Touchstone Balanced Fund

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

Multi-Asset – Growth & Income

1Q/2023

Fund Manager Commentary

As of March 31, 2023

Fund Highlights

- Primarily invests in a diversified portfolio of fixed-income and equity securities. Under normal circumstances, the Fund generally expects to allocate its assets as follows:
  - 60% equity securities
  - 40% fixed-income securities
- Allocates assets based on relative attractiveness
  - Equity/fixed income weights
  - Sector/industry weights
  - Active duration management and yield curve positioning
- Fundamentally driven equity and credit analysis
- Strategic long-term execution of asset class allocation

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 affect 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 is risk to the downside as the cumulative effect of Fed tightening is felt and banks further constrain credit in the economy.

The outlook for business spending is also 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. In addition, 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. In addition, 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

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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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Open Market Committee (FOMC) meeting, the Fed also indicated that interest rates may have to rise further than previously thought, prompting 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 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. Similarly, equity valuations remain fair relative to history, but are not pricing in the increased chance of recession.

Portfolio Review

The Touchstone Balanced Fund (Class A Shares Load-Waived) outperformed its blended benchmark, 60% S&P 500 Index/40% Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2023.

An overweight allocation to equities had a positive impact on relative performance as equities outperformed fixed income during the quarter. Security selection had a positive impact on relative performance, as both the fixed income and equity segments outperformed their benchmark during the quarter. Fixed Income outperformance was primarily driven by positive interest rate management and strong security selection within Investment Grade Credit and Securitized. Equity outperformance was primarily due to positive security selection within and an overweight allocation to the Communication Services sector. Positions in Meta Platforms Inc. (Communication Services sector), Salesforce Inc., Microsoft Corp. (both Information Technology sector) and Airbnb Inc. (Consumer Discretionary sector) were the largest contributors to security selection.

The Fund entered the third quarter with a 64% weight in equities and ended with a similar weight, largely concentrated in U.S. large cap securities. Following the strong performance of equities in January and February, the Fund reduced equities back to its target weight of 63%.

Fixed Income positioning changed modestly as we reduced risk within the allocation. Emerging Markets Debt exposure was reduced during the quarter and the team added a modest position in High Yield Credit Default Swap Index protection. The team continues to favor higher quality credit with favorable risk/reward characteristics.

Within equites, the Fund initiated a position in Stanley Black & Decker Inc. (Industrials sector). Stanley Black & Decker is a market leader in the tools and outdoor space within industrials with brand names such as Dewalt, Black & Decker, and Craftsman. The company generates consistent high teens returns on capital with barriers to entry due to its supply barrier in distribution along with its demand barrier due to battery compatibility, and to a lesser extent, brand loyalty. The stock had underperformed prior to initiating a position as it faces headwinds from rising costs, increased inventory, and a slowing economic backdrop. That said, the team believes these concerns are priced in and the current valuation represents a compelling entry point for a high quality franchise business.

Despite increased risks from tightening financial conditions, persistent inflation, and increased global risks, the team continues to have a favorable long-term outlook for the U.S. economy and financial markets but acknowledges the near-term outlook has deteriorated. Valuations have adjusted to reflect these risks, and are at fair levels. Combining our modestly negative economic outlook with fair valuations, the strategy has reduced risk but remains slightly overweight risk compared to the benchmark.

Outlook and Conclusion

The Fund is targeting an overweight to spread risk representing 15% of the risk budget. Although recession risk is elevated, the overweight is supported by valuations that are generally fair 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 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 outlook on valuations, attractive relative value, and opportunities within each sector. During the quarter, the Fund reduced its exposure to equities following strong performance within the sector. The Fund ended the quarter with 64% invested in equities, a 4% overweight compared to the benchmark. Within the Fund's equities allocation, the portfolio remains overweight Communication Services and Health Care. The largest underweights are Utilities and Consumer Staples.

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Within the Fund's fixed income allocation, the portfolio remains underweight U.S. Government, overweight Investment Grade Credit and Emerging Markets Debt, and neutral Securitized. We are positioning portfolios generally neutral to long duration compared to the benchmark as risk-reward has become more compelling at current levels as the growth and inflation outlook will likely bias rates lower.

Given our outlook for the economy, markets, and resulting risk positioning, we believe the Fund is appropriately positioned to generate compelling investment returns. Our base case scenario assumes the economy avoids a deep recession, and markets will likely perform well over the medium-term despite near-term volatility. The Fund's overweight to equities and credit sectors should perform well in a stable to improving economic environment, and the high quality security selection focus should provide some degree of downside protection in a risk off environment. The high conviction nature of the Fund is designed to generate excess return through positive security selection in various economic environments.

As of March 31, 2023, Meta Platforms Inc. made up 2.09%, Salesforce Inc. made up 1.57%, Microsoft Corp. made up 5.45%, Airbnb Inc. made up 0.68%, Stanley Black & Decker Inc. made up 0.35%, Credit Suisse Group AG/New York NY 3.70% 02/21/2025 made up 0.05% and Silicon Valley Bank, Signature Bank and UBS Group AG each made up 0.00% of the Touchstone Balanced Fund. Current and future portfolio holdings are subject to change.

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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	11/15/38	**SEBLX**	89154Q323	1.00%	1.00%
C Shares	05/04/98	**SBACX**	89154Q174	1.76%	1.76%
Y Shares	08/27/07	**SIBLX**	89154Q315	0.76%	0.76%
R6 Shares	10/28/21	**TBARX**	89154M801	33.99%	0.65%
Total Fund Assets	**$757.2 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 1.01% for Class A Shares, 1.78% for Class C Shares, 0.81% for Class Y Shares and 0.64% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/23.*

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	6.64%	6.64%	-6.24%	10.82%	7.85%	7.86%	8.53%
C Shares	6.43%	6.43%	-6.95%	9.99%	7.03%	7.20%	7.66%
Y Shares	6.72%	6.72%	-6.01%	11.06%	8.07%	8.11%	8.56%
R6 Shares	6.71%	6.71%	-5.90%	11.00%	7.96%	7.92%	8.54%
Benchmark^	5.67%	5.67%	-6.25%	9.90%	7.34%	8.03%	—
Including Max Sales Charge							
A Shares	1.28%	1.28%	-10.93%	8.94%	6.58%	7.31%	8.47%
C Shares	5.43%	5.43%	-7.88%	9.99%	7.03%	7.20%	7.66%

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

^Benchmark - 60% S&P 500® Index 40% Bloomberg U.S. Aggregate Bond Index[1]

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*****The performance presented for Class C, Y and R6 Shares combines the performance of an older class of shares (A Shares) from the Fund'sinception,11/15/38, with the performance since the inception date of each share class.***

[1]The S&P 500® Index is a group of 500 widely held stocks and is commonly regarded to be representative of the large capitalization stock universe. 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 equities which are subject to market volatility and loss. The Fund invests in stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in foreign securities, including depositary receipts, such as American Depositary Receipts, Global Depositary Receipts, and European Depositary Receipts, 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 preferred stocks which are relegated below bonds for payment should the issuer be liquidated. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing their price to decline. 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. 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 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 derivatives and securities such as futures contracts, options, forward contracts 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. Leverage can create an interest expense that may lower the Fund's overall returns. There can be no guarantee that a leveraging strategy will be successful. 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 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. 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. 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.

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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