Fund Manager Commentary

As of June 30, 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

After a volatile end to the first quarter, the second quarter of 2023 was marked by continued resilience of the U.S. economy and slow progress on reducing inflation, resulting in strong performance for risk assets, further hawkish U.S. Federal Reserve Board (Fed) policy expectations, and higher interest rates. Recession has been widely expected by economists in 2023, but incoming data has remained sturdy as the labor market continues to support consumer spending. Interest rates rose in the quarter, with short-term interest rates rising more than long-term rates. Across many parts of the Treasury yield curve, the inversion of short- to long-term rates is approaching the most negative of 2023. The rise in short-term rates was driven by a re-pricing of Fed expectations, as the Fed remained concerned that inflation remained too high and was not improving quickly enough to halt rate increases. Markets now price a “higher for longer” path of Fed policy, whereby the Fed takes rates to a restrictive level and they remain unchanged into at least mid-2024.

Consensus expectations for the U.S. economy have shifted from fears over recession to mostly achieving a soft landing, with the economy skirting a worse outcome in spite of the aggressive Fed tightening cycle. The main driver of this shift in expectation is the continued resilience of the U.S. consumer. Consumer spending, representing ~70% of the economy, has provided a solid foundation. In most recent data, consumer spending rose at the quickest pace in several quarters. Driven by a healthy labor market, above average wage gains, and excess savings, consumers have defied the drag from higher interest rates and other headwinds.

Business spending, especially in the manufacturing sector, remains challenged. Manufacturing surveys have been solidly in contractionary territory for the past several months, indicating near-zero growth or outright declines in activity. The service sector has fared relatively better when compared to manufacturing, but risks are to the downside alongside the headwinds faced by consumers. Global growth has moderated from the first quarter, providing another potential downside risk. The UK and Eurozone economies will be challenged by further rate hikes as inflation remains sticky. Growth in China has remained uneven and somewhat disappointing as it struggles to gain momentum post-COVID. Once a source of significant upward price pressures, inflation from the manufacturing sector has mostly normalized. Commodity prices have declined and supply chains have healed. For the U.S. economy, declining goods inflation has helped to reduce overall inflation rates throughout 2023.

Inflation, especially headline, has fallen sharply in the first half of 2023. For example, the annual rate of inflation as measured by CPI has fallen from nearly a 9% peak in 2022 to just above 4% in the most recent data. Core measures, which exclude food and energy, have also adjusted lower, but at a much slower pace. The Fed’s preferred measure of inflation, Core PCE, peaked at 5.4% in 2022, but has only declined to 4.6%. Within the data, there has been significant progress on inflation in the goods sector, but the service sector has remained sticky.

The Fed raised interest rates in May as the banking concerns of the first quarter receded, inflation declined at a slower pace, and economic data outperformed expectations. In June, the Fed decided to forgo another hike, but strongly indicated that further hikes are likely. In a surprise to markets, the Fed indicated they might raise rates above 5.5% by the end of 2023. Treasury yields increased sharply, reflecting more potential hikes and reduced chances of cuts in the future.

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◊ *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.***

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After a solid second quarter performance, credit spreads across sectors and quality ranges are generally in the 40-50th percentile relative to history. Credit spreads, along with other risk assets, reflect the overall belief that recession risk has declined sharply. At current levels, compensation for uncertainty is relatively low.

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 June 30, 2023.

The Fund's overweight risk position was the largest contributor to return in the quarter. Specifically, allocations to emerging markets debt and investment grade credit were the largest contributors. Credit spreads tightened in the quarter, benefitting the Fund. A slight offset was the Fund's positioning (bought protection) in high yield index credit derivatives. This position reduces credit risk in the Fund, thus detracting performance for the quarter as spreads in high yield tightened.

Security selection was also a positive contributor for the quarter, driven by securitized and investment grade credit. Within securitized, the Fund's allocations to high-quality Asset-Backed Securities (ABS) and non-Agency Residential Mortgage-Backed Securities (RMBS) were a positive as those sectors outperformed Agency Mortgage-Backed Securities during the quarter. In investment grade credit, issuers in real estate and utility sectors drove the contribution.

The Fund's interest rate and yield curve positioning was a negative in the quarter. The primary detractor was the yield curve positioning of the Fund. The Fund was positioned to benefit from a steeper yield curve. The curve flattened aggressively as expectations of future rate hikes increased, driving short-term interest rates higher. Duration positioning was a modest negative as the Fund was positioned long duration relative to the benchmark. Interest rates moved higher for the quarter, detracting from performance.

