Touchstone High Yield Fund

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

Income – High Yield Bond 1Q/2023

Fund Manager Commentary

As of March 31, 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

Risk assets started the year strong with the Russell 2000, S&P 500, and CCC rated securities exhibiting strength in January. High Yield issuers took advantage of the appetite for risk by accessing the new issue market to the tune of over $20 billion, the highest monthly tally in the previous 12 months. The euphoric rise in January gave way to weakness in February as better than expected payrolls and elevated inflation drove terminal rate expectations higher. Banking turmoil in March led to spread widening in the midst of a material Treasury rally.

Performance during the period was led by CCC rated securities along with BB/B rated securities lagging but performing in tandem. Outside of High Yield, gains were broad-based with advances in Equities, Credit, Sovereign Bonds, Emerging Market assets and Crypto.

At the sub-sector level, Leisure led the way as theaters and cruise lines exhibited strength on the back of strong box office numbers and healthy consumer spending bolstering cruise bookings. Wirelines was the worst performer of size as Lumen Technologies fell precipitously on weak guidance, a distressed debt exchange and questionable management decisions; $200 million in stock was purchased in the fourth quarter.

The quarter was marked by bank failures and rescue packages employed to prevent contagion. On March 10, Silicon Valley Bank (SVB) became the second largest bank failure in history, behind Washington Mutual (2008). News of poor asset-liability management at SVB ignited the first social media driven run on a bank. This event exposed weaknesses amongst the bank's peers. The resulting depositor panic prompted regulators to take extraordinary measures such as guaranteeing uninsured deposits and making it easier for banks to access the U.S. Federal Reserve's (Fed) discount window.

Banking sector stress significantly impacted the rates market with terminal federal funds rate expectations moderating from 5.6% to 4.9% and Treasuries sharply rallying; 105 basis points (bps) on the 2-year and 53 bps on the 10-year. A likely knock-on effect will be tighter financial conditions as banks reduce lending to preserve capital. Tighter lending standards have typically led to a pickup in defaults and wider spreads, along with a drag on growth and earnings. These potential side effects have yet to influence equity markets. The S&P 500 finished the quarter on a constructive note and the Volatility Index level was muted.

After a lackluster primary market in 2022, expectations for a more active 2023 were met in January with $19.8 billion pricing. Issuers soon retreated and activity was light in February and March. The quarter total marked the lowest quarterly issuance since the first quarter of 2016. If rate market volatility finds respite alongside supportive equities, it is anticipated that issuers will return to opportunistically term out debt, owing to the adage of accessing the market when you can, not when you have to.

Portfolio Review

The Touchstone High Yield Fund (Class A Shares Load-Waived) underperformed its benchmark, the ICE BofA Merrill Lynch High Yield Cash Pay Index, for the quarter ended March 31, 2023.

Attribution from sub-sector allocation was positive. Underweight positioning in Wirelines was materially positive, as it was the bottom-performing sector in the

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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.***

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quarter by a meaningful amount. Overweight positioning in Media Entertainment was a detractor although security selection more than offset this allocation.

Attribution from security selection was negative. Primary themes for the quarter were 1) the credit rally was more beneficial to CCC rated securities, as BB/B rated securities lagged, 2) the rally was broad-based, as there were very few negative returning sectors. Overweight positioning in Cimpress plc, 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. Underweight position in Lumen Technologies and subsidiary Level 3 Communications was additive as the legacy wireline telecommunications companies struggle with secular pressures and overleveraged capital structures. Lumen Technologies also embarked on a distressed debt exchange that was not received well by the market. Overweight positioning in television retail company QVC Inc. was a detractor as the company continues to struggle with its business following supply chain issues, a fire at one of its facilities, a declining subscriber base from cable television, and what is becoming a more leveraged capital structure. Overweight positioning in Altice USA was a detractor as the cable company continued to struggle with its capital expenditure program limiting its cash flow.

