Touchstone Ultra Short Duration Fixed Income Fund

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

Taxable Fixed Income 4Q/2018

Fund Manager Commentary

As of December 31, 2018

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

Risk assets underperformed sharply in the fourth quarter amid perceptions that U.S. growth had peaked. The sell-off began soon after the end of the third quarter when the U.S. Federal Reserve Board (Fed) Chairman commented that the federal funds rate was "a long way from neutral." During the period, concerns that the Fed might tighten monetary policy too aggressively, combined with ongoing trade conflicts between the U.S., China and Europe, as well as a slowdown in global growth, pushed both the stock market and the 10-year U.S. Treasury yield notably lower. Despite these moves, the Fed raised the federal funds rate by 25 basis points in mid-December. Between then and the end of the year, however, the Fed sought to calm markets by indicating it is not on autopilot and any further moves will be data dependent.

U.S. growth appeared to moderate as the impact of the 2017 tax cuts waned, but fundamental economic data remained supportive of gross domestic product growth. The job market was robust as exhibited by average gains of over 250,000 jobs per month during the fourth quarter. Wages continued to climb, consumer spending was strong, and capital spending and housing remained solid. Soft metrics such as consumer confidence and the Institute for Supply Management (ISM) Manufacturing Index fell, but from multi-decade highs. And, while markets became unsettled and less liquid, traditional recession triggers such as an overheating economy and/or a credit crunch were not evident.

Against this backdrop of strong U.S. economic performance, there were several high-profile macro situations that existed. For example, while the U.S. reached a trade agreement with Mexico and Canada, tensions with China persisted. Though a 90-day halt on additional tariffs was reached following the G-20 summit during the quarter, investors remained skeptical the dispute would be resolved in short order. Additionally, investors worried about whether or not the United Kingdom will be able to seamlessly exit the European Union, as the deadline for the ratification of a trade deal is set to take place in January 2019.

Market sentiment was weak at year end, exacerbated by the lower levels of liquidity typical of late December. Financial conditions moved from very favorable to more normal levels. Spreads in most sectors also moved closer to the midpoint of long-term ranges. Economic fundamentals remained supportive of risk assets but the looming threat of a global trade war impacted growth expectations outside of the U.S.

Portfolio Review

The Touchstone Ultra Short Duration Fixed Income Fund (Class A Shares Load-Waived) underperformed both of its benchmarks, the ICE BofA Merrill Lynch 3-Month Treasury Bill Index and the ICE BofA Merrill Lynch 1-Year U.S. Treasury Note Index, for the quarter ended December 31, 2018.

During the fourth quarter, security selection in Commercial Mortgage-Backed Securities (CMBS) and Corporate Bonds – specifically in floating rate instruments – was the biggest detractor to Fund performance. While Asset-Backed Securities (ABS) outperformed its index, Corporate Bonds and CMBS underperformed their respective indexes but still generated positive returns. Both of these sector sleeves have materially shorter durations versus their benchmarks and have significant exposure to floating rate bonds. Floating rate

(continued)

◊ *Fort Washington is a member of Western & Southern Financial Group*

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.***

bonds generally underperformed compared to fixed-rate securities with similar maturities, while assets with longer durations outperformed.

The most noteworthy change during the quarter was an increase in Corporate Bond exposure at the expense of ABS, which was reduced during the period. Corporate Bond exposure was increased to take advantage of spreads which had widened more than in other short duration sectors, thus offering the potential for meaningful returns. While the Fund typically experiences cash outflows during the fourth quarter, these outflows never materialized and the Fund's cash position remained relatively high in anticipation of such outflows. Additionally, as the front end of the yield curve flattened significantly and investors were not being rewarded to take duration risk, we remained comfortable staying more liquid with the atypically large cash position. Corporate Bonds and ABS were the two largest exposures at quarter end.

At the end of the period, the Fund's duration was near the lower end of the historical operating range, largely unchanged from the prior quarter. However, given the decline in short-term rates during the quarter, the Fund's duration positioning had a modest negative impact on performance.

Outlook and Conclusion

In our view, the investment environment continues to favor an overweight to risk assets, supported by sound economic underpinnings: strong corporate profitability, a solid labor market, accommodative global central bank policies and neutral financial conditions. In addition, consumer credit fundamentals remain favorable and support the Fund's exposure to structured products, many of which are backed by consumer receivables.

