Touchstone High Yield Fund

Sub-Advised by: Fort Washington Investment Advisors, Inc.

Fund Manager Commentary

As of September 30, 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

Following a benign first half of the year, the third quarter witnessed a brief bout of volatility in August as weakening labor markets and soft manufacturing data cast doubt on the U.S. Federal Reserve Board's (Fed) extended rate pause. A surprise rate hike by the Bank of Japan added fuel to the fire. However, after 14 months on hold, the Fed changed course by delivering a 50 basis point (bps) cut at their September meeting. Accompanying commentary noted a fundamentally strong economy and expectations for an additional 50bps of cuts by year-end. Markets reacted enthusiastically as risk assets advanced into quarter end.

High Yield finished the quarter with five consecutive positive monthly returns led by strength in CCCs and below, followed by Bs and BBs. Spreads ended little changed, but yields moved materially lower in concert with U.S. Treasuries. Issuers accessing the market were able to lock in rates not experienced since April 2022.

Wirelines and Cable/Satellite reversed previous underperformance as the High Yield market experienced broad-based strength; all sectors provided positive returns. Leading the market higher were formerly out of favor names, notably DISH Network Corp., AlticeUSA Inc., Charter Communications Inc. and Lumen Technologies Inc. and related entities. Positive risk sentiment, rumors of creditor discussions and improved fundamentals were primary catalysts.

The High Yield market has experienced positive ratings migration into Investment Grade for 15 consecutive quarters with $34 billion in rising stars year to date 2024 alongside record low fallen angel activity of $6 billion. In contrast to this latter figure, Barclays recently highlighted BBB- debt on downgrade watch currently sitting at its highest level in a decade at $75 billion, though Boeing ($57 billion) accounts for the majority. While these laggards are worth monitoring, markets are currently expressing little concern with less than 10% of the BBB- segment trading at a spread wider than the average BB+ issue, near the lowest level in a decade.

The Fed relieved markets at their September meeting by lowering rates 50bps to the 4.75%-5.00% range. This action was accompanied by resilient economic data; positive August retail sales (+0.1% month-over-month) and industrial production (+0.8%) pushed the real-time Federal Reserve Bank of Atlanta's GDPNow estimate for the third quarter to +3.08%. Moreover, unemployment weakness at the beginning of the quarter was later met with stability in the August jobs report (+142k), leaving the unemployment rate at 4.2% and alleviating fears of further deterioration.

Falling yields, tight spreads, and the Fed's rate-easing campaign allowed issuers to capture favorable funding levels, leading to over $74 billion of new issue. Refinancing activity remains the primary use of proceeds (74%) as prevailing yields are frequently approximating existing coupon rates, allowing issuers to push out maturities without increasing interest expense.

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 September 30, 2024.

Attribution from sector allocation was negative. An overweight position in Healthcare Real Estate Investment Trusts and an underweight position in Industrial Other were slightly additive in the quarter. Underweight positioning in

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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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Wirelines was a large detractor in the quarter, as it was a top returning sector, on the back of several companies with large capital structures rallying from previous lows.

Attribution from security selection was negative. Primary themes for the quarter were: 1) CCC-rated bonds meaningfully outperformed, 2) several large capital structures continue to pursue liability management exercises (LME) or debt exchanges, and 3) Wirelines and Cable/Satellite sectors reversed their underperformance.

Underweights to CCC-rated securities and large capital structures accounted for much of the underperformance.

Overweight positioning in domestic cable operator AlticeUSA was positive as highly leveraged peer Frontier Communications received a buyout offer from Verizon that was supportive of Altice valuations. There has been no news or movement on any potential LMEs or distressed exchanges at the company.

Overweight positioning in Pediatrix Medical Group, Inc. was positive as the company announced stronger than anticipated second quarter results along with plans to exit certain money losing lines of business.

Underweight positioning in satellite company DISH Network was negative as the distressed pay television operator was effectively forced to agree to a merger with rival operator DirecTV due to impending debt maturities that would have driven the operator into bankruptcy. The capital structure rallied on increased financial support and a presumed path forward once the merger is consummated.

Underweight positioning in several large and heavily CCC-rated capital structures weighed on performance in the quarter: Level 3, CommScope, Community Health, Uniti, and Bausch Health Companies Inc.

Aggregate risk positioning for the Fund increased during the quarter. Changes in holdings and sector allocation were all opportunistic and relative value based. The Fund started the quarter -0.70 years of B equivalents and ended the quarter at 0.10 years B equivalents while remaining slightly higher in credit quality.

