Fund Manager Commentary

As of March 31, 2024

Fund Highlights

- Seeks to achieve a high level of income by investing primarily in non-investment-grade debt securities
- Evaluates overall investment opportunities and risks in different industries focusing on those that exhibit the potential for stability and predictability
- Eliminates certain types of securities from purchase due to their structure
- Applies rigorous credit selection process in an effort to identify securities that offer attractive opportunities

Market Recap

Positive momentum within risk assets during the final months of 2023 followed through into the new year even with inflation surprising to the upside and anticipated central bank rate cuts being pushed out further into the future. Risk assets traded sideways early in 2024 then caught a bid and never looked back with the S&P 500 leading the way, followed by the Nasdaq and Russell 2000®. Also noteworthy was another strong quarter for risk barometer Bitcoin.

High Yield was also higher, though moderately; CCCs led the way, with Bs and BBs marginally positive. Higher quality was pressured by U.S. Treasury yields (10-year) which rose 30 basis points (bps) and tight valuations left little room for spread tightening.

Not all sectors saw smooth sailing as underlying returns significantly diverged. Wireless and Cable Satellite were negatively impacted by proposals from management at Altice France which called for creditors to agree to losses in order to reduce leverage. The effect of this about face rippled across capital structures at related companies Altice USA and Altice International. Leading contributor Retailers saw Michaels and QVC report improving operating results.

The U.S. consumer appears to remain strong with unemployment near all-time lows, solid real average hourly earnings rising, and positive real personal spending. Under the surface, though, cracks are evident as excess savings from loose COVID era fiscal policy are running low and the savings rate is trending below historical averages. As a result, delinquency rates within auto and credit card loans have risen above pre-COVID levels. While this could be a lagged effect of higher rates, the trend is worth monitoring should we see an uptick in unemployment.

In light of inflation holding firm, the U.S. Federal Reserve (Fed) kept its benchmark rate unchanged and the median 2024 dot plot was stable at three cuts this year, though it showed a shallower pace of cuts in 2025 and 2026. In addition, 2024 economic projections were revised higher; real GDP growth rose core Personal Consumption Expenditures inflation increased, and unemployment was lowered. Given constructive data and expectations, time will tell at what pace the Fed will be able to move forward with rate cuts.

After six consecutive quarters of positive returns, High Yield issuers have leaned into this strength and made substantial progress refinancing upcoming maturities. The first quarter saw the highest issuance level since 2021.

Portfolio Review

The Touchstone High Yield Fund (Class A Shares Load Waived) underperformed its benchmark, the ICE BofA High Yield Cash Pay Index, for the quarter ended March 31, 2024.

Attribution from sector allocation was neutral. Overweight allocations to Health Care REITs and Retailers were positive on the quarter as both sectors were top performers. Retailers rebounded in the quarter on the back of economic growth, strong consumer sentiment, and retail companies showed positive results from what was an uncertain holiday season. An overweight allocation to Media Entertainment was a slight drag on performance as it is the largest overweight sector in the portfolio and was one of the worst performing benchmark sectors. Meaningfully positive credit selection more than offset this allocation.

Primary themes for the quarter were CCC rated securities

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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.***

outperformed BB/B counterparts; duration continues to play a factor as rates moved steadily higher; and Media, Cable, and Wireless were the only negative returning sectors.

Attribution by ratings category was mixed with CCCs, Bs, and BB. Overweight positioning in AdaptHealth was positive as the in-home provider of sleep apnea and diabetes equipment posted solid and improving fourth quarter results and guided to positive expectations for 2024. Their core diabetes business stabilized and the sleep apnea business resumed growth.

Attribution from security selection was negative. Overweight positioning in retailer QVC was positive as the company announced meaningfully improved fourth quarter results, asset dispositions of some negative cash flowing segments, and renewed focus by management to generate cash flow and reduce the aggregate debt burden.

Overweight positioning in several Cable/ Telecommunications companies were detractors in the quarter (Altice USA, Altice France, Altice, and Charter Communications). Cable companies have been facing significant headwinds due to high capital expenditure requirements and increasing competition in high-speed data access/penetration which weighed on capital structures. The European portions of the Altice conglomerate (Altice and Altice France) came under pressure when Chairman/owner Patrick Drahi stated that deleveraging the balance sheets of his companies may be more difficult than anticipated and alluded to the potential of a large-scale liability management exercise.

Aggregate risk positioning for the Fund was maintained during the quarter. Changes in holdings and sector allocation were all opportunistic and relative value based. The Fund remains short approximately 0.75 years of B equivalents (mixture of spread and duration).

In the quarter, notable new positions were established in AMC Networks, Enbridge, Transdigm, Tallgrass, and Valaris. Notable sales and exits are Block Communications, Dish Corp, and Sunnova.

The largest increases in sector allocations were Midstream, Oil Field Services, and Aerospace. The largest decreases were in Cable Satellite, Leisure, and Automotive.

The duration of the portfolio at quarter end was 2.89 years. The portfolio started the quarter at approximately -0.24 years short duration vs the benchmark and ended the quarter at -0.33 years relative to the benchmark. The 10-year Treasury sold off 32bps in the quarter implying that duration was likely a slight tailwind.

