# Fund Manager Commentary

*As of March 31, 2022*

## Fund Highlights

- Seeks to achieve a high level of income by investing primarily in non-investment-grade debt securities
- Evaluates overall investment opportunities and risks in different industries focusing on those that exhibit the potential for stability and predictability
- Eliminates certain types of securities from purchase due to their structure
- Applies rigorous credit selection process in an effort to identify securities that offer attractive opportunities

## Market Recap

Holiday cheer faded quickly in early 2022. Excluding commodities, securities markets sold off immediately and consistently until mid-March. The downturn was triggered by the U.S. Federal Reserve Board's (Fed) release of surprisingly hawkish December meeting minutes on January 5, 2022. The result was a series of "worsts" – the worst January since the Great Financial Crisis of 2008 (Nasdaq), a quarter on track to be worse than all prior annual returns save one (High Yield) and the worst quarter in 50 years (U.S. Treasuries). In spite of a furious rally in late March, high yield bonds finished down materially, along with the S&P 500 Index.

The interest rate sensitive BB ratings category lagged High Yield from start to finish and ended down more than its single B and CCC-rated counterparts. The only two industries that ended the quarter positive were Oil Field Services and Refining. With Independent Energy in third place, it is clear that Energy sectors were leaders in the first quarter of 2022. Extraordinary moves in oil and natural gas explain these results. Laggards were generally sectors dominated by long duration capital structures including Natural Gas and Food/Beverage. Wireless was the worst performer, though, as it was weighed down by Russia-based Vimpelcom which was removed from the benchmark at a $0 price level.

Other notable factors or events in the quarter included the Russian Federation invaded Ukraine across multiple fronts on February 24, 2022. In reaction, a broad array of commodities saw dramatic price increases including oil, natural gas, wheat, nickel, fertilizer and coal. Ukrainian links to the European auto industry led to plant closings in short order. Access to lesser-known materials such as neon gas could lead to further economic disruptions.

Also notable was the Fed's increase to its benchmark interest rate in March by a quarter-percentage point. What has taken markets by surprise has been the scale and breadth of the increase in inflation. As evidence, Fed Funds futures in mid 2021 were pricing in zero rate hikes in 2022.

Finally, between the first and last weeks of the quarter, High Yield flows were negative and materially so. Leveraged loan flows were a near mirror image to High Yield activity and solidly positive on the quarter. High Yield gross new issuance was healthy in January then slowed to a crawl through the remainder of the period. In the end, quarter to date issuance declined 72% year over year. Just five companies either defaulted (2) or executed a distressed debt exchange (3).

## Portfolio Review

The Touchstone High Yield Fund (Class A Shares Load-Waived) outperformed its benchmark, the ICE BofA High Yield Cash Pay Index, for the quarter ended March 31, 2022.

Driving the relative outperformance during the quarter was the Fund's overweight positioning within Oil Field Services. In addition, an underweight to Banking was positive as that sector has significant exposure to several European banks, which performed poorly, and duration that is longer than most sectors.

Underweight positioning in Gaming detracted from performance as the defensive sector outperformed. Overweight positioning in Food & Beverage also detracted.

Overweight positioning in Unit Corp, a restructured equity position, was positive as the company continued to generate

*(continued)*

◊ *Fort Washington is a member of Western & Southern Financial Group*

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.***

free cash flow and reduced its net debt position to zero. In addition, the company is actively engaged in asset sales, which we believe, will be at valuations that are accretive to the current company valuation. We believe that there is upside in this position at current levels and will continue to monitor it closely. Further, no exposure to Kraft Heinz was positive as the large global food company's capital structure was hit especially hard due to duration and the move in rates.

Overweight positioning in Altice USA was a detractor as holdings were longer duration than the underlying indices and the combination of weight and duration was significant. Management is addressing credit concerns and we continue to believe in the long-term value of the company. Also, a lack of positioning in Transocean hurt performance as the CCC-rated and heavily indebted capital structure continued to perform well on the overall recovery within Energy, strength in West Texas Intermediate, and increasing demand for more drilling and production.

## Outlook and Conclusion

The current environment has become more uncertain over the last one to two quarters as the Fed has turned significantly more hawkish in its efforts to fight inflation. The pace of interest rate hikes and balance sheet runoff have materially changed and quickened. This has led to some instability in the markets and concern that the Fed may be 'losing control' of its dual mandate. The Fund's portfolio has been significantly overweight Energy in previous quarters as that sector was in the process of healing its balance sheets and recovering from the COVID-19 pandemic. The predominance of credits in that sector now trade inside of High Yield and we have taken the opportunity to reduce that exposure and transitioned those holdings to what we believe are more stable and less cyclical sectors such as Media and Cable. At this stage of the credit cycle, which we would deem as 'late stage,' we are preferring higher quality and less cyclical sectors as volatility has re-entered the markets and we believe there is a risk of continued volatility due to rate hikes and further global macroeconomic weakness. We will attempt to continue to hold enough spread risk to 'carry' in case the market finds its footing and the Fed can navigate a soft landing; raising rates enough to bring inflation down without tightening so much as to squeeze overall financial conditions.

