Touchstone Impact Bond Fund

Sub-Advised by: EARNEST Partners LLC

Income – Investment Grade Bond 1Q/2023

Fund Manager Commentary

As of March 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 first quarter of 2023 proved to be a volatile period, with the market navigating ever-changing waves of economic data and sentiment. January continued the trend set in the latter half of the fourth quarter 2022, as investors grew increasingly optimistic that less U.S. Federal Reserve (Fed) intervention would be required and a soft landing was on the horizon. However, February brought robust employment and consumption data, later coupled with a resurgence in inflation figures. This combination shifted sentiment, reversing the substantial declines in interest rates observed in January. By the end of February, the yield differential between the 2-year and 10-year Treasuries reached 107 basis points (bps), the highest level in 40 years.

The focus on strong economic data and the interpretation that it would force the Fed to tighten monetary policy further, abruptly encountered banking failures in early March. The Fed swiftly addressed the issue with balance sheet solutions and maintained that U.S. banks were well-capitalized, allowing the Fed to concentrate on achieving price stability through interest rate policy. Nevertheless, the market expressed doubt about this outcome. By quarter-end, the prevailing view was that the Fed had "broken something" and would be forced to loosen monetary policy or risk additional banking failures. This led to a dramatic drop in interest rates during March; the gap between the 2-year and 10-year Treasury yields shrank to 57 bps, indicating the market had lost faith in the Fed's "higher for longer" approach. Despite this sudden turnaround, the yield curve remained significantly inverted at quarter-end, with Treasury Bills offering 4.95% compared to the 10-year Treasury yield of 3.47%.

This sequence of events serves as a reminder of the reshaped dynamics of both the economy and investment environment created over the last 15 years through extraordinary applications of monetary policy. Volatility is likely to remain high due to the increasingly complex set of conditions facing monetary policy.

Interest rates fell across the yield curve during the period. The change was nearly parallel in nature, with all maturities greater than two years falling by about 40 bps. Spread product performance was mixed, but all spreads rose during the quarter due to economic concerns generated by the banking failures and persistent levels of inflation.

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 March 31, 2023.

The macroeconomic environment proved beneficial for less risky assets and a headwind for riskier securities. This caused

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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.***

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most spread products to underperform matched duration Treasuries. Our underweight to Treasuries served as the primary headwind experienced by the portfolio during the period.

Sector performance during the period was interesting and was not driven entirely by traditional relative levels of associated risk. Idiosyncratic drivers played a larger role than they have recently. Despite the generalized risk-off sentiment, Corporate bonds were the one sector that delivered positive excess returns versus Treasuries during the period. U.S. Agency bonds were flat to Treasuries during the period, Asset Backed Securities (ABS) trailed by -5 bps, and ABS Rate Reduction Bonds outperformed by 51 bps. Agency Multi-Family Mortgage Backed Securities (MBS) trailed Treasuries by -25 bps while their cousin Agency Single-Family MBS fell -50 bps behind Treasuries.

While our overweight to spread products was a headwind, our security selection and allocation across various spread sectors benefited the portfolio, approximately offsetting the underperformance generated from the Treasury underweight.

Though corporate bond spreads increased by 8 bps during the period, the sector was still able to provide positive excess return due to the additional income earned by the bonds. However, the application of this performance was far from uniform. In fact, only the Industrial sector generated positive excess returns, while Utilities and Financials trailed. Our overweight to Utilities and modest underweight to Industrials created a small headwind for the portfolio.

The largest contributors to the Fund were Rate Reduction Bonds, Small Business Administration Development Company Participation Certificates (DCPC), and Build America Bonds. Rate Reduction Bonds are 'AAA' rated ABS. They are supported by a regulated charge on each consumer's electricity bill. While the strong performance of the sector in 2022 was largely due to the wide new issuance levels, new issuance was limited in the first quarter 2023. Still, the bonds traded well and moved tighter during the period due to relatively wide spread levels for 'AAA' rated securities.

Due to the structure and high quality, of Small Business Administration DCPC, this corner of the U.S. Agency market outperformed most during the period. As recently discussed, the bonds ended fourth quarter 2022 at a historically wide level relative to corporate bonds. This provided them with a nice cushion to perform during the period without overextending their relative value.

Build America Bonds are taxable municipal bonds backing infrastructure and community investments which performed well during the period. Due in part to their partial U.S. government guarantee, these bonds are high-quality and low volatility, helping them perform well through the volatile period of March.

