

## Fund Manager Commentary

As of December 31, 2023

### 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

The fourth quarter was a stark contrast to the previous three quarters of 2023 and welcomed by fixed income investors. Despite volatility at the beginning of the quarter, rates ended meaningfully lower as the market shifted its focus from rate hikes to cuts. The combination of lower inflation and positive economic growth also paved the way for increasing momentum around a 'soft landing'. This outlook led to a rally in risk assets over November and December, with credit spreads tightening well below their historical averages. While a meaningful economic slowdown does not appear to be on the immediate horizon, risks to growth are still elevated as many Americans have pulled forward personal consumption and, at the same time, corporate spending and government outlays are not anticipated to be tailwinds into 2024.

The period began how most of 2023 evolved with rates increasing as we reached 5% on the 10-year treasury and credit spreads experiencing volatility. However, in November we observed a shift in expectations, which was prompted by lower inflation data. While the market had previously been fixated on the potential for more rate hikes, inflation, and labor market figures prompted investors to recognize the probable end of the hiking cycle. The change in view was confirmed by economic data over the remaining quarter, which showed resilient growth, supporting a 'soft landing' view.

By the end of December, market consensus was to avert a recession and for multiple rate cuts next year as inflation declines further. As a result, the longer part of the curve (10-30 year) rallied about 70 basis points (bps) in the fourth quarter and the 10 year ended below 4%, at 3.9%. Investment grade spreads (10yr BBB Industrials) rallied 32bps since the end of September to their 26 percentile and high yield (single B Corporates) tightened 89bps and ended at the 10 percentile. These moves drove significant performance for the Bloomberg U.S. Aggregate Bond Index, which had its strongest quarterly return since the 1980s.

The focus over the next few months will continue to be inflation as the market gauges the timing and magnitude of potential U.S. Federal Reserve (Fed) rate cuts. While core inflation is 3.2% on a year-over-year basis, more recent data (6 month annualized) shows core inflation already below the target at 1.9%. It is worthwhile to also keep in mind that year-over-year core inflation has been held up due to shelter, which is calculated on a lag and expected to continue normalizing toward 2%. This would signal the economy is certainly within striking distance of the Fed's target, if not already there.

At the December press conference, Chair Powell indicated the Fed would need to begin cutting rates before we get to 2% inflation, which implies the first cut could be soon. Currently, the market anticipates 150bps of cuts, starting in March 2024, while Fed officials averaged 75bps of cuts in their most recent dot plot. This is a meaningful divergence,

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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).**



and we should remain cognizant that the Fed's biggest fear is that inflation creeps back into the economy. There are risks to the market's expected path of rates, which includes an increase in sentiment, brought by easing financial conditions, which could spur spending and investment thus slowing progress on inflation.

Ongoing strength of the U.S. consumer is still an unknown as excess savings decline, student loan payments resume, and lending standards remain tight. Credit usage has risen and is now in line with the pre-COVID trend while delinquencies on consumer loans are above 2019 levels. The labor market continues to exhibit strength, as shown by the low unemployment rate, but continuing jobless claims have risen. Additionally, wage growth remains strong but has slowed over the year. This data paints a mixed picture of the consumer and leads us to a higher level of uncertainty than current asset valuations would indicate.

Beyond the consumer, U.S. growth is likely to encounter challenges as businesses invest less in capital expenditures due to profits being squeezed from higher employment costs. Separately federal spending is expected to be a slight detractor from GDP in 2024 as the government, similar to consumers, deals with higher borrowing costs. Outside of the U.S., there are uncertainties such as developments surrounding the Israel/Hamas conflict, Europe teetering on a recession, and China working to contain their real estate crisis. Each of these has the potential to affect the global economy.

Overall U.S. inflation is largely anticipated to continue declining, but the path of rate cuts will likely not progress exactly as the market currently anticipates, which we expect will lead to periods of volatility. There are also risks to the 'soft landing' expectations as consumer demand is likely to moderate and corporate spending remains in question. Considering this backdrop, in addition to global uncertainties and current valuations, we believe it is appropriate to maintain only modest levels of risk in portfolios.

### Portfolio Review

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

The Fund's overweight risk position was the largest positive contributor to return in the quarter. Specifically, allocations to emerging market debt, high yield (HY) credit, and non-credit sectors were the largest sector contributors. Spreads across most fixed income sectors were tighter and risk assets performed well over the quarter as expectations for a soft landing became more widely accepted.

Security selection was a positive factor for relative performance within investment grade credit, securitized, emerging markets, and HY. However, a Markit High Yield Credit Default Swap Index futures position within HY did detract from security selection within the sector. Investment

Grade (IG) Corporates were the largest contributor as volatility outperformed but also from bottom-up opportunities in media and consumer products, which outpaced the broader credit sector.

Interest rate positioning detracted from relative performance versus the benchmark. Interest rates declined markedly across all tenors during the quarter, resulting in underperformance as the Fund was positioned with a shorter duration compared to the benchmark. However, some of the negative relative performance was offset by curve positioning as the Fund was underweight the longest tenors which experienced a smaller decline than the intermediate part of the curve.

The Fund did not materially adjust sector allocations over the quarter as a risk budget of 40% remained the target. The Fund is positioned with less duration than the benchmark and ended the quarter at 4.8 years compared to 6.2 for the benchmark. This positioning is near the Fund's historical average as rates are now more fairly priced. Compared to the benchmark, duration positioning detracted from returns for the quarter. Interest rates declined during the quarter, resulting in negative relative return due to being short duration compared to the benchmark.

