Fund Manager Commentary

As of September 30, 2024

Fund Highlights

- Targets goals through a short duration, low risk approach
- Emphasizes mortgage-backed and asset-backed securities, which are backed by income-producing assets; inefficiencies in these markets make them attractive for active management
- Seeks to keep duration less than a year, which reduces duration risk compared to longer duration portfolios
- Higher credit quality portfolio seeks to avoid higher risk strategies, such as non-dollar currencies and lower quality credits
- Seeks to complement more "opportunistic" fixed income, equity or hedge fund strategies

Market Recap

Broad market performance was strong overall during the third quarter, with both equities and fixed income generating positive returns despite a more complicated narrative unfolding beneath the surface. At the beginning of the quarter, markets were pricing in 50 basis points (bps) of Federal Reserve (Fed) rate cuts by year-end 2024. Economic data had proven resilient, (but not too resilient), and the unemployment rate had ticked up to a manageably weaker 4.1% for June. Federal Reserve Chairman Jay Powell's carefully engineered soft landing seemed to be coming into focus.

This trajectory changed course mid-July, however, as a variety of concerns began to escalate. Soft earnings reports brought skyrocketing technology company valuations into question (which had largely driven the equity market rally in the first half of the year) while surprising weakness in CPI and a few other economic data releases raised doubt about the soft landing narrative. Treasuries rallied sharply toward the end of July and into early August, as markets recalibrated around a more urgent Fed rate-cutting scenario. This sharp rally in U.S. Treasuries coincided with a Bank of Japan (BOJ) rate hike (and hawkish rhetoric), exposing a broad yen carry trade in the market, and prompting its unruly unwinding. Meanwhile, the year-to-date route in Chinese equities continued into late third quarter, contrasting sharply with global stocks' strong run and heightening general concern around the strength and stability of the world's second-largest economy. On August 2, the Bureau of Labor Statistics released a worse-than-expected unemployment rate of 4.3%, triggering the Sahm rule which indicates that a recession may have already begun. In aggregate, these stressors were suddenly too much for markets to sustain in equilibrium, and in the first week of August, the Chicago Board Options Exchange Volatility Index spiked to a level not seen since 2020.

This culmination of negativity in early August marked an inflection point for the quarter. The flow of economic data through the remainder of the quarter was seen as less draconian and more supportive of the soft landing narrative. The unemployment rate for July dropped back down 0.1% to 4.2%, and GDP came in above forecast at 3% for the second quarter. Powell expressly assured markets that the time had come to begin cutting rates, and then delivered the first cut of 50bps at the Fed's September 18 meeting. Meanwhile, Japan's newly-appointed prime minister Ishiba responded to the yen carry trade unwind by assuring markets that Japan is not in need of further hikes—a sentiment which BOJ Governor Ueda seemed to generally (albeit cautiously) support. Late in the quarter, China announced an aggressive stimulus package aimed at restoring confidence in the economy, driving a 27% rally in the CSI 300 Index during the second half of September—another stabilizing factor for markets globally.

U.S. Treasury rates ended the quarter considerably lower vs June 30, with the 10 year rallying by 62bps, and the 1-3yr part of the curve rallying by more than 100bps. The 2s/10s curve reverted to a positive slope during September, after spending more than 2 years in inverted territory. Over the course of the quarter, markets transitioned from expecting a total of two rate cuts by year-end 2024, to already having one 50bps cut during third quarter and expecting another three

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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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by the end of December. Spreads across fixed income were briefly volatile during the July/August selloff but recovered through the remainder of the quarter.

Portfolio Review

The Touchstone Ultra Short Duration Fixed Income Fund (Class A Shares, Load Waived) outperformed its primary benchmark, the ICE BofA 3-Month Treasury Bill Index and underperformed its secondary benchmark, the ICE BofA Merrill Lynch 1-Year U.S. Treasury Note Index, for the quarter ended September 30, 2024.

