of municipal yields led to limited portfolio adjustments in the fourth quarter, as Sage let duration and curve roll down with the passage of time. With state, sector, and credit spreads all trading at or near their recent historic tights, opportunities were limited to the new issue market and security-specific offerings. The tactically long duration positions shifted over the quarter to a more neutral to shorter tilt, which enabled us to minimize unnecessary costs associated with trading. The Fund's strategic barbell allocation provided for modest outperformance relative to the benchmark.

Strategic allocation to single A credits was beneficial to performance as a stable spread environment and additional carry occurred over the quarter. From a state perspective, our significant underweight to California detracted from performance due to spread tightening demand outpacing supply from both in-state residents and index-based ETF strategies. Finally, our sector/security high volatility security selection also detracted from performance as several credits gave back some of their considerable YTD returns.

The Fund remains overweight local general obligation issuers that have a significant cushion between housing market value and assessed value. We are opportunistically swapping some of our tactical overweight to AAA now that spreads have reverted to fair value. Our primary sector bias is toward increasing exposure to prepaid gas bonds that offer significant absolute and relative value for the associated credit risk. Finally, we continue to be a seller of mispriced overvalued credits that occur occasionally to capture additional price return.

The Fund's duration began the quarter with a longer tilt but ended the year with a slight underweight to benchmark duration as planned. The Fund's curve allocation was tilted in favor of a barbell strategy as the wings of the curve offer the best term premium spread and long-term outlook expectations as the curve is expected to normalize with the back-end flattening.

Outlook and Conclusion

On the surface, macro conditions and confidence appear supportive into 2025, suggesting the table is set for another decent year across major asset classes. We believe this upside potential comes with greater uncertainty and hurdles, most prominently valuations and policy risk. Broadly we see four key macro drivers for 2025. The first three – a healthy consumer, excess liquidity, and easing global policy are supportive and should continue to drive growth (2%-3% in the U.S. and 3%-4% globally) and underpin spreads and multiples. The fourth macro driver is a high level of policy uncertainty, specifically trade and fiscal policy, which elevates risks and creates a wider range of outcomes. While trade may garner more headlines and has forced the U.S. Federal Reserve (Fed) to account for possible future inflation pressures, we believe fiscal policy direction could be more impactful.

Government spending has been a large factor in consumer resilience, job creation, and inflation this quarter. Any success by the new administration to temper spending could cause a drag on growth that is not priced into outlooks. This environment has made for a challenging rate market, with the Fed coming out of the gate with an aggressive cutting plan that has dissipated on strong data and renewed inflation concerns. The repricing in yields since September has been aggressive and should temper rate outlooks into 2025. With cuts being priced out almost completely, any growth or inflation disappointments will likely generate a rapid repricing in yields the other way. So, while momentum may carry yields modestly higher in the near-term, medium-term risk for 2025 looks skewed toward the downside.

Given the magnitude of unknowns in 2025, our positioning leans on what we do know. We enter the year with higher and attractive core fixed income yields and curves that are no longer inverted. Paired against high price/earnings ratios in equities, this makes a strong case toward rebalancing back to at least target allocations in fixed income. It also suggests staying high quality with less incentive to reach for yield, and despite rate volatility, carry duration to hedge macro risks and lock in higher yields with coupon bonds vs. cash. Within equities we continue to favor the U.S. regionally but have geared allocations to have lower valuation and concentration risk vs. broad markets.

With the election behind us and a shift toward more centrist-leaning political mandates, the municipal market should reap the benefits of a pro-growth agenda and a desire to contain inflationary pressures. Aside from the politics of immigration, a large portion of the population supports strong borders and deportations, which will have the most impact on sanctuary cites that continue to spend heavily on that area. While earlier in the year costs related to housing migrants in sanctuary states ballooned to alarming figures, the latest updates point to costs potentially having turned the

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corner. However, with the new administration, federal fiscal support will quickly dry up, leaving these cities to make difficult decisions.

Higher quality/defensive sectors will continue to underperform on a total return basis but provide superior defensive credit attributes to mitigate risk. Mid-tier sectors/credits still offer investors the best risk/reward dynamics; however, spread returns will be more modest. Lastly, lower-tiered investment grade issuers will be more susceptible to revenue challenges as broad economic growth is not expected to reaccelerate for this segment of the market.

Holistically, state credit quality remains exceptional, as rainy-day funds remain flush with cash, providing significant budgetary flexibility over the coming years. California has largely balanced its budget after projecting a significant deficit earlier last year. The turnaround was due to multiple factors, including higher-than-expected tax receipts, programmatic cuts and a contribution from the state's rainy-day fund. New York State found itself in a similar budget situation as well last year but has also been able to trim the gap significantly through increased tax receipts. We expect to continue to remain underweight state general obligations, as valuations provide very little upside at current levels.

