# Fund Manager Commentary

*As of December 31, 2018*

## 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 investment opportunities

## Market Recap

During the fourth quarter, risk assets around the globe did not perform well. In October, the U.S. Federal Reserve Board (Fed) Chairman made comments which were perceived as hawkish, including a statement that interest rates were “a long way from neutral.” As a result, risk assets declined immediately. While the comments were tempered later in the quarter, the Fed raised the federal funds rate in December by 25 basis points and continued to systematically unwind its balance sheet. In addition to the Fed Chairman’s comments, headlines out of Washington, D.C. rattled markets and reflected increased uncertainty amid continued trade tensions between the U.S. and China as well as the ongoing U.S. government shutdown. European headlines surrounding renewed concerns about Italy’s economy and budget, as well as the Brexit uncertainty, brought about an increase in volatility during the quarter.

From a ratings-category perspective, performance differences were significant given the widening in credit spreads and decline in U.S. Treasury rates. For the quarter, lower quality BB-, B- and CCC-rated bonds all declined, though BB-rated bonds declined by a much lesser degree than the others. Highly liquid bonds also lagged during the quarter, which can be typical during short periods of high volatility as investors seek liquidity and dealer balance sheets are a fraction of historical levels.

## Portfolio Review

The Touchstone High Yield Fund (Class A Shares Load-Waived) outperformed its benchmark, the ICE BofA Merrill Lynch High Yield Cash Pay Index, for the quarter ended December 31, 2018.

The Fund outperformed its benchmark due to both allocation and security selection. As noted above, risk assets significantly underperformed during the quarter and CCC-rated securities were particularly weak. As a result, the Fund’s philosophical underweight to CCC-rated bonds benefited relative performance.

The Fund’s underweight allocation to the Energy sector contributed the most to relative returns due to the underperformance of CCC-rated securities and the significant decline in oil. The Fund’s overweight positions to Food & Beverage and Cable/Satellite were also additive as both were large, stable sectors with solid cash flow characteristics. The Fund’s returns were slightly hindered by an underweight allocation to Pharmaceuticals.

Security selection positively impacted returns, primarily due to the Fund’s structural philosophy of not purchasing CCC-rated securities. Among the Fund’s top contributing securities were overweight positions in satellite television provider DISH DBS Corp. and food processing company JBS USA Holdings Inc. both companies generate large, stable cash flows and possess significant enterprise value supporting their debt. Among the Fund’s performance detractors were energy companies Shelf Drilling Holdings Ltd., Ensco PLC and Ultra Petroleum Corp. Overweight positioning in Diebold Nixdorf Inc. (a financial and retail technology company) and Rite Aid Corp. (a drugstore chain) also negatively impacted the Fund as the holdings were recently downgraded to a CCC rating.

There were a small number of changes made to Fund positioning during the quarter in addition to normal buying and selling. On a sector basis, there was a meaningful addition to the Pharmaceuticals sector as Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals

*(continued)*

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

International Inc.) was upgraded to a B rating by all agencies and therefore added to the portfolio. There was a modest emphasis on risk-reducing trades during the quarter and overall purchase activity was tilted toward BB-rated securities. Currently, the largest overweights for the Fund were to Consumer Products and Food & Beverage, as these sectors had favorable cash flow characteristics relative to their leverage profiles. The largest underweights were to Wireless for idiosyncratic reasons and to Information Technology due to the sector's large number of CCC-rated securities and the tight valuations of its BB- and B-rated securities.

Fund duration was slightly longer than that of the benchmark. The Fund did not seek an explicit position on duration, preferring instead to let credit selection decisions drive relative performance.

### Outlook and Conclusion

We believe the greatest opportunities for the Fund would be either a continuation of the current environment of low growth mixed with relatively steady monetary policy or a meaningful selloff in the High Yield market. The combination of solid Gross Domestic Product growth, strong employment gains, wider spreads and lower interest rates provides potential for the High Yield market. This scenario presumes that the ongoing trade talks do not evolve into a market-altering event and that economic activity, which has accelerated domestically, does not slow materially.