The entire yield curve moved lower during the quarter, hurting relative performance compared to the benchmark as the Fund was managed with a shorter duration. However, yield curve positioning was a positive contributor to performance in the quarter as the Fund was positioning to benefit from a steeper yield curve. While the entire curve moved lower, longer-term interest rates declined at a slower pace compared to the intermediate part of the curve.

### Outlook and Conclusion

The Fund is targeting a modest overweight to spread risk representing 40% of the risk budget. Credit spreads rallied in the fourth quarter from historical averages and ended the year at the 26 and 10 percentiles, for IG and HY respectively. While recent economic data provides support for these levels, further upside is limited which is the basis for our modest risk overweight.

Looking ahead, risks to strategy positioning are focused on the lagged effects of Fed tightening, tight credit conditions in bank lending, and the time horizon of how long rates will remain overly restrictive. Although recent data has been in line with expectations, overall growth is likely to continue at below-trend pace over coming quarters, with downside risk from the above factors. Inflation has declined from peak levels and is nearing the Fed's target range. However, the Fed does not believe the battle with inflation is over and they will likely lean hawkish until they are more confident on the lower trajectory. At current levels, the biggest risk to markets is a sharper slowing in economic growth that would challenge the expectation of a soft landing. As our view of the economy and monetary policy changes, we will adjust positioning accordingly.

Sector positioning reflects generally expensive valuations, relative value, and opportunities within each sector.

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Allocations were generally unchanged in the quarter and primary risk exposures included: Exposure to IG Credit was modestly reduced during the quarter. The sector continues to favor positions lower in the capital structure within high quality financials and utilities while selectively adding to bottom-up opportunities on attractive relative value. The Fund's allocation to Securitized Products also remained steady during the quarter. We continue to favor non-agency exposure within the sector, and are positioned appropriately with overweight exposure to Asset Backed Securities, Collateralized Loan Obligations and Commercial Mortgage Backed Securities. The Fund maintained its exposure to Emerging Markets Debt during the quarter after reducing the sector during the first half of the year. Valuations remain attractive relative to domestic credit within the high yield portion of the market. Latin America remains the largest exposure within the sector. High Yield exposure was maintained during the quarter based on valuations well below historical medians. High Yield exposure is at the lower end of its historical range as risk/reward is skewed to the downside with valuations not adequately compensating investors for increased economic risks. Within High Yield, the Fund is broadly diversified by sector and has been reducing risk on relative value, adding to higher quality BBs. Duration was reduced during the quarter from 5.2 to 4.8 years following the material rally in rates. We are positioning portfolios within the current range (4.5-5 years) through an allocation to treasuries, including TIPS (real yields). We believe longer rates are now more fairly valued but expect to see volatility over the next several quarters while breakevens will dampen duration exposure if rates move higher.

The Fund is positioned to perform well in a stable to improving market environment. We believe a modest overweight to credit sectors is prudent as valuations are tight of historical medians, limiting potential upside. However, the improving economic environment should support tighter spreads and keep them generally range bound. The Fund should perform well in this type of stable environment through its excess carry, as it continues to generate an above average yield through a high conviction multi-sector approach. Despite the recent rally, the Fund's yield is still above historical averages and should help offset potential risks. However, if economic growth slows more than expected, the Fund is also in a position to add exposure opportunistically if risk assets experience weakness. In today's volatile environment, the Fund provides a compelling solution for fixed income investors due to its flexible and risk-oriented approach.

High Yield exposure was maintained during the quarter based on valuations remaining at or below historical medians. High Yield exposure is at the lower end of its historical range as risk/reward is skewed to the downside with valuations not adequately compensating investors for increased economic risks. Within High Yield, the Fund is broadly diversified by sector and has been mitigating risk on relative value, adding to higher quality BBs.

We are positioning the Fund's portfolio with a slight long

duration bias through an allocation to Treasuries, including TIPS (real yields). We believe that the growth and inflation outlook will continue to bias interest rates lower over the next several quarters while breakevens will dampen duration exposure if rates continue moving higher.

The Fund is positioned to perform well in a stable to improving market environment. We believe an overweight to credit sectors should benefit investors, as valuations are generally fair at current levels. The Fund continues to generate an above average yield through a high conviction multi-sector approach and should perform well in a stable environment through its excess carry. The Fund's yield has risen to historically high levels and should help offset potential risks. However, if economic growth slows more than expected, the Fund is also in a position to add exposure opportunistically if risk assets experience weakness.

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**Fund Facts** (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	11/01/93	TQPAX	89154M306	1.12%	1.00%
C Shares	04/01/94	TQPCX	89154M405	1.90%	1.71%
Y Shares	01/29/15	TQPYX	89154M504	0.87%	0.75%
INST Shares	07/19/21	TQPIX	89154M603	3.89%	0.65%
<b>Total Fund Assets</b>	<b>\$202.2 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 1.00% 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 07/29/24. 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
<b>Excluding Max Sales Charge</b>							
A Shares	6.81%	8.37%	8.37%	-0.78%	3.25%	2.63%	5.38%
C Shares	6.59%	7.19%	7.19%	-1.51%	2.50%	1.93%	4.94%
Y Shares	6.90%	8.30%	8.30%	-0.53%	3.50%	—	2.65%
INST Shares	6.95%	8.42%	8.42%	—	—	—	-0.95%
Benchmark	6.82%	5.53%	5.53%	-3.31%	1.10%	1.81%	—
<b>Including Max Sales Charge</b>							
A Shares	3.29%	4.86%	4.86%	-2.41%	2.24%	2.14%	5.21%
C Shares	5.59%	6.19%	6.19%	-1.51%	2.50%	1.93%	4.94%

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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**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 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.



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