

Fund Manager Commentary

As of September 30, 2025

Fund Highlights

- Seeks to exploit market inefficiencies using a proprietary income, price and volatility framework
- Construct portfolios that generate consistent tax-free income by capturing diversified sources of credit, liquidity and term premiums
- Control price sensitivity at the portfolio level by managing duration and yield curve positioning
- Identify and purchase bonds that the Sub-Adviser believes are attractively priced relative to historical averages and adds positions in a risk-controlled manner
- Municipal issues are analyzed through a proprietary approach for various environmental, social and governance (ESG) criteria

Market Recap

The municipal bond market staged a notable recovery during the third quarter of 2025, supported by stabilizing interest rates and improving investor sentiment. After a volatile first half marked by rate uncertainty, yields moderated as inflation readings trended lower and the Federal Reserve signaled a pause in its tightening cycle. This shift provided a tailwind for fixed income broadly, with municipals benefiting from their relative value and tax-advantaged income. Longer-duration bonds outperformed as the yield curve flattened, reflecting expectations for slower economic growth and potential rate cuts in 2026.

State and local government finances remained resilient, with tax collections showing steady year-over-year growth and employment trends holding firm across key public sectors such as education and healthcare. Revenue-backed sectors produced mixed results: healthcare and hospital systems benefited from improved reimbursement rates and higher patient volumes, while transportation credits continued to recover amid rising traffic and passenger activity. Utilities, however, faced headwinds from regulatory constraints and elevated capital costs, pressuring margins despite stable revenue streams.

Despite the positive tone, elevated valuations and ongoing macro risks, including slower growth, geopolitical uncertainty, and seasonal supply pressures, contributed to a

more selective investment environment. Investors favored higher-quality issuers, reinforcing the relative strength of investment-grade municipals entering the final quarter of the year.

Portfolio Review

The Touchstone Core Municipal Bond Fund (Class A Shares, Load Waived) underperformed its benchmark, the Bloomberg Municipal Bond Index, for the quarter ended September 30, 2025.

The main contributor to the Fund's underperformance was the Fund's significant underweight to sub-5% coupon structures. During the third quarter of 2025, municipal bond performance in longer maturities was notably influenced by dynamics in coupon structures and investor positioning. Historically, following peaks in rates during major market events, such as the 2008 Financial Crisis, the 2011 Meredith Whitney interview, and the 2013 Taper Tantrum, 4% coupon bonds have consistently outperformed 5% coupons as yields rallied, even as the spread between the two widened. This trend reemerged in September, driven by the significant duration differential: long high-grade 4s carry a duration of roughly 15 years, compared to 7.7 years for 5s, meaning a 1 basis point (bps) move in yields translates to nearly double the price impact for 4s. Investors anticipating a peak in long-end yields began overweighting 4s for forward return potential.

(continued)

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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The rally also spurred activity in the bid-wanted market, with 3% and 4% coupon bonds reaching peak offering levels for the year, reflecting profit-taking on discounted positions. Meanwhile, issuance of sub-5% coupons remained muted, with 4s representing only 5% of year-to-date supply, far below historical norms. Short-call structures dominated these offerings, and spreads on long-dated short-call bonds tightened by 40–45bps, though they remain compelling at 183bps over bullets, well above the five-year average. Overall, the quarter highlighted a preference for longer-duration, lower-coupon bonds amid expectations of stabilizing yields, reinforcing the structural advantage of 4s in a rallying rate environment.

Outlook and Conclusion

Looking ahead, we plan to selectively adjust the Fund's allocation by reducing our overweight position in 5%+ coupon bonds and increasing exposure to 4% coupons. This shift reflects the improved risk/reward profile of 4% bonds in a declining interest rate environment. With limited supply of sub-AA credits, we are focusing on A-rated issuers, where we see minimal risk of spread widening. Due to recent underperformance in the hospital sector, BBB-rated bonds may warrant reduced exposure. Overall, we are prioritizing credits that offer attractive yields and stable or improving fundamentals, while avoiding lower-rated bonds with rich valuations and limited value in short-term curve extensions.

Sage continues to monitor spread widening in the hospital sector, which may persist until hospital bond spreads exceed those of airports potentially creating a re-entry opportunity. We have recently focused on sectors with increased supply, such as PSF-backed bonds, especially as House Bill 5035 temporarily affects spreads. October's surge in issuance will require careful analysis of credit quality and yield curve positioning. While extending maturities beyond 10 years can offer meaningful additional yield, we see limited value in the 5-year range beyond locking in current rates.

We expect the Fund to experience continued positive returns for the remainder of the year as Municipal market returns play catchup to the rest of Fixed Income market returns, particularly in the long end of the curve.



Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	04/01/85	TOHAX	89154V603	1.14%	0.80%
C Shares	11/01/93	TOHCX	89154V702	3.33%	1.49%
Y Shares	08/30/16	TOHYX	89154V843	1.35%	0.55%
INST Shares	08/30/16	TOHIX	89154V835	0.79%	0.48%
Total Fund Assets		\$42.0 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 0.80% for Class A Shares, 1.49% for Class C Shares, 0.55% for Class Y Shares and 0.48% for Class INST Shares. These expense limitations will remain in effect until at least 10/29/26. Share class availability differs by firm.

Annualized Total Returns

	3Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	2.48%	2.07%	1.03%	4.34%	0.44%	1.76%	4.86%
C Shares	2.30%	1.45%	0.23%	3.52%	-0.37%	1.15%	4.57%
Y Shares	2.54%	2.46%	1.38%	4.70%	0.77%	2.04%	4.93%
INST Shares	2.56%	2.23%	1.27%	4.68%	0.76%	2.05%	4.93%
Benchmark	3.00%	2.64%	1.39%	4.74%	0.86%	2.34%	5.74%
Including Max Sales Charge							
A Shares	-0.89%	-1.22%	-2.26%	3.19%	-0.22%	1.27%	4.73%
C Shares	1.30%	0.45%	-0.75%	3.52%	-0.37%	1.15%	4.57%

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 Municipal Bond Index

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The performance presented for Class C, Y, and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 04/01/85, with the performance since the inception date of each share class.

The Bloomberg Municipal Bond Index is a widely recognized unmanaged index of municipal bonds with maturities of at least one year.

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 an 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 Fund is subject to prepayment risk which is when a debt security may be paid off and proceeds invested earlier than anticipated. 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 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. 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 sub-advisor considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so.

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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