Fund Manager Commentary

As of March 31, 2025

Fund Highlights

- Seeks to maximize total return by investing in market sectors and securities that are considered undervalued for their risk characteristics
- Focus is placed on high-quality securities, many with beneficial structures such as government guarantees or significant tangible collateral support; there is limited exposure to non-investment grade securities
- Prefers to invest in securities of government programs and companies that have sustainable operating models by considering a wide range of factors including, but not limited to, support for economic development, home ownership and job creation
- Utilizes a traditional long-only investment style and invests directly in cash bonds
- Does not invest in futures contracts, options, credit default swaps or derivatives
- Constructs a diversified portfolio across issuer, sector and industry that strives to maximize yield while minimizing the risks inherent in fixed income investing

Market Recap

With the U.S. Federal Reserve Board's (Fed) expectations and economic data remaining mostly consistent during the quarter, the primary macroeconomic drivers were the new administration in Washington D.C. and concerns that U.S. tech companies overextended their investments into artificial intelligence (AI). The combination of DOGE layoffs, trade re-alignment, renewed discussions surrounding the mixed cocktail of taxes/deficits/debt, and the emergence of a low-cost Chinese rival onto the AI scene left risk assets searching for support.

Alternatively, stability was added to the macro equation in the form of additional economic data which showed the resilience of the U.S. economy. U.S. GDP grew by 2.4% in the fourth quarter of 2024, supported by an impressive 4.0% growth in consumption. Unemployment held steady at 4.2%, wages grew by 3.8%, and inflation remained sticky. Core personal consumption expenditures (PCE) of 2.8% has proven itself stuck, as it has remained in a range of 2.6-2.8% for nearly a year. While the Fed left rates unchanged and attempted to communicate a confident message, it was impossible to ignore the amount of uncertainty and diverging set of opinions held among the Fed Governors. The DOT plot is the easiest way to visualize this dispersion about what the path forward could look like. Much of these differing views exist because some of the officials explicitly added tariffs into their outlooks, while others chose to leave it out until more concrete measures are provided. Regardless, a closer look into the Fed's Summary of Economic Projections mostly told a story of stagflation concerns. While not calling for a recession, the consensus was for GDP growth in 2025 to slip to 1.7% while Core PCE nudges higher.

On the global stage, Europe added to the mix as Germany announced new fiscal spending goals and the loosening of debt rules to facilitate these goals. Germany intends to increase spending on infrastructure and defense, largely in reaction to U.S. threats and following J.D. Vance's speech in Munich.This sent German yields spiraling higher while supporting risk assets in Germany and its neighboring countries.

Though there were several reasons to remain optimistic, the negative narrative proved much more powerful. This propelled safe-haven assets such as Treasuries, gold, and the yen higher. The yield curve flattened, with the very front portion of it remaining stable while the rest of it fell by 30-40 basis points (bps). This demand profile weighed against spread products of all stripes. Excess returns were negative across most sectors during the period and sectors/bonds demonstrated an increasing level of underperformance relative to matched duration Treasuries as perceived risk increased.

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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.***

Portfolio Review

The Touchstone US Quality Bond Fund (Class A Shares, Load Waived) underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2025.

Though the overall macroeconomic backdrop created a headwind for the Fund's overweight to spread products, the incremental yield provided by these bonds, along with the high-quality nature of the portfolio, proved enough of a yield cushion to offset spread widening.

Our allocation into higher quality spread sectors benefitted the Fund during the quarter. This was most evident in U.S. Agencies. The sector held up well during the quarter, as did our individual bonds within it. Our underweight to agency single-family mortgage-backed securities (SFMBS) also benefitted the performance of the portfolio.

The biggest headwind faced during the quarter was our underweight in U.S. Treasuries. Credit spreads widened by 14bps during the quarter, most of which came during the second half of the period. By rating, AA bonds tightened a few basis points, but A and BBB-rated bonds widened by 11 and 18bps, respectively. After a strong 2024, Utilities experienced the most widening in the first quarter relative to their Financial and Industrial cousins. Much of the underperformance was due to the concerns associated with the outlook for AI and data centers on the heels of the release of DeepSeek. Due to the longer duration of Utility bonds, the widening created negative excess returns of -1.54% for the sector, making it the worst performing major sector in the benchmark during the first quarter of 2025. Drilling down a little deeper, issuers whose business model is dependent on consumer discretionary spending also underperformed significantly during the period.

The main contributors to the Fund were security selection within Utilities, and our overweight to Small Business Administration (SBA) and agency multi-family mortgage-backed securities (MFMBS). While our overweight to Utilities detracted from the performance of the Fund, our security selection within the sector benefitted it. The Fund is largely invested in utilities which operate in fully regulated markets. These are not the types of utility companies which are expected to benefit materially from data center and AI growth via new investments and power purchase agreements. SBA spreads were mostly unchanged during the period, allowing the bonds to earn their extra yield and easily outpace matched duration Treasuries and U.S. Agencies in general.