Outlook and Conclusion

While it appears that we are at the end of the current Fed tightening cycle, higher rates and tighter conditions are only now restricting business activity as well as reducing inflation towards the Fed's goal of 2%. The market, on the whole, has continued to take a rather benign view of the current cycle as risk assets had a strong 2023 and a strong first quarter, 2024. The market has shifted positioning from starting the year expecting 5 to 6 rate cuts to now only pricing in 2 to 3 cuts by year end. This shift in expectations happened as the rate of decline in inflation has slowed and appears that we may be in a higher for longer scenario to get to the ultimate target of 2%. Historically, Fed tightening cycles and financial conditions at current levels lead to recessions, higher default rates, and wider spread levels. We anticipate these unfolding; although to a lesser extent than in previous cycles. The questions we are balancing are the timing and the depth of the recession and default cycle. Data linked to inflation and employment will be critical as stronger than anticipated employment/wages or more persistent inflation data may limit the Fed's ability to cut rates as early as the market anticipates. This would be harmful to leveraged balance sheets; especially those with significant levels of floating rate debt.

At this stage of the credit cycle and valuations, we prefer higher quality and/or less cyclical sectors as volatility can escalate quickly into wider credit spreads. We are meaningfully underweight CCC rated securities as this segment of the market will experience the most default losses when tight financial conditions take hold and high yield issuers can no longer service their obligations. We saw this in 2023 as several large overleveraged capital structures were downgraded, meaningfully underperformed, and began the process of distressed debt exchanges. We are underspreading and underyielding the index in anticipation of widening from here.

We find the best value in the market to currently be in the BBB/BB categories as this segment has the best characteristics going forward – meaningful income and yield in the current environment and the likelihood to sell off less in the case of a material misstep by the Fed or other global macro developments. These segments also have a higher duration and can experience some stability in the face of spread widening as the Treasury market typically rallies in that scenario. The underweight to higher spreading CCCs has the potential to be a headwind if we are able to avoid a recession and the widest parts of the market materially tighten from here; however, that is not our base case scenario. CCCs will bear the brunt of the default cycle as it unfolds in the coming quarters, and we remain cautious on this subsector until it begins to price in a more significant downturn.

Our outlook for High Yield is slightly negative as we are balancing our concern for economic weakness, somewhat tight financial conditions, and deteriorating company fundamentals with the possibility of a soft landing and an all-in yield of 7.66%; which we recognize as attractive in a historical context. Current spread levels are at the tight end of their historic ranges and don't leave much room for further tightening; however, the current level of yields are able to absorb and offset some spread widening should the economy have a harder landing. We anticipate the next default cycle to be less than historic averages as issuers have termed out maturities and balance sheets are in relatively

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good shape. The predominance of merger and acquisition and leveraged buy out issuance has occurred in the leveraged loan market which we suspect may see a higher level of defaults and lower recoveries than in previous cycles. We will be monitoring markets closely and looking for the signs of increasing defaults and market capitulation as financial conditions become too much for the weakest and most highly leveraged companies to bear before meaningfully adding to risk.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	05/01/00	**THYAX**	89154W809	1.35%	1.05%
C Shares	05/23/00	**THYCX**	89154W882	3.26%	1.80%
Y Shares	02/01/07	**THYYX**	89154W817	0.99%	0.80%
INST Shares	01/27/12	**THIYX**	89154W775	0.85%	0.72%
Total Fund Assets	**$104.4 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 1.05% for Class A Shares, 1.80% for Class C Shares, 0.80% for Class Y Shares and 0.72% 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	1.07%	1.07%	10.31%	1.86%	3.16%	3.14%	5.72%
C Shares	0.89%	0.89%	9.36%	1.07%	2.38%	2.53%	5.49%
Y Shares	1.10%	1.10%	10.52%	2.12%	3.41%	3.40%	5.93%
INST Shares	1.12%	1.12%	10.62%	2.20%	3.51%	3.49%	5.91%
Benchmark	1.46%	1.46%	10.98%	2.23%	4.03%	4.35%	6.61%
Including Max Sales Charge							
A Shares	-2.22%	-2.22%	6.71%	0.77%	2.74%	2.65%	5.51%
C Shares	-0.11%	-0.11%	8.36%	1.07%	2.38%	2.53%	5.49%

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 - ICE BofA High Yield Cash Pay 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, 05/01/00, with the performance since the inception date of each share class.

Top 10 Holdings of Fund

		(% of Portfolio)
1	CQP Holdco LP / BIP-V Chinook 5.50% 06/15/31	1.8
2	Wynn Macau Ltd. 4.88% 10/01/24	1.6
3	CCO Holdings LLC / CCO Holding 4.25% 02/01/31	1.5
4	Stagwell Global Llc 5.63% 08/15/29	1.5
5	Boost Newco Borrower, LLC 7.50% 01/15/31	1.4
6	Cimpress Plc 7.00% 06/15/26	1.4
7	Talen Energy Supply LLC 8.63% 06/01/30	1.3
8	Ford Motor Credit Co. LLC 2.90% 02/10/29	1.2
9	Belo Corp. 7.25% 09/15/27	1.1
10	AHP Health Partners, Inc. 5.75% 07/15/29	1.1

Source: BNY Mellon Asset Servicing

The ICE BofA High Yield Cash Pay Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par which is greater than or equal to $50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.

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 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 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 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'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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