# Fund Manager Commentary

*As of March 31, 2025*

## 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 U.S. stock market experienced a steep decline while U.S. fixed income rose during the first quarter of 2025 amid fears of President Trump's tariff policy. The U.S. Federal Reserve (Fed) made the decision to keep the federal funds rate (FFR) unchanged in both January and March. After three cuts in a row to end 2024, this decision was in line with U.S. Fed Chairman Jerome Powell's comments about potentially fewer cuts in 2025 than expected due to persistent inflation concerns. Non-farm payrolls rose each month during the quarter and the annualized U.S. GDP growth in the fourth quarter was 2.3%. The core personal consumption expenditures price index, the Fed's preferred measure of inflation, increased 2.8% year-over-year in February 2025. The Federal Open Market Committee (FOMC) has continued to state that interest rate decisions are data dependent. Fixed income markets seem to be anticipating two cuts in 2025. The FOMC's forecasts from March 2025 indicate that two interest rate cuts are likely, bringing the FFR to 3.9% by the end of 2025. Projections for personal consumption expenditures inflation and the unemployment rate were raised for 2025, and the central bank's economic forecast was lowered in the policy statement after the March 2025 Fed meeting.

The fixed income markets had a strong quarter after experiencing modest losses in the fourth quarter of 2024. The Bloomberg U.S. Aggregate Bond Index was up 2.78% during the first quarter of 2025 after being up 1.25% for 2024. The 10-year U.S. Treasury yield decreased 36 basis points (bps) from 4.57% to 4.21% during the first quarter. The 2's-10's spread (the difference between the yield of the 10-year U.S. Treasury Note and the 2-year U.S. Treasury Note) was relatively unchanged but the 5's-30's spread (the difference between the yield of the 30-year U.S. Treasury Bond and the 5-year U.S. Treasury Note) moved wider by the end of the first quarter. Fixed income spreads generally widened throughout the first quarter of 2025. Equities soared to record highs in the first two months of the year before plummeting more than 10% in March. President Trump's tariff plans were a major catalyst that pushed the equity market into correction territory. The S&P 500 Index posted a 4.28% loss for the first quarter.

## Portfolio Review

The Touchstone Flexible Income Fund (Class A Shares, Load Waived) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2025.

During the first quarter of 2025, the Fund's underperformance relative to the benchmark was due to an underweight to Treasuries and security performance in investment grade corporate bonds in both the Financial Institutions and Utility sectors. Additionally, the Fund's

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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.***

asset-backed securities (ABS) and commercial mortgage-backed securities exposures were negative contributors to relative performance during the quarter. Positive contributors to the Fund's relative performance were the Treasury allocation and a call option on long-dated Treasury bonds.

From a positioning perspective, our main tenets have been to focus on investment opportunities with high current income, relatively short duration (generally inside 5 years of duration) combined with high confidence of a very low probability of default (we continue to be extremely focused on underlying fundamentals and credit quality). The following are detailed insights on our positioning changes during the quarter along with supporting rationale.

During the quarter, the preferred equity allocation within the Fund's portfolio decreased. We continue to like our preferred holdings versus the total preferred universe as we are focused on preferred securities that are trading to their call dates ('25 - '26) and have high back-end resets (+375 to +500). Preferreds had a strong quarter so we reduced our allocation, as some were called away as expected and/or reached our target prices.

The Fund's overall investment grade securities allocation increased during the quarter. Here are details of the two primary components of the investment grade allocation:

The investment grade corporate allocation in the Fund increased during the quarter. We continue to favor our diverse holdings of short duration with a moderate spread pickup to U.S. Treasuries, coupled with our long duration, low dollar priced investments. We maintained a barbell view on duration, taking advantage of high front-end rates while also maintaining our allocation to long duration, low dollar price investment grade bonds. These are long duration investment grade credits that were issued during the COVID-era low-rate environment and were trading down 30-40% below issuance price. After entering into this trade in late September of 2023, long end rates rallied, and credit spreads tightened significantly. We took this opportunity to monetize some gains in this asset class before long end rates moved back toward their original levels by the end of fourth quarter of 2024.

The investment grade structured products securities allocation in the Fund also increased during the quarter. We continue to like the positions we hold for their credit and carry. We maintained a barbell view on duration, taking advantage of high front-end rates while also pivoting some of our allocation to longer duration, discounted investment grade residential mortgage-backed securities (RMBS) with positive convexity to faster prepayment speeds and calls. Some of these credits are long duration investment grade credits that were issued during the COVID-era low-rate environment and were trading down 10-20% below issuance price. Since we began entering this trade in 2023, credit spreads have tightened significantly, however, we are still looking to opportunistically add to our exposure.

The Fund's high yield securities allocation overall decreased during the quarter. Here are details of the two primary components of the high yield allocation:

The high yield corporate securities allocation in the Fund decreased. The bulk of our high yield allocation remains in high-quality corporate credits with no CCC-rated exposure. Our exposure decreased due to one first-lien secured bond being called on January 22. With respect to this asset class, we prefer shorter duration, higher-quality names with solid liquidity as the economy continues to soften amid tariff uncertainty.