The largest detractors to the Fund were Senior Secured Utility Bonds, Keybank NA, and Multi-Family MBS Collateralized Mortgage Obligations (CMO).

Our corporate senior secured utility bonds detracted from relative performance. This is largely due to the highly regulated nature of their operations, which limits their ability to quickly pass along price hikes to their customers associated with higher fuel and operational costs driven by inflation.

In the aftermath of the banking failures, KeyBank NA came into the market's focus as another potential source of weakness. Our additional analysis of their balance sheet left us confident to retain the holdings, particularly given the high level of spread offered by the bonds.

While Multi-Family MBS outperformed Single-Family MBS due to their superior structure, the CMO subset of Multi-Family MBS provide less structure and hence were more prone to the volatile interest rate environment. This subset of Multi-Family MBS underperformed their broader parent sector.

There were no significant changes to the fund's positioning or allocation weights during the quarter.

The Fund's effective duration of 6.01 years continues to be approximately matched to that of the benchmark, representing 96% 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.

The portfolio is actively managed to be approximately duration and yield curve neutral. The yield curve fell in a mostly parallel fashion. The only exception to this was in Treasury Bills, which have such little duration that the price impact is negligible.

Outlook and Conclusion

As discussed at the end of last year, the biggest challenge facing investors is the increase in competition for capital. Gone are the days when cash earned 0% and long-term corporate bonds provided a yield of 2%. While other macro-economic events garner more headlines, this is a prevailing theme that influences all corners of the economy and investment landscape. For fixed income portfolios, this changing dynamic is a positive. Given the structural inflation that seems to be in place, this tailwind could continue for a period that is longer than the market has priced in.

At the same time, banking failures have quickly complicated the Fed's path forward. If another were to hit, they would likely have to change course. Even without a failure, tighter lending standards could restrict economic growth, in the same fashion the Fed has hoped to achieve with their interest rate hikes. In almost all cases, the economy faces a tricky and challenging path forward.

The combination of higher rates and economic headwinds has created an opportunity for fixed income investors. Fixed income offers a haven of safety during volatile periods or in a recessionary environment. When that haven is coupled with yields of around 5%, we believe the asset class is attractive. This combination is the most powerful for high quality bonds. For these reasons (and the unconventional shape of

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the yield curve) we have increased our focus on yield instead of spread when constructing the portfolio and analyzing the relative value of securities, simultaneously maintaining an increase in quality position for the Fund. The shape of the yield curve has also increased our focus on preferring bonds that will not roll up the yield curve in the immediate future.

Due to the relative valuation of our high quality and less volatile bonds, we are optimistic about the Fund's positioning. If volatility or an economic contraction occur, we believe the portfolio will perform strongly over the cycle. If we move sideways from here, the relative value of these securities still positions them to generate outperformance. Only a very strong economy poses a scenario in which we would not be surprised to see the Fund underperform.

As of March 31, 2023, Keybank NA/Cleveland, OH 4.15% 08/08/2025 made up 0.44% of the Touchstone Impact Bond Fund. Current and future holdings are subject to change.

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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	08/16/10	**TCPAX**	89155T102	0.93%	0.76%
C Shares	08/01/11	**TCPCX**	89155T201	2.25%	1.51%
Y Shares	11/15/91	**TCPYX**	89155T409	0.52%	0.51%
INST Shares	08/01/11	**TCPNX**	89155T300	0.49%	0.41%
R6 Shares	11/22/21	**TIMPX**	89155T433	238.46%	0.37%
Total Fund Assets	**$521.3 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 01/29/24.*

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	2.73%	2.73%	-5.25%	-2.61%	0.37%	0.97%	4.41%
C Shares	2.61%	2.61%	-5.89%	-3.32%	-0.37%	0.37%	3.73%
Y Shares	2.79%	2.79%	-4.89%	-2.36%	0.64%	1.23%	4.68%
INST Shares	2.93%	2.93%	-4.80%	-2.26%	0.74%	1.35%	4.72%
R6 Shares	2.82%	2.82%	-4.77%	-2.30%	0.68%	1.24%	4.68%
Benchmark^	2.96%	2.96%	-4.78%	-2.77%	0.91%	1.36%	4.78%
Including Max Sales Charge							
A Shares	-0.63%	-0.63%	-8.33%	-3.26%	-0.59%	0.48%	4.25%
C Shares	1.61%	1.61%	-6.82%	-3.32%	-0.37%	0.37%	3.73%

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[1]

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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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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Not FDIC Insured | No Bank Guarantee | May Lose Value

[1] 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. Current and future portfolio holdings are subject to change.

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