

## Fund Manager Commentary

As of December 31, 2023

### 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 U.S. economy continues to hold on despite higher interest rates for a longer period. Unemployment remains low at 3.7% with nonfarm payrolls still seeing 175-200k per month increases. The Labor market has started to see slower job growth with more balance given increased layoffs. Consumer spending is still supported by lower unemployment and elevated wages. However, we are starting to see more cracks in the lowest income cohorts. Business spending has been on the sluggish side as companies look to reduce costs to preserve margins. Lending on both business and consumer side remains towards the tighter end but are seeing some signs of easing as we are possibly at the highest end of Federal Reserve (Fed) Funds.

The Fed did not raise rates for the first time over this past quarter. Holding Fed Funds at the 5.25-5.50% level for the quarter as inflation has come down closer to the target 2% level. Data continues to show inflation cooling to where the Fed looks to see long-term inflation and thus paused rate hikes during the quarter. Shelter inflation remains high but is trending towards pre-COVID levels. The Dot Plots from the December meeting have changed from the end of third quarter with on average the Fed seeing the funds rate at 4.25% by the end of 2024. The biggest question will be the timing of those cuts over the course of the year.

Given the change from the Fed and inflation data there was a tail of three months throughout the quarter in interest rates. Over the quarter, interest rates dropped 25-75 basis points (bps) across the curve but not without extreme volatility. The month of October saw rates rise with the 10-year U.S. Treasury over 5 percent. November was a complete about face as rates rallied across the curve with 6-month to 2-year

U.S. Treasury down 20-40bps and longer end U.S. Treasuries down 60bps. December continued to see rates rally with the 2-year to 10-year rates down on average 40bps.

Given the move and stabilization in interest rates both equity and credit spreads rallied. The S&P 500 finished 2023 over 24% and up over 11% for the fourth quarter. Strong rally in agency mortgages started in November and continued along with all structured products. Corporate credit continued its tightening as the fourth quarter proved to be one of the better quarters for risk across all asset classes.

### 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 1-Year U.S. Treasury Note Index, for the quarter ended December 31, 2023.

Front-end rates were tighter over the quarter except for the 1-month Treasury-bill, which was slightly higher. The 6-month to 2-year rates were 25-75bps lower over the quarter. The higher rates on the short end provided strong carry for the Fund's floating rate positions as well as additive total return on the longer fixed rate positions. The best performing sectors for the fourth quarter were Asset Backed Securities (ABS), Residential Mortgage Backed Securities (MBS), and Collateralized Loan Obligations. The Fund's weakest performing sectors were Cash, Commercial MBS (CMBS), and Agency Debentures. All sectors saw spread tightening over the course of the quarter but CMBS underperformance was due to security specific price movements.

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



Changes in sector exposures include an increase in ABS, CMBS and Corporates. This was done while lowering cash. This was in line with opportunities we saw in the market during the quarter.

Movement at the 1-month maturity was slightly higher but the Fed on hold allowed our floating rate positions to continue to provide attractive carry. The movement in the longer end of the curve added value to the corporate sector. We added 1-year fixed rate exposure during the quarter which added value to the portfolio. The overall movement in the yield curve added value to the performance during the quarter. Overall, we performed in line with the benchmark given the rate volatility.

### Outlook and Conclusion

Given the shift by the Fed over the past quarter we are actively managing both our floating rate positions and overall market value in them as well as continue to look to move slightly further out the curve on marginal purchases. We do think higher for longer is a distinct possibility so still are looking to hold our floating rate position in the near term. We are working to gradually add exposure to the 1-1.5 year part of the curve to lock in attractive yields for as long as possible, however, we remain highly sensitive to spread duration and credit risk. Spreads in corporate credit are generally fair, but securitized product spreads remain attractive from a historical standpoint even though we have seen some tightening. The Fund maintains a significant exposure to CMBS, which has been under pressure with rising rates, and challenges in all areas but especially the office segment of the market. While we are not concerned about impairment in this segment of the portfolio (most of the securities are AAA-rated with substantial credit enhancement), more commercial loans are moving into special servicing which could produce extension risk. We are maintaining our current positions but will look to reduce exposure as prices recover and bonds mature.

We expect that rates will remain higher for longer, and although we may be done with rates the market seems to be pricing in cuts sooner than we believe they will occur. However, we are also sensitive to the potential reinvestment risk associated with a quicker rate cut. We believe the likelihood of a severe recession is low, but we are sensitive to downside volatility risk in the event of even a mild recession and believe that volatility could remain elevated throughout 2024.

This yield advantage plus still recovery values on certain CMBS securities can provide a buffer through the volatility if the Fed changes course. Duration extension over the past quarter has locked in attractive spreads and yields. Although we do not expect a smooth ride throughout 2024, the portfolio is well positioned to take advantage of opportunities given the cash flows we expect throughout the year.

Spreads on short duration securities have tightened but still look attractive especially in the securitized sectors. The call for a soft landing still looks to be on track but the portfolio is

well positioned to weather whatever situation occurs. Looking at the U.S. Treasury curve the short end still seems to be the most attractive from a yield perspective as longer dated treasuries have priced in significant rate cuts. The recovery value on CMBS securities as the market stabilizes can provide upside as well.



**Fund Facts** (As of 12/31/23)

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%
<b>Total Fund Assets</b>	<b>\$479.7 Million</b>				

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** (As of 12/31/23)

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.88%	5.72%	5.72%	1.94%	2.02%	1.55%	3.05%
C Shares	1.64%	5.08%	5.08%	1.40%	1.49%	1.16%	2.45%
Y Shares	1.83%	5.87%	5.87%	2.20%	2.27%	1.81%	3.15%
Z Shares	1.88%	5.72%	5.72%	1.94%	2.02%	1.55%	3.05%
INST Shares	1.85%	6.04%	6.04%	2.25%	2.32%	1.85%	3.17%
S Shares	1.71%	5.46%	5.46%	1.69%	1.76%	1.30%	2.79%
Benchmark 1	1.37%	5.01%	5.01%	2.15%	1.88%	1.25%	2.44%
Benchmark 2	1.79%	4.74%	4.74%	1.18%	1.66%	1.18%	—
Including Max Sales Charge							
A Shares	-0.21%	3.65%	3.65%	1.25%	1.60%	1.35%	2.98%
C Shares	0.64%	4.08%	4.08%	1.40%	1.49%	1.16%	2.45%

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](https://www.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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