We find the best value on the market to be in the lower BB category as this segment materially sold off during the first quarter of 2022 and we believe has attractive characteristics going forward – either to retighten in the face of market stability or to sell off less in the case of a material misstep by the Fed or other global macro developments. The underweight to higher spreading CCCs has the potential to be a headwind if the market materially tightens from here. An offset to that would be the higher duration of the Fund's portfolio, which could allow the Fund slightly longer BB/B exposure to tighten and mitigate the additional income foregone from the CCC category.

Financial conditions are accommodative and issuers have used this opportunity to bolster liquidity and term out maturities, especially in 2020 and 2021. With the dollar price of High Yield at 97 and spread levels near their tightest quartile, we believe the predominance of return should come through income and the potential for some appreciation if the market stabilizes over the intermediate period. We anticipate credit conditions will remain positive and returns to be generated through bottoms up credit selection and by mitigating default risk.

As of March 31, 2022, Unit Corp. made up 2.17%, Altice Financing SA 5.00% 01/15/2028 made up 0.37%, Altice Financing SA 5.75% 08/15/2029 made up 0.51%, Vimpelcom, Kraft Heinz and Transocean made up 0.00% of the Touchstone High Yield Fund. Current and future portfolio holdings are subject to change.

## Fund Facts *(As of 03/31/22)*

| Class | Inception Date | Symbol | CUSIP | Annual Fund Operating Expense Ratio* Total | Net |
|---|---|---|---|---|---|
| A Shares | 05/01/00 | **THYAX** | 89154W809 | 1.21% | 1.05% |
| C Shares | 05/23/00 | **THYCX** | 89154W882 | 2.83% | 1.80% |
| Y Shares | 02/01/07 | **THYYX** | 89154W817 | 0.89% | 0.80% |
| INST Shares | 01/27/12 | **THIYX** | 89154W775 | 0.75% | 0.72% |
| **Total Fund Assets** | **$119.1 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 1.05% for Class A Shares, 1.80% for Class C Shares, 0.80% for Class Y Shares and 0.72% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/23.*

*Share class availability differs by firm.*

## Annualized Total Returns** *(As of 03/31/22)*

| Class | 1Q22 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|---|---|---|---|---|---|---|---|
| Excluding Max Sales Charge | | | | | | | |
| A Shares | -4.08% | -4.08% | 0.04% | 3.41% | 3.82% | 4.23% | 5.99% |
| C Shares | -4.27% | -4.27% | -0.70% | 2.65% | 3.04% | 3.61% | 5.74% |
| Y Shares | -3.90% | -3.90% | 0.46% | 3.71% | 4.10% | 4.52% | 6.21% |
| INST Shares | -4.00% | -4.00% | 0.41% | 3.79% | 4.17% | 4.61% | 6.17% |
| Benchmark^ | -4.53% | -4.53% | -0.28% | 4.38% | 4.55% | 5.68% | 6.89% |
| Including Max Sales Charge | | | | | | | |
| A Shares | -7.23% | -7.23% | -3.16% | 2.70% | 2.81% | 3.73% | 5.76% |
| C Shares | -5.22% | -5.22% | -1.66% | 2.65% | 3.04% | 3.61% | 5.74% |

*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 - ICE BofA High Yield Cash Pay Index[1]*

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*****The performance presented for Class C, Y, and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 05/01/00, with the performance since the inception date of each share class.***

*[1]The ICE BofA High Yield Cash Pay Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par which is greater than or equal to $50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.*

*The indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible. Unmanaged index returns do not reflect any fees, expenses or sales charges.*

## A Word About Risk

**The Fund invests in fixed-income securities which can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. When interest rates rise, the price of debt securities generally falls. Longer term securities are generally more volatile. The Fund invests in 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 Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors. Events in the U.S. and global financial markets, including actions taken to stimulate or stabilize economic growth may at times result in unusually high market volatility, which could negatively impact Fund performance and cause it to experience illiquidity, shareholder redemptions, or other potentially adverse effects. Banks and financial services companies could suffer losses if interest rates rise or economic conditions deteriorate. The 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. Current and future portfolio holdings are subject to change.**

**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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