Fund Manager Commentary

As of March 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

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 Federal Reserve's (Fed) response to evolving macroeconomic conditions, and the extent to which business and consumer sentiment translate into actual spending and business activity. Continued uncertainty, or tariffs escalating into larger trade wars, would 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 rallied early in the year but briefly entered correction territory after the 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 down 0.36% at 4.21% compared to 4.57% at the start of the year.

The quarter started on sound footing with a strong economy and investors expecting deregulation and pro-growth tax policies to provide a tailwind for financial markets, both rates and spreads declined into mid-late February. However, tariffs began to roll out in early February, initially levied on Mexico and Canada, then postponed, followed by an initial 10% tariff on China and markets became uneasy. Rates ended the quarter with a strong bull flattening move materializing in the front-end of the curve, 6-month Treasuries were largely unchanged while the 1-year and 2-year Treasury note declined 12 basis points and 36 basis points (bps), respectively. Spreads on short, high-quality bonds widened 10-20bps, largely offsetting the bull move in rates.

Portfolio Review

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

Collateralized loan obligation (CLO) floaters were the lowest returning sector with a short option-adjusted duration that did not benefit from lower rates while spreads widened ~20bps producing a headwind. Asset backed securities was the next lowest returning sector, effectively earning the coupon for the quarter. The best returning sector was residential mortgage backed securities (RMBS) which

(continued)

Fort Washington is a member of Western & Southern Financial Group

Touchstone Investments®
DISTINCTIVELY ACTIVE®

benefitted from longer key rate duration exposures (where Treasuries declined 30-40bps), producing a slight tailwind for performance. Commercial mortgage backed securities (CMBS) was the next highest returning sector, with CRE CLOs (Commercial Real Estate - a CMBS sub-sector) pacing all sub-sectors with significant spread tightening. The overall Fund portfolio had a gross return in line with the expected interest income earned, with lower rates being offset by wider credit spreads.

The Fund's sector positioning changes tend to be evolutionary as monthly paydowns are reinvested in the most opportunistic securities and sub-sectors. Early in the quarter, credit spreads were historically tight and CMBS offered the most compelling value with securities less than 1-year maturity trading at a spread approximating fair value (while virtually all other sectors were near historical tights). The average CMBS purchase for the quarter was 0.8 years with a +112 spread to Treasuries with sector exposure increasing from 16% to 20% of market value.

As the front-end of the Treasury curve inverted again in the first quarter and the market began to contemplate the inflationary effects of tariffs and a "higher-for-longer" rate outlook, CLOs began to look compelling. There was a plethora of secondary bonds with very short spread-durations trading at relatively wide spreads. We increased CLO exposure from 8% to 12% during the quarter – marginal purchases carried a 1.0-year spread duration and were priced at +95bps over 3-month SOFR.

Most of the increases were funded out of cash which declined from 11% to 7%. RMBS was also reduced modestly from 10% to 8% due to limited opportunities in the sector.

The Fund's duration was 0.6 years at the end of the quarter, the same duration as year-end 2024. We worked to increase the duration from 0.4 to 0.6 years during 2024 and believe the Fund's portfolio is currently neutrally positioned relative to the Ultra Short Duration peer group. The Fund's duration may be extended modestly into the 0.65 to 0.7-year range if the curve steepens (or less inversion) and value improves in the 1–2-year part of the curve.

Given that the 56% of the Fund's duration exposure was in the 2-year and 5-year key rate duration buckets – a product of the duration extension trades in 2024 - the rally in rates provided a modest tailwind for performance. Additionally, the Fund's 32%+ exposure to floating rate securities (and the associated high base rate) and cash benefitted from the flat to inverted Ultra Short Duration curve (0 to 3 years) that persisted throughout the quarter. However, the benefit from key rate duration exposures was offset by credit spreads that widened 10-20bps late in the quarter, producing a return in line with expected coupon income.

Outlook and Conclusion

The economy is in a state of flux driven by highly uncertain fiscal and economic policies. What had been above trend growth and moderating inflation has given way to eroding confidence on the part of the consumer and businesses and a host of weaker "soft" data statistics. Early signs suggest the consumer is bracing for higher inflation and unemployment, a possible stagflation environment.

The Fund's portfolio has had a strong quality bias (AA-average rating) given the historically tight spreads in the second half of 2024 and early 2025. However, uncertainty drove spreads wider late in first quarter and many sectors are now trading closer to historically fair values. The widening has been "orderly" with credit curves indicative of higher volatility and uncertainty, but not recession. We believe it is too early to increase risk materially and we are inclined to optimize positioning in the high-quality sectors that have widened most – e.g., short duration AAA CLOs have widened 50bp while most other high quality, short duration sectors are trading 20-25bps wider.

Volatility is likely to remain high and risk premiums are likely to move higher until there is more clarity regarding the U.S. economic outlook. Portfolio credit risk will be maintained on the lower end of the spectrum and interest rate risk will be neutrally positioned in the 0.6 year range.

Flows in the money markets and ultra short duration space have been positive in the first quarter and we expect this to continue given the uncertainty in financial markets. Money market assets reached an all-time high over $7 trillion. The expectation is that businesses and the consumer will likely pause and there will be an inflation adjustment that markets will have to digest, this could take most of 2025. A recession is possible, but a soft patch is more likely. The current administration will likely avoid the legacy of igniting a lasting recession. The Fed will be reluctant to cut rates until the inflation picture becomes clearer, but there seems to be an underlying bias toward reducing rates and maintaining a sound employment picture. Given this backdrop, a high quality, high carry ultra short strategy should perform well, particularly for those with an intermediate investment horizon (6 months to 1-year).

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	04/12/12	**TSDAX**	89155T680	0.74%	0.65%
C Shares	04/12/12	**TSDCX**	89155T672	1.61%	1.14%
Y Shares	04/12/12	**TSYYX**	89155T664	0.46%	0.40%
Z Shares	03/01/94	**TSDOX**	89155H678	0.78%	0.65%
INST Shares	04/12/12	**TSDIX**	89155T656	0.43%	0.35%
S Shares	10/27/17	**SSSGX**	89155T581	1.00%	0.90%
Total Fund Assets	**$731.0 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 01/29/26.

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	1.16%	1.16%	5.91%	4.62%	3.43%	2.23%	3.17%
C Shares	1.03%	1.03%	5.39%	4.14%	2.94%	1.83%	2.59%
Y Shares	1.22%	1.22%	6.29%	4.92%	3.71%	2.49%	3.28%
Z Shares	1.27%	1.27%	6.03%	4.66%	3.45%	2.24%	3.18%
INST Shares	1.23%	1.23%	6.23%	4.97%	3.76%	2.53%	3.30%
S Shares	1.09%	1.09%	5.77%	4.40%	3.19%	1.98%	2.92%
Benchmark 1	1.02%	1.02%	4.97%	4.23%	2.56%	1.87%	2.54%
Benchmark 2	1.05%	1.05%	4.98%	3.42%	1.88%	1.73%	—
Including Max Sales Charge							
A Shares	-0.89%	-0.89%	3.77%	3.91%	3.02%	2.02%	3.10%
C Shares	0.03%	0.03%	4.39%	4.14%	2.94%	1.83%	2.59%

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 adviser 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 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 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.

Touchstone Funds are distributed by
Touchstone Securities, Inc.
A registered broker-dealer and member FINRA and SIPC

A member of Western & Southern Financial Group

Touchstone Investments®
DISTINCTIVELY ACTIVE®

800.638.8194 • TouchstoneInvestments.com