While broader market volatility was quite pronounced during the late July/early August portion of the third quarter, the impact in high quality short duration asset spreads was much more muted. Thus, the biggest drivers of return for the Fund during the quarter were carry and interest rate movements. Three sectors—residential mortgage backed securities (RMBS), asset backed securities (ABS), and Corporates, significantly outperformed their carry for the quarter. These sectors are predominantly fixed rate assets in the Fund, thus benefiting from the interest rate rally. RMBS and ABS specifically are home to much of the Fund's longer key rate duration exposures in the 1-2.5-year segment, thus having the most significant positive impact from interest rate moves during the quarter. Treasuries in the 1–2-year part of the curve rallied by more than 100bps while the 6-month Treasury rallied by 92bps during the third quarter.

Collateralized loan obligation (CLO) performance in the Fund was generally in-line with a quarter's worth of carry at +1.55%, as this floating rate exposure is less price-sensitive to moves in interest rates. Commercial mortgage backed securities (CMBS) exposure returned 1.90% for third quarter—slightly less than a quarter's worth of carry. This is in part due to the floating rate nature of most of the CMBS exposure in the Fund (no price benefit to the rally in Treasury rates) but is also partly due to continued idiosyncratic pricing movements in that sector.

Sector positioning changes were minimal during third quarter, with all sector exposure changes being within +/-2%. Small decreases in ABS, CLOs, CMBS, and Cash were offset by increases in RMBS and investment grade (IG) credit. These changes do not represent a strategic shift in allocations, but rather a reinvestment of cash across sectors within our targeted allocation ranges, in conjunction with real-time recognition of the best relative value available at the time of reinvestment. It is also worth noting that Fund assets increased slightly on a quarter-over-quarter basis, so although ABS exposure decreased slightly on a percentage basis, for example, the dollar amount invested in ABS actually increased during that time period.

The Fund's duration positioning at the end of third quarter was 0.60 years, down slightly from 0.63 years at the beginning of third quarter. With the strong rally in Treasury rates during the quarter, this duration positioning was a tailwind versus the ICE BofA US 3-month Treasury Bill Index, and a headwind versus the ICE BofA US 1-Year Treasury Bill Index.

Portfolio Management has implemented a barbelled approach to extending the Fund's duration over the past several quarters, which has performed well for the Fund. Floating rate securities have captured significant carry off the highest point of the yield curve, while longer-duration fixed rate assets purchased in the 1–2-year part of the curve have benefited from the rally in fixed rates as the Fed transitions to the rate-cutting phase of this cycle.

The yield curve shifted meaningfully lower during the quarter, with the 1–2-year Treasury moving more than 100bps lower and 6-month rates shifted 92bps lower. These moves benefited the Fund's fixed rate exposure (largely in the RMBS, ABS, and IG Credit sectors), and particularly so in the longer key rate duration exposure held predominantly in RMBS and ABS. The Fed's 50bps of rate cuts drove the very front end of the curve lower, which will drive the coupon rate on the Fund's floating rate securities lower over time as each security reaches its quarterly coupon reset date.

Outlook and Conclusion

Fund management believes that the U.S. economy remains on track for a soft landing, although volatility is to be expected around economic data releases and their anticipated impact on the Fed's rate cut timing and magnitude. Labor market deterioration seems to be manageable, while consumer spending continues to be supported by generally healthy balance sheet and jobs/wages. Slowing personal consumption expenditures indicate meaningful progress toward the Fed's 2% inflation target, although price increases in shelter and certain other non-discretionary categories remain elevated.

Fund management continues to favor valuations in securitized credit over corporate credit. While pockets of fundamental weakness do exist across the consumer lending landscape, well-underwritten collateral and structures remain an area of opportunity for the Fund, which maintains significant exposure to consumer-based securitizations. Dislocation across commercial real estate will take significant time to fully resolve, and we have found limited opportunity to reinvest in attractively priced high-quality bonds with certainty of cashflow timing in the CMBS space. RMBS remains a fundamentally-sound and attractively priced sector for reinvestment, however, cashflow certainty in a variety of interest rate (and prepayment) scenarios limits the availability of bonds appropriate for investment by the Fund. Although management favors valuation and quality available in securitized sectors, IG credit exposure remains a core position for the Fund, providing valuable diversification and liquidity benefits.

