Touchstone Active Bond Fund

Sub-Advised by: Fort Washington Investment Advisors, Inc.◊

Taxable Fixed Income

4Q/2018

Fund Manager Commentary

As of December 31, 2018

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

Interest rates were range-bound during the first month of the quarter before declining sharply toward the end of the year, led by the intermediate part of the yield curve. The move in rates was driven by concerns about future growth in the U.S., slowing growth outside of the U.S. and continued uncertainty related to trade policies. These concerns also weighed on risk assets. The U.S. Federal Reserve Board (Fed) increased rates in December, resulting in a total of 100 basis points of Fed rate hikes in 2018. The effects of these increases, combined with the sharp decline in long-term rates led to a further flattening of the yield curve and an inversion in certain parts of the curve. An inverted yield curve is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.

The Fed communicated a relatively positive outlook for the U.S. economy, citing a robust labor market, modest wage growth and near-target inflation of just below 2 percent. The Fed also indicated a data-dependent path of policy going forward, but it was challenged to effectively communicate this message to the markets. As a result, the pressure on risk assets intensified, with risk premiums on non-U.S. Treasury sectors widening significantly.

Market expectations of additional Fed rate hikes decreased during the fourth quarter, as broad financial conditions reached their tightest levels of the year. Driving these financial conditions were the increased federal funds rate, a stronger U.S. dollar, widening credit spreads and the sharp retreat in equities. Global central bank policies were also less accommodative.

While underlying growth of the U.S. economy began to show signs of further deceleration, it still remained near trend at approximately 2.0 to 2.5 percent. The strength of the economy was buoyed by the resiliency of labor markets and, as effects from fiscal policy and tax legislation began to fade, it was the most important factor for sustaining the current growth rate. Labor markets were consistently strong in terms of jobs added month to month. Wage growth was also strong and began to show signs of acceleration. Core inflation readings were in line with the Fed's 2 percent target and were expected to hover around 2 percent in the near term as data indicated solid, but not accelerating, inflation.

Within fixed income, Investment Grade Corporate bonds, Mortgage-Backed Securities (MBS), Asset-Backed Securities (ABS) and Commercial Mortgage-Backed Securities (CMBS) all underperformed U.S. Treasuries during the period. High Yield bonds also underperformed for the quarter.

Portfolio Review

The Touchstone Active Bond Fund (Class A Shares Load-Waived) underperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, for the quarter ended December 31, 2018.

During the period, the Fund's management of interest rates detracted from returns, specifically duration positioning and an allocation to Treasury Inflation Protected Securities (TIPS). The allocation to TIPS was made as markets were pricing in implied inflation below realized inflation levels. Breakeven rates failed to adjust to these levels as concerns persisted about the Fed's action on rates and a deceleration in economic growth. The Fund's overweight to risk assets, specifically Investment Grade and Emerging Markets bonds, also had a negative effect on performance as spreads widened significantly.

(continued)

◊ *Fort Washington is a member of Western & Southern Financial Group*

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The Fund made a number of tactical shifts in positioning related to interest rate and/or yield curve risk throughout the quarter. The Fund maintained a modest allocation to U.S. dollar-denominated Emerging Markets bonds as the additional yield relative to Investment Grade corporate and High Yield bonds remained attractive.

During the quarter, the yield curve flattened due in part to the Fed's rate hike, which marked the fourth increase this year. External risks, such as the slowdown in global growth outside the U.S. and trade rhetoric with China, depressed rates at the long end of the yield curve. Technical factors including repatriation, Fed action and an increased supply of shorter term U.S. Treasuries were cited for increases on the short end of the yield curve. The Fund was positioned to be neutral relative to the curve throughout the quarter and therefore changes in the curve had little impact on relative performance.

Outlook and Conclusion

Looking ahead, we believe risk assets offer the greatest potential to the Fund, driven by U.S. economic growth, steady inflation, amicable resolutions to trade disputes, and accommodative central bank policies both domestically and abroad. Due to tightening financial conditions, increased market volatility and increases in the federal funds rate, we believe current market conditions could become headwinds to the Fund in 2019. Valuations have adjusted to tighter borrowing costs, the slowdown in global growth and the uncertainty around trade issues. We have taken advantage of opportunities among securitized assets when possible, where we believe attractive risk/reward profiles can be found in the ABS and Non-Agency MBS sectors. We like these sectors' close connections to consumer spending, which continues to be healthy.

We believe rates currently reflect the uncertainty surrounding the economic outlook which has seemed to embrace growth deceleration and a less active Federal Open Market Committee. There is little downside for rates at these levels unless actual economic weakness materializes. As a result, in the near term, the Fund is positioned with a neutral duration and curve relative to the benchmark. We also expect to hold a modest allocation to U.S. dollar-denominated Emerging Markets bonds because of their additional yield relative to Investment Grade and High Yield bonds. Going forward, we believe the Fund is positioned well and we will look to opportunistically take advantage of dislocations in the market as they arise.

Fund Facts *(As of 12/31/18)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	10/03/94	**TOBAX**	89154W502	0.98%	0.91%
C Shares	10/03/94	**TODCX**	89154W601	1.80%	1.66%
Y Shares	04/12/12	**TOBYX**	89154W791	0.71%	0.66%
INST Shares	04/12/12	**TOBIX**	89154W783	0.67%	0.58%
Total Fund Assets	**$322.9 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 0.90% for Class A Shares, 1.65% for Class C Shares, 0.65% for Class Y Shares and 0.57% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/20.*

Annualized Total Returns** *(As of 12/31/18)*

Class	4Q18	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Including Max Sales Charge							
A Shares	-1.90%	-6.59%	-6.59%	0.54%	1.01%	4.26%	4.62%
C Shares	-1.11%	-3.66%	-3.66%	1.40%	1.21%	3.99%	3.99%
Excluding Max Sales Charge							
A Shares	0.06%	-1.93%	-1.93%	2.18%	1.99%	4.78%	4.84%
C Shares	-0.12%	-2.71%	-2.71%	1.40%	1.21%	3.99%	3.99%
Y Shares	0.13%	-1.69%	-1.69%	2.41%	2.22%	4.95%	4.91%
INST Shares	0.15%	-1.61%	-1.61%	2.53%	2.33%	5.01%	4.93%
Benchmark^	1.64%	0.01%	0.01%	2.06%	2.52%	3.48%	5.40%

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 - Bloomberg Barclays U.S. Aggregate Bond Index[1]

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.*** *From time to time, the investment advisor 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.***

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 advisor 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

[1]The Bloomberg Barclays 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.

A Word About Risk

The Fund invests in debt securities which can 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 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 and 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 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 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 invests in foreign securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and differences in accounting standards. 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 derivatives such as forward 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 may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. Current and future portfolio holdings are subject to risk. The Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors.

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