In light of High Yield's material spread widening during the quarter, the Fund is positioned toward the B-rated bonds. Yield is below that of the benchmark due to a significant underweight to CCC-rated bonds. We believe that the BB- and B-rated segments of the market are attractively valued, but have the potential to trail the CCC-rated segment over the coming year. Looking ahead, we will seek to selectively add risk – by favoring B-rated securities over BB-rated securities – as domestic economic growth remains solid, the Fed has become less hawkish and the High Yield market is now offering attractive risk/reward opportunities in lower quality securities.

The Fund's positioning emphasizes credit selection over sector allocation as there are a limited number of sector allocation opportunities in the current environment. Where there are sector opportunities, we have decided to express our views through quality (BB versus B) and not necessarily through a large underweight or overweight to the sector.

As of December 31, 2018, DISH DBS Corp. 5.88%, 07/15/2022 made up 0.94%, DISH DBS Corp. 6.75%, 06/01/2021 made up 1.19%, JBS USA Holdings Inc. 5.88%, 07/15/2024 made up 0.14%, JBS USA Holdings Inc. 6.75%, 02/15/2028 made up 0.28%, JBS USA Holdings Inc. 7.25%, 06/01/2021 made up 0.18%, Shelf Drilling Holdings Ltd. 8.25%, 02/15/2015 made up 0.70%, Ensco PLC 7.75%, 02/01/2026 made up 0.36%, Ultra Petroleum Corp. 6.88%, 04/15/2022 made up 0.07%, Ultra Petroleum Corp. 7.13%, 04/15/2025 made up 0.08%. Diebold Nixdorf Inc. 8.50%, 04/15/2024 made up 0.41%, Rite Aid Corp. 6.13%, 04/01/2023 made up 0.90% and Bausch Health Companies Inc. (formerly Valeant Pharmaceuticals) Valeant Pharmaceuticals 5.88%, 05/15/2023 made up 0.84%, Valeant Pharmaceuticals 6.13%, 04/15/2025 made up 0.53% of the Touchstone High Yield Fund. Current and future portfolio holdings are subject to change.

## Fund Facts (As of 12/31/18)

| Class | Inception Date | Symbol | CUSIP | Annual Fund Operating Expense Ratio* Total | Net |
|---|---|---|---|---|---|
| A Shares | 05/01/00 | **THYAX** | 89154W809 | 1.29% | 1.05% |
| C Shares | 05/23/00 | **THYCX** | 89154W882 | 2.00% | 1.80% |
| Y Shares | 02/01/07 | **THYYX** | 89154W817 | 0.88% | 0.80% |
| INST Shares | 01/27/12 | **THIYX** | 89154W775 | 0.76% | 0.72% |
| **Total Fund Assets** | **$171.3 Million** | | | | |

**Expense ratio is annualized. Data as of 01/30/19 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 01/29/20.*

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## Annualized Total Returns** (As of 12/31/18)

| Class | 4Q18 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|---|---|---|---|---|---|---|---|
| Including Max Sales Charge | | | | | | | |
| A Shares | -6.32% | -7.84% | -7.84% | 3.18% | 1.16% | 8.69% | 5.79% |
| C Shares | -5.50% | -4.84% | -4.84% | 4.05% | 1.40% | 8.40% | 5.31% |
| Excluding Max Sales Charge | | | | | | | |
| A Shares | -4.36% | -3.20% | -3.20% | 4.86% | 2.15% | 9.22% | 6.07% |
| C Shares | -4.55% | -3.92% | -3.92% | 4.05% | 1.40% | 8.40% | 5.31% |
| Y Shares | -4.27% | -2.99% | -2.99% | 5.12% | 2.43% | 9.50% | 6.26% |
| INST Shares | -4.25% | -2.80% | -2.80% | 5.20% | 2.51% | 9.49% | 6.21% |
| Benchmark^ | -4.64% | -2.26% | -2.26% | 7.22% | 3.81% | 10.89% | 6.99% |

*Max 2.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.*

*^Benchmark - ICE BofA Merrill Lynch High Yield Cash Pay Index[1]*

*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 advisor 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.*

*****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 Merrill Lynch 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 debt securities which can lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. 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. Current and future portfolio holdings are subject to risk. 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.**

**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 advisor 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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