Despite this favorable backdrop, we believe the greatest risks going forward are an escalation of the trade conflict between the U.S. and China, and a potentially overly hawkish Fed. Over $250 billion in tariffs have already been levied by the U.S. with China responding in kind, and an additional $250 billion have been threatened. While there has not been a material impact on the U.S. economy yet, China and other emerging market economies are feeling the effects of these tariffs. We believe an escalation would stunt global growth, which is already slowing. While U.S. growth has remained strong despite the global slowdown, investors will likely become more concerned about how long the growth can last if the conflict persists.

Recently, the Fed calmed investors with comments suggesting it is monitoring the market turmoil closely and any rate increases will be data dependent. This suggests that the two rate hikes it is projecting for 2019 are not necessarily locked in. However, with the yield curve having become very flat, the Fed has little room to operate. If the Fed were to increase rates two times without the support of economic data, it would risk inverting the yield curve. An inverted yield curve is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality. Inverted yield curves have traditionally been one of the best predictors of recession.

Even though we share many of the market's concerns, we believe it has overpriced the risk of declining growth. While the U.S. economy certainly appears to be slowing, we believe it is still likely to grow at a pace of 2 to 2.5 percent, which hardly warrants rate cuts in the near future. We do, however, believe there is more room for rates to rise than fall, and that the yield curve is biased to retrace some of the flattening that has occurred. Nonetheless, given the myriad geopolitical and fiscal issues facing the global economy in 2019, we expect market volatility to remain elevated.

We believe the Fund is positioned for this scenario. Duration is currently at the short end of its historical range, and credit quality is at the middle of the operating range. The Fund maintains an overweight to higher quality, non-government securities, as well as historically high exposure to floating rate securities and continued low spread duration. We remain most comfortable adding exposure in securities that are higher in the capital structure (i.e., higher credit quality) but in less liquid parts of the market where additional yield can be found without taking on additional fundamental credit risk. This positioning reflects our constructive outlook for the U.S. economy, concern surrounding higher short-term rates, and our expectations for increased market volatility going forward.

Fund Facts *(As of 12/31/18)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	04/12/12	**TSDAX**	89155T680	0.81%	0.69%
C Shares	04/12/12	**TSDCX**	89155T672	1.67%	1.19%
Y Shares	04/12/12	**TSYYX**	89155T664	0.50%	0.44%
Z Shares	03/01/94	**TSDOX**	89155H678	0.78%	0.69%
INST Shares	04/12/12	**TSDIX**	89155T656	0.46%	0.39%
S Shares	10/27/17	**SSSGX**	89155T581	0.99%	0.94%
Total Fund Assets	**$935.3 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 0.69% for Class A Shares, 1.19% for Class C Shares, 0.44% for Class Y Shares, 0.69% for Class Z Shares, 0.39% for Class INST Shares and 0.94% for Class S Shares. These expense limitations will remain in effect until at least 01/29/20.*

Annualized Total Returns** *(As of 12/31/18)*

Class	4Q18	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Including Max Sales Charge							
A Shares	-1.65%	-0.41%	-0.41%	0.80%	0.69%	1.21%	3.18%
C Shares	-0.64%	0.24%	0.24%	1.02%	0.61%	0.84%	2.56%
Excluding Max Sales Charge							
A Shares	0.37%	1.64%	1.64%	1.49%	1.09%	1.42%	3.26%
C Shares	0.36%	1.24%	1.24%	1.02%	0.61%	0.84%	2.56%
Y Shares	0.44%	1.88%	1.88%	1.74%	1.34%	1.59%	3.33%
Z Shares	0.37%	1.64%	1.64%	1.49%	1.09%	1.43%	3.26%
INST Shares	0.45%	1.94%	1.94%	1.76%	1.37%	1.62%	3.34%
S Shares	0.31%	1.49%	1.49%	1.24%	0.84%	1.17%	3.00%
Benchmark 1^	0.56%	1.87%	1.87%	1.02%	0.63%	0.38%	2.56%
Benchmark 2^^	0.78%	1.86%	1.86%	1.06%	0.70%	0.62%	—

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 Merrill Lynch 3-Month U.S. Treasury Bill Index[1]

^^Benchmark 2 - ICE BofA Merrill Lynch 1-Year U.S. Treasury Note Index[2]

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*****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.***

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

[2]ICE BofA Merrill Lynch 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 debt securities which can 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 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 and 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 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 foreign securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and differences in accounting standards. 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 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. Current and future portfolio holdings are subject to risk. 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.

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 advisor 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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