Fund Manager Commentary

As of December 31, 2022

Fund Highlights

- Seeks to achieve a high level of income by investing primarily in non-investment-grade debt securities
- Evaluates overall investment opportunities and risks in different industries focusing on those that exhibit the potential for stability and predictability
- Eliminates certain types of securities from purchase due to their structure
- Applies rigorous credit selection process in an effort to identify securities that offer attractive opportunities

Market Recap

After yet another failed rally evaporated in the prior quarter, risk assets quickly found their footing in early October. Broad-based rallies followed in High Yield, the S&P 500 and Investment Grade. Recent inflation indicators and employment data have exhibited a deceleration from peak levels, leading the market to price in an increased probability of a soft landing for the economy. Thus far, the U.S. Federal Reserve (Fed) has raised rates 425 basis points (bps) and has done so at the third fastest pace in its history. Strategists expect 50-100 bps more to come.

Performance was tilted towards higher quality bonds. In a similar vein, small cap equities were laggards to larger cap equities.

At a more granular performance level, Gaming led all sectors driven by Macau-based exposure. The much anticipated Macau casino concession grants and terms were released on November 26th, removing a key overhang for the six incumbent license holders. Each maintained the ability to operate for the next 10 years. A relaxation of stringent COVID-19 measures also provided strong support for the space. While no sector experienced negative returns, Healthcare Real Estate Investment Trusts and Transportation Services underperformed on company specific news and cyclical concerns.

Economic data are painting a mixed picture. Employment remains solid with a near all-time low unemployment rate (3.7%), average hourly earnings are +5.1% year over year, and the Job Openings and Labor Turnover Survey (JOLTS) shows 10.3 million openings. On the flip side, business confidence is weak with the ISM Manufacturing Index in contraction territory (49.0), November U.S. