# Touchstone Flexible Income Fund

**Sub-Advised by: Bramshill Investments, LLC**

Income – Multisector Bond | 3Q/2023

## Fund Manager Commentary

*As of September 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

As we entered the second half of 2023 there remains little consensus on where the U.S. economy is headed as some investors have increasingly adopted the view that the U.S. Federal Reserve (Fed) is achieving the soft-landing scenario. After the June pause the Fed announced its 11 interest rate hike on July 26, 2023, raising the fed funds target range by 25 basis points (bps) to 5.25-5.50%. The move came as no surprise to the markets after plenty of Fed speakers indicated more tightening was warranted to get inflation down to its target of 2% over the long run. In the press conference that followed, U.S. Fed Chair Jerome Powell struck a more neutral tone refusing to commit to a pause or continuation of rate hikes with three Federal Open Market Committee (FOMC) meetings remaining in 2023 instead reiterating data dependency concerning the path of future Fed policy. On the economic data front, the U.S. economy remains more resilient than many had expected at this point of an aggressive Fed interest rate hiking campaign with low unemployment and steady consumer spending supporting the soft-landing narrative. Signs of moderating inflation pressures in July 2023 included a decline in the Employment Cost Index (ECI) to 1% quarter-over-quarter growth in the second quarter of 2023 from 1.2% in the prior quarter. The ECI is the preferred measure of inflation by the Fed because it tracks both wages and other compensation including bonuses. At the same time second quarter 2023 GDP growth came in at 2.4% quarter-over-quarter (revised down to 2.1%), which was better than the 1.8% expected growth rate in the first quarter of 2023. The soft-landing narrative was also fueled by the June Consumer Price Index (CPI) report, which came in at just 3% from a year ago which is the lowest level since March 2021. However, core inflation, which excludes food and energy, rose 0.2% in June 2023 and 4.8% for the year, but remains well above the Fed's target range. The shelter component of the CPI continues to be a tailwind to rising inflation increasing 0.4% in June 2023 with the cost of the preceding 12 months up 7.8%. The lagging effect of falling rent prices, however, should eventually provide relief to the core CPI calculation in the coming months. Treasury yields reached 15 year highs across much of the yield curve in August 2023 after the Treasury's quarterly refunding announcement on July 31, 2023, that showed much higher funding needs for the U.S. government in the third quarter of 2023, and potentially beyond, given rising budget deficits. Subsequently on August 1, 2023, the credit rating agency Fitch downgraded Treasuries to AA+ from AAA. Fitch's explanation for the downgrade was that it, "reflects the expected fiscal deterioration over the next years, a high and growing general government debt burden, and the erosion of governance relative to AA and AAA rated peers over the last two decades that has manifested in repeated debt-limit standoffs and last-minute resolutions." While the timing of Fitch's downgrade surprised some market participants, the potential upcoming budget battle in Washington D.C. this

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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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fall and another government shutdown could weigh on economic growth and reduce tax revenues. The Treasury curve steepened in the third quarter 2023 with the 10-year U.S. Treasury Note yield rising 73bps to 4.57% while the 2-year U.S. Treasury Note yield rose 14bps to 5.04%. 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) flattened to -47bps from -106bps. At the annual Jackson Hole Economic Symposium, Chair Powell reiterated that the tight labor market, strong consumer spending and resilient housing market have kept inflation "too high." The key takeaway was the Fed's firm commitment to the 2% inflation target as measured by the core Personal Consumptions Expenditures, a key inflation measure the Fed follows, which is currently at 4.3%. Chair Powell pointed to the higher-than-expected GDP growth and robust consumer spending as signs that further rate hikes may be needed to bring inflation down. The August 2023 CPI report posted its biggest monthly increase of 0.6% for the month and was up 3.7% from a year ago. However, excluding food and energy the core CPI increased 0.3% and 4.3%. Based on this data at the September 20, 2023, FOMC meeting the Fed left its benchmark interest rate unchanged at 5.25%-5.5% while signaling borrowing costs will likely stay higher for longer and indicating that one more rate hike before the end of the year. Projections released in the Fed's dot-plot showed the likelihood of one more rate hike then two cuts in 2024 that would put the fed funds rate around 5.1%.

Although inflation has decelerated to 3.7% in the 12 months through July 2023 toward the Fed's preferred 2% target the U.S. labor market and consumer spending remain resilient despite the rise in rates. The unemployment rate of 3.8% is just slightly higher than a year ago, however, the Job Openings and Labor Turnover Summary data in August 2023 showed jobs openings edged down to 8 million openings (-338,000) and the number of quits decreased to 3.5 million (-253,000) indicating that the U.S. workforce may becoming less confident in the labor market. That notion was reinforced by a survey from the Conference Board showing consumers' perception of the labor market cooled in August 2023. However, labor market conditions remained tight with 1.51x job openings for every unemployed person in July 2023, compared to 1.54x in June 2023. This ratio has remained elevated since September 2021, well above a 1.0-1.2x range that would be consistent with a historical jobs market that is not generating too much inflation. There are headwinds policymakers must also consider like the rapid rise in oil prices that have surged by about 30% by the end of the third quarter of 2023 versus June 2023 and the resumption of the student-loan payments in October 2023 may take more discretionary spending power out of consumers' hands. Mortgage rates have soared to 7.59% at the end of the third quarter of 2023, yet the July 2023 CoreLogic report showed that year-to-date home price appreciation was at 5% nationally. The low housing stock and rental supply continues to drive home prices higher.

With higher volatility and the sell-off in Treasuries with Fitch's downgrade of the U.S. government to AA+ from AAA and elevated Treasury issuance, Non-Agency Residential Mortgage-Backed Securities (RMBS) performed relatively well into the bear-steepening move this quarter. The U.S. Housing data continues to surprise and support the sector even with mortgage rates above 7% at the end of the third quarter of 2023. Nominal spreads widened slightly but investors looking to add exposure to residential credit saw any widening as an attractive entry point to buy assets. Agency Mortgage-Backed Securities (MBS) still look cheap on a nominal spread basis, but the lack of bank demand, the inverted yield curve and lack of foreign buyers has been a headwind to this sector. Lower coupons have underperformed this quarter but hold value with wider spreads. Likewise, higher coupon MBS that are trading above par now carry negative convexity risk from the bear steepening move in the yield curve. If a soft-landing scenario is not achieved and the Fed is forced to cut interest rates, both RMBS and MBS could benefit in a rally in Treasuries. Collateralized Loan Obligations (CLO) had another positive quarter mainly boosted by rising loan prices and high all-in yields. CLOs offer relatively high returns due to their floating rate coupons and historically wide credit spreads given their exposure to sub-investment grade corporate borrowers. If the Fed is higher for longer investors will likely be attracted to the higher starting yields for CLO AAA classes (approximately 6.8% yield at the end of the third quarter of 2023), given their relatively wide credit spreads, AAA ratings and inherently low duration. In the Commercial Mortgage-Backed Securities significant tiering continued between Tier 1 trophy assets and less desirable assets particularly in the lower rated tranches. Investors are still highly sensitive to extension risk and high office concentrations in deals.

## 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 September 30, 2023.

Due to the Fund's lower duration versus the benchmark, we were able to outperform during the quarter. Also, the Fund added incremental exposure to the severely inverted front-end of the yield curve during the quarter, which was overweight versus the benchmark index, which had a higher exposure to the belly of the curve. The overweighting to the front-end helped performance as the belly of the Treasury curve steepened during the third quarter of 2023.

At the end of the third quarter of 2023, the Fund was invested across Preferreds (PFD), Agency Commercial Mortgage-Backed Securities (ACMBS) and Seasoned RMBS backed by Single Family Rental Homes (SFR). Our PFD holdings in less rate-sensitive, fixed-to-reset structures have outperformed the index. We continue to favor these structures over long duration fixed-for-life structures. Furthermore, we target securities in quality credits with high backend resets. This significantly mitigates the volatility and risk in a scenario where the Fed is forced to reverse course and take rates lower. Furthermore, if rates stay at these levels,

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these securities shorten in duration as the likelihood of a call increases. The ACMBS positions are backed by loans on multi-family residential housing properties originated by U.S. government agencies (Freddie Mac). 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 also added assets backed by Single Family 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, which would mitigate any potential losses.

Credit spreads tightened during the third quarter of 2023 as the severely inverted Treasury curve and relatively wide structured products spreads prompted investors to focus on high quality and higher yielding structured products.

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 Treasuries as well as future contracts referencing 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. From a credit standpoint, we are closely watching the resumption of the student loan payments beginning in the fourth quarter of 2023 that could potentially negatively affect subprime borrower performance in recent deals.

PFD allocation in the Fund remained the largest asset class in the Fund's portfolio. We continue to like our PFD holdings versus the total preferred universe as we are focused on shorter in duration securities due to their high back-end resets (+375 to +500) and short call dates ('24-'25). We moderately reduced our exposure in securities we felt outperformed and/or had potential to be dragged down further with the market. Specifically, we reduced our holdings in some of our PFDs that contained backend resets in the lower end of our target range.

Investment Grades Securities (IG) allocation in the Fund increased during the quarter. We continue to like the positions we hold for their credit and carry, and were able to add some exposure in the front end considering the sell-off in Treasuries and widening of spreads. We began to take positions in low dollar price IG bonds, which had been in our bullpen for several months. We will continue to monitor price action and look to put more capital to work as they reach our downside price targets. We will look to add to this asset class on a tactical basis.

Investment Grade Structured Products Securities allocation in the Fund increased 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 Treasury Bills in order to optimize liquidity.

High Yield Securities (HY) allocation in the Fund decreased during the quarter. As the Fed continues to signal that fighting inflation is their primary objective, we have subsequently reduced our HY corporate exposure. The HY index yielding close to 9% does screen somewhat attractive on a yield basis; however, spreads are just fair value, especially in an economic environment where we feel earnings will reset lower along with a continued slowdown in GDP and economic activity. 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 the cap structure in select BB's with strong credit metrics trading in the mid-7% yield area.

High Yield Structured Products Securities allocation in the Fund slightly decreased. In structured products, we continue to capture high quality credit spreads in bonds backed by strong housing and consumer fundamentals. With index spreads in IG and HY corporates compressing to the 30 and 40 percentiles, certain subsectors of structured products with index spreads between 50 and 90 percentiles offer better risk adjusted returns on a relative basis. Against the backdrop of 11 interest rate hikes by the Fed, the U.S. housing market has remained resilient, as mortgage rates have eclipsed 7%. The June 2023 reading of the Case-Shiller National Home Price Index is up 4.7%. In RMBS, nominal spreads have tightened as higher home prices and aggregate housing loan-to-value has trended lower after a 15-year run-up in home prices prompted investors to allocate to this sector as many securities are trading at a discount to par with potential total return when and if the Fed cuts rates in the future. Due to strong underlying credit fundamentals and lack of new issuance, the sector continues to look cheap versus other asset classes.

Municipal Bonds allocation in the Fund decreased during the quarter. An asset class susceptible to an increase in long-term rates, Municipals were under pressure again towards the end of the third quarter of 2023. We see relative value opportunities in closed end funds, which trade at double-digit discounts to NAV. However, we are cautious to add exposure as the technical picture in Municipals is still poor and we believe this will continue to pressure all security types in the asset class. We will get more constructive on Municipals if we get more comfortable that longer duration Treasury rates are topping out. Furthermore, these funds often follow a strong seasonal pattern due to their high retail ownership. We will monitor these developments closely in the next few months and look for relative value opportunities.

The Fund's overall combination of cash and short-dated Treasuries decreased. 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 Treasuries 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 third quarter of 2023 was approximately 2.7 years vs. the Bloomberg U.S.

