

## Fund Manager Commentary

As of June 30, 2025

### 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

The quarter provided no shortage of newsworthy events with Liberation Day (April 2nd) initially taking the equity market lower and spreads wider. At the lows (April 8th), the S&P 500 Index was 19% off the all-time high. Markets eventually fully retraced after the announcement of a 90-day tariff pause and bilateral trade optimism. The quarter ended with equities outperforming bonds.

High Yield stumbled initially but recovered throughout April and proceeded to move higher. Returns across ratings were beta led with CCCs setting the pace, followed by Bs and BBs. Spreads initially widened to 453 basis points (bps) on April 8th before tightening to finish at 290bps (9th percentile). Yields tightened by 67bps, ending the quarter at 7.06%.

Transportation Services led during the quarter, with Hertz reacting favorably after disclosing an activist investor had taken a 20% position. Office Real Estate Investment Trusts (REIT) also rebounded after Hudson Pacific Properties announced a surprising equity raise for debt paydown. Railroads was the lone negative sector with Brightline East experiencing financial strain and ratings downgrades on lower-than-expected ridership and higher expenses.

Tariff headlines dominated the quarter as businesses navigated an average tariff rate of 15.8%, the highest since 1936. Consequently, businesses have seen declines in new orders, are reassessing capital expenditure plans, and are drawing down inventories. A recent survey by the Federal Reserve Bank of Dallas revealed that the most common corporate response to higher tariffs is passing increased costs on to consumers. If elevated tariffs persist, the risk of stagflation, a combination of stagnant growth and rising prices, is expected to grow.

At its June meeting, the U.S. Federal Reserve Board (Fed) once again left the federal funds rate unchanged at 4.25-4.50%, its fourth consecutive pause. The updated dot plot maintained a median forecast of two 25bps rate cuts later in 2025, with dispersion among participants widening, reflecting growing uncertainty. Committee projections revised 2025 core personal consumption expenditures inflation higher to around 3%, while real GDP growth forecasts were trimmed to about 1.4%. Unemployment expectations also edged up to 4.5%, reinforcing stagflation risk concerns amid sticky inflation and weaker growth.

During the quarter, the High Yield market was supported by strong technicals, with light net supply and accelerating inflows driving demand. Issuers took advantage by pricing \$76 billion (12% quarter-over-quarter), with the predominance up-in-quality (55% BBs) and largely utilized for refinancing.

### Portfolio Review

The Touchstone High Yield Fund (Class A Shares, Load Waived) underperformed its benchmark, the ICE BofA High Yield Cash Pay Index, for the quarter ended June 30, 2025.

Primary themes for relative performance during the quarter were: 1) ratings quality was not a large differentiator in performance, 2) rates were broadly unchanged but with meaningful volatility intra-quarter, and 3) sector returns were broad based and positive with only one sector having a negative return.

Attribution from sector allocation detracted. Overweight positioning in energy related sectors Oil Field Services, Midstream, and Independent Energy all detracted from relative performance as energy related names broadly underperformed as West Texas Intermediate (WTI) dipped

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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](https://TouchstoneInvestments.com/mutual-funds).**



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from \$69 to \$56 per barrel in the first half of the quarter. Despite WTI rebounding materially, energy names still lagged. Overweight positioning in Healthcare REITs was marginally positive as the sector materially outperformed due to a rally in a single name.

Attribution from security selection was neutral. Not owning New Fortress Energy contributed as the power generation and liquefied natural gas company is struggling to generate cash flow from operations and has material capital expenditure needs to finish a construction project of a power plant in Brazil. Recent asset sales have improved liquidity; however, cash flow burn is significant and there is material doubt about its ability to finance its debt obligations.

Overweight positioning in television operator Gray Media Inc. contributed as markets began to consider potential merger and acquisition (M&A) transactions within the space that may become possible under the new administration and would be positive for operating fundamentals and balance sheet metrics. Overweight positioning in AlticeUSA detracted as the domestic cable operator sold off after the news of the Charter/Cox merger. While not a direct impact on the company operationally, the merger removed two suitors from any potential M&A transaction. Overweight positioning in Liberty Latin America Ltd. detracted as the Puerto Rico based wireless operator continues to struggle with the acquisition and integration of AT&T's mobile business. Credit metrics have weakened materially due to subscriber losses and the company has maturity walls beginning in 2027. Further support from parent company Liberty Latin America is uncertain.

Aggregate risk positioning for the Fund was relatively stable in the quarter. Changes in holdings and sector allocation were all opportunistic and relative value based. The Fund slightly reduced spread duration during the quarter while remaining slightly higher in credit quality.

In the quarter, notable new positions were established in Carnival Corp., Davita Inc., and Organon and Co. Notable sales include Nabors, Saks, and Altice International. The largest increases in sector allocations were in Gaming, Construction Machinery, and Building Materials. The largest decreases were in Cable Satellite, Independent Energy, and Technology. Duration of the Fund at quarter end was 2.57 years. The Fund started the quarter approximately neutral duration versus the benchmark and ended the quarter at -0.25 years relative. The 10-year Treasury was relatively unchanged in the quarter though experienced meaningful volatility.

