Touchstone Flexible Income Fund

Sub-Advised by: Bramshill Investments, LLC

Income – Multisector Bond 2Q/2023

Fund Manager Commentary

As of June 30, 2023

Fund Highlights

- Seeks a high level of income consistent with reasonable risk by investing primarily in income producing securities
- Primarily invests in investment grade corporate bonds, high yield corporate bonds, preferred stocks, U.S. municipal bonds and U.S. Treasuries
- Actively manages the portfolio by rotating among asset classes and tactically hedging during various interest rate and market environments
- Seeks to identify relative value across asset classes and capture opportunities primarily within the corporate, U.S. Treasury, municipal and preferred security markets
- Analyzes and targets the portfolio's level of risk and interest rate sensitivity
- Selects individual positions based on security credit metrics and structures
- Focuses on liquid securities with transparent pricing and actively-traded capital structures

Market Recap

The second quarter of 2023 began with markets bracing for potentially broader fallout from the abrupt bank failures at the end of the first quarter of 2023. As the second quarter continued without any further large bank failures, financial markets re-focused their attention on the U.S. Federal Reserve Board's (Fed) campaign to fight inflation. At the May 3 Federal Open Market Committee (FOMC) meeting the federal funds rate was raised by another 25 basis points for its 10th consecutive interest rate hike bringing the range to 5.00%-5.25%. In the subsequent policy statement the FOMC stated, "The committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time." U.S. Fed Chair Jerome Powell remarked that the banking situation had "broadly improved" and he talked about a "data dependent" approach and a "meeting by meeting" assessment of the Fed's policy stance.

Next on investors' minds was the U.S debt ceiling standoff as U.S. Treasury Secretary Janet Yellen warned that the U.S. would no longer "pay its bills" and risk a default by June 1. The ensuing political brinkmanship over the debt ceiling negotiations prompted Fitch Ratings, one of the three nationally recognized statistical rating organizations, to place the U.S. current AAA credit rating on negative watch. However, at the 11th hour, the debt-ceiling crisis was averted, and President Biden signed the bill on June 3 hailing it as a bipartisan triumph.

Then on June 14 the FOMC concluded their two-day meeting by pausing its historic interest rate hiking campaign, however, U.S. Fed Chair Powell said, "Looking ahead, nearly all committee participants view it as likely that some further rate increases will be appropriate this year to bring inflation down to 2% over time." Investors finally relented on their wagers that the Fed would cut interest rates this year but remained worried that the inexorable push of higher rates could cause an economic hard landing scenario.

General economic fundamentals remained relatively sound with unemployment still holding at nearly a 55-year low. The Personal Consumption Expenditures Price Index increased 4.2% ahead of the 3.7% estimate, showing the resilience of the U.S. consumer. GDP growth was weaker in the first quarter at 1.1% (annualized) below the 2% estimate but due to the consumer remaining resilient, largely by using excess savings coupled with the strong jobs market, the economy continued on an upward trajectory. The 2-year U.S. Treasury fell dramatically during the quarter as the flight-to-quality mindset returned to the markets. It finished the quarter at approximately 4.90%, while the 10-year U.S. Treasury closed the second quarter at approximately 3.84%.

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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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Headline CPI has slowed considerably from a peak of 9.1% for the 12-month period ending in June 2022 to 4.0% for the 12-month period ending in May 2023. PCE has slowed much more modestly from its February 2022 peak of 5.4% down to just 4.6% at the end of May 2023, which is well above the Fed's targeted rate of 2%. U.S. Fed Chair Powell told House lawmakers on June 15 that the U.S. remains a "long way" away from low and stable inflation. He said the July FOMC meeting would be "live" which means another rate increase is possible. In addition to PCE, home prices have also shown recent signs of resilience. Home prices remain elevated as the nation's housing supply remains severely limited. The price of newly signed leases is still elevated but has slowed since last year suggesting the rental market is cooling.

We are structuring our portfolio to maintain a shorter duration where we can lock in near the top yields for an extended period with the Fed and global central banks maintaining higher rates for longer to fight inflation. From our perspective even with a lower federal funds rate in 2024, interest rates should remain elevated in the front-end providing attractive returns based on income generation more so than price appreciation.

Credit spreads retraced much of the spread widening we saw following the collapse of both Silicon Valley Bank and Signature Bank in March and relatively wide spreads (on a historical context) and a deeply inverted U.S. Treasury yield curve boosted demand for shorter duration securitized products. The quarter began with a spate of new supply hitting the market as investors looking to add risk assets eagerly greeted Asset-Backed Securities sponsors. During the quarter, the FDIC tapped BlackRock Financial Markets Advisory to sell off approximately $114 billion in assets from Silicon Valley Bank and Signature Bank. The assets were comprised primarily of non-Agency Residential Mortgage-Backed Securities (RMBS) and Agency RMBS monthly. The supply was easily digested by the market and traded "better than expected" as demand for the assets was deep due to limited supply in the sector both in primary and secondary markets. One sector in the eye of the storm was Commercial Mortgage-Backed Securities (CMBS). Although there was an improvement in the secondary spreads and liquidity, with higher quality property assets benefitting from investor demand, lower quality property assets suffered from the effect of risk tiering and a much steeper credit curve.