There were some meaningful shifts in ratings allocations for the fund quarter-over-quarter. The fund continues to be underweight CCC rated and below securities, which we believe is prudent at this point of the credit cycle. In addition, the fund increased its exposure to BB/BBB rated securities primarily by reducing holdings of B rated securities.

Largest increases in sub-sector weights were in Automotive and Gaming. In both sectors we found value in bottoms up credit selection and also in our move to own higher quality/rated securities; within the top held issuers, Ford Motor Credit Co., CCO Holdings LLC., and Wynn Macau Ltd. saw large increases. The largest decreases in the quarter came from Consumer Products and Wirelines with an elimination of Frontier Communications, Telecom Italia, and New Fiber.

Duration of the portfolio at quarter-end was 3.67 years. The Fund's duration remained shorter than the benchmark at the end of the quarter. We do not believe that duration meaningfully affected performance of the Fund in the quarter.

Outlook and Conclusion

The current environment has gotten more uncertain over the last several quarters as financial conditions have meaningfully tightened from the combination of the Fed raising rates and spreads widening. 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 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 has continued to take a rather benign view of the current cycle as risk assets had strong performance in the first quarter. The market is anticipating that the Fed cuts rates in the second half of the year by as much as 50 bps and this pivot will help to orchestrate a 'soft landing' or outright avoid a potential recession. Fed tightening cycles and financials 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 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.

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 under spreading and under yielding the index in anticipation of spreads widening further.

We find the best value in the market to currently be in the BB/B rated categories as this segment has sold off primarily with the increase in rates and secondarily due to declines in fundamentals. This category 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 rallies. The underweight to higher spreading CCC rated securities 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. CCC rated securities will bear the brunt of the default cycle as it unfolds in the coming quarters 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 of 8.52%, which 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 buyout issuance has occurred in the leveraged loan market, which we suspect may see a higher level of defaults than previous cycles. We will be monitoring markets closely and

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looking for the final signs of increasing defaults and market capitulation as financial conditions become too much for the weakest and most highly leveraged companies to bear.

As of March 31, 2023, Cimpress plc 7.00% 06/15/2026 made up 1.10%, QVC Inc. 4.38% 09/01/2028 made up 0.27%, QVC Inc. 4.75% 02/05/2027 made up 0.18%, Altice Financing SA 5.00% 01/15/2028 made up 0.39%, Altice Financing SA 5.75% 08/15/2029 made up .51%, Ford Motor Co. 4.75% 01/15/2043 made up 0.57%, CCO Holdings Ltd./CCO Holdings 4.25% 02/01/2031 made up 0.60%, CCO Holdings Ltd./CCO Holdings 5.13% 05/01/2027 made up 0.54%, CCO Holdings Ltd./CCO Holdings 6.38% 09/01/2029 made up 0.59%, CCO Holdings Ltd./CCO Holdings 7.38% 03/03/2031 made up 0.30%, Wynn Macau LTD 4.88% 10/01/2024 made up 1.52%, Silicon Valley Bank, Lumen Technologies and Washington Mutual made up 0.00% of the Touchstone High Yield Fund. Current and future holdings are subject to change.

Fund Facts *(As of 03/31/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* 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	**$104.9 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 03/31/23)*

	1Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	3.24%	3.24%	-4.22%	5.06%	2.28%	2.71%	5.53%
C Shares	3.06%	3.06%	-4.94%	4.29%	1.53%	2.10%	5.28%
Y Shares	3.34%	3.34%	-4.10%	5.32%	2.56%	2.98%	5.74%
INST Shares	3.36%	3.36%	-3.90%	5.46%	2.63%	3.07%	5.71%
Benchmark^	3.68%	3.68%	-3.47%	5.84%	3.07%	4.02%	6.42%
Including Max Sales Charge							
A Shares	-0.18%	-0.18%	-7.29%	4.38%	1.28%	2.21%	5.30%
C Shares	2.06%	2.06%	-5.85%	4.29%	1.53%	2.10%	5.28%

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 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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