

Fund Manager Commentary

As of December 31, 2024

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

As 2024 comes to a close, the investment landscape remains shaped by strong domestic growth, changing policy priorities from the newly elected administration, and evolving investor sentiment. Economic growth exceeded expectations from the beginning of the year, underscored by the resilience of both consumers and businesses. However, policy changes concerning trade and regulation have garnered significant attention, potentially impacting the trajectory of the U.S. economy.

Strong consumer spending has been the largest contributor to growth over the last year. While household savings have declined, higher income earners have propelled the economy following a surge in investment and home prices since the pandemic. Higher wages have also supported the broader labor market. Although job creation has slowed over the last year, it is being offset by a lack of job losses, resulting in a largely balanced labor market.

As the economy continues to expand, inflation remains a focus for many investors due to the implications for Federal Reserve (Fed) policy. While inflation still appears to be on a path of disinflation, recent data has been bumpy. Furthermore, several new tariff proposals from the President have added to uncertainty. While tariffs are generally considered a one-time price increase rather than inflationary, there is a risk that they could progress into a larger trade war with some of the United States’ largest trading partners (China, Mexico, Canada). This possibility has caused investors to increase their short-term inflation outlook while longer-term expectations have remained largely range bound.

At the same time, other policy proposals may provide tailwinds for economic growth into 2025. Deregulation efforts could provide certain industries, particularly energy and banking, with lower amounts of operational restrictions that should improve bottom lines. In addition, lower levels of regulation should enhance merger and acquisition activity while the possibility of lower corporate tax rates would lift fundamentals for many small/medium size firms. This positive backdrop for the economy is helping support risk assets as evidenced by historically tight credit spread and higher equity prices.

The Fed began cutting policy rates following further disinflation and a cooler labor market. Despite the Fed funds rate being reduced by 100 basis points (bps), longer-term yields moved higher during the fourth quarter as investors expect continued economic strength to result in fewer rate cuts during 2025. The dynamic of higher long-term rates while the Fed is cutting has led to a more traditionally shaped yield curve. The shift in longer rates was the main driver of fixed income returns over the fourth quarter. The 10-year Treasury increased about 80bps and caused a 3% decline in the U.S. Aggregate Index as credit spreads remained near historically tight levels.

While higher rates could put pressure on risk assets, consumer spending and business investment are likely to support current valuations. However, we remain cognizant of downside risks to the current economic trajectory such as the bifurcation between lower income earners relative to higher income households as well as sluggish growth from Europe and China. Additionally, markets will maintain a keen eye on any potential weakness in employment, developments in U.S. fiscal policy, and geopolitical conflicts.

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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).**



U.S. Treasury rates ended the quarter mixed versus the end of September. The 2-year to 30-year part of the curve moved out 60-80bps. The very short end less than six months rallied in roughly 50bps in reaction to the two Fed cuts. 2/10's curve continued to steepen throughout the quarter as well. Spreads tightened on continued demand across for spread product with attractive all-in yields.

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 1-Year U.S. Treasury Note Index, for the quarter ended December 31, 2024.

Overall market volatility was more muted in fourth quarter versus previous quarter, given spread tightening and healthy new issue calendar before the election. Due to the twist in the Treasury curve, with real short rates (inside of 6 months) rallying significantly and longer rates (2+ years) moving dramatically higher, security durations would have an impact on total returns. Carry and spread tightening were the biggest drivers of return for the quarter with slight lengthening of duration leading to certain securities to have lower prices for quarter given move in rates. Commercial mortgage-backed securities (CMBS) had the highest returns, followed by collateralized loan obligations (CLO) and asset backed securities (ABS) for fourth quarter. Corporates and residential mortgage backed securities (RMBS) were also positive for the final quarter of 2024. Longer fixed rate exposures in ABS, RMBS and Corporates were a slight detractor given the move in interest rates but also benefited from spread tightening. CMBS returns were buoyed by recovery and pricing of some specific securities. The selloff in the Treasury curve was 14bps in the 1-year and 60bps in the 2-year. 1-month SOFR declined 52bps for the quarter reducing income on our floating rate securities.

Credit spreads tightened over the course of the quarter in all sectors. There was strong demand for paper in both the new issue and secondary markets across all subsectors and across all rating categories.

Sector positioning was mixed during the fourth quarter, with ABS increasing by 2%, Cash by 6% and Corporates by 1%. This was offset by decrease in CMBS of 3% and CLO by 1%. The Fund saw significant inflows during the quarter. All sectors had an increase in actual dollars invested. The changes do not represent a shift in targeted allocations but an availability of bonds along with paydowns that need to be reinvested as well. The only real change in allocation is the increase in cash to handle any possible year end liquidity needs that may arise.

