Fund Manager Commentary

As of June 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

The economy has continued to grow at a robust pace this year, driven by the consumer. Healthy job and wage gains coupled with significant increases in net worth have propelled recent spending, as excess savings from pandemic era programs are now largely exhausted. While a balanced labor market should support economic growth, some indicators are beginning to exhibit mixed signals, such as elevated jobless claims and a shortening workweek. While this slowing should put downward pressure on inflation, it could also lead to a larger decline in consumption.

Amid these mixed signals and expectations for disinflation, investors have maintained focus on the Federal Reserve (Fed) and expectations for rate cuts. Forecasts for the path of the Fed Funds rate have experienced volatility this year which is likely to continue as new economic data is released. Inflation came into the year near the Fed's 2% target on a 6-month rolling basis but upside surprises for the first few months of 2024 sparked concerns around elevated inflation. While inflation worries are still present, recent data has renewed faith that inflation will move lower, and the larger trend remains intact. The Fed's preferred gauge of inflation, Core Personal Consumption Expenditure, is at a yearly rate of 2.6%, down from 4.7% last May. While further progression should increase the Fed's confidence to cut, they have emphasized the desire to move slowly and stay data dependent.

Nevertheless, the market is anticipating 50 basis points (bps) of cuts in the second half of the year with consensus forecasts pointing toward continued growth, leading to a 'soft landing'. As a result, risk assets moved higher while interest rates appear to have stabilized following recent inflation reports. The 10-year Treasury initially rose 50bps in the second quarter due to inflation fears, but subsequently reversed that move and found an anchor around 4.3%, which is just above where it began the quarter. Corporate bond spreads widened modestly but remained near historically tight levels. Securitized spreads have also tightened notably this year, led by commercial mortgage backed securities (CMBS). While corporate spreads are now close to historical tights, securitized spreads are generally trading in the 20th-50th percentile relative to history - the tighter side of fair value, but not fully valued like many corporate bonds. The Bloomberg U.S. Aggregate Index was up for the quarter, holding in positive territory due to carry.

Fundamentals in securitized sectors have been mixed with CMBS lagging, driven by weak office fundamentals, higher cap rates and a generally challenged commercial real estate (CRE) market. Asset backed securities (ABS) and residential mortgage backed securities (RMBS) fundamentals are on solid footing after a period of normalization - consumer delinquencies were historically low, driven by COVID stimulus, and have been reverting to pre-COVID levels. There are some age and income cohorts which have been more challenged in the post-stimulus economy and that trend bears watching. Collateralized loan obligations (CLO) fundamentals weakened moderately driven by higher interest rates (bank loans, the collateral in a CLO, are floating rate and debt costs have surged alongside short-term rates). Defaults in the loan market are peaking and overall loan performance has held up well.

(continued)

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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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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 outperformed its secondary benchmark, the ICE BofA Merrill Lynch 1-Year U.S. Treasury Note Index, for the quarter ended June 30, 2024.

Interest rates were little changed from the first to the second quarter, with most of the interim volatility in the 1-to-3-year part of the yield curve. Maturities 6 months and in remain anchored by the Fed. The bigger challenge for short duration investors was not managing rate volatility this quarter, but the decision between investing in fixed versus floating rate assets, as the yield curve inversion helps floaters and cash instruments offer historically attractive yields compared to 1-to-2-year fixed rate bonds. For several quarters now, investors have been faced with the unusual situation where they must give up yield to extend duration on top of exposing themselves to greater price volatility.

The impact of slightly higher interest rates was more than offset by tighter credit spreads in short duration sectors combined with the income provided by historically high yields. Income generated by the portfolio remains significant and should continue to provide a buffer going forward. Performance was also buoyed by the continued recovery in the CMBS sector.

The performance of the Fund's major sectors was good, as CMBS and Corporates outperformed their corresponding ICE BofA 0–2-year indices. ABS was the lone detractor, underperforming slightly. CLOs and non-Agency RMBS were also both accretive to performance.

Dispersion in the peer group was contained during the quarter. The difference between the 25 percentile returning fund and the 75 percentile returning fund was only ~18bps, the tightest range in several quarters. This was not surprising given relatively low interest rate volatility and the ongoing convergence of credit spreads. Empirically the Fund and its peers seemed to be positioned similarly in terms of overall duration and credit risk.