The high yield structured products securities allocation in the Fund increased during the quarter. A majority of our high yield structured products allocation continues to be in agency commercial mortgage-backed securities positions backed by loans originated by U.S. government agencies (Freddie Mac) which are secured by multi-family residential housing properties. These assets have solid credit metrics (60% loan-to-value/1.3x debt service coverage ratio) with low effective durations and have historically performed very well due to low delinquencies and defaults by the borrowers. We are adding to this sector opportunistically. We also have and continue to add to our seasoned RMBS exposure as such investments offer strong total return potential due to structural deleveraging and resilient housing fundamentals. These seasoned securities offer significant hard credit enhancement via the deal structure and the underlying properties have the benefit of years of home price appreciation which should mitigate any potential losses. We also have and continue to add to our ABS exposure by purchasing residual securities off Prime Auto ABS. Prime borrowers have performed very well in paying their auto loans during times of stress and these securities have relatively short durations with heavily front-loaded cashflows.

The Fund's municipal bond allocation remained at zero throughout the quarter. We see municipals as rich compared to other fixed income asset classes, as their ratios to U.S. Treasuries is near multi-year tights across various points on the yield curve. Furthermore, given municipal budget deficits in states like New York and California, we hold a negative view on this asset class.

The Fund's U.S. Treasury allocation decreased during the quarter. The U.S. Treasury exposure is divided into approximately 12% in long duration U.S. Treasury Bonds and less than 1% exposure in a long-dated Treasury bond's call options. As we anticipated softer economic data and Fed fund futures point toward modest rate cuts, we first extended duration in the first quarter and added to this position at local highs in long-end yields throughout the first quarter, improving our cost basis.

The Fund's cash allocation increased during the quarter. We continue to remain patient and look to further aggregate cashflows generated from the securities held by the Fund and may continue to reinvest any cashflows received into short-dated U.S. Treasuries and/or other short duration investments to prepare for any corrections and/or better entry points.

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By the end of the quarter, credit spreads in corporate investment grade and high yield were trading tighter than their 20-year averages. While all-in yields are at some of the highest levels in investment grade and high yield bonds of the past several years, the composition of that yield comes from the higher base U.S. Treasury rates. Securitized credits are similarly trading at tight spreads and high yields from a historical perspective; however, their spreads continue to trade wide of corporate credit spreads.

The Fund's duration at the end of the first quarter of 2025 was approximately 5.8 years vs. the Bloomberg U.S. Aggregate Bond Index of approximately 6.1 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. The Fund's lower duration versus the benchmark was to take advantage of the fairly flat yield curve through the end of 2024, that made short duration strategies more attractive on a risk adjusted return basis. The shape of the yield curve, as defined by the 2's-10's spread was 32bps at the end of the first quarter. The shape of the yield curve, as defined by the 5's-30's spread was approximately 62bps at the end of the first quarter 2024.

## Outlook and Conclusion

In general, the greatest headwind to the Fund is the same thing that is protecting us from inflation, rising U.S. Treasury yields, credit deterioration, etc. It is a 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 longer dated U.S. Treasury rates, although we have a high yielding portfolio, we are underweight risk and duration.

We continue to be wary and avoid 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. However, while nominal yields have reached more attractive levels, credit spreads have widened off their tights recently, but not at levels we find worthy of investment as of yet. 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. We do not see any obvious fundamental issues in any of the asset classes/sectors that we are currently invested in as higher risk-free starting rates provide a cushion to any potential sell-off in treasuries. Nominal spreads are still tight in investment grade and high yield with potential downside if a hard landing is realized. Spreads in structured products have widened throughout the first quarter of 2025 as certain sub-sectors are still cheap with higher all-in yields. We feel that we are conservatively positioned for further downside with a large amount of cash and cash equivalents at the end of the first quarter of 2025. While we put capital to work when U.S. Treasuries were at relatively high yields at the end of 2023 and mid-2024, we still remain conservatively positioned for further downside via credit spread widening with a large amount of cash equivalents at the end of the first quarter of 2025. We anticipate allocating our liquidity into more optimal risk-adjusted returns on a tactical basis. We believe that our active portfolio management methodologies will be important to add to returns and reduce risk.

## Fund Facts

| Class | Inception Date | Symbol | CUSIP | Annual Fund Operating Expense Ratio Total | Net |
|---|---|---|---|---|---|
| A Shares | 04/01/04 | **FFSAX** | 89154Q620 | 1.26% | 1.21% |
| C Shares | 10/29/01 | **FRACX** | 89154Q612 | 2.01% | 1.96% |
| Y Shares | 09/01/98 | **MXIIX** | 89154Q596 | 0.97% | 0.96% |
| INST Shares | 09/10/12 | **TFSLX** | 89154Q588 | 0.97% | 0.86% |
| **Total Fund Assets** | **$1.7 Billion** | | | | |

*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 07/29/25.*

*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

| | 1Q25 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|---|---|---|---|---|---|---|---|
| Excluding Max Sales Charge | | | | | | | |
| A Shares | 1.70% | 1.70% | 4.71% | 3.25% | 4.58% | 3.24% | 5.72% |
| C Shares | 1.55% | 1.55% | 3.92% | 2.48% | 3.80% | 2.62% | 5.27% |
| Y Shares | 1.76% | 1.76% | 4.95% | 3.53% | 4.85% | 3.50% | 6.07% |
| INST Shares | 1.78% | 1.78% | 5.05% | 3.63% | 4.98% | 3.61% | 6.16% |
| Benchmark | 2.78% | 2.78% | 4.88% | 0.52% | -0.40% | 1.46% | 5.94% |
| Including Max Sales Charge | | | | | | | |
| A Shares | -1.56% | -1.56% | 1.34% | 2.10% | 4.15% | 2.64% | 5.57% |
| C Shares | 0.55% | 0.55% | 2.92% | 2.48% | 3.80% | 2.62% | 5.27% |

*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*

*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.*

*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.*

***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.**

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