In the quarter, notable new positions were established in Goodyear Tire and Rubber Co., Zegona Finance plc, Manitowoc Co. Inc., Central Parent Inc., and Allied Universal Holdco LLC. Notable sales include Wynn Macau Ltd., Talen Energy Supply LLC, Tenet Healthcare Corp., Hanesbrands Inc., and Trinity Industries Inc.

Among the largest increases in sector allocations were Cable Satellite, Consumer Cyclical Services, and Construction Machinery. Among the largest decreases were Electric Utilities, Leisure, and Healthcare.

The duration of the Fund's portfolio at quarter end was 2.88 years. The portfolio started the quarter approximately -0.31 years short duration vs. the benchmark and ended the quarter at -0.12 years relative. The 10-year U.S. Treasury rallied in the quarter implying that duration was likely a slight headwind.

Outlook and Conclusion

The market, on the whole, has continued to take a rather benign view of the current cycle as risk assets had a strong quarter. The market has shifted positioning from starting the year expecting 5-6 rate cuts to now only pricing in 1-2 more cuts, after the initial 50bps September decrease. Conversations are now coalescing around the pace of cuts and the Fed needing to balance its dual mandate of keeping policy restrictive enough to continue bringing inflation down while at the same time being mindful of unemployment which has been ticking up. Historically, Fed tightening cycles and inverted yield curves at recent levels lead to recessions, higher default rates, and wider spread levels. We would have anticipated these to begin unfolding by now; however, economic growth and financial conditions have remained robust. The questions we are balancing are: 1) is it strong growth or liquidity outside of the banking system that has meaningfully offset typical financial conditions restrictions, and 2) what is the depth of the default cycle going to be due to high floating rate debt and its potential impact on leveraged companies.

At this stage of the credit cycle and valuations, we are preferring slightly higher quality and/or less cyclical sectors while trying to maximize income as interest rates have stabilized in the 5-10-year part of the curve. We are underweight CCC-rated securities as this segment of the market will experience the most default losses if high floating rate debt leads to balance sheet stress and high yield issuers can no longer service their obligations. We have seen some signs of stress whereby several large overleveraged capital structures have been downgraded, meaningfully underperformed, and have begun the process of distressed debt exchanges. We added to risk positioning in the quarter to increase yield and income in the Fund while maintaining a higher quality bias.

We find the best value in the market to currently be in the BB/B 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.

Our outlook for High Yield is slightly negative as we are balancing fair company fundamentals with spreads that are near their tightest decile and aggregate yields of 6.99%, which we recognize as attractive in a historical context. Current spread levels do not leave much room for further tightening; however, the current level of yields is able to absorb and offset some spread widening should the economy have a soft landing or a bumpy transition to the next cycle. We anticipate this default cycle to be less than historic averages as issuers have termed out maturities and balance

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sheets are in relatively good shape. The new issue calendar in high yield has been robust; especially for BB/B issuers. The predominance of mergers and acquisitions and leveraged buyout issuance has occurred in the leveraged loan market which we suspect may see a higher level of defaults and lower recoveries than previous cycles; this is unfolding currently. We will be monitoring markets closely and looking for relative value swaps whereby we can increase income into the portfolio without taking undue credit 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	**$106.7 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

	3Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	4.23%	6.20%	13.34%	2.21%	3.40%	3.64%	5.82%
C Shares	4.05%	5.63%	12.55%	1.42%	2.62%	3.03%	5.59%
Y Shares	4.28%	6.31%	13.60%	2.43%	3.63%	3.89%	6.02%
INST Shares	4.30%	6.38%	13.70%	2.52%	3.74%	3.98%	6.01%
Benchmark	5.27%	7.90%	15.55%	3.08%	4.53%	4.94%	6.73%
Including Max Sales Charge							
A Shares	0.80%	2.74%	9.62%	1.09%	2.98%	3.14%	5.60%
C Shares	3.05%	4.63%	11.55%	1.42%	2.62%	3.03%	5.59%

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	CCO Holdings LLC / CCO Holding 4.25% 02/01/31	1.6
3	Wynn Macau Ltd. 4.88% 10/01/24	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	Vistra Corp. 8.00% 04/15/73	1.2
7	AHP Health Partners, Inc. 5.75% 07/15/29	1.2
8	Goodyear Tire & Rubber Co. 5.63% 04/30/33	1.2
9	Sirius XM Radio Inc. 4.00% 07/15/28	1.1
10	Carriage Services, Inc. 4.25% 05/15/29	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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