Touchstone Core Municipal Bond Fund

Sub-Advised by: Sage Advisory Services, Ltd. Co.

Fund Manager Commentary

As of December 31, 2022

Fund Highlights

- Seeks to exploit market inefficiencies using a proprietary income, price and volatility framework
- Construct portfolios that generate consistent tax-free income by capturing diversified sources of credit, liquidity and term premiums
- Control price sensitivity at the portfolio level by managing duration and yield curve positioning
- Identify and purchase bonds that Sage believes are attractively priced relative to historical averages and adds positions in a risk-controlled manner
- Municipal issues are analyzed through a proprietary approach for various environmental, social and governance (ESG) criteria

Market Recap

Most investors were happy to put 2022 in the rear-view mirror as the list of major macro and geopolitical shocks were almost too numerous to list. Investors had to navigate rapidly rising inflation and the aggressive monetary policy response, which sent global rates and the dollar sharply higher, as well as headwinds from China, supply chain dislocations, and a major war in Europe. This led to a rare year where both equities and fixed income experienced deeply negative returns. For fixed income investors, the U.S. Federal Reserve Board (Fed) 425 basis points (bps) of hikes during 2022 meant there was no hiding from the pain. Most intermediate maturity markets and indices reported double-digit losses.

The municipal market was no exception to negative returns; however, municipal investors can take a pyrrhic victory as relative performance was better than most asset classes. The most significant factor influencing the municipal market was that fund flows set an all-time record with over $120 billion in outflows, which was a complete reversal of 2021's record inflows and represented 13% of total municipal fund AUM.

One supporting factor within the municipal bond space was municipal new issue supply, which totaled approximately $380 billion in 2022, a 21% decline from last year's $483 billion. A significant reduction in refunding deals, driven by higher rates, was the contributing factor to the decline.

Despite the significant negative performance for all the municipal indices during the first three quarters, the broad municipal market index returned positive performance in the year's final quarter. During the fourth quarter, yield levels saw a significant move lower as the repricing hit very attractive levels. The municipal curve experienced an inverted 2 year - 10 year treasury yield curve for the first time in history, due to both technical and market-related factors. Credit spreads widened slightly for the AA and A Muni Indexes, 2 bps and 9 bps, respectively; however, the BBB Index saw spreads widen by 27 bps, due to credit concerns in that space.

Portfolio Review

The Touchstone Core Muni Bond Fund (Class A Shares Load-Waived) underperformed its benchmark, the Bloomberg Municipal Bond Index, for the quarter ended December 31, 2022.

The Fund underperformed primarily due to credit allocation as higher-rated issues (AAA and AA) outperformed lower-rated (A and BBB). The Fund's overweight in A-rated issues was a headwind in this environment. The Fund's duration was tilted slightly short the benchmark index throughout the quarter and had a negligible effect on performance. The Fund's curve exposure provided some positive excess return as the slight barbell allocation, i.e. overweight to the intermediate part of the curve, had the largest yield move lower.

The most significant change to the Fund was the significant shift in the ESG exposure. Based on our proprietary ESG scoring model, the Fund began the quarter with an average ESG score of 2.40 (out of 5.00) and ended the quarter at

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2.83. In addition, the number of holdings that had scores of four and five went from five and six holdings, respectively, to 13 holdings for both.

Outlook and Conclusion

After a historically challenging macro environment last year, we expect little reprieve for at least the first half of 2023. While the fourth quarter brought encouraging news on the inflation front and optimism for a monetary policy pivot in 2023, it coincides with a worsening global economic picture. The global economy faces substantial headwinds into this year, including the lagging effects of interest rate increases and more central bank tightening expected in the first half. Further, consumers have mostly exhausted stimulus-driven excess savings, which helped cushion growth in the early phase of policy tightening.

