Touchstone High Yield Fund

Sub-Advised by: Fort Washington Investment Advisors, Inc.◊

Income – High Yield Bond 2Q/2023

Fund Manager Commentary

As of June 30, 2023

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

In equities, second quarter action kept pace with first quarter momentum while fixed income returns faded. A few factors contributed to investor optimism – risk containment (debt ceiling, regional bank contagion), supportive economic data (labor market, housing, autos), and enthusiasm over artificial intelligence. Aside from a brief bout of volatility around debt ceiling negotiations in late May, the VIX index fell back toward its lowest levels since the pandemic and the interest rate equivalent, the MOVE index, also declined.

Performance during the period was volatility driven with CCC-rated debt and below leading the way, followed by Bs and BBs. While first quarter experienced broad based positive asset performance, second quarter was mixed with risk assets maintaining an upward trajectory while rate driven assets took a breather owing to tightening global central bank policy.

Drilling down to sector level performance, Retailers and Leisure led the way, supported by QVC, Inc., which sold off an underperforming business unit (Zulily) and cruise line operators continuing to report robust pre-COVID level bookings alongside a focus on deleveraging. Negative performance occurred within the Wireless sector as Altice France, the main detractor, reported weak first quarter results including underwhelming revenue growth, subscriber losses, and free cash flow burn.

The Federal Reserve (Fed) moved forward with a tenth consecutive increase in the Federal Funds Rate (5.25%) at their May meeting, which was interpreted as a dovish hike. This followed a hawkish pause at the June meeting, with the committee signaling further tightening was likely as the Fed rate forecast now reflects a rate of 5.6% by year-end. A resilient labor market has made meeting the 2% inflation target elusive.

In addition to higher rates, tighter financial conditions were reflected within the most recent U.S. Senior Loan Officers' survey which showed the net percentage of banks tightening lending standards on commercial and industrial loans to large/medium businesses having risen to 46.0% from 44.8% in fourth quarter 2022. Notably, these levels are below peaks reached during the pandemic and the Global Financial Crisis but have come a long way from the -1.5% reported in early 2022.

As markets shrugged off potential regional bank contagion and risk assets rallied, the High Yield primary market activity increase with $52 billion issued during the quarter, leaving the new issue market +36% year-over-year. One notable theme driving issuance is higher quality loan issuers refinancing floating rate debt into a record proportion of secured fixed rate bonds. The need for issuance is expected to increase as the amount of High Yield bonds and leveraged loans entering the 18-month refinancing window is due to increase from $120 billion to $260 billion by January, 2024.

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 June 30, 2023.

Attribution from sector allocation was negative. Overweight positioning in Finance Companies was positive, as the sector was a meaningful outperformer in the quarter. Underweight in Banking was also positive as the sector struggled with a handful of Fallen Angels that materially underperformed due to concerns with the banking sector. Underweight

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◊ *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.***

positioning in Wirelines was a detractor as the sector was a top performer with several constituents recovering from materially negative performance in the prior quarter.

Attribution from security selection was positive. Primary themes for the quarter were 1) the credit rally was more beneficial to CCC rated bonds as BB/B rated securities lagged, 2) the rally was broad based, as there were only a handful of sectors that were meaningful in size with a negative return. Credit selection within B/BB rated categories was positive, helping to offset the portfolio underweight to CCCs. Overweight positioning in retailer QVC was positive as the company announced a stabilization in results, asset dispositions of some negative cash flowing segments, and renewed focus by management to generate cash flow and reduce the aggregate debt burden. Overweight positioning in Cimpress, a marketing and business services company, was additive as the company announced better than expected results, a meaningful cost reduction plan, and an improved cash flow outlook. Portfolio positioning in U.S. Treasuries was a detractor as the 5-year Treasury widened by +59 basis points and the 10-year widened by +38 basis points. Underweight positioning in Carvana was negative as the Ca/CCC rated online auto retailer recovered on an improved economic outlook, financial guidance, and ongoing discussions with bondholders on a distressed debt exchange.

The Fund has continued to consolidate Issuer positions and ended the quarter at 103, down from 121 at March end and 167 at December end. There were no significant changes within the top 10 holdings and the Fund continues to be underweight CCC and below rated securities.

With the consolidation of issuers, and continued positioning of the Fund's portfolio for a tight financial condition and deteriorating fundamentals, there were meaningful changes in industry positioning. Notable increases in Healthcare, secured Airlines, and Electric Utilities are all fairly defensive or high quality sectors. The largest decreases in the quarter came from Building Materials, Supermarkets, and Automotive. Reduction in these sectors was based on a combination of credit selection, valuation, and reduction in cyclical holdings.

Duration of the portfolio at quarter end was 3.51 years. The portfolio started the quarter approximately -0.14 years short duration versus the benchmark and ended the quarter at -0.13 years relative. The Fund's duration positioning did not meaningfully affect the aggregate performance of the portfolio in the quarter; however, the Treasury positioning in 5 year and 10 year was a negative.

