

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- Seeks to maximize total return by investing in market sectors and securities that are considered undervalued for their risk characteristics
- Focus is placed on high-quality securities, many with beneficial structures such as government guarantees or significant tangible collateral support; there is limited exposure to non-investment grade securities
- Prefers to invest in securities of government programs and companies that have sustainable operating models by considering a wide range of factors including, but not limited to, support for economic development, home ownership and job creation
- Utilizes a traditional long-only investment style and invests directly in cash bonds
- Does not invest in futures contracts, options, credit default swaps or derivatives
- Constructs a diversified portfolio across issuer, sector and industry that strives to maximize yield while minimizing the risks inherent in fixed income investing

Market Recap

The fourth quarter consistently delivered stout economic data. GDP growth registered at 4.9%, employment remained full, real wages grew, and consumer consumption stayed on course. During October, the market took these advances as increasing evidence that the U.S. Federal Reserve (Fed) will have to stay higher for longer, and possibly even increase the Federal Funds rate. This led to a loss of 1.58% during the month, building on the losses sustained during third quarter for similar reasons.

Then inflation figures started to roll in, and despite the economic strength, they continued to decline. By the end of the quarter, CPI and Core Personal Consumption Expenditures fell to 3.1% and 3.2% respectively. The Fed also signaled it was beginning to see the strain of tighter financial conditions hitting the economy, namely as it was restricting activity in the housing market. Taken together, this caused the Fed to signal the end of its rate-hiking campaign. These events sent the bond market on a tear, as its 8.3% total return during November and December registered as one of the best two-month total returns in its history. The total return on the Bloomberg U.S. Aggregate Bond Index during the quarter was 6.82%, bringing the YTD figure to 5.53%.

The decline in interest rates were not alone as spreads tightened to join the return party. Over the course of both

the quarter and the year, every primary sector within the Bloomberg U.S. Aggregate Bond Index generated positive excess returns. This drove positive excess returns of 88 basis points (bps) during the quarter, bringing the YTD total to 140 bps.

Portfolio Review

The Touchstone Impact Bond Fund (Class A Shares Load-Waived) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2023.

Due to macroeconomic events, all spread products outperformed during the period. The portfolio's overweight to spread products was its primary tailwind during the period. Though the portfolio benefited from its overweight to spread sectors, its allocation amongst these spread sectors was a headwind. This is because Agency Single-Family Mortgage Backed Securities (SF MBS) were the second strongest performing spread sector, while U.S. Agencies and Agency Multi-Family Mortgage Backed Securities (MF MBS) lagged. The portfolio is underweight SF MBS, while overweight both Agencies and MF MBS.

Corporate credit was the best performing sector during the period. Credits with the most volatile spread profile

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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://www.touchstoneinvestments.com/mutual-funds).**



performed best during the period. We are underweight these types of assets. This was largely offset by our modest overweight in corporate bonds overall.

The largest contributors during the period were the Fund's positions in Title XI Bonds, Ginnie Mae Real Estate Mortgage Investment Conduits (REMICS), and Financials.

The yield advantage provided by Title XI bonds and high spread starting point, coupled with their duration, made them important contributors to relative return during the period. Ginnie Mae REMICS, most of which are largely out of the refinancing window and priced with a large discount, performed well in the falling rate environment. Adjusted for duration, financials outperformed their industrial and utility brethren. This has largely been due to them rebounding off the lows incurred earlier in the year when three U.S. banks failed. The largest impact from this failure affected regional banks, which we are overweight. These banks have in turn had the strongest normalization as the market has come to accept the banking failures were idiosyncratic in nature, not systemic.

The largest detractors during the period were the Fund's position in SF MBS, Industrials, and Housing Municipal Bonds.

The benchmark is primarily made up of low coupon SF MBS. Our investments demonstrate a preference for middle and up in the coupon stack. Those middle to higher coupon SF MBS underperformed their lower coupon siblings meaningfully.

When we discuss owning less volatile corporate bonds than the benchmark, it is largely concentrated within the Industrial sub sector. This effect was on display during the period, as more steady economic entities such as the telecoms, railroads, and waste management companies did not keep pace with companies operating in industries that are more volatile.

Housing Municipal bonds, which if efficiently priced and traded should roughly mimic the performance of SF MBS, did not do so during the period. We have been reducing our allocation to this sector for the last several years. Today it makes up 1.75% of the entire portfolio.

There were no significant changes to the Fund's positioning during the quarter. The largest positioning change during the quarter occurred within the composition of Treasuries. With the combination of value and liquidity provided by MBS, we choose to eliminate our holdings of 0 year – 10-year U.S. Treasuries, placing those proceeds into a combination of longer duration Treasuries and MBS. This decision was also buoyed by the tight spreads seen in long duration corporate bonds.

The Fund's effective duration of 6.10 continues to be approximately matched to that of the benchmark, representing 98% of the benchmark's effective duration as of quarter end. The Fund entered the quarter at 98% of the benchmark's duration. Changes in interest rates had little relative impact on returns.

Rates fell across the entirety of the yield curve. Though maturities inside of a year were less changed, the rest of the curve saw declines of approximately 70 bps. The Fund is actively managed to be approximately duration and yield curve neutral, leading to little impact on returns.

