Touchstone Strategic Income Fund

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

Income – Multisector Bond 1Q/2025

Fund Manager Commentary

As of March 31, 2025

Fund Highlights

- Primarily invests in income producing securities including corporate debt securities, mortgage-related securities, asset-backed securities, government securities (both U.S. government securities and foreign sovereign debt), public equities and preferred stocks
- Invests at least 50% of the portfolio in investment-grade rated securities
- Expanded opportunity set provides the flexibility to react to market dislocations
- Broadly diversified by sector, resulting in multiple sources of return potential and low correlation to traditional asset classes
- Duration management is used as a risk mitigation tool; seeks to avoid taking large duration positions due to the difficulty in predicting interest rates
- Active management and security selection are focused on building a high conviction portfolio

Market Recap

Uncertainty was the dominant theme in markets during the first quarter, driven largely by shifting policies under the new administration. Evolving trade policies and escalating tensions with key trading partners created an added layer of complexity for businesses, impacting corporate planning and investment decisions. At the same time, consumer sentiment showed signs of softening, with investors reassessing the potential impact of new policies on spending behavior.

This growing lack of clarity, combined with rising inflation concerns, have created uncertainty around the trajectory of U.S. economic growth, prompting economists to revise their 2025 GDP forecasts. However, it is worth emphasizing that much of the deterioration so far has been reflected in soft data—surveys, sentiment indicators, and business confidence—rather than hard economic metrics like GDP or employment.

Looking ahead, key factors to watch include potential shifts in fiscal policy, the U.S. Federal Reserve's (Fed) response to evolving macroeconomic conditions, and the extent to which business and consumer sentiment translates into actual spending and business activity. If uncertainty persists or tariffs escalate into larger trade wars, it will likely manifest in weaker hard data. That said, a dovish Fed reaction or a pivot on trade policy could help restore some confidence and support domestic growth.

Increased policy uncertainty and renewed growth fears led to a risk-off tone for financial markets as interest rates declined and risk assets underperformed. Equities were volatile as the S&P 500 briefly entered correction territory from mid-February highs and ended the quarter down -4.3%. Credit spreads also moved wider but remain tight relative to historical levels. Amid this risk off tone, Treasury yields moved lower with the 10-year Treasury ending the quarter at 4.21% compared to 4.57% at the start of the year.

Portfolio Review

The Touchstone Strategic Income Fund (Class A Shares, Load Waived) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2025.

Security selection was the largest contributor to relative performance in the investment grade corporate and securitized sectors. Within investment grade corporates, there were multiple sectors that added to relative performance. One of the primary drivers of performance was an overweight allocation to finance companies, including subordinated positions within high quality banks. Within securitized, non-agency commercial mortgage backed securities (CMBS) was the largest contributor to performance while other non-agency sectors such as collateralized loan obligations (CLO) and asset backed securities (ABS) also performed.

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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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The impact of sector allocation to the Fund's relative performance was largely neutral over the quarter. The primary driver of relative performance was an allocation to non-credit sectors which was offset by an overweight to high yield corporates as spreads widened over the quarter.

The Fund did not materially adjust sector allocations over the quarter as we maintained a focus on finding issuers with compelling bottom-up narratives as spreads widened.

Interest rate positioning detracted from relative performance versus the benchmark. Interest rates declined during the quarter as investors increased their expectations for future rate cuts. The Fund was positioned to benefit from a steeper yield curve by overweighting short and intermediate rates in the beginning of the quarter. Throughout the quarter the Fund reduced its underweight exposure to the long end of the curve. While the curve steepened modestly during the quarter, the impact on relative performance was a slight detraction.

Interest rate positioning entered the quarter toward the higher end of the Fund's historical range but tactically adjusted that exposure as interest rates declined throughout the quarter. The Fund's average duration over the quarter was 5.4 years and ended the quarter at 5.4 years, targeting a duration between 5.5 and 5.75 years, compared to 6.1 years for the benchmark. This positioning is toward the higher end of the Fund's historical range as we believe longer interest rates are exhibiting attractive value at current levels.

Outlook and Conclusion

The Fund is targeting a modest overweight to risk representing 30% of the Fund's risk budget. Developing trade policy has created elevated uncertainty around economic growth and inflation. Forecasts for U.S. economic activity have declined in recent weeks amid tariffs and weaker sentiment across businesses and consumers. Investor expectations for inflation are for a meaningful short-term impact but one that is not expected to be persistent. While the Fed paused at their last two meetings, expectations are for multiple cuts in 2025 as downside risks to growth have increased and uncertainty remains high.

