Fund Manager Commentary

As of June 30, 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

Cracks in the Goldilocks economic scenario began to emerge as we passed the midway point of 2024. After surprisingly positive momentum in the first quarter, a range of indicators across employment, inflation, and consumer data are now hinting that the excess savings that has shielded consumers from the impact of higher rates is running dry. Treasury yields continued to move higher throughout the quarter. Municipal/Treasury ratios spent most of the quarter at or near very rich levels but corrected back to fair value towards the end of the quarter. Valuations across all sectors ended at or near historically tight spreads.

Portfolio Review

The Touchstone Core Municipal Bond Fund (Class A Shares, Load Waived) outperformed its benchmark, the Bloomberg Municipal Bond Index, for the quarter ended June 30, 2024.

Our strategic allocation to single A credits benefitted from spread tightening and added yield carry over the quarter. The significant underweight to California and New York, the two largest issuers in the Index, detracted from performance due to spread tightening as new issuance decreased while demand from both in-state residents and index-based ETF strategies remained elevated. Finally, our sector/security high-volatility credit profile provided a better relative return as AAA and AA credits are still out of favor and are utilized for liquidity purposes.

With valuations across all sectors at or near historically tight spreads, we shifted to an agnostic sector outlook and our focus is on security selection. We remain overweight local -general obligation issuers that have a significant cushion between housing market value and assessed value. Specifically, we are focused on Texas Permanent School Fund issuers that are rated AAA and offer spreads comparable to several AA/A credits. If we had a slight bias, the leasing sector still provides additional spread pickup over general obligation debt with only a slight pickup in credit risk. Lastly, essential service revenue, such as water & sewer issuers, have defensive characteristics that will insulate investors from an economic slowdown or recessionary environment.

The three sectors that remain underweight and have a sell bias are higher-quality state general obligations, airport facilities, and overvalued hospital issuers. State credit quality remains exceptional despite a recent reduction in tax collections, but valuations remain unattractive at this point. Similarly, airport bonds remain overvalued and have spread values similar to bonds with credit ratings a notch or two higher. Finally, we continue to actively avoid small, lower-quality hospital facilities that have declining revenue trends, weaker balance sheets, and lack the significant local demographics necessary for stability and growth, in addition to higher-rated issuers that are trading at historically tight spreads.

We have shifted our expectations slightly as yield volatility remains elevated and a Federal Reserve policy shift continues to be elusive. Why has this occurred? Since the beginning of

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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.***

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the year, economic data has shifted from positive to negative on a week-by-week basis with no definitive direction. Despite this backdrop, we believe a slightly long duration tilt remains prudent since access to municipal bonds remains challenging and will only be exasperated once market expectations shift to an easing cycle.

An ongoing challenge remains the inverted 2s10s yield curve due to both yield-give and negative curve rolldown. Our barbell allocation should mitigate some of this challenge while providing a better return profile if rates decline and the curve flattens.

Outlook and Conclusion

The municipal market remains on solid footing as revenue growth trends have remained positive for the past decade. A recent slowdown in economic activity has reduced the pace of revenue receipts, but most issuers are still firmly in the black. The three major revenue sources for state governments – personal income, sales, and corporate income taxes – are beginning to show signs of slowing, with California experiencing the worst correction. Aside from "Mega Cities," which rely more heavily on commercial real estate tax collections, most local governments are experiencing growing ad valorem property tax receipts as market valuations are well above assessed values. Finally, the revenue sector continues to experience positive revenue growth across the board as both essential and non-essential areas benefit from strong labor markets and the non-discretionary dynamic of this sector.

State credit quality remains robust, supported by rainy day funds that remain at record highs. Fiscal 2025 budgets are showing a reduction in expenditure growth, as federal funding related to the COVID-19 pandemic has largely been exhausted. California recently closed a nearly $68 billion budget deficit, though doing so required significant program cuts and the declaration of a fiscal emergency to allow the state to dip into its rainy-day fund. While California tends to experience fiscal stress before most other states due to its more volatile revenue structure, we do not believe that these challenges are indicative of broader credit concerns throughout the country. We remain underweight state general obligation debt, as valuations continue to sit on the richer side of fair value.

Local governments also remain well positioned from a credit perspective, as reserve balances are at all-time highs and property tax collections continue to grow, attributable to healthy residential property value appreciation in most markets. Commercial real estate valuations remain vulnerable, but there are only a select number of local governments that generate a significant portion of their revenue from this sector. We continue to see value in certain A and BBB rated credits, as well as local governments in Texas, given that valuations in the state remain attractive due to heavy new issue supply.

