

Fund Manager Commentary

As of December 31, 2020

Fund Highlights

- This “fund of funds” primarily invests in a diversified portfolio of underlying fixed income and equity-income oriented funds. These underlying funds, in turn, invest in a variety of U.S. and foreign equity and fixed income securities
- The majority of the underlying funds in which the Fund invests will be affiliated funds; however, the Fund has the ability to invest in unaffiliated underlying funds
- The Fund’s sub-advisor seeks to develop an optimal model allocation among underlying funds that seeks to maximize “income efficiency,” or yield achieved per unit of risk. It is dynamically managed as yield and volatility environments change
- Under normal circumstances, the Fund expects to allocate its assets among equity and fixed income funds as follows: Equity Fund Allocation: 25-55%; Fixed Income Fund Allocation: 45-75%

Market Recap

The U.S. stock market, represented by the Russell 3000 Index, generated a strong return for the fourth quarter of 2020. All eleven sectors were in positive territory this quarter, with Energy and Financials representing the best performing sectors. There was significant dispersion among sectors, with the main laggard being Consumer Staples. Following a sell-off in October, markets rallied in November as the outcome of the U.S. presidential election became clearer and investor sentiment was buoyed by positive news on vaccine approval and distribution. Equity markets met further optimism in the fourth quarter as the passing of a stimulus package and ongoing support from central banks sustained hopes for continued momentum toward global economic recovery. Although Coronavirus infections were accelerating and many cities were re-imposing restrictions, both consumer and business surveys moderated at encouraging levels. However, job growth slowed dramatically and initial jobless claims remain at what would normally be historic levels.

Equity markets outside of the U.S. also enjoyed a strong quarter, with emerging markets outperforming all developed markets. The U.K. was on a path to recovery, with third quarter gross domestic product (GDP) up a record 16 percent, but concerns about a new variant of the COVID-19 virus led to renewed restrictions and the withdrawal of social accommodations granted for holiday gatherings. A second wave of infections hindered other European countries as well, and the European Central Bank responded by expanding its

money-printing program by hundreds of billions of euros. Among the largest countries within emerging markets, South Korea and Brazil were the strongest performers. China is the largest weighted country in the MSCI Emerging Markets Index and was up during the quarter.

The U.S. Treasury yield curve was up across most maturities during the fourth quarter after a dramatic drop earlier this year. Although the curve is down meaningfully for the year, the long end managed to push above 1.50 percent by year-end. The 10-year U.S. Treasury yield ended the quarter at 0.93 percent, up from September. The Federal Open Market Committee met twice during the quarter, as scheduled, with no change to their overnight rate, which they expect will be near zero through at least 2023. The Committee reiterated its pledge to support the economic recovery, including an increase in its bond-buying activities. Credit spreads continued to tighten during the quarter, boosting investment grade and high yield returns.

Real estate securities were up during the fourth quarter in both the U.S. and abroad. Sector performance was mixed with Hotel & Resort assets and Retail REITs leading the market while Industrials lagged. Commodity results were positive for the quarter as the price of crude oil increased 21 percent to \$48.52 per barrel. Natural gas prices were up, ending the quarter at \$2.54 per million British thermal unit (BTUs), as the U.S. exported a record amount of liquefied natural gas (LNG). Midstream energy surged during the

(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](https://www.touchstoneinvestments.com/mutual-funds).**





fourth quarter while the broader infrastructure segment was also positive. Finally, gold prices were up less than one percent and finished at approximately \$1,895 per troy ounce.

Portfolio Review

The Touchstone Dynamic Diversified Income Fund (Class A Shares Load-Waived) outperformed its primary benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index but underperformed its secondary benchmark, the MSCI All Country World Index (ACWI) for the quarter ended December 31, 2020.

The equity allocation was a positive contributor during the quarter. Individual manager performance within the Fund's equity positions added to the Fund's outperformance, while allocation decisions within the equity bucket also contributed. The value orientation of the equity bucket helped the Fund as value materially outpaced growth during the equity market rally. The Fund's best performing allocation within the equity bucket was Touchstone Value Fund.

On a stand-alone basis, the Fund's fixed income bucket outperformed the Bloomberg Barclays U.S. Aggregate Index. The Fund has a structural overweight to below investment grade credit, which contributed to results during the quarter as virtually all fixed income sectors rallied. Individual manager selection was also a contributor. Touchstone Credit Opportunities Fund was the largest contributor within the fixed income bucket, generating a positive return for the quarter. Touchstone High Yield Fund also performed well during the quarter.

No position in the Fund detracted from absolute performance during the quarter. The Fund's lowest performing allocation was to Touchstone Impact Bond Fund, which still generated a positive return for the quarter.

During the quarter, the decision was made to eliminate the allocation to JPMorgan Alerian MLP ETN and reallocate equally to Touchstone Value Fund, Vanguard High Dividend Yield ETF and iShares International Select Dividend ETF due to falling conviction in the Master Limited Partnership (MLP) structure. This change modestly increased exposure to foreign equity income and reduced expected income in the short-term. It is expected the MLPs will continue to cut their income payouts, but in the short-term the MLP yield will likely remain much higher than other portfolio investments. The high income potential, however, does not offset the falling conviction in the MLP structure. No other changes were made to the Fund's target allocations during the quarter.