### Outlook and Conclusion

The market is trying to digest meaningful, and sometimes conflicting, changes in data and interpret the correct outcomes for markets. Survey data is coming in soft while hard data remains positive. Growth expectations have come down while thoughts on tariffs and tack on effects weighed on sentiment and risk early, but subsequent tariff discussion extensions have led to markets rallying in anticipation of what is hopefully a manageable outcome. In addition, the

markets are evaluating how many cuts we might see from the Fed this year as they weigh the impact of tariffs on economic growth, inflation, and employment. The outcomes are highly uncertain, and data could be at odds with one another as the Fed weighs its dual mandate on employment and inflation. Credit markets have remained robust throughout the hiking cycle and into the beginning stages of this current cutting cycle with most spread markets still inside of their tightest deciles. Financial conditions, GDP growth, and employment have all remained solid; but expectations have shifted, and all are weakening from previous levels. Within credit markets, we have seen the benefits of maximizing spread/income into portfolios while maintaining a higher a quality bias.

At this stage of the credit cycle and valuations, we are preferring slightly higher quality and/or less cyclical sectors while trying to maximize income as spreads remain inside of their tightest decile. We are underweight CCC-rated securities as this segment of the market will experience the most default losses if high floating rate debt leads to balance sheet stress and the weakest high yield issuers can no longer service their obligations. The same could also be true for companies within cyclical sectors where the combination of operating leverage and financial leverage can produce balance sheet strain if economic conditions deteriorate and stay suppressed for too long. We have seen some signs of stress whereby several large, overleveraged capital structures have been downgraded, meaningfully underperformed, and have begun the process of distressed debt exchanges. It is also worth noting that defaults within leveraged loans, where the predominance of M&A has been financed over the last decade, are at highs not seen since the Great Financial Crisis (GFC) and meaningfully above bond default rates. We maintained risk positioning in the quarter, keeping yield and income in the Fund while still maintaining a higher quality bias.

We find the best value in the market to currently be 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 spread widening as the Treasury market typically rallies in that scenario, something we have not seen yet and are watching closely. The underweight to higher spreading CCCs has the potential to be a headwind if we are able to avoid a recession and the widest parts of the market carry or tighten from here. The Fund is positioned well to eventually rotate into B and CCC rated securities once valuations become more compelling.

Our outlook for High Yield is Neutral as we are balancing attractive yields of 7.02% and spreads inside of their tightest deciles with fair company fundamentals and a relatively stable default rate outlook. Current spread levels don't leave much room for further tightening; however, the current level of yields is able to absorb and offset some spread widening should the economy have a soft landing or a bumpy

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transition to the next cycle. We anticipate this default cycle to be less than historic averages as issuers have termed out maturities and balance sheets are in relatively good shape. The new issue calendar in high yield has been robust for BB/B rated companies while CCC rated issuers are struggling to bring new deals. The predominance of M&A and leveraged buyout issuance has occurred in the leveraged loan market which is seeing default rates higher than at any time since the GFC. We will be monitoring markets closely and looking for relative value swaps whereby we can increase income into the portfolio without taking undue credit risk; if spreads were to widen and begin to start pricing in weak or recession like scenarios, we are positioned to take advantage by selling some high-quality BB/BBB paper and rolling into lower rated credits with attractive total return characteristics.



**Fund Facts**

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	05/01/00	THYAX	89154W809	1.39%	1.05%
C Shares	05/23/00	THYCX	89154W882	4.69%	1.75%
Y Shares	02/01/07	THYYX	89154W817	1.07%	0.81%
INST Shares	01/27/12	THIYX	89154W775	0.87%	0.73%
<b>Total Fund Assets</b>		<b>\$106.7 Million</b>			

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, 1.74% 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 01/29/26. Share class availability differs by firm.

**Annualized Total Returns**

	2Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	3.21%	3.83%	8.28%	8.95%	5.13%	3.88%	5.80%
C Shares	3.04%	3.48%	7.53%	8.13%	4.34%	3.24%	5.58%
Y Shares	3.15%	3.81%	8.52%	9.15%	5.36%	4.13%	6.01%
INST Shares	3.17%	3.99%	8.61%	9.29%	5.47%	4.21%	5.99%
Benchmark	3.57%	4.57%	10.22%	9.81%	5.98%	5.28%	6.72%
Including Max Sales Charge							
A Shares	-0.18%	0.46%	4.72%	7.76%	4.42%	3.37%	5.59%
C Shares	2.04%	2.48%	6.53%	8.13%	4.34%	3.24%	5.58%

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

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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**

	(% of Portfolio)
1 CCO Holdings LLC / CCO Holding 4.25% 02/01/31	1.7
2 CQP Holdco LP / BIP-V Chinook 5.50% 06/15/31	1.6
3 Allstate Corp. 7.53% 08/15/53	1.5
4 Energy Transfer LP 4.29% 11/01/66	1.4
5 Goodyear Tire & Rubber Co. 5.63% 04/30/33	1.2
6 Air Lease Corp. 4.65% 06/15/74	1.2
7 Turning Point Brands Inc. 7.63% 03/15/32	1.2
8 AHP Health Partners, Inc. 5.75% 07/15/29	1.2
9 Carriage Services, Inc. 4.25% 05/15/29	1.1
10 Caretrust REIT Inc. 3.88% 06/30/28	1.1

Source: BNY Mellon Asset Servicing

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. The Fund's service providers are susceptible to cyber security risks that could result in losses to a Fund and its shareholders. Cyber security incidents could affect issuers in which a Fund invests, thereby causing the Fund's investments to lose value. 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](https://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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