The Fund's duration positioning at the end of fourth quarter was 0.59 years, down slightly from 0.60 years at the beginning of fourth quarter. The positioning was fairly stable for the quarter even with the larger cash percentage in the

portfolio at the end of the quarter. Strong rally in the very short end led this to be a detractor versus 3-Month Treasury Bill index, but an advantage versus the 1-Year Treasury Bill Index.

Portfolio Management has implemented a barbelled approach to extending the Fund's duration over the past several quarters, which has performed well for the Fund. Floating rate securities have captured significant carry without seeing price volatility. The longer 1-2-year fixed positioning saw lower prices given the move in rates but also did see spread tightening to offset those price moves. Given higher rates and new cash to invest, there are opportunities to add attractive all-in yields in the current market.

The yield curve twisted significantly during the quarter with real short rates (less than 6 months) declining 30-50bps. The shorter you were the lower you went. Further out the curve (greater than 1 year) there was significant move higher with the 2-year up 60bps over fourth quarter. SOFR was also significantly lower over the quarter. (Floating rate securities in the portfolio are indexed to 1-month or 3-month SOFR) 1-month SOFR down 52bps and 3-month SOFR down 19bps. The move in SOFR would reduce income for our floating rate positions. Longer fixed rate positions would be lower given the significant move in rates.

Outlook and Conclusion

We believe the U.S. economy is still strong, and the pivot by the Fed should lead to some stability in the very short end. With only 1-2 Fed cuts expected in 2025, the mantra of higher for longer still exists. The 0-2-year part of the curve is still relatively flat and as such leads us to look for the best possible relative value across all sectors. Inflation may still be sticky in the mid to high 2s given the persistence of shelter inflation. Also, with a new administration taking office could lead to some volatility in the foreseeable future. The job market remains healthy, and the consumer especially in the higher end continues to buoy the economy.

We continue to favor valuations in securitized credit over corporate credit. While pockets of fundamental weakness do exist across the consumer lending landscape, well-underwritten collateral and structures remain an area of opportunity for the Fund, which maintains significant exposure to consumer-based securitizations. There is still dislocation in parts of the CMBS universe, but there are areas with well performing assets that will be additive to the Fund. RMBS remains a fundamentally-sound and attractively priced sector for reinvestment, however, cashflow certainty in a variety of interest rate (and prepayment) scenarios limits the availability of bonds appropriate for investment by the Fund. The availability of shorter CLO floating rate paper still looks attractive at current spreads especially relative to corporates. Although we favor valuation and quality available in securitized sectors, investment grade credit exposure remains a core position for the Fund, providing valuable diversification and liquidity benefits.

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We have worked toward a barbell duration positioning of the Fund over recent quarters, targeting significant exposure to floating rate paper to capitalize on the higher for longer from the Fed, and in combination with significant 1–2-year fixed rate exposure to lock in elevated yields for a longer period of time and also capture the possibility of a move lower in treasuries. This approach has performed well for the Fund, and management will continue to find attractive valuations across the curve.

Based on our outlook, we expect the Fund will likely continue to generate return in line with the portfolio's yield to worst. Management expects the Fund's fixed rate exposure to continue to benefit from investing at these higher rates, while the Fund's floating rate exposure will perform with the higher fed funds. The Fund has been able to generate strong, competitive returns versus its peer group and benchmarks, which we expect to continue going forward, based on contribution from sector allocation in securitized products, as well as bottom-up security selection across all subsectors.



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 \$636.9 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

	4Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.25%	6.43%	6.43%	4.05%	2.68%	2.13%	3.16%
C Shares	1.13%	6.01%	6.01%	3.53%	2.18%	1.73%	2.58%
Y Shares	1.32%	6.81%	6.81%	4.31%	2.95%	2.39%	3.27%
Z Shares	1.25%	6.42%	6.42%	4.01%	2.68%	2.13%	3.16%
INST Shares	1.33%	6.86%	6.86%	4.36%	3.01%	2.43%	3.28%
S Shares	1.30%	6.28%	6.28%	3.79%	2.44%	1.89%	2.90%
Benchmark 1	1.17%	5.25%	5.25%	3.89%	2.46%	1.77%	2.53%
Benchmark 2	0.70%	4.75%	4.75%	2.78%	2.01%	1.63%	—
Including Max Sales Charge							
A Shares	-0.79%	4.26%	4.26%	3.34%	2.26%	1.92%	3.09%
C Shares	0.13%	5.01%	5.01%	3.53%	2.18%	1.73%	2.58%

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

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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.

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.

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.

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