Outlook and Conclusion

The current environment has become more uncertain over the last several quarters as financial conditions have meaningfully tightened from the combination of the Fed raising rates and concern over potential credit and balance sheet issues at regional and smaller banks. While it appears that we are approaching the end of the Fed tightening cycle, higher rates and tighter conditions are just beginning to take hold (the first hike was merely over one year ago) and will take time to work through the economy to restrict business activity as well as reduce inflation towards the Fed's goal of 2%. The market, overall, has continued to take a rather benign view of the current cycle as risk assets had strong performance in the second quarter. The market is anticipating that the Fed raises rates another one to two times in 2023 and orchestrates a 'soft landing' or outright avoids a potential recession. Fed tightening cycles and financial conditions as restrictive as they are at current levels lead to recessions, higher default rates, and wider spread levels. We anticipate these unfolding. The questions we are balancing are 1) the timing and 2) the extent of the recession and default cycle. Data linked to the inflation and employment will be critical as more chronic or persistent inflation data may limit the Fed's ability to pivot towards a rate cutting cycle leading to a 'higher for longer' stance which would be harmful for leveraged balance sheets.

At this stage of the credit cycle, which we would deem as 'late stage', we are preferring higher quality and/or less cyclical sectors as volatility due to rate hikes and further global macroeconomic weakness can escalate quickly into wider spreads. We are meaningfully underweight CCC-rated securities, as this segment of the market will experience the most default losses when tight financial conditions take hold and high yield issuers can no longer service their obligations. We are maintaining lower spread and yield relative to the index in anticipation of spreads widening.

We find the best value in the market currently in the BB/B categories as this segment has the best characteristics going forward – meaningful income and yield in the current environment and the likelihood to sell off less in the case of a material misstep by the Fed or other global macro developments. These segments also have a higher duration and can experience some stability in the face of further spread widening as the Treasury market typically rallies in that scenario. The underweight to higher spreading CCCs has the potential to be a headwind if we are able to avoid a recession and the market materially tightens from here; however, that is not our base case scenario. We expect that CCCs will withstand the worst of the default cycle as it unfolds in the coming quarters as we anticipate, and we remain cautious on this subsector until it begins to price in a more significant downturn.

Our outlook for High Yield is Slightly Negative as we are balancing our concern for economic weakness, tighter financial conditions, and deteriorating company fundamentals with an all-in yield-level that we recognize as attractive in a historical context. The current level of yields are able to absorb and offset a significant amount of spread widening should the economy have a hard landing. We anticipate the next default cycle to be less than historic averages as issuers have termed out maturities and balance sheets are in relatively good shape. The predominance of mergers and acquisitions and leveraged buy-out issuance has occurred in the leveraged loan market, which we suspect may see a higher level of defaults than previous cycles. We will be

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monitoring markets closely and looking for the signs of increasing defaults and market capitulation as financial conditions become too much for the weakest and most highly leveraged companies to bear before meaningfully adding to risk.

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

				Annual Fund Operating Expense Ratio*	
Class	**Inception Date**	**Symbol**	**CUSIP**	**Total**	**Net**
A Shares	05/01/00	**THYAX**	89154W809	1.26%	1.05%
C Shares	05/23/00	**THYCX**	89154W882	2.82%	1.80%
Y Shares	02/01/07	**THYYX**	89154W817	0.96%	0.80%
INST Shares	01/27/12	**THIYX**	89154W775	0.82%	0.72%
Total Fund Assets	**$103.2 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 1.05% 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 01/29/24.*

Share class availability differs by firm.

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	1.62%	4.91%	9.14%	2.72%	2.49%	3.09%	5.54%
C Shares	1.29%	4.39%	8.21%	1.92%	1.71%	2.48%	5.30%
Y Shares	1.63%	5.02%	9.27%	2.94%	2.75%	3.36%	5.75%
INST Shares	1.65%	5.07%	9.51%	3.07%	2.86%	3.44%	5.72%
Benchmark^	1.60%	5.34%	8.88%	3.20%	3.19%	4.33%	6.42%
Including Max Sales Charge							
A Shares	-1.70%	1.43%	5.63%	1.58%	1.51%	2.59%	5.32%
C Shares	0.29%	3.39%	7.21%	1.92%	1.71%	2.48%	5.30%

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.***

Top 10 Holdings of Fund *(As of 06/30/23)*

		(% of Portfolio)
1	U.S. Treasury N/B 4.00% 02/29/28	2.0
2	U.S. Treasury N/B 3.50% 02/15/2033	1.9
3	CQP Holdco LP / BIP-V Chinook 5.50% 06/15/31	1.7
4	Wynn Macau Ltd. 4.88% 10/01/24	1.6
5	Stagwell Global Llc 5.63% 08/15/29	1.3
6	Talen Energy Supply LLC 8.63% 06/01/30	1.3
7	Cimpress Plc 7.00% 06/15/26	1.3
8	Ford Motor Credit Co. LLC 2.90% 02/10/29	1.1
9	Belo Corp. 7.25% 09/15/27	1.1
10	CCO Holdings LLC / CCO Holding 5.13% 05/01/27	1.1

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

[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 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. 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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