

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- Utilizes an active management framework seeking to maximize total return
- Employs a disciplined selection process in an attempt to build a broadly diversified portfolio
- Assesses the economic environment and recent developments occurring in the bond market to set specific duration levels, yield-curve structures, sector weightings and credit-quality targets
- Utilizes a team of sector specialists to recommend securities

Market Recap

The fourth quarter was a stark contrast to the previous three quarters of 2023 and welcomed by fixed income investors. Despite volatility in the beginning of the quarter, rates ended meaningfully lower as the market shifted its focus from rate hikes to cuts. The combination of lower inflation and positive economic growth has also paved the way for increasing momentum around a “soft landing”. This outlook led to a rally in risk assets over November and December, with credit spreads tightening well below their historical averages. While a meaningful economic slowdown does not appear to be on the immediate horizon, risks to growth are still elevated as many Americans have pulled forward personal consumption and, at the same time, corporate spending and government outlays are not anticipated to be tailwinds into 2024.

October began how most of 2023 had evolved with rates increasing as we reached 5% on the 10-year treasury and credit spreads experienced volatility. However, in November we observed a shift in expectations, which was prompted by lower inflation data. While the market had previously been fixated on the potential for more rate hikes, inflation and labor market figures prompted investors to recognize the probable end of the hiking cycle. The change in view was confirmed by economic data over the remaining quarter, which also showed resilient growth, supporting a soft landing view.

By the end of December market consensus was to avert a recession and for multiple rate cuts next year as inflation declines further. As a result, the longer part of the curve (10-30 year) rallied about 70 basis points (bps) in fourth quarter and the 10 year ended below 4%, at 3.9%. Investment grade spreads (10yr BBB Industrials) rallied 32bps since the end of

September to their 26 percentile and high yield (single B corporates) tightened 89bps and ended at its 10 percentile. These moves drove significant performance for the Bloomberg U.S. Aggregate Index, which had its strongest quarterly return since the 1980s.

Portfolio Review

The Touchstone Active Bond Fund (Class A Shares Load Waived) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2023.

The Fund’s overweight risk position was the largest positive contributor to return in the quarter. Specifically, allocations to emerging market debt and investment grade credit (IG) were the largest sector contributors. Spreads across most asset classes were tighter over the quarter as expectations for a soft landing became more widely accepted.

The Fund’s interest rate exposure had a neutral impact over the quarter while the curve positioning was a modest positive contributor. The duration effect began positive, as the Fund was positioned long duration relative to the benchmark. However, duration positioning was adjusted during the quarter and rates continued to move lower through year-end. This short relative duration detracted from performance and offset the positive effects. The curve steepened as the market’s expectations for rate hikes became rate cuts, driving the yield curve lower with short/intermediate yields down more than long-term yields. As the Fund was underweight the longest part of the curve, this provided some positive performance.

Security selection was a negative detractor for the quarter, driven by negative selection within securitized and partially offset by positive selection within investment grade credit.

(continued)

Fort Washington is a member of Western & Southern Financial Group

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](https://www.touchstoneinvestments.com/mutual-funds).**



Within securitized, the Fund was under-allocated to agency pass-throughs, which performed well given the sharp decline in rates. In IG credit, market beta was the major driver of positive contribution as the Fund has additional spread compared to the benchmark.

Over the quarter, the risk budget target remained at 40% and there were no material changes to sector allocations. The Fund maintains risk overweight positions in investment grade credit, securitized assets, and emerging markets debt. Credit risk is hedged by owning protection on high yield (HY) index credit derivatives. Interest rate positioning was adjusted following the significant decline in rates. The Fund began the quarter biased long duration relative to the benchmark but ended the quarter slightly short focused in the long end of the curve.

The Fund began the quarter long duration; however, this positioning was adjusted mid-quarter following a material decline in rates. By the end of the quarter, the Fund was positioned with a shorter duration than the benchmark but maintained an overweight to the intermediate portion of the yield curve.

Rates were lower over the quarter but part of that rally occurred after duration positioning was adjusted. Overall, the positive impact from being long duration in the beginning of the quarter was offset, as the Fund was short duration in the back half of the quarter. As a result, the impact of rates on the Fund was neutral over the quarter.

The Fund was positioned to benefit from a steeper yield curve, which was a modest positive contributor over the quarter. The curve steepened slightly 2 years and out as the market's expectations for rate hikes became rate cuts, driving the yield curve lower and the intermediate part of the curve a bit further. As the Fund was underweight the longest part of the curve, this provided some positive performance.

Outlook and Conclusion

The Fund is targeting a modest overweight to spread risk representing 40% of the risk budget. Credit spreads rallied in fourth quarter from around historical averages and ended the year at the 26 and 10 percentiles, for IG and HY respectively. While recent economic data provides support for these levels, further upside is limited which is the basis for our modest risk overweight.

