

Fund Manager Commentary

As of June 30, 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

The dominant currents of discussion and speculation during the first quarter materialized into reality during the second quarter. Fiscal and trade policies created unstable footing for fixed income markets. In response to the U.S. House of Representatives' version of the One Big Beautiful Bill, Moody's downgraded the U.S. Government's credit rating from AAA. Over the next decade, Moody's projects Debt-to-GDP will advance from 98% to 135%, fiscal deficits will run north of 7% annually (and 9% in the near-term), and interest payments will grow beyond the current 20% of the total U.S. budget. The Senate's version of the bill was ultimately passed by Congress and carries even more negative implications than the House version.

Adding to the volatility were the tariffs introduced on April 2nd. While the majority of these tariffs were later postponed and have since been lowered, the uncertainty they introduced did not favor the bond market as many might expect. This was likely due to two primary reasons. First was the implication of higher tariff-driven inflation, particularly in consumer prices. Second, following the introduction of tariffs, there appeared to be a buyer's strike on U.S. assets. This was most evident in the fact that U.S. bonds, U.S. equities, and the dollar all fell simultaneously. Meanwhile, other safe havens such as gold reached all-time highs, as did

other risky assets such as Bitcoin. This strike ultimately proved fleeting, and a level of normalcy and stability has since returned to U.S. markets.

While fiscal and trade policy worked to push interest rates higher, economic data and monetary policy expectations acted as a counterbalance. GDP fell by 0.5% in the first quarter due to weak consumer spending and a surge in imports (an attempt to get ahead of tariffs). The final readings on personal income and real spending fell by 0.4% and 0.3%, respectively. Inflation also continued to moderate. While core personal consumption expenditures year-over-year was last reported at 2.7%, the number changes to 2.2% when viewed through the lens of annualizing the inflation measures in 2025. Meanwhile, the U.S. Federal Reserve Board (Fed) acknowledged that they believe monetary policy is tight, as indicated by the data points discussed and the slowing of interest rate-sensitive portions of the economy such as housing and automobiles. The Fed downgraded their assessment for GDP growth while increasing their forecast for unemployment and inflation. However, they also communicated that if it were not for the uncertainty related to tariffs, taxes, and the budget, they would have lowered rates during their June meeting. The dispersion of their dot plot chart is an excellent visualization of the doubt, varying opinions, and uncertainty currently held within the Federal Open Market Committee. While the Fed has demonstrated

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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.**



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much uncertainty about their path forward, the market remained confident that two interest rate cuts remained highly likely in the second half of the year.

The balance between fiscal policy and monetary policy expectations led to a twisting of the yield curve. The yield on the two-year U.S. Treasury declined by 16 basis points (bps) while the yield on the 30-year Treasury increased by 20bps. The yield on the ten-year Treasury was mostly flat, finishing the quarter at 4.23%. After a brief period of rate volatility, a calm set in, best demonstrated by the MOVE Index which finished the quarter near its lowest levels since January 2022.

Optimism that the administration is only using tariffs as a negotiating ploy ultimately prevailed over the anxiety they introduced. This judgment by Mr. Market helped tighten spreads across most sectors during the period, and all U.S. investment-grade fixed income sectors have produced positive excess returns over the last quarter, six months, and one year.

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 June 30, 2025.

Over the last year we have looked to de-risk the Fund's portfolio due to tight spreads and high valuations. Somewhat surprisingly, the macroeconomic environment not only did not help the Fund's relative performance but instead weighed against it. Despite elevated inflationary concerns, along with the tension introduced to the economy and the associated market volatility tied to it, optimism prevailed and the appetite for long duration spread bonds increased. Additionally, our Treasury positioning is held at the long end of the yield curve, which underperformed during the quarter.

Our overweight allocation to spread bonds benefitted the Fund during the quarter. However, many of these sectors have an implied expectation regarding the rate of prepayments. These prepayments were too far off the mark during the period, causing them to provide little in the way of excess returns. At the same time, our underweight allocation to the riskiest corners of the spread market acted as a headwind.

Corporate credit spreads contracted by 11bps during the quarter, helping the index generate approximately 100bps of excess returns. This tightening left the spread on the corporate bond index inside of its 10-year 5th percentile mark. While tight spreads within the corporate bond market are prevalent, the extreme levels of tightness are mostly found on the long end of the spectrum, where spreads currently reside inside the 3rd percentile by our calculations. From a sub-sector level, Industrials are tightest, also at the 5th percentile. Our underweight exposure to the corporate market was a headwind during the quarter.

The main contributors to the Fund were commercial mortgage-backed securities (CMBS), Financials, rate reduction bonds, and corporate utilities.

