Touchstone Active Bond Fund

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

Income – Investment Grade Bond

1Q/2023

Fund Manager Commentary

As of March 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 hallmark of the first quarter was volatility. In January, markets were sanguine about growth, inflation, and future U.S. Federal Reserve Board (Fed) rate hikes. This calm was upended in February by strong economic data, highlighted by a blowout jobs report and firm inflation readings. Interest rates rose sharply and credit spreads widened as markets built in more Fed tightening and increasing concerns over a future recession. In March, the failure of Silicon Valley Bank and Signature Bank, and the forced merger of Credit Suisse Group AG and UBS Group AG shifted the narrative to strains within the U.S. financial system (especially in regional banks) that could create a negative feedback loop for the broader economy. Interest rates fell sharply and credit spreads widened further as future prospects were reassessed. Policymakers stepped in to limit immediate systemic risk, but the tightening in credit conditions as a result of these events is likely to negatively impact growth over coming quarters. Recession risk is elevated and expectations for the path of the federal funds rate has fallen sharply to end the quarter.

Amid this volatility and stress in the banking sector, consumer spending thus far has remained resilient. The labor market continued to post healthy job gains and wage growth in the first quarter. Solid consumer income supplemented by excess savings from pandemic-era programs supported growth, but there's risk to the downside as the cumulative effect of Fed tightening is felt and banks further constrain credit in the economy.

The business spending outlook is challenged; manufacturing surveys have been consistently weak for the past several months, indicating near-zero growth. The service sector is relatively strong when compared to manufacturing, but overall spending is expected to continue trending lower. Global growth has surprised to the upside, providing somewhat of a positive offset. Europe avoided a recession amid a mild winter and the outlook for China is brighter as they reopen from COVID restrictions. Importantly, inventories are plentiful and supply chains have largely normalized, removing barriers that affected businesses for several quarters. Also, normalizing supply chains resulted in lower downstream inflation pressures to consumer goods.

In late 2022, inflation readings showed convincing deceleration for both headline and core inflation. Data released in January, combined with revisions to prior data, indicated the deceleration was less impressive than previously thought. Although goods price inflation continued to move lower, sticky components of inflation (including shelter costs) showed little signs of improvement. Also, strength in the labor market heightened concern that inflation that is correlated to wages would remain firm. After raising rates 25 basis points (bps) at the February Federal Open Market Committee meeting, the Fed also indicated that interest rates may have to rise further than previously thought, prompting U.S. Treasury yields to rise sharply.

In March, stress in the banking system caused a reversal of these higher expectations of the federal funds rate. Ultimately, the path of growth and inflation will drive the Fed. Recession concerns are elevated, and there are encouraging signs that inflation will fall further, supporting a lower path of rates. Goods price inflation is firmly on a downward trajectory. Shelter costs are a key driver of service inflation, and forward-looking data on the rental market indicates a gradual return to pre-COVID trends. As the economy slows further, the cyclical components of inflation will recede. All together, these factors are likely to result in inflation slowing on a trajectory to hit the Fed's target in

(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.***

Touchstone Investments®
DISTINCTIVELY ACTIVE®

2024. In our view, the downside risk of recent events, combined with lower inflation, will continue to put downward pressure on rates in 2023.

Credit spreads across sectors and quality ranges are generally in the 50-60th percentile relative to history after recovering from the peak of banking fears. Credit spreads reflect some uncertainty, but do not indicate significant concern of an imminent or deep recession. If the economy slows more/faster than expected, credit spreads are likely to widen. However, if the downward pressure from credit tightening is less than feared, the current level of spreads is attractive. Weighing these risks, we believe current valuations support a modest overweight to risk in fixed income portfolios.

Portfolio Review

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

The largest contributor to return was security selection within the Fund's allocation to Investment Grade Credit and Securitized Assets. Within Investment Grade Credit, security selection in the utilities, consumer, and financial sectors were the largest contributors to return. 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.

The Fund's interest rate and yield curve positioning was a positive in the quarter. The Fund maintained a longer duration relative to the benchmark and was positioned to benefit from a steepening yield curve. As interest rates moved lower in March, led by short-term interest rates, this positioning contributed to performance.

The Fund's overweight to risk was a slight positive factor for performance during the quarter. Although the allocation to Emerging Markets Debt detracted from performance, other factors more than offset the negative influence. Investment Grade Credit spreads were mostly unchanged and led to a slight positive contribution to performance. The Fund also benefitted from widening spreads in High Yield. The team bought credit protection on a high yield index as derivative contracts during the quarter, slightly hedging credit risk in the Fund.