Outlook and Conclusion

Now that a new year has begun, a new round of forecasts has sprouted with it. While often interesting, and at times even insightful to read, the most interesting forecasts are taking place in the market with real dollars and cents on the line. Within the fixed income market, one of the most aggressive and influential forecasts has to do with how participants believe the Fed will conduct monetary policy in 2024. Through a highly liquid derivative market, investors have priced in six rate cuts by the Fed in 2024. This pace is two times faster than what the Fed officials have indicated. Inflation has fallen steadily, and ruling the possibility of six rate cuts out would be premature. However, this is an aggressive position that the market has assumed, and it has the potential to impact financial markets in a variety of ways.

This type of activity affects the yield curve, and thereby it affects the risk-free rate, which is used as a fundamental building block to value cash streams from any type of asset, financial or otherwise. The impact on the yield curve also influences the value of the U.S. dollar and the costs of currency hedging. Lastly, and of most relevance for our fixed income portfolios, is the impression this rate pricing can have on spread levels. This can take shape in many forms. For brevity, we will focus on two. First, as yields are pushed lower, spread compensation becomes increasingly attractive. Investors expecting rates to move lower may attempt to front run any associated spread tightening, and push spreads tighter pre-emptively. Second, these lower rate expectations influence prepayment models used to value MBS. In short, lower rates increase the pace at which the models imply homeowners will pay off and refinance their mortgages. This in turn has a direct impact on the spread promised by these models. If prepayment activity by homeowners does not follow this predicted path, the promised return of MBS will be broken. An aggressively positioned rate market increases the possibility of a broken path.

These types of rate assumptions, and what they mean for both spread levels and prepayment beliefs, affect the bottom-up relative value analysis of the bonds themselves. As the market evolved, we remained ready to adapt to both the changing conditions and expectations. As spreads tightened in the fourth quarter, we made a concerted push to move the portfolios into securities offering more spread. When interest rate expectations were subdued earlier in the year, we increased our allocation to SF MBS, which would benefit from a faster pace of prepaes. As those expectations became more aggressive and fully priced in the fourth quarter, we slowed our investments in the sector. As we evolved, we also maintained time-tested characteristics of our portfolios. The portfolios remain overweight in high quality spread bonds without sacrificing overall quality, offer a stable convexity profile, and have a material yield advantage versus their

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assigned benchmarks. We will continue to manage portfolios in this manner while remaining alert and agile, ready to navigate an ever-evolving path.

We have a strong conviction in the position of the Fund. In a world of tight spreads, we believe the Fund is well positioned despite its overweight to spread products. Increasing our exposure to financials during 2023 contributed to this. Our Small Business Association bonds, which underperformed for nearly all of 2022 and 2023, are beginning to show real signs of life again. At minimum, they are left with an extremely competitive yield profile, but they are quite likely to make relative price gains as well. While the performance of SF MBS in the fourth quarter was mostly about increasing expectations of prepayments, actual prepayments will ultimately matter more. We believe our security selection within the sector is better positioned to perform than the benchmark along these lines. Should rates drop dramatically lower, the convexity and cash flow stability advantage of the portfolio should return, as much of the indices SF MBS will lose their positive convexity profile while our MF MBS will retain its profile.



Fund Facts (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	08/16/10	TCPAX	89155T102	0.96%	0.76%
C Shares	08/01/11	TCPCX	89155T201	2.25%	1.51%
Y Shares	11/15/91	TCPYX	89155T409	0.51%	0.51%
INST Shares	08/01/11	TCPNX	89155T300	0.48%	0.41%
R6 Shares	11/22/21	TIMPX	89155T433	0.46%	0.37%
Total Fund Assets	\$546.4 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 0.76% for Class A Shares, 1.51% for Class C Shares, 0.51% for Class Y Shares, 0.41% for Class INST Shares and 0.37% for Class R6 Shares. These expense limitations will remain in effect until at least 01/29/25.

Share class availability differs by firm.

Annualized Total Returns (As of 12/31/23)

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	6.67%	5.19%	5.19%	-3.47%	0.61%	1.50%	4.39%
C Shares	6.35%	4.35%	4.35%	-4.18%	-0.15%	0.90%	3.71%
Y Shares	6.72%	5.32%	5.32%	-3.23%	0.86%	1.75%	4.65%
INST Shares	6.75%	5.54%	5.54%	-3.13%	0.96%	1.87%	4.69%
R6 Shares	6.76%	5.47%	5.47%	-3.13%	0.92%	1.78%	4.66%
Benchmark	6.82%	5.53%	5.53%	-3.31%	1.10%	1.81%	4.75%
Including Max Sales Charge							
A Shares	3.18%	1.75%	1.75%	-4.52%	0.21%	1.01%	4.23%
C Shares	5.35%	3.35%	3.35%	-4.18%	-0.15%	0.90%	3.71%

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 - Bloomberg U.S. Aggregate Bond Index

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The performance presented for Class A, C, INST and R6 Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 11/15/91, with the performance since the inception date of each share class.

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://www.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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Touchstone is a member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years.

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 mortgage-backed securities and asset-backed securities which are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. The Fund invests in investment grade debt securities which may be downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to below investment grade status. 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 Fund invests in U.S. government agency securities which are neither issued nor guaranteed by the U.S. Treasury and are not guaranteed against price movements due to changing interest rates. The sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so. 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 municipal securities which may be affected by uncertainties in the municipal market related to legislation or litigation involving the taxation of municipal securities or the rights of municipal security holders in the event of bankruptcy and may not be able to meet their obligations. The Fund invests in mortgage dollar rolls which involve increased risk and volatility, as the securities the Fund is required to repurchase may be worth less than the securities that the Fund originally held. 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.



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