Portfolio Review

The Touchstone Flexible Income Fund (Class A Shares Load-Waived) outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended June 30, 2023.

A significant portion of the Fund, as of the end of the quarter, was invested across Preferred Securities and Agency CMBS holdings. The Preferred asset class generically consists of low coupon, fixed-for-life, perpetuals which have long durations. We focus on avoiding such generic structures as our Preferred exposure is centered on securities with fixed coupons for 5 years (at issuance) and then reset at a spread off of U.S. Treasuries, thus mitigating interest rate risk. Our Preferred holdings in less rate sensitive, fixed-to-reset structures have outperformed the index. These positions are generally backed by loans on multi-family residential housing properties originated by U.S. government agencies, which are performing very well fundamentally compared to other commercial sectors such as retail or lodging (which we are actively avoiding, as we do not like the fundamentals of those sub sectors). We also added investments secured by private residential rental homes in the private label market. These seasoned deals offer significant hard credit enhancement via the deal structure and years of home price appreciation in the underlying residential assets, which should mitigate any potential losses.

Credit spreads tightened during the second quarter as worries subsided of a global banking crisis and investors saw attractive entry points in structured products as nominal spreads are still historically wide in the asset class. The difference in Mortgage-Backed Securities (MBS) spreads and comparable investment grade corporate spreads are close to a 3-sigma "cheap" level. The technical background has not been positive to MBS with a regional banking crisis, slowing economy and global monetary tightening but the dislocation might offer a potentially attractive entry point.

We also deployed rate hedges, opportunistically, during the quarter to counter a portion of the duration exposure we possessed within our portfolio via hedging with various positions in an ETF referencing U.S. Treasuries as well as future contracts referencing U.S. Treasuries.

Finally, we remained wary of investments in lower credits and/or with longer durations and focused on, 1) rotating into shorter, higher quality investments or, 2) building our cash and cash equivalents instead.

The Investment Grade Securities allocation in the Fund decreased. The Investment Grade Corporate allocation in the Fund decreased slightly. We continue to hold a mix of positions we find attractive for their credit and carry. We continue to look to add to this exposure on sell-offs in U.S. Treasuries and widening of credit spreads. We have added several low dollar price investment grade bonds to our bullpen. We will continue to monitor price action and look to put capital to work if they reach our downside price targets. We will look to add to this asset class on a tactical basis. The Investment Grade Structured Products Securities allocation in the Fund also decreased during the quarter. We are converting our cash and monthly distributions from our shorter duration and/or amortizing Investment Grade Structured Products Securities into cash and short-dated U.S. Treasury Bills in order to optimize liquidity.

The High Yield allocation in the Fund decreased overall. The High Yield Corporate Securities allocation in the Fund decreased as the Fed continued to signal that fighting inflation is their primary objective. We continued to reduce risk in the portfolio. We see some pockets of opportunities in high yield starting to develop, either via short term tactical trades via liquid products or longer-term opportunities up

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the cap structure in select BB-rated securities with strong credit metrics trading in the mid-7% yield area. In addition, our High Yield Structured Products Securities allocation in the Fund slightly decreased. We continue to feel constructive with the risk/reward of these securities, as we stay focused predominantly on multi-family related transactions that have good fundamentals, which provide for a very low probability of default. This sector provided the best opportunity compared to other commercial sectors such as office and retail. The Interest-Only (IO) class receives monthly level payments, which allow re-investment into other sectors of structured products. The Agency eligible loans have strong call protection in the form of lockout, defeasance, and yield maintenance (hard lockout 2-years followed by a lengthy defeasance period, which ends 90 days prior to the maturity date). This call protection benefits the IO class with level payments spanning eight-four pay periods. Multi-Family will continue to benefit from a positive long-term supply-demand imbalance driven by lack of housing stock and poor home affordability providing superior risk-adjusted relative value.

The Municipal Bond allocation in the Fund slightly increased during the quarter. An asset class susceptible to an increase in long-term rates, Municipals were under pressure for most of 2022. We have seen relative value opportunities in closed end funds, which trade at double-digit discounts to NAV. We are cautiously starting to add exposure to this asset class, as we are more comfortable that longer duration U.S. Treasury rates are beginning to top out. Furthermore, these funds often find opportunistic buyers at NAV discounts this extreme, which should provide a floor on pricing and a strong margin of safety behind any future investments. We will monitor these developments closely in the next few months and look for relative value opportunities.

U.S. Treasury allocation in the Fund decreased during the quarter. We refrained from investing in any longer-dated U.S. Treasury Bonds this quarter for an extended period of time given duration risks and mainly invested in shorter U.S. Treasury Bills given the sell-off in U.S. rates.