Though agency SFMBS generated negative excess returns, their agency multi-family cousins did not. As MFMBS was one of the few areas which generated positive excess returns during the period, our overweight to the bonds coupled with our security selection within the sector created a positive contribution to the Fund's relative performance during the period.

The main detractors from the Fund were our overweight to Utilities and commercial mortgage-backed securities (CMBS), and our exposure to airline Enhanced Equipment Trust Certificates (EETC). Utilities were the worst performing sector during the quarter. Our overweight, along with the relatively long duration we hold in the bonds, caused them to detract from overall performance during the quarter. Our overweight to non-Agency CMBS was a headwind during the period. The bonds underperformed meaningfully relative to matched duration Treasuries as volatility picked up within the market.

During the quarter, airlines pared back their prior guidance and provided a more conservative outlook. This came on the heels of high levels of optimism expressed in the fourth quarter. This changed outlook pushed airline secured and unsecured debt wider. Our secured airline EETC was no exception. There were no significant changes to the Fund's positioning during the quarter.

The Fund's effective duration of 5.88 years continues to be approximately matched to that of the benchmark, representing 97% of the benchmark's effective duration as of quarter end. Additionally, the Fund has a convexity advantage relative to the benchmark. The Fund entered the quarter at 99% of the benchmark's duration. Changes in interest rates had little relative impact on returns.

The yield curve steepened meaningfully during the quarter. The Fund is actively managed to be approximately yield curve neutral, leading to little impact on returns.

Outlook and Conclusion

Given the extreme levels of uncertainty in the current macroeconomic environment, it would be foolish and out of character for us to attempt to assess how it might impact the Fund's portfolio. On one hand, negotiations could be made, quickly resolving the volatility which has plagued the market. In this outcome the market could quickly return to the American Exceptionalism theme. Alternatively, the exact opposite is equally likely. Overall, the spread products we are overweight in would perform better in a market where some of the high levels of disruption are removed. Still, the portfolio's high-quality nature should allow it to track the benchmark well even if volatility proves persistent.

This environment has the potential to create tremendous opportunities. The biggest challenge at the moment is deciding which opportunities and when to strike at them. Overall spreads remain well tight of historic averages. Given the dispersion of results and confluence of headwinds facing market participants, we continue to bide our time before getting more aggressive with investment opportunities. Over the last 12 to 18 months, one of our chief investment priorities has been to analyze whether the spread provided on each bond we own was enough to offset any spread widening. This was conducted largely independent of the fundamental nature of the issuer and instead reflected more of our concern that spreads had simply become too tight and often were priced for perfection. This caused us to trim and replace some of our holdings. For the most part this resulted in us

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repositioning into higher-quality and more liquid bonds. As such, our relative exposure to credit is the lowest it has been in many years.

The Fund is still meaningfully overweight spread product. The recent widening of bonds has helped cure some of these concerns, allowing fundamentals to resume their driver's seat position. However, spreads are still well below average, and the volatile outlook keeps this risk top of mind. As we look to our investments, we believe they are positioned well in risk-adjusted terms. Overall, our bonds provide more spread in each sector while simultaneously assuming similar or less risk in each sector. The recent performance of the Fund is evidence of this. No less, this type of extreme tail environment is the type where we do expect returns to struggle a bit relative to the index. However, we remain confident in the Fund's positioning and believe any weakness will be short lived.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	08/16/10	**TCPAX**	89155T102	0.94%	0.76%
C Shares	08/01/11	**TCPCX**	89155T201	2.49%	1.45%
Y Shares	11/15/91	**TCPYX**	89155T409	0.50%	0.50%
INST Shares	08/01/11	**TCPNX**	89155T300	0.48%	0.41%
R6 Shares	11/22/21	**TIMPX**	89155T433	0.47%	0.37%
Total Fund Assets	**$603.5 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 0.76% for Class A Shares, 1.45% for Class C Shares, 0.51% for Class Y Shares, 0.41% for Class INST Shares and 0.37% for Class R6 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	2.70%	2.70%	4.68%	0.38%	-0.28%	1.15%	4.35%
C Shares	2.63%	2.63%	3.90%	-0.35%	-1.02%	0.55%	3.70%
Y Shares	2.87%	2.87%	5.05%	0.66%	-0.03%	1.41%	4.61%
INST Shares	2.78%	2.78%	5.04%	0.73%	0.05%	1.51%	4.66%
R6 Shares	2.79%	2.79%	5.08%	0.76%	0.04%	1.45%	4.62%
Benchmark	2.78%	2.78%	4.88%	0.52%	-0.40%	1.46%	4.69%
Including Max Sales Charge							
A Shares	-0.66%	-0.66%	1.28%	-0.72%	-0.68%	0.66%	4.20%
C Shares	1.63%	1.63%	2.90%	-0.35%	-1.02%	0.55%	3.70%

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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The performance presented for Class A, C, INST and R6 Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 11/15/91, 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.

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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 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 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 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 sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so. 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 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 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'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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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