Fund Manager Commentary

As of December 31, 2025

Fund Highlights

- Targets goals through a short duration, low risk approach
- Emphasizes mortgage-backed and asset-backed securities, which are backed by income-producing assets; inefficiencies in these markets make them attractive for active management
- Seeks to keep duration less than a year, which reduces duration risk compared to longer duration portfolios
- Higher credit quality portfolio seeks to avoid higher risk strategies, such as non-dollar currencies and lower quality credits
- Seeks to complement more opportunistic fixed income, equity or hedge fund strategies

Market Recap

The U.S. Federal Reserve (Fed) built on its September rate cut by delivering two additional 25 basis point reductions at the final meetings of the year. A weakening employment picture prompted the Federal Open Market Committee (FOMC) to move policy closer to neutral. However, division among members has grown, with concerns over downside risks to the labor market at odds with views that the economy could still experience upside inflation surprises. While recent reports show inflation plateauing, goods prices appear the most likely source of higher-than-expected inflation, given ongoing tariff pressures and a pending Supreme Court ruling on their legality.

Following stronger-than-expected 4.3% GDP growth in third quarter, the economy is projected to see a modest slowdown in fourth quarter. However, this is largely due to the temporary drag from the U.S. government shutdown, with growth normalizing in first quarter of 2026. Beyond weighing on activity, the shutdown has complicated the interpretation of economic data as a result of missing inputs and delayed releases. Nevertheless, as the effects dissipate, tax policy remains a potential tailwind, as accelerated depreciation should boost capital expenditures and individual tax cuts should support consumer spending. That said, job creation has slowed meaningfully and could begin to pressure consumption should unemployment rise further.

As rate cuts eased financial conditions and market fundamentals remained healthy, the S&P 500 continued to reach new highs over the quarter. Closing the year with an annual return of 17.9%, this marks a third consecutive year of double-digit gains for the S&P. Credit spreads were largely range bound during the quarter and remain near historically tight levels. Expectations for additional rate cuts in 2026, alongside benign long-term inflation expectations, contributed to a steepening yield curve over the quarter, despite the 10-year Treasury ending largely unchanged at 4.17%.

The interest rate curve from 1 month to 2 years is now only slightly inverted, given the Fed cuts this past quarter. The 1-2 month part of the Treasury curve moved 45-50 basis points lower, and the 2-3 year part of the curve dropped 8-13 basis points. Lower rates in the very front end continue to erode interest income on floating rate assets. Investors are still not being fully compensated for extending out the curve, but with the potential for more Fed rate cuts in 2026, there is a balance to extending out with more fixed rate securities.

Spreads were stable to slightly tighter for almost all asset classes during the fourth quarter. Certain commercial mortgage backed securities (CMBS) and subprime consumer assets are trading wider for idiosyncratic issues, but spreads more broadly remained firm or tighter for the quarter.

Portfolio Review

The Touchstone Ultra Short Duration Fixed Income Fund (Class A Shares, Load Waived) outperformed its primary benchmark, the ICE BofA 3-Month U.S. Treasury Bill Index, and outperformed its secondary benchmark, the ICE BofA 1-Year U.S. Treasury Note Index, for the quarter ended December 31, 2025.

(continued)

The movement in rates in the front end of the curve did provide some price performance, but returns were driven by carry in all the non-benchmark sectors. Each individual sector outperformed the U.S. Treasury Bill Index for the quarter.

The Fund's major subsectors (asset backed securities (ABS), collateralized loan obligation (CLO), CMBS, residential mortgage backed securities (RMBS), and Corporate Bonds) outperformed. Corporates were at the lowest end at 1.17%, given that it is the tightest-spread subsector in the portfolio. RMBS returned 1.19% for the quarter, with CLO at 1.30%. ABS returned 1.35% on carry and some spread tightening. CMBS was the best performing sector at 1.75% on carry advantage and price appreciation on certain assets. The decline in rates was a detractor for floating rate assets, as seeing income erosion as coupons reset lower. Cash and Equivalents returned 1.16% for the quarter.

Positioning changes during the quarter were modest, most noteworthy being a decrease in ABS by 4%, driven by larger than normal paydowns and maturities in the sector outpacing reinvestment opportunities. CMBS exposure also decreased by 2% due to maturities and paydowns, especially at the end of the quarter. This was offset by a corresponding increase in Corporate Bonds, which increased 6% quarter over quarter. CLO, RMBS, and Cash Equivalents exposures all remained flat or within +/-1% of the third quarter level as reinvestment activity was well-aligned with the velocity of paydowns and maturities.

Given where current spreads are, we remain biased for a higher quality Fund, while continuing to take advantage of select wider-trading ideas within Securitized subsectors when possible. At the portfolio level, spread duration increased slightly to 0.78 years. Composite credit quality dropped in the fourth quarter to A+, given the increase in corporate purchases.

Duration positioning for the Fund remains near the short end of the historical range but did increase to 0.54 years. Given the timing of the movement in the very front end of the curve, floating rate assets were still a strong performer for this quarter. Given the flatter nature of the curve towards the last month, duration positioning did not add or detract from performance.