Looking ahead, risks to strategy positioning are focused on the lagged effects of Federal Reserve (Fed) tightening, tight credit conditions in bank lending, and the time horizon of how long rates will remain restrictive. Although recent data has been in line with expectations, overall growth is likely to continue at below-trend pace over coming quarters, with downside risk from the above factors. Inflation has declined from peak levels and is nearing the Fed's target range. However, the Fed does not believe the battle with inflation is over and they will likely lean hawkish until they are more confident on the lower trajectory. At current levels, the biggest risk to markets is a sharper slowing in economic

growth that would challenge the expectation of a soft landing. As our view of the economy and monetary policy changes, we will adjust positioning accordingly.

Sector positioning reflects generally expensive valuations, relative value, and opportunities within each sector. Allocations were generally unchanged in the quarter and primary risk exposures include:

The Fund remains overweight to IG Credit. Within the IG allocation, the Fund is maintaining a risk overweight in sectors where compelling bottom-up opportunities exist such as utilities, REITs, banks, health care, and media. Incremental changes will continue to be adding high quality, defensive positions as lower rated cyclicals are sold into strength.

Securitized Products remain an overweight exposure relative to the benchmark. We continue to favor non-agency exposure and are positioned appropriately with overweight exposure to non-agency Residential Mortgage Backed Securities (RMBS), Asset Backed Securities, and Commercial Mortgage Backed Securities (CMBS). Deep discount AAA-rated non-agency RMBS offers compelling value as does high-quality CMBS that has widened in concert with broader CMBS disruptions from distressed office properties across the sector.

The overweight allocation to Emerging Markets Debt (EMD) was maintained during the quarter. As in prior quarters, the HY portion of the market offers better relative value while the IG portion remains expensive. EMD HY spreads tightened over the quarter but ended above median levels relative to history driven by continued cheapness in the lowest rated segments. Latin America remains the largest regional exposure and relative risk overweight.

We are currently positioning the Fund slightly short duration relative to the benchmark with an overweight to the intermediate part of the yield curve. Positioning is also generally underweight long maturities relative to the index to benefit as the yield curve steepens. Following the significant rally in rates over the quarter, we believe longer yields are now more fairly priced. However, the market's current expectations for rate cuts will likely shift with new economic data in 2024, which we expect, will lead to volatility and present opportunities for tactical adjustments.

The Fund is positioned to perform well in a stable/improving environment for risk assets. Currently, we are targeting using 40% of the risk budget. We believe valuations are generally a bit expensive given historical medians with risk/reward skewed to the downside. If conditions are stable to improving, the Fund is positioned well to benefit from the additional yield relative to the benchmark and small potential price appreciation if spreads grind tighter. If economic growth slows more than expected, the Fund is also in a position to add exposure opportunistically if risk assets experience weakness. Additionally, we believe positive security selection can benefit the Fund in many different market environments.



Fund Facts (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	10/03/94	TOBAX	89154W502	0.97%	0.83%
C Shares	10/03/94	TODCX	89154W601	2.15%	1.56%
Y Shares	04/12/12	TOBYX	89154W791	0.72%	0.58%
INST Shares	04/12/12	TOBIX	89154W783	0.63%	0.50%
Total Fund Assets	\$250.9 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 0.83% for Class A Shares, 1.56% for Class C Shares, 0.58% for Class Y Shares and 0.50% 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 (As of 12/31/23)

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	6.76%	6.38%	6.38%	-3.43%	1.74%	1.86%	4.30%
C Shares	6.49%	5.51%	5.51%	-4.17%	0.99%	1.25%	4.03%
Y Shares	6.84%	6.53%	6.53%	-3.19%	1.99%	2.11%	4.41%
INST Shares	6.86%	6.62%	6.62%	-3.14%	2.08%	2.20%	4.44%
Benchmark	6.82%	5.53%	5.53%	-3.31%	1.10%	1.81%	4.66%
Including Max Sales Charge							
A Shares	3.28%	2.90%	2.90%	-4.48%	1.34%	1.37%	4.13%
C Shares	5.49%	4.51%	4.51%	-4.17%	0.99%	1.25%	4.03%

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 - Bloomberg U.S. Aggregate Bond Index

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](https://www.touchstoneinvestments.com/mutual-funds).** From time to time, the investment adviser may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.

The performance presented for Class Y and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 10/03/94, with the performance since the inception date of each share class.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years.

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.

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](https://www.touchstoneinvestments.com/resources) or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

Touchstone Funds are distributed by Touchstone Securities, Inc.

A registered broker-dealer and member FINRA and SIPC

Touchstone is a member of Western & Southern Financial Group

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 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 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 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 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. The Fund invests in derivatives and securities such as forward foreign currency exchange contracts, futures contracts, options and swap agreements. Derivatives can be highly volatile, illiquid and difficult to value, subject to counterparty and leverage risks and there is risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Gains or losses from speculative positions in a derivative may be much greater than the original cost and potential losses may be substantial. 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 emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. The Fund invests in sovereign debt securities which are issued by foreign governments whose respective economies could have an important effect on their ability or willingness to service their debt which could affect the value of the securities. The Fund invests in mortgage dollar rolls which involve increased risk and volatility, as the securities the Fund is required to repurchase may be worth less than the securities that the Fund originally held. 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 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. 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'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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