Fund management has worked toward a barbell duration positioning of the Fund over recent quarters, targeting significant exposure to floating rate paper to capitalize on the highest point of the yield curve, in combination with significant 1–2-year fixed rate exposure to lock in elevated yields for a longer period of time and also capture the expected move lower in treasuries. This approach has

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performed well for the Fund, and management looks to continue applying a modified version of this strategy in the near-term.

Management expects the Fund's fixed rate exposure to continue to benefit from lower rates going forward, while the Fund's floating rate exposure will continue to see a decline in yield as coupons reset into the lower interest rate environment over time. The Fund has been able to generate strong, competitive returns versus its peer group and benchmarks, which Fund management expects to continue going forward, based on contribution from sector allocation in securitized products, as well as bottom-up security selection across all subsectors.

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Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	04/12/12	**TSDAX**	89155T680	0.69%	0.65%
C Shares	04/12/12	**TSDCX**	89155T672	1.54%	1.15%
Y Shares	04/12/12	**TSYYX**	89155T664	0.45%	0.40%
Z Shares	03/01/94	**TSDOX**	89155H678	0.74%	0.65%
INST Shares	04/12/12	**TSDIX**	89155T656	0.40%	0.35%
S Shares	10/27/17	**SSSGX**	89155T581	0.97%	0.90%
Total Fund Assets	**$515.2 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 0.65% for Class A Shares, 1.15% for Class C Shares, 0.40% for Class Y Shares, 0.65% for Class Z Shares, 0.35% for Class INST Shares and 0.90% for Class S 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	1.93%	5.11%	7.09%	3.54%	2.52%	2.00%	3.14%
C Shares	1.81%	4.83%	6.55%	3.07%	2.03%	1.60%	2.56%
Y Shares	2.00%	5.42%	7.35%	3.84%	2.80%	2.26%	3.25%
Z Shares	1.94%	5.11%	7.09%	3.55%	2.52%	2.00%	3.15%
INST Shares	2.01%	5.46%	7.41%	3.90%	2.85%	2.30%	3.27%
S Shares	1.87%	4.91%	6.70%	3.29%	2.29%	1.74%	2.88%
Benchmark 1	1.37%	4.03%	5.46%	3.49%	2.32%	1.65%	2.51%
Benchmark 2	2.03%	4.01%	5.87%	2.48%	1.99%	1.55%	—
Including Max Sales Charge							
A Shares	-0.13%	2.97%	4.89%	2.84%	2.10%	1.79%	3.07%
C Shares	0.81%	3.83%	5.55%	3.07%	2.03%	1.60%	2.56%

Max 2.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

Benchmark 1 - ICE BofA 3-Month U.S. Treasury Bill Index

Benchmark 2 - ICE BofA 1-Year U.S. Treasury Note Index

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The performance presented for Class A, C, Y, INST and S Shares combines the performance of an older class of shares (Z Shares) from the Fund's inception, 03/01/94, with the performance since the inception date of each share class.

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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

The ICE BofA 3-Month U.S. Treasury Bill Index is an unmanaged index of Treasury securities maturing in 90 days that assumes reinvestment of all income.

ICE BofA 1-Year U.S. Treasury Note Index is an unmanaged index comprised of a single issue purchased at the beginning of the month and held for a full month. The issue selected at each month-end rebalancing is the outstanding two-year Treasury Note Bill that matures closest to, but, not beyond one year from the rebalancing date.

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 mortgage-backed securities and asset-backed securities which are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. 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 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 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 Fund may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. The Fund invests in repurchase agreements which are considered loans by the Fund and may suffer a loss of principal and interest in the event of counterparty defaults. The Fund invests in Collateralized Loan Obligations (CLOs) that have risks that largely depend on the type of underlying collateral and risks may include illiquidity, limited active market, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the potential for a decline in the quality of the collateral, and can bear the risk of default by the loans. 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.

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