Outlook and Conclusion

Although much remains uncertain at the start of 2021, we remain optimistic about risk assets and believe the Fund is well-positioned for the year ahead. Although we believe that volatility may be elevated over the year, we do not necessarily foresee a material selloff in either equities or fixed income. Global economic fundamentals have potential for

improvement in 2021, particularly if central banks remain accommodative and progress in fighting the pandemic continues on pace.

The Fund is positioned roughly in line with its long-term strategic target. Overall, we continue to believe that the Fund is best served by remaining invested in risk assets, but we will continue to seek to improve portfolio positioning where appropriate. Within fixed income, the Fund remains overweight credit, relative to government. In domestic equities, we remain overweight value, relative to growth equities, and within Non-U.S. equities, we favor emerging markets over developed markets.

Given the uncertainty associated with the ultimate human and economic impact of the COVID-19 pandemic, traditional valuation metrics have not proven to be as reliable as they would be during a more typical market environment. With that in mind, COVID-19 and the impending U.S. presidential election may cause volatility to remain elevated and affect the Fund's performance. We believe the Fund's modestly conservative positioning should serve it well during any sharply negative market movements.

As of December 31, 2020, Touchstone Value Fund made up 10.72%, Touchstone Credit Opportunities Fund made up 5.17%, Touchstone High Yield Fund made up 10.07%, Touchstone Impact Bond Fund made up 22.82%, Vanguard High Dividend Yield ETF made up 9.05%, iShares International Select Dividend ETF made up 5.10% and JPMorgan Alerian MLP ETN made up 00% of the Touchstone Dynamic Diversified Income Fund. Current and future portfolio holdings are subject to change.

Dividend paying investments may not experience the same price appreciation as non-dividend paying instruments, dividend-issuing companies may choose not to pay a dividend or the dividend may be less than what is anticipated.



Fund Facts (As of 12/31/20)

| Class | Inception Date | Symbol | CUSIP | Annual Fund Operating Expense Ratio* | |
|--------------------------|-----------------------|--------|-----------|--------------------------------------|-------|
| | | | | Total | Net |
| A Shares | 09/30/04 | TBAAX | 89154Q794 | 1.55% | 1.12% |
| C Shares | 09/30/04 | TBACX | 89154Q786 | 2.59% | 1.87% |
| Y Shares | 12/09/05 | TBAYX | 89154Q778 | 1.67% | 0.87% |
| Total Fund Assets | \$56.7 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 0.49% for Class A Shares, 1.24% for Class C Shares and 0.24% for Class Y Shares. These expense limitations will remain in effect until at least 04/30/21.

Share class availability differs by firm.

Annualized Total Returns** (As of 12/31/20)

| Class | 4Q20 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|----------------------------|--------|--------|--------|--------|--------|---------|-----------|
| Excluding Max Sales Charge | | | | | | | |
| A Shares | 8.45% | 2.52% | 2.52% | 3.47% | 5.37% | 5.31% | 5.37% |
| C Shares | 8.20% | 1.69% | 1.69% | 2.70% | 4.57% | 4.68% | 4.99% |
| Y Shares | 8.51% | 2.80% | 2.80% | 3.73% | 5.64% | 5.58% | 5.64% |
| Benchmark 1 [^] | 0.67% | 7.51% | 7.51% | 5.34% | 4.44% | 3.84% | 4.35% |
| Benchmark 2 ^{^^} | 14.68% | 16.25% | 16.25% | 10.06% | 12.26% | 9.13% | 8.07% |
| Including Max Sales Charge | | | | | | | |
| A Shares | 3.03% | -2.59% | -2.59% | 1.44% | 4.13% | 4.69% | 4.99% |
| C Shares | 7.20% | 0.70% | 0.70% | 2.70% | 4.57% | 4.68% | 4.99% |

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 - Bloomberg Barclays U.S. Aggregate Bond Index¹

^{^^}Benchmark - MSCI All Country World Index²

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**The performance presented for Class Y Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 09/30/04, 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 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.

¹The 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.

²The MSCI All Country World Index measures the equity market performance of developed and emerging markets. 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.

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A Word About Risk

The value of an investment in the Fund is based on the performance of the underlying funds in which it invests and the allocation of its assets among those funds. The Fund bears a proportionate amount of the expenses charged by the underlying funds. The Fund's ability to achieve its investment goal depends upon the sub-advisor's skill in selecting the best mix of underlying funds. The principal risks of an investment in the Fund include the principal risks of investing in the underlying funds in addition to those of the Fund. The Fund invests in equities which are subject to market volatility and loss. The Fund invests in foreign securities, foreign depositary receipts and emerging markets securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and differences in accounting standards and may offer less protection to investors. The Fund invests in fixed-income 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. 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 derivatives which may expose the Fund to additional risk than directly investing in securities and may lack a liquid market, are subject to counterparty risk and leverage risk which could result in increased volatility of returns as well as losses. Liquidity risk may exist when particular investments are difficult to purchase or sell, which can reduce an underlying fund's return. 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. Current and future portfolio holdings are subject to risk. Events affecting the financial markets, such as a health crisis, 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. The underlying funds, ETFs and ETNs in which the Fund may invest may be subject to the following principal risks. 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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