

Fund Manager Commentary

As of September 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

During the third quarter of 2024, the U.S. economy remained on a resilient but cautious trajectory, showing signs of a potential soft landing amid ongoing global challenges. Despite a mixed global economic picture, the U.S. labor market remained robust, with consumer spending supported by rising incomes and easing financial conditions. However, concerns around inflation and interest rates persisted, contributing to market volatility, especially with geopolitical tensions and an approaching U.S. election that presented starkly different policy outlooks. The U.S. Federal Reserve's (Fed) focus remained on containing inflation, with markets anticipating further rate cuts before year-end.

In the municipal bond market, Treasury yields trended lower, and municipal bond valuations continued to hover at historically tight spreads. This presented limited opportunities for new issues and made the market more attractive to income-seeking investors. Municipal bonds remained a defensive asset class, benefiting from strong fiscal management at the state and local levels, high cash reserves, and low default risk, which offset concerns over slower revenue growth.

Portfolio Review

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

The Fund's slightly longer duration positioning contributed positively to relative returns. However, spread widening in single-A credits, to which the Fund is strategically overweight, acted as a drag on performance. Additionally, the Fund's underweight allocation to California, where demand outstripped supply, further detracted from results as spreads tightened.

On the sector front, the Fund's allocation to essential service revenue bonds (such as water and sewer) provided a degree of stability amid market volatility, although high-volatility security selection hurt performance. Several high-performing credits from earlier in the year gave back gains, reflecting broader repricing trends. The Fund maintained a barbell yield curve strategy, which positioned it to benefit from expected flattening as the Fed embarks on its easing cycle.

With valuations across all sectors at or near historically tight spreads Sage's sector outlook remains more agnostic, and our primary focus is on security selection. The Fund remains 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 (PSF) 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.

(continued)

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](https://www.touchstoneinvestments.com/mutual-funds).**





The three sectors that the Fund remains underweight with a sell bias are higher-quality state general obligations, airport facilities, and overvalued hospital issuers. State credit quality remains solid despite a recent reduction in tax collections, but valuations are unattractive. 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 higher rated issuers that are trading at historically tight spreads, as well as small, lower-quality hospital facilities that have declining revenue trends, weaker balance sheets, and that lack the significant local demographics necessary for stability and growth.

Outlook and Conclusion

Looking ahead, municipal issuers are facing slower revenue growth, but strong cash reserves and prudent fiscal management should help them navigate the upcoming challenges. States such as California, with a volatile revenue base, may face more significant budgetary issues, but the broader municipal landscape remains stable.

For the municipal bond market, the fourth quarter may see increased volatility due to seasonal factors such as tax-loss selling, year-end illiquidity, and ongoing geopolitical uncertainties. However, the fundamental strength of most municipal credits should provide a solid foundation for continued performance. The Fed's anticipated rate cuts are likely to support the municipal bond market, potentially leading to a flatter yield curve that benefits the Fund's barbell strategy.

We believe the Fund is well-positioned for the next period, with a slightly long duration tilt designed to capitalize on a favorable interest rate environment. The Fund's focus on high-quality credits, such as AAA-rated Texas PSF bonds, combined with its selective exposure to essential service revenue and local general obligation issuers, provides a defensive stance. The Fund's 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. An ongoing challenge remains the inverted 2s5s yield curve due to both yield give and negative curve rolldown. If rates decline, the Fund's barbell allocation should mitigate some of this challenge while providing a better return profile. The ability to adjust tactically to market dislocations will also enable the Fund to seize value opportunities as they arise.

In summary, while market volatility is expected to remain elevated, the Fund's conservative credit selection, longer duration bias, and strategic sector allocations position it well to navigate the upcoming economic landscape for investors.



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	\$49.1 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, 1.50% 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

	3Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	2.58%	2.58%	9.61%	-0.10%	0.96%	1.94%	4.96%
C Shares	2.39%	1.92%	8.70%	-0.94%	0.17%	1.32%	4.66%
Y Shares	2.64%	2.86%	10.07%	0.24%	1.27%	2.18%	5.02%
INST Shares	2.66%	2.83%	9.95%	0.25%	1.30%	2.20%	5.03%
Benchmark	2.71%	2.30%	10.37%	0.09%	1.39%	2.52%	5.85%
Including Max Sales Charge							
A Shares	-0.73%	-0.78%	6.01%	-1.21%	0.55%	1.44%	4.83%
C Shares	1.39%	0.92%	7.70%	-0.94%	0.17%	1.32%	4.66%

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](https://www.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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