Positioning changes were modest as cash increased while ABS increased. Corporates decreased. Credit quality was unchanged at a weighted average rating of AA- for the Fund.

Duration positioning remains toward the short end of the historical range at 0.6 years (0.1 years shorter than the prior quarter). Given the increase in short rates and inversion of the curve, strategies like that of the Fund with short duration and a higher concentration of floating rate securities performed better. Management believes the broader peer group is positioned slightly shorter than the Fund at about 0.5 years, but given the relatively small changes in rates, the duration difference did not materially impact returns.

The yield curve steepened during the quarter and the overweight to shorter key rate durations likely contributed modestly to the Fund's returns.

Outlook and Conclusion

The macroeconomic environment has held up well despite 525bps of cumulative rate hikes and an outlook for only modest near term rate cuts. The fundamentals in each of the strategy's broad sectors – ABS, CMBS, RMBS and CLO – remain supportive of valuations. Consumer fundamentals have weakened in the lower income cohorts due to the impact of inflation and high borrowing costs but remain sound overall as shown by delinquency trends in both ABS and RMBS. CLOs have been tested by rising interest rates, but default trends appear to be stabilizing at relatively low levels. CMBS is the most challenged sector – there will be winners and losers and tens of billions of dollars have been raised to buy dislocated assets. We are beginning to see deployment of this capital, but it remains slow as investors wait for deeper discounts. Capitalization rates are still adjusting to the higher interest rate environment and could continue to further stress the CRE markets – the "higher for longer" mentality being embraced by the market will be a test for CRE and CMBS.

Spreads have rallied in all credit markets with investment grade and high yield spreads near historical tights. Securitized spreads started the year in fair-value-to-slightly-cheap territory but are now on the tighter side of fair with most spreads in the 10 to 50 percentile range. CMBS is more bifurcated with distressed segments like office trading at wider spreads. We are still finding pockets of value in certain ABS, CMBS and CLO assets including auto ABS, tier 2 whole business securitizations, seasoned conduit bonds and short maturity CLOs. Additionally, we still like balancing floating rate securities with 1-to-2-year fixed rate bonds due to the inverted yield curve and high carry, while recognizing the uncertainty around a "higher for longer" outlook.

We expect short-term rates to remain elevated through 2024 and into early 2025. Floating rate exposure will continue to produce relatively high near term income for the Fund. With a "soft landing," or "no landing" scenario being most likely, management expects spreads to remain reasonably well-behaved. This eventual bull steepening of the front-end of the yield curve combined with lower spread volatility has the potential to produce additional price upside. The portfolio still has significant upside potential in the CMBS holdings with an average dollar price of $97, but likely further down the road when rates eventually decline, providing support to the CRE markets. The quality bias in the portfolio (AA- average quality) should help buffer downside in the event inflation remains elevated, or accelerates, and volatility returns to the markets.

The Fund is still able to absorb significant volatility and produce attractive returns. We are looking to gradually extend duration toward the middle of our operating range by opportunistically increasing exposure to the 1-to-2-year part of the curve. We remain wary of over-risking the portfolio and look to stay neutral to underweight both interest rate risk and credit risk.

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	**$508.7 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 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

	2Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.45%	3.11%	6.76%	2.92%	2.25%	1.81%	3.10%
C Shares	1.32%	2.97%	6.23%	2.40%	1.76%	1.40%	2.51%
Y Shares	1.62%	3.36%	7.03%	3.17%	2.53%	2.07%	3.21%
Z Shares	1.45%	3.11%	6.64%	2.91%	2.25%	1.81%	3.11%
INST Shares	1.52%	3.38%	7.08%	3.23%	2.58%	2.11%	3.23%
S Shares	1.38%	2.99%	6.38%	2.66%	2.02%	1.56%	2.85%
Benchmark 1	1.32%	2.63%	5.40%	3.03%	2.16%	1.51%	2.49%
Benchmark 2	1.11%	1.95%	5.02%	1.80%	1.69%	1.36%	—
Including Max Sales Charge							
A Shares	-0.61%	1.01%	4.67%	2.22%	1.84%	1.61%	3.04%
C Shares	0.32%	1.97%	5.23%	2.40%	1.76%	1.40%	2.51%

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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