Despite modestly cheaper valuations since the beginning of the year, current levels are still expensive relative to history. Incorporating elevated uncertainty with current valuations, portfolios are positioned with a modest overweight risk posture and an ability to add risk as opportunities arise.

The Fund's sector positioning reflects current valuations, relative value, and opportunities within each sector. Allocations were adjusted marginally in the quarter and primary risk exposures include:

Exposure to Investment Grade Credit was increased marginally over the quarter. The sector continues to favor positions lower in the capital structure within high quality financials and is selectively adding to bottom-up opportunities on attractive relative value, including targeting investments at the front and intermediate segments of the curve.

The Fund's allocation to Securitized Products was largely unchanged over the quarter. The team continues to favor non-agency exposure and is overweight ABS, CLO, and CMBS.

The Fund maintained its exposure to Emerging Markets Debt which is toward the lower end of the Fund's historical range. The sector is primarily invested in compelling bottom-up narratives within the below-investment grade segment. Latin America is the largest exposure within the sector.

High Yield exposure remained unchanged during the quarter and continues to be toward the lower end of its historical range. The high yield allocation is broadly diversified by sector, favoring quality, as the Fund waits for an opportunity to add risk at more attractive spreads.

The Fund's duration was tactically adjusted during the quarter as rates declined. However, the Fund began and ended the quarter roughly unchanged at 5.5 years, although averaging a 5.4 year duration for the quarter. We are positioning the Fund within the current range of 5.5 to 5.75 years. The yield curve steepened marginally during the first quarter, and the Fund reduced its underweight to the long end of the curve. Volatility has been elevated as investors adjust their expectations for future rate cuts and we anticipate that to continue as new economic data is released.

The Fund is positioned well to navigate the current environment of elevated uncertainty. We believe a modest overweight to credit sectors is prudent given valuations are tight relative to historical medians and uncertainty remains high. Evolving policy combined with softer consumer and business sentiment have led to rapidly shifting forecasts for economic growth and inflation. If the economic landscape stabilizes, the Fund is positioned to benefit from additional spread risk relative to the benchmark. However, if economic growth slows materially, the Fund is positioned to add exposure opportunistically as risk assets would likely experience further weakness. Additionally, we believe positive security selection can benefit the Fund in many different market environments and tactical duration management allows the Fund to take advantage of elevated rate volatility.

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Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	11/01/93	**TQPAX**	89154M306	1.16%	1.00%
C Shares	04/01/94	**TQPCX**	89154M405	1.97%	1.71%
Y Shares	01/29/15	**TQPYX**	89154M504	0.91%	0.75%
INST Shares	07/19/21	**TQPIX**	89154M603	1.67%	0.65%
Total Fund Assets	**$297.2 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 1.00% for Class A Shares, 1.71% for Class C Shares, 0.75% for Class Y Shares and 0.65% for Class INST Shares. These expense limitations will remain in effect until at least 07/29/25.

Share class availability differs by firm.

Annualized Total Returns

	1Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	2.40%	2.40%	7.05%	3.98%	4.31%	3.05%	5.48%
C Shares	2.53%	2.53%	6.23%	3.32%	3.60%	2.36%	5.03%
Y Shares	2.48%	2.48%	7.34%	4.26%	4.58%	3.26%	3.30%
INST Shares	2.50%	2.50%	7.80%	4.39%	—	—	2.14%
Benchmark	2.78%	2.78%	4.88%	0.52%	-0.40%	1.46%	—
Including Max Sales Charge							
A Shares	-1.04%	-1.04%	3.41%	2.84%	3.29%	2.56%	5.32%
C Shares	1.53%	1.53%	5.23%	3.32%	3.60%	2.36%	5.03%

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 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 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 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 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 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 equities which are subject to market volatility and loss. The Fund invests in preferred stocks which are relegated below bonds for payment should the issuer be liquidated. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing their price to decline. 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 invests in emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. The Fund invests in sovereign debt securities which are issued by foreign governments whose respective economies could have an important effect on their ability or willingness to service their debt which could affect the value of the securities. The Fund invests in derivatives such as futures contracts. Derivatives can be highly volatile, illiquid and difficult to value, subject to counterparty and leverage risks and there is risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Gains or losses from speculative positions in a derivative may be much greater than the original cost and potential losses may be substantial. 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 may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. The Fund invests in repurchase agreements which are considered loans by the Fund and may suffer a loss of principal and interest in the event of counterparty defaults. 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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