With the downgrade of the U.S. Government, there are few corners of the market which can provide AAA- rated assets. CMBS is one of these sectors. As the sector continues to recover from the work-from-home-office-scare and the demand for spread risk is high, the bonds continue to attract demand. This helped the sector tighten by 7bps during the quarter and deliver 54bps of excess returns, all without assuming much duration. The combination of spread, low duration, and a AAA rating helped this sector perform.

Our security selection in Financials contributed to performance this quarter due to our preference for insurance companies over banks. Insurers performed well during the period as their combined ratios continued to heal due to higher premiums charged. Meanwhile, banks largely could not keep pace, due to expected regulatory relief. While this is arguably good for the equity of the banks, it is an unquestionable negative result for fixed income investors as the reduced regulatory capital requirements effectively allow banks to add more leverage to their profile.

As with other long duration spread products, the spread on rate reduction bonds rallied due to a dearth of supply and a renewed spell of demand. As with other long duration spread products, the spread on corporate utilities bonds rallied due to a dearth of supply and a renewed spell of demand. Due to the nature of their assets and business model, Utilities issue a larger proportion of their debt as longer dated paper than their Industrial and Financial counterparts. Our exposure to Utilities is nearly triple that of the index.

The main detractors of the Fund were low coupon agency multi-family collateralized mortgage obligations (AMFCMO), low coupon Small Business Administration securities (SBAPs), and Industrials. Low coupon AMFCMO government-guaranteed assets were unable to deliver enough excess returns during the quarter to contribute to performance. This is largely due to missing prepay expectations as the bonds have seasoned. However, as we are starting to see with the agency single-family mortgage-backed securities market, this borrower patience could be reaching its end. Low coupon SBAP was a detractor for the same exact reasons as the low coupon AMFCMO.

Industrial corporate bonds are the most volatile and arguably riskiest portion of the U.S. investment grade market. This was in high demand in May and July, helping it lead all other corners of the fixed income market during the quarter, even though it is also most exposed to international trade. Our underweight to the sector was a headwind to performance. 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 100% 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 97% of the benchmark's duration. Changes in interest rates had little relative impact on returns. The yield

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

Outlook and Conclusion

The macroeconomic environment and fundamental backdrop suggest an average to above-average level of risk. Markets continue to discount any potential damage caused by trade policy, generally continue to ignore the risks posed by fiscal policy and are fully optimistic that monetary policy will ease. This has led to stretched levels of positioning across financial markets. Within fixed income, it is most evident in the corporate bond market. While we have already discussed the tight level of spreads at length here, there is more evidence of this positioning just under the surface. Net positioning in credit default swap contracts represents a significant risk-on position, fueled by a lack of supply to meet investor demand. This positioning creates not only absolute risk but basis risk as well. The tight level of spreads juxtaposed against what is a challenging backdrop influences the construction of the Fund and our activity. It has resulted in us looking more toward securitized markets where similar levels of spreads can be earned but in assets which are AAA-rated. This AAA-rating does not come from the fundamentals of the borrower but from the superior structure of the securities, which helps to insulate them even if volatility were to erupt.

While many corners of the market are at historically tight levels, there are still many corners of the market which are not. Small Business Administration bonds, AAA-rated CMBS, our favored areas of agency multi-family mortgage-backed securities, rate reduction bonds, and AAA-rated asset-backed securities are all priced with spreads which are near the 50th percentile mark relative to their ten-year history. Many of these corners of the market are where we look to add value and hold a significant overweight. While some of these corners have underperformed as of late, we are finding that nearly all the best new issuance opportunities are discovered here. Given that spreads have a floor—a floor which the majority of the corporate bond and mortgage-backed securities markets have approached—we think these sectors are poised to outpace index securities in the near to medium term, which will help propel the Fund forward on both an absolute and relative basis.



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		\$595.4 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

	2Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.10%	3.83%	5.54%	2.32%	-0.75%	1.42%	4.35%
C Shares	0.82%	3.48%	4.67%	1.54%	-1.50%	0.82%	3.71%
Y Shares	1.06%	3.97%	5.68%	2.53%	-0.50%	1.67%	4.61%
INST Shares	1.19%	4.01%	5.79%	2.63%	-0.41%	1.78%	4.66%
R6 Shares	1.20%	4.03%	5.95%	2.67%	-0.41%	1.72%	4.62%
Benchmark	1.21%	4.02%	6.08%	2.55%	-0.73%	1.76%	4.69%
Including Max Sales Charge							
A Shares	-2.14%	0.44%	2.10%	1.21%	-1.40%	0.93%	4.20%
C Shares	-0.18%	2.48%	3.67%	1.54%	-1.50%	0.82%	3.71%

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.

Touchstone Funds are distributed by Touchstone Securities, Inc.

A registered broker-dealer and member FINRA and SIPC

A member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

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.



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