In 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 index credit derivatives. There was little change to the interest rate positioning of the Fund, which was biased long duration relative to the benchmark in the quarter and generally positioned to benefit from a steeper yield curve.

During the quarter, the Fund was generally positioned long duration relative to the benchmark. Interest rates, especially in shorter maturities, rose during the quarter. As a result, duration positioning was a slight negative for performance during the quarter.

Yield curve positioning was a negative contributor to performance in the quarter. The Fund was positioned to benefit from a steeper yield curve. As short-term interest rates rose to reflect increased expectations of Fed tightening, the yield curve flattened sharply to very inverted levels across the curve. This change in yields was a negative factor for performance during the quarter.

Outlook and Conclusion

Looking ahead, risks to Fund positioning are focused on the lagged effects of Fed tightening, tightening credit conditions in bank lending, and any further rate hikes yet to come. Although the most recent data has been above expectations, overall growth is likely to continue at below-trend pace over coming quarters, with downside risk from the previously mentioned factors. Inflation has declined from peak levels but remains well above target. The Fed has aggressively raised rates to combat inflation and continues to indicate restrictive policy until inflation is on a convincing 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 as these risks evolve.

The Fund's sector positioning reflects our overall neutral outlook on valuations, attractive relative value, and opportunities within each sector. Sector allocations were generally unchanged in the quarter. Primary risk exposures include:

The Fund remains overweight to investment grade credit. Within this allocation, the strategy is maintaining a risk overweight in sectors where compelling bottom-up opportunities exist such as utilities, REITs, banks, healthcare, and media. Incremental changes will likely be adding high quality, defensive positions as lower rated cyclicals are sold into strength.

Securitized assets remain an overweight exposure relative to the benchmark. High-quality Commercial Mortgage-Backed Securities (CMBS) remain an attractive relative value opportunity to other credit sectors. We continue to favor non-Agency exposure and are positioned appropriately with overweight exposure to non-Agency RMBS, ABS, and CMBS.

After a slight reduction in the first quarter, the overweight allocation to emerging markets debt was maintained during the second quarter. Valuations in the investment grade portion of the market are relatively expensive, but the high yield portion of the market offers attractive relative value. Emerging markets debt high yield spreads tightened somewhat but finished the quarter near the 77th percentile relative to history. Latin America remains the largest regional exposure within the sector.

The Fund's portfolio is positioned with a slight long duration bias, focused on the intermediate part of the yield curve. In terms of yield curve positioning, the Fund is underweight long maturities relative to the index to benefit as the yield curve steepens. We believe that the growth and inflation outlook will continue to bias interest rates lower and the yield curve steeper over the next several months.

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The Fund is positioned to perform well in a stable/improving environment for risk assets. Currently, we are targeting using 40% of the portfolio risk budget. We believe valuations are generally fair given the macro environment and potential risks. If conditions are stable to improving, the Fund is positioned well to benefit from the additional yield relative to the benchmark and potential price appreciation from spread tightening. If economic growth slows more than expected, the Fund is also prepared to add positions opportunistically if risk assets experience weakness. Additionally, we believe positive security selection can benefit in many different market environments.

Fund Facts *(As of 06/30/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	10/03/94	**TOBAX**	89154W502	0.92%	0.83%
C Shares	10/03/94	**TODCX**	89154W601	1.88%	1.56%
Y Shares	04/12/12	**TOBYX**	89154W791	0.67%	0.58%
INST Shares	04/12/12	**TOBIX**	89154W783	0.58%	0.50%
Total Fund Assets	**$260.2 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 0.83% 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 01/29/24.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 06/30/23)*

	2Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-0.94%	2.28%	-0.27%	-3.28%	1.02%	1.64%	4.23%
C Shares	-1.09%	1.78%	-1.01%	-4.00%	0.25%	1.03%	3.96%
Y Shares	-0.88%	2.30%	-0.02%	-3.05%	1.27%	1.89%	4.34%
INST Shares	-0.86%	2.34%	0.06%	-2.97%	1.35%	1.98%	4.37%
Benchmark^	-0.84%	2.09%	-0.94%	-3.96%	0.77%	1.52%	4.62%
Including Max Sales Charge							
A Shares	-4.20%	-1.07%	-3.49%	-4.34%	0.04%	1.15%	4.06%
C Shares	-2.08%	0.78%	-1.97%	-4.00%	0.25%	1.03%	3.96%

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[1]

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*****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.***

[1]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.

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. Current and future portfolio holdings are subject to change.

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.

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