The Fund's allocation to Emerging Markets Debt and Investment Grade Credit declined, reallocating to Treasuries. Early in the quarter, as credit spreads tightened across most sectors, the team reduced the allocation to both sectors as the risk budget target was lowered from 50% to 40%. Within Emerging Markets Debt, the reduction was primarily in the investment grade-rated portion of the allocation, as spreads in that sector appeared expensive. As the economy slows, inflation recedes, and the Fed ends the hiking cycle, we expect interest rates to move downward over the course of 2023.

Outlook and Conclusion

The Fund is targeting a modest overweight to spread risk representing 40% of the risk budget. Although recession risk is elevated, the overweight is supported by credit valuations that are generally fair between the 50-60th percentile relative to history and economic growth that has remained resilient in spite of a number of headwinds.

Looking ahead, risks are focused on the cumulative effects of Fed tightening and recent banking sector stress on growth and inflation. Overall growth has slowed to below-trend pace over recent quarters, but downside risk is elevated as credit availability is tightened. Inflation has declined from the high levels of 2022, but remains well above target. The Fed has aggressively raised rates to combat inflation and continues to indicate a restrictive policy until inflation is on a more convincing, lower trajectory. Credit tightening, slowing growth and tight monetary policy represent the biggest risks to markets. Recession risk has increased, but we still believe a recession will likely be relatively shallow and short-lived. As our view of the economy and monetary policy changes, we will adjust positioning as these risks evolve.

Sector positioning reflects our overall positive outlook on valuations, attractive relative value, and opportunities within each sector. Sector allocations were adjusted slightly during the quarter to reflect a lower risk budget target. The Fund remains overweight to Investment Grade Credit, but the allocation was reduced slightly during the quarter. Also, within the allocation, risk was lowered early in the quarter as spreads tightened. The team still sees value in non-cyclical sectors such as utilities, healthcare, and food/beverage while selectively adding financials and BBB-rated cyclicals such as technology and paper/packaging. Securitized Products remain an overweight exposure relative to the benchmark. High-quality Commercial Mortgage-Backed Securities (CMBS) remains 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. The overweight allocation to Emerging Markets Debt was reduced slightly during the quarter. Although valuations in the Investment Grade Credit portion of the market are relatively expensive, the High Yield portion of the market offers attractive relative value. Emerging Markets Debt High Yield spreads finished the quarter near the 85th percentile relative to history. Latin America remains the largest regional exposure within the sector.

We are positioning portfolios with a slight long duration bias through an allocation to long duration Treasury Inflation-Protected Securities (real yields). We believe that the growth and inflation outlook will continue to bias interest rates lower over the next several months.

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

(continued)

Touchstone Investments®
DISTINCTIVELY ACTIVE®

to the benchmark and potential price appreciation from spread tightening. If volatility continues and economic growth deteriorates more than expected, the Fund is also in a position to add positions opportunistically if risk assets experience weakness. Additionally, we believe positive security selection can benefit in many different market environments.

As of March 31, 2023, Credit Suisse Group AG/New York NY 3.70% 02/21/2025 made up 0.14% and Silicon Valley Bank, Signature Bank and UBS Group AG each made up 0.00% of the Touchstone Active Bond Fund. Current and future portfolio holdings are subject to change.

Touchstone Investments®
DISTINCTIVELY ACTIVE®

Fund Facts *(As of 03/31/23)*

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	**$252.9 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 01/29/24.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 03/31/23)*

	1Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	3.25%	3.25%	-5.57%	-0.54%	1.09%	1.51%	4.31%
C Shares	2.90%	2.90%	-6.35%	-1.31%	0.31%	0.89%	4.03%
Y Shares	3.21%	3.21%	-5.34%	-0.29%	1.32%	1.76%	4.41%
INST Shares	3.23%	3.23%	-5.26%	-0.21%	1.43%	1.84%	4.44%
Benchmark^	2.96%	2.96%	-4.78%	-2.77%	0.91%	1.36%	4.69%
Including Max Sales Charge							
A Shares	-0.12%	-0.12%	-8.68%	-1.21%	0.11%	1.02%	4.13%
C Shares	1.90%	1.90%	-7.26%	-1.31%	0.31%	0.89%	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[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 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.***

[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.

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.

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

Not FDIC Insured | No Bank Guarantee | May Lose Value

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.

Touchstone Investments®
DISTINCTIVELY ACTIVE®

800.638.8194 • TouchstoneInvestments.com