The essential service space, including water & sewer and electric utilities, remains a defensive play given the monopolistic characteristics of most systems, along with the maintenance of very strong cash levels. We anticipate that there will be elevated new issuance in the electric utility sector over the coming years as the rapid rise in artificial intelligence use is beginning to strain electrical grids. Still, valuations are currently on the richer side of fair value and spread pickup is very limited. We will only look to rotate more heavily into this lower-beta sector in the event of an extended economic downturn that would result in weakness throughout the municipal space.

Within the quasi-corporate revenue sectors, we continue to see value in certain prepaid gas bonds, though spreads have contracted significantly over the first half of the year. Demand for the sector remains strong, given that gas bonds are among the highest yielding in the investment grade arena. Credit risk within the sector is largely benign, given that most deals are backed by systemically important financial institutions. Credit spreads in the municipal healthcare sector have also contracted materially over the last six months. While many standalone providers and certain large systems continue to struggle, the sector has benefited from a significant improvement in credit quality, owing to a large decline in contract labor and a stabilization in operating margins. We remain comfortable with our healthcare holdings from credit perspective, though we continue to look for opportunities to reduce our exposure to systems where valuations have richened significantly.

Despite the politicization of ESG, the material ESG factors pertaining to credit risk are increasingly important and remain necessary to provide an appropriate risk assessment. With both new and existing challenges becoming increasingly difficult to mitigate, the cost to reduce and/or manage these risks is becoming more prohibitive. Cyber-attacks, which unconfirmed reports say contributed to the cargo ship crashing into the Francis Scott Key Bridge, are on the rise for all sectors and issuers. Many of these issuers, especially smaller entities, are ill equipped to manage these challenges and do not have the budget or expertise to implement a solution.

Environmental issues have also come to the forefront as droughts, floods, rising sea levels, and extreme weather conditions are increasingly common. Adding to the challenge, the insurance industry has refused to do business in certain states and has significantly increased premiums across all categories. An ongoing shift of affluent taxpayers migrating from high-tax states to low-tax states has resulted in budgetary problems for some and inadequate infrastructure for others. A lack of prudent fiscal governance over many decades remains the primary cause of this dynamic and will be one of the most challenging issues to fix.

One additional item that needs to be mentioned – due to its significant impact on municipal market trading and liquidity, is the ability of broker/dealers to effectively hedge their municipal inventory. Since there is no natural hedging vehicle, Treasuries are normally utilized as a hedge, but significant basis risk can occur during times of municipal/Treasury yield divergences. With the market experiencing several of these periods this year alone, sell-side traders became reluctant to add additional bonds to their inventory,

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especially if they did not appropriately hedge their existing book. As a result, bid-ask spreads widened periodically as less market participants engage in secondary market trading. Sage will continue to manage liquidity risk appropriately and find these markets advantageous to add undervalued exposure.

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. Going into the back half of the year, we will gradually shift some of our higher-volatility/lower credit quality issuers into lower-volatility/higher credit quality areas as economic challenges become more pronounced and valuations dictate swap alternatives. 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	1.05%	0.80%
C Shares	11/01/93	**TOHCX**	89154V702	2.45%	1.55%
Y Shares	08/30/16	**TOHYX**	89154V843	1.18%	0.55%
INST Shares	08/30/16	**TOHIX**	89154V835	0.73%	0.48%
Total Fund Assets	**$49.2 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 10/29/24.

Share class availability differs by firm.

Annualized Total Returns

	2Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	0.25%	0.00%	3.27%	-1.10%	0.77%	1.82%	4.92%
C Shares	-0.03%	-0.46%	2.41%	-1.92%	-0.03%	1.19%	4.62%
Y Shares	0.31%	0.22%	3.72%	-0.75%	1.08%	2.05%	4.99%
INST Shares	0.33%	0.16%	3.60%	-0.75%	1.10%	2.07%	4.99%
Benchmark	-0.02%	-0.40%	3.21%	-0.88%	1.16%	2.39%	5.82%
Including Max Sales Charge							
A Shares	-2.98%	-3.27%	-0.08%	-2.18%	0.36%	1.32%	4.79%
C Shares	-1.03%	-1.45%	1.41%	-1.92%	-0.03%	1.19%	4.62%

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

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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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