The move in rates will have a larger effect going forward, given the timing of the cuts as floating rate coupons reset lower. The move in rates was a slight positive for longer duration assets, although the move of 8-10 basis points in the longer part of the curve did not meaningfully add to performance. Carry was still the larger contributor to overall Fund returns, more so than the move in rates.

Outlook and Conclusion

As we enter the new year, the investment outlook remains shaped by lingering uncertainty but improving optimism as the U.S. economy continues to demonstrate resilience. Economic growth has been supported by strong consumer spending, primarily driven by higher-income households and the ongoing wealth effect, alongside robust investment across the artificial intelligence infrastructure ecosystem, both of which are expected to remain important catalysts into 2026. While headwinds persist from trade policy and geopolitical tensions, easing financial conditions from Fed rate cuts and forthcoming tax policy changes should help offset these pressures. Although job growth has been uneven and lower-income consumers remain under strain, unemployment remains low, and aggregate consumer data is solid, supporting expectations for continued, albeit uneven, economic expansion.

The Fund remains high-quality, although the increased exposure to Corporates has reduced overall portfolio quality. We continue to see strong fundamentals across all the individual sectors, although certain areas affected by lower income consumers bear close monitoring. In spite of overall tight spreads, we continue to identify individual bonds that look attractive from a risk-return perspective. CMBS still has some issues to work through, although we continue to see an improvement in the commercial real estate market overall. With the recent Fed cuts and more expected in 2026, we are biased to reduce floating rate exposure depending on spreads and all in yields relative to other assets and the Fund. We do expect to see marginal reinvestment in longer fixed rate duration securities while carefully managing overall liquidity in the Fund.

Flows continued to be positive this quarter, and given the Fund's performance, we expect this to continue. Money Market Fund assets in excess of $7 trillion are now yielding well below 4%, which we expect to drive investors' attention to the Ultra Short Duration space. Even with Index spreads at relatively tight levels, the Fund continues to provide an attractive yield for the credit quality. While economic uncertainty pertaining to tariffs, labor market, and geopolitical risks could drive volatility going forward, we see the spread widening as a potential opportunity to add risk in the Fund. We expect that the Fund's high quality and strong carry should perform well over the 6-12 month horizon.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	04/12/12	**TSDAX**	89155T680	0.70%	0.65%
C Shares	04/12/12	**TSDCX**	89155T672	1.38%	1.14%
Y Shares	04/12/12	**TSYYX**	89155T664	0.43%	0.40%
Z Shares	03/01/94	**TSDOX**	89155H678	0.74%	0.65%
INST Shares	04/12/12	**TSDIX**	89155T656	0.39%	0.35%
S Shares	10/27/17	**SSSGX**	89155T581	0.96%	0.90%
Total Fund Assets	**$917.2 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 0.65% for Class A Shares, 1.14% for Class C Shares, 0.40% for Class Y Shares, 0.65% for Class Z Shares, 0.35% for Class INST Shares and 0.90% for Class S Shares. These expense limitations will remain in effect until at least 01/29/27.

Share class availability differs by firm.

Annualized Total Returns

	4Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.13%	4.74%	4.74%	5.63%	3.38%	2.56%	3.21%
C Shares	1.00%	4.23%	4.23%	5.11%	2.87%	2.15%	2.64%
Y Shares	1.08%	4.89%	4.89%	5.85%	3.64%	2.82%	3.32%
Z Shares	1.02%	4.74%	4.74%	5.63%	3.38%	2.56%	3.21%
INST Shares	1.20%	5.05%	5.05%	5.98%	3.71%	2.87%	3.34%
S Shares	0.95%	4.37%	4.37%	5.37%	3.12%	2.31%	2.95%
Benchmark 1	0.97%	4.18%	4.18%	4.81%	3.17%	2.18%	2.58%
Benchmark 2	0.99%	4.15%	4.15%	4.54%	2.48%	2.03%	—
Including Max Sales Charge							
A Shares	-0.91%	2.63%	2.63%	4.93%	2.96%	2.35%	3.14%
C Shares	0.00%	3.23%	3.23%	5.11%	2.87%	2.15%	2.64%

Max 2.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

Benchmark 1 - ICE BofA 3-Month U.S. Treasury Bill Index

Benchmark 2 - ICE BofA 1-Year U.S. Treasury Note Index

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.*** *From time to time, the investment advisor may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.*

The performance presented for Class A, C, Y, INST and S Shares combines the performance of an older class of shares (Z Shares) from the Fund's inception, 03/01/94, 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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

The ICE BofA 3-Month U.S. Treasury Bill Index is an unmanaged index of Treasury securities maturing in 90 days that assumes reinvestment of all income.

ICE BofA 1-Year U.S. Treasury Note Index is an unmanaged index comprised of a single issue purchased at the beginning of the month and held for a full month. The issue selected at each month-end rebalancing is the outstanding two-year Treasury Note Bill that matures closest to, but, not beyond one year from the rebalancing date.

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 an 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 Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors. 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 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 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. The Fund invests in Collateralized Loan Obligations (CLOs) that have risks that largely depend on the type of underlying collateral and risks may include illiquidity, limited active market, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the potential for a decline in the quality of the collateral, and can bear the risk of default by the loans. 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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