There is also no shortage of global risks to keep volatility elevated, such as the sharp rise in the dollar, the Europe's energy crisis, and the Russia-Ukraine war; and key questions remain regarding the timing of a Fed pause and the depth of a downturn. Our outlook is for the global economy to bend but not break, with low, but positive growth in the 1% to 2% range. The evolving slowdown should be accompanied by a substantial decrease in inflation during the year, but still above average (3% in the U.S.). This should lead to a Fed pause in Q1 with futures implying 50 bps of more hiking, a pause at 5%, and a year-end rate of 4.5%. This seems reasonable, with a caveat that the Fed may move slower on rate cuts than the market expects, and we see 2024 as more likely. From an asset allocation perspective, this outlook is more positive for fixed income, given yield carry and a Fed pause, but it suggests caution for equities given deteriorating macro fundamentals.

As the economy continues its slow creep toward a recession, holistically the General Obligation sector will benefit from strong balance sheets, record rainy-day funds, and stable revenue streams for the near future as most revenue sources lag any economic slowdown by 12 to 24 months. Although some investors fear that a housing correction could put pressure on local General Obligation budgets, the large gap between market value and assessed value provides a large cushion before revenues turn negative. The revenue sectors can be divided into essential service (Water & Sewer) and quasi-corporate (Hospital), with the former providing a defensive position and the latter providing higher income generation. Suffice to say, specific issuer challenges may arise, but we do not anticipate any systemic risk to the municipal market. Arguably, credit quality within the municipal arena has never been stronger. Looking back at ratings action in 2022, the three major rating agencies upgraded more than $613 billion of par versus only $25 billion in downgrades. As a result of this dynamic, the municipal market looks poised to outperform most other asset classes with a more favorable return environment going into 2023.

With the repricing of municipal yields, we will be actively repositioning our strategies to take advantage of the current environment. When rate volatility subsides and economic conditions become more certain, we will shift from a neutral strategic to a long tactical duration tilt with a curve structure that reflects our forward outlook. Since municipal credit conditions are expected to remain stable, sector and credit allocations will remain focused on investment grade, valuation-adjusted opportunities, specifically general obligation and essential service revenue bonds. Finally, seasonal influence may limit repositioning opportunities during the first several weeks of the year; however, we believe better technical entry points will emerge once those seasonal influences abate.

Fund Facts *(As of 12/31/22)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	04/01/85	**TOHAX**	89154V603	1.05%	0.80%
C Shares	11/01/93	**TOHCX**	89154V702	2.44%	1.55%
Y Shares	08/30/16	**TOHYX**	89154V843	1.08%	0.55%
INST Shares	08/30/16	**TOHIX**	89154V835	0.72%	0.48%
Total Fund Assets	**$53.5 Million**				

**Expense ratio is annualized. Data as of the current prospectus dated 10/28/21. 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 0.80% for Class A Shares, 1.55% for Class C Shares, 0.55% for Class Y Shares and 0.48% for Class INST Shares. These expense limitations will remain in effect until at least 10/29/23.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 12/31/22)*

	4Q22	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	3.90%	-8.71%	-8.71%	-1.12%	0.67%	1.57%	4.97%
C Shares	3.71%	-9.54%	-9.54%	-1.91%	-0.09%	0.98%	4.66%
Y Shares	3.96%	-8.38%	-8.38%	-0.84%	0.94%	1.75%	5.02%
INST Shares	3.98%	-8.41%	-8.41%	-0.81%	0.98%	1.77%	5.03%
Benchmark^	4.10%	-8.53%	-8.53%	-0.77%	1.25%	2.13%	5.89%
Including Max Sales Charge							
A Shares	0.48%	-11.69%	-11.69%	-1.79%	-0.31%	1.08%	4.84%
C Shares	2.71%	-10.44%	-10.44%	-1.91%	-0.09%	0.98%	4.66%

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 Municipal Bond Index[1]

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 C, Y, and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 04/01/85, with the performance since the inception date of each share class.***

[1]The Bloomberg Municipal Bond Index is a widely recognized unmanaged index of municipal bonds with maturities of at least one year.

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 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 Fund is subject to prepayment risk which is when a debt security may be paid off and proceeds invested earlier than anticipated. 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 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 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.

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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