Local governments will continue to remain well positioned into 2025, with few exceptions. Like states, strong reserve balances will allow local governments to weather any revenue-related disruptions or outsized one-time expenditures. Additionally, strong equity market performance over the last two years will further boost pension funding ratios.

With the era of pandemic-related federal stimulus funds behind us, select municipalities, notably Oakland, California, are having issues normalizing expenditures. However, we view these cases as acute instances of poor governance rather than broader challenges within the municipal market. As such, we continue to see pockets of value within the single A and BBB rating categories.

Utility systems, notably water and sewage enterprises, continue to remain stable, supported by strong liquidity levels and stable revenue performance. Given the defensive nature of the sector, and current tight spread levels, we currently do not see significant value opportunities within the water and sewer space. Within transportation, airport credit quality remains favorable, bolstered by strong demand for air travel. While current valuation levels do not provide an attractive entry point, we believe heavily anticipated debt issuance to support elevated outstanding capital requirements could create value opportunities in the future.

Within the quasi-corporate sectors, Health Care continues to rebound from heavy expenditure pressures that emerged after the onset of the COVID pandemic. Profitability levels have largely remained stable over the last 12 months, with operating margins currently hovering around the mid-single digits, providing systems with adequate headroom to reinvest in hospital infrastructure without depleting operating reserves. We anticipate that health care issuance will be elevated in 2025, as systems that have deferred larger capital needs over the last two years because of operating challenges will likely tap the capital markets, potentially creating a more attractive entry point for investors.

With municipal yields entering 2025 near their 10-year highs, the prospects for attractive returns are only magnified by the attractive tax-free income potential. Broadly speaking, the municipal credit environment will remain stable and arguably strong as the economy continues to surprise to the upside. The first half of the year should exhibit a more normal market tone; however, the back half of the year will be subjected to the success or lack thereof of the new administration's agenda. Although less of a concern, Fed policy decisions and expectations will remain in the back of investors' minds, which could create additional bouts of data dependent volatility.

With the attractive yield environment, we will be looking to extend duration for all our investment strategies and will continue to hold that tilt until market conditions warrant an adjustment. Curve adjustments will vary by strategy due to the expected steepening of the 2s10s curve and the expected flattening of the 10s10s curve. Our strategic overweight to single A credits remains in place as that market segment still provides the most advantageous risk/reward opportunity, despite richer valuations across all rating categories.

Despite a late-market cycle, we will only shift some of our higher-volatility/lower-credit-quality issuers into lower-volatility/higher-credit-quality areas if economic challenges become more pronounced or valuations dictate swap alternatives. Once again, the new issue market will provide the bulk of the opportunity set within the municipal market as secondary markets will continue to trade firm. Finally, we will opportunistically utilize tactical adjustments to leverage volatility events, as they represent some of the most attractive entry points.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	04/01/85	**TOHAX**	89154V603	1.09%	0.80%
C Shares	11/01/93	**TOHCX**	89154V702	3.23%	1.50%
Y Shares	08/30/16	**TOHYX**	89154V843	1.16%	0.55%
INST Shares	08/30/16	**TOHIX**	89154V835	0.77%	0.48%
Total Fund Assets	**$48.5 Million**				

Expense ratio is annualized. Data as of the current prospectus dated 10/28/21. 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 0.80% for Class A Shares, 1.55% for Class C Shares, 0.55% for Class Y Shares and 0.48% for Class INST Shares. These expense limitations will remain in effect until at least 10/29/25.

Share class availability differs by firm.

Annualized Total Returns

	4Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-1.02%	1.53%	1.53%	-0.74%	0.70%	1.70%	4.90%
C Shares	-1.20%	0.69%	0.69%	-1.57%	-0.10%	1.08%	4.60%
Y Shares	-1.04%	1.79%	1.79%	-0.43%	0.99%	1.94%	4.96%
INST Shares	-0.94%	1.86%	1.86%	-0.39%	1.04%	1.97%	4.97%
Benchmark	-1.22%	1.05%	1.05%	-0.55%	0.99%	2.25%	5.78%
Including Max Sales Charge							
A Shares	-4.25%	-1.79%	-1.79%	-1.84%	0.29%	1.21%	4.77%
C Shares	-2.18%	-0.30%	-0.30%	-1.57%	-0.10%	1.08%	4.60%

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 Municipal 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 C, Y, and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 04/01/85, with the performance since the inception date of each share class.

The Bloomberg Municipal Bond Index is a widely recognized unmanaged index of municipal bonds with maturities of at least one year.

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 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 Fund is subject to prepayment risk which is when a debt security may be paid off and proceeds invested earlier than anticipated. The Fund invests in municipal securities which may be affected by uncertainties in the municipal market related to legislation or litigation involving the taxation of municipal securities or the rights of municipal security holders in the event of bankruptcy and may not be able to meet their obligations. 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. 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 sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so.

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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