Fund Manager Commentary

As of June 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

The first half of 2024 closed with a firm tone as inflation concerns moderated throughout the second quarter; a strong April inflation print was followed by two light readings. Market sentiment shifted in May as U.S. Federal Reserve Board (Fed) Chair Powell stated that the next policy move is unlikely to be a hike, calming concerns over further restrictive policy. This commentary powered the S&P 500 and Nasdaq to all-time highs with the Magnificent 7 providing material support.

High Yield followed equities higher with BBs and Bs setting the pace while CCCs and below lagged slightly. Lower quality was impacted by weak fundamentals and waning investor appetite. BBs benefitted from a second half U.S Treasury rally and slight spread tightening from already historically rich levels.

At the sector level, Wirelines and Media/Entertainment continued to lag while Pharmaceuticals experienced a strong uptick. Lumen Technologies Inc. and iHeartMedia Inc. were drags within Wirelines and Media/Entertainment, respectively, on stressed fundamentals. Within Pharmaceuticals, Bausch Health Companies Inc. was higher in light of a litigation victory and the formation of a bondholder group which seeks to block completion of the Bausch + Lomb Corp. spin-off.

A growing trend within the High Yield market involves management teams and creditors taking proactive measures to repair balance sheets via a Liability Management Exercise (LME) prior to a conventional default. Historically, though infrequently, managements offered distressed debt exchanges to creditors which included a haircut to principal as a means to deliver and weather fundamental stress. Recently and increasingly so, creditors have preemptively banded together and formulated LME proposals designed to preserve their interests prior to borrowers acting. Notably, issuers which execute an LME experience a 43% re-default rate.

Inflation has gradually slowed with the most recent core Personal Consumption Expenditure coming in at 2.6% year-over-year, nearing the Fed's 2.0% target level. The consumer remains in good shape with unemployment near an all-time low (4.0%), though increasing, and personal income growth firm (+0.5% month-over-month). Disinflation combined with a weaker labor market has eased fears of a possible Fed rate hike.

Issuers continued to take advantage of a supportive backdrop, raising over $75 billion during the quarter and $160 billion year to date, a 74% increase year-over-year. An emphasis on refinancing activity has resulted in net supply being only slightly positive year to date (+$35 billion) after two consecutive years of negative net supply. Net supply is expected to increase as high-quality issuers proactively address upcoming maturities and shift borrowing to the High Yield market. Bank of America notes that 2024-2026 maturities now total $152 billion, a 26% reduction since May 2024.

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 June 30, 2024.

Attribution from sector allocation was positive. A zero allocation to Wirelines was meaningfully additive in the quarter as it was a large and bottom performing sector. Underweight positioning in Pharmaceuticals, primarily to largest contributor Bausch Health, was negative. Overweight

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positioning in Media Entertainment was also a drag on allocation as the sector was a bottom performer; however, credit selection more than offset this allocation effect.

Attribution from security selection was negative. Primary themes for the quarter were: 1) BB/B bonds outperformed CCC and below categories, 2) duration continued to play a factor, as U.S. Treasury rates are in excess of credit spreads, and 3) Media, Cable, and Wireline sectors continued to struggle.

Attribution by ratings category was mixed with CCCs and Bs negative, and BB and above positive. Underweight positioning in Level 3 Communications Inc. was positive as the highly leveraged wireline company continues to struggle operationally as well as remaining burdened by its capital structure and distressed debt exchanges. Overweight positioning in AHP Health Partners Inc. was positive as the company filed an S-1 with an intent to take the private company public.

Overweight positioning in domestic cable operator AlticeUSA Inc. was negative as the company has begun to explore a potential LME to reduce aggregate leverage. News of a potential distressed debt exchange or other potential negative outcomes weighed on the capital structure.

Underweight positioning in Bausch Health was negative as the pharmaceutical company continues to pursue its plan to separate into two businesses. Bonds rallied meaningfully in the quarter on the formation of a bondholder group that is looking to block the spin-off as well as from a legal victory on one of its most profitable drugs.

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 Algonquin Power and Utilities Corp., Fortrea Holdings Inc., Nationstar Mortgage Holdings, Novelis Corp., Simmons Foods Inc., Trinity Industries Inc. and Vistra Corp. Notable sales and exits would be AMC Networks Inc. (called), Fortress Transportation (called), Oak Hill CLO (paydown), MGM China Holdings Ltd. (maturity), Aviation Capital Group LLC, Primo Water Holdings Inc., and Rocket Mortgage LLC.

The largest increases in sector allocations were Electric Utilities, Railroads, and Healthcare. The largest decreases were in Media Entertainment, Airlines, and collateralized loan obligations.

The duration of the portfolio at quarter end was 2.89 years. The Fund started the quarter approximately -0.33 years short duration vs. the benchmark and ended the quarter at -0.31 years relative. The 10-year U.S. Treasury sold off approximately 20 basis points 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 enough to build confidence that inflation is sustainably moving toward the Fed's goal of 2%. The market has continued to take a rather benign view of the current cycle as risk assets had a strong 2023 and a strong first half in 2024. The market has shifted positioning from starting the year expecting 5-6 rate cuts to now only pricing in 2-3 cuts by year end, beginning this September. 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 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 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 for 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 began to see this in 2023 whereby several large, overleveraged capital structures were downgraded, meaningfully underperformed, and have begun the process of distressed debt exchanges. We are under-spreading and under-yielding 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.

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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. Current spread levels are at the tight end of their historic ranges and don't leave much room for further tightening; however, we feel the current level of yields is 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 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 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	**$105.3 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

	2Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	0.81%	1.89%	9.43%	1.24%	2.78%	3.01%	5.70%
C Shares	0.63%	1.52%	8.65%	0.45%	2.00%	2.39%	5.46%
Y Shares	0.84%	1.95%	9.67%	1.45%	3.03%	3.26%	5.91%
INST Shares	0.86%	1.99%	9.76%	1.58%	3.12%	3.35%	5.89%
Benchmark	1.02%	2.50%	10.34%	1.65%	3.71%	4.20%	6.58%
Including Max Sales Charge							
A Shares	-2.49%	-1.43%	5.87%	0.12%	2.37%	2.51%	5.48%
C Shares	-0.36%	0.53%	7.65%	0.45%	2.00%	2.39%	5.46%

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	AHP Health Partners, Inc. 5.75% 07/15/29	1.2
9	Ford Motor Credit Co. LLC 2.90% 02/10/29	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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