The cash allocation in the Fund increased from 3.7% to 15.1% of AUM. Overall, a combination of cash and short-dated U.S. Treasury Bills increased from 33.4% to 38.4% of AUM. We continue to remain patient and look to further aggregate cash flows generated from the securities held by the Fund and may continue to reinvest any cash flows received into short-dated U.S. Treasury Bills and/or other short duration investments to prepare for any corrections and/or better entry points.

The Fund's duration at the end of the second quarter of 2023 was approximately 2.5 years vs. the benchmark duration of approximately 6.3 years. The Fund is positioned with a lower duration than the benchmark purposefully as we wanted to stay in shorter solid credits to protect from any spread volatility and/or large moves up in benchmark interest rates. This has allowed us to experience less negative performance during periods of selloffs in U.S. Treasuries.

Outlook and Conclusion

In general, the greatest headwind to the portfolio is the same thing that is protecting us from inflation, rising U.S. Treasury yields, credit deterioration, etc. - it is the fact that we are running lower duration and more cash than our peers. We would likely underperform in the short term, a modest amount, if there were a large move lower in yields without a commensurate widening of spreads; although we have a high yielding portfolio, we are underweight risk and duration. However, we believe a more likely scenario is that any long rate rally would be dictated by a flight to safety. Which in turn, would suggest significant credit spread widening. We believe we are well positioned to rotate out of our short duration U.S. Treasury exposure and into credit opportunities in this situation.

We are comforted by the Fed's constant communication to the market that they have near term plans to curb runaway inflation. We expect the Fed will eventually want to digest the resulting deteriorating metrics over the next few months after reaching their terminal rate (currently anticipated to be in the low-to-mid-5% area for the federal funds rate). We are seeing follow through on COVID stimulus waning as the U.S. consumer is starting to build up higher credit card balances coupled with the Fed trying to raise the unemployment rate and shrink wage growth to combat inflation. We are monitoring the health of the consumer into the back half of the year.

We continue to be wary and avoid highly credit sensitive asset classes (i.e., generic high yield), although they are currently much more fairly priced on a risk-adjusted basis than they have been in a few years. In our view, we will remain tentative to rotate into such investments as they have a meaningfully higher probability of default. We will look to take advantage of investment opportunities in this space on a tactical basis.

As always, we remain diligent and patient as we are focused on avoiding any positions that have the potential to suffer from extreme illiquidity, which could be caused by an unforeseen event.

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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	04/01/04	**FFSAX**	89154Q620	1.27%	1.22%
C Shares	10/29/01	**FRACX**	89154Q612	2.04%	1.97%
Y Shares	09/01/98	**MXIIX**	89154Q596	1.01%	0.97%
INST Shares	09/10/12	**TFSLX**	89154Q588	0.99%	0.87%
Total Fund Assets	**$895.8 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 1.04% for Class A Shares, 1.79% for Class C Shares, 0.79% for Class Y Shares and 0.69% for Class INST Shares. These expense limitations will remain in effect until at least 07/29/24.*

Share class availability differs by firm.

Fifth Third Strategic Income Fund Class I Shares became Touchstone Flexible Income Fund Class Y Shares on 09/10/12.

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	0.83%	2.45%	2.07%	1.09%	2.33%	3.07%	5.68%
C Shares	0.66%	2.01%	1.24%	0.35%	1.54%	2.46%	5.21%
Y Shares	0.99%	2.56%	2.32%	1.37%	2.58%	3.34%	6.03%
INST Shares	1.02%	2.61%	2.52%	1.50%	2.70%	3.45%	6.13%
Benchmark^	-0.84%	2.09%	-0.94%	-3.96%	0.77%	1.52%	6.02%
Including Max Sales Charge							
A Shares	-2.43%	-0.89%	-1.26%	-0.01%	1.13%	2.46%	5.52%
C Shares	-0.34%	1.01%	0.27%	0.35%	1.54%	2.46%	5.21%

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]

[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.

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*****Class A, Class C and Class Y shares performance was calculated using the historical performance of the Fifth Third/Maxus Income Fund Investor shares, with an inception date of March 10, 1985, for periods prior to April 1, 2004, October 29, 2001 and September 1, 1998, respectively. Institutional Class shares performance information was calculated using the historical performance of Class Y shares for the periods prior to September 10, 2012. The returns have been restated to reflect sales charges and fees applicable to Class A, Class C, Class Y and Institutional Class shares.***

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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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 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 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 equities which are subject to market volatility and loss. 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's investments in other investment companies will be subject to substantially the same risks as those associated with the direct ownership of the securities comprising the portfolios of such investment companies, and the value of the Fund's investment will fluctuate in response to the performance of such portfolios. In addition, if the Fund acquires shares of investment companies, shareholders of the Fund will bear their proportionate share of the fees and expenses of the Fund and, indirectly, the fees and expenses of the investment companies or ETFs. 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 convertible securities which are subject to the risks of both debt securities and equity securities. The Fund invests in derivatives such as futures contracts. 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. 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 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 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 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. Current and future portfolio holdings are subject to change.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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