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Aggregate Bond Index of approximately 6.15 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 Treasuries. Due to the Fund's lower duration versus the benchmark, we were able to outperform during the quarter. The Fund's lower duration versus the benchmark was to take advantage of the severely inverted yield curve that now have short duration strategies much more attractive on a risk adjusted return basis. The shape of the yield curve, as defined by the 2's-10's spread was negative 47bps at the end of the third quarter was flatter by negative 59bps from end of the second quarter. The shape of the yield curve, as defined by the 5's-30's spread was approximately 9bps at the end of the third quarter 2023. Our decreased position in Cash and short-dated Treasuries during the third quarter of 2023 was a result of remaining disciplined and finding mispriced assets that were cheap on a risk-adjusted basis. As a result, the Fund added incremental exposure to the severely inverted front-end of the yield curve, which was overweight versus the benchmark index, which had a higher exposure to the belly of the curve. The overweighting to the front-end helped performance as the belly of the Treasury curve steepened during the third quarter of 2023.

## Outlook and Conclusion

In general, the greatest headwind to the portfolio is the same thing that is protecting us from inflation, rising 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 yields without a commensurate widening of spreads, although we have a high yielding portfolio, we are underweight risk and duration.

Considering the Fund is constructed as a long-only vehicle, and 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 fed funds rate). With COVID stimulus payments and associated excess savings waning and U.S. consumers building up higher credit card balances, coupled with the Fed holding rates higher for longer in expectation of a higher unemployment rate and shrinking wage growth to combat inflation, we are monitoring the health of the consumer into the back half of the year.

We continue to be weary 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 yet to widen to levels we find worthy of investment. 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.

The main driver of our returns in the third quarter of 2023 was generated from our high current income of the Fund in addition to total return opportunities that we will capitalize on via portfolio rotation, asset allocation, opportunistic investing, etc.

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 provides a cushion to any potential sell-off in treasuries. Nominal spreads are fair in IG and HY with potential downside if a hard landing is realized. Spreads in Structured Products have tightened throughout the third quarter of 2023, but certain sub-sectors are still cheap with higher all-in yields as the Treasury curve has been in a bear steepener as the Fed may be higher for longer. We feel that we are conservatively positioned for further downside with a large amount of cash and cash equivalents at the end of the third quarter of 2023. 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.

We still remain cautious on the CLO and CMBS sectors as we await better entry points. We remain focused on asset classes that we still view as being relatively cheap from historical standards, yet fundamentally solid given our current and projected macroeconomic view as well as by our security-by-security probability of default analysis. We continue to focus on shorter, more senior securities, as well as short-dated Treasuries for income at current yields and their ability to preserve capital with global volatility rising and cash as we look to maintain optimal liquidity to be better positioned to take advantage of any opportunities that present themselves as measured on a risk-adjusted basis.

## Fund Facts *(As of 09/30/23)*

| 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 $933.2 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 1.04% 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 09/30/23)*

| | 3Q23 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|---|---|---|---|---|---|---|---|
| Excluding Max Sales Charge | | | | | | | |
| A Shares | 0.39% | 2.85% | 3.85% | 0.35% | 2.16% | 3.18% | 5.66% |
| C Shares | 0.21% | 2.23% | 3.05% | -0.43% | 1.38% | 2.57% | 5.18% |
| Y Shares | 0.35% | 2.92% | 4.00% | 0.56% | 2.39% | 3.44% | 6.00% |
| INST Shares | 0.38% | 3.00% | 4.20% | 0.66% | 2.51% | 3.54% | 6.10% |
| Benchmark^ | -3.23% | -1.21% | 0.64% | -5.21% | 0.10% | 1.13% | 5.89% |
| Including Max Sales Charge | | | | | | | |
| A Shares | -2.86% | -0.50% | 0.50% | -0.76% | 1.75% | 2.57% | 5.50% |
| C Shares | -0.78% | 1.23% | 2.06% | -0.43% | 1.38% | 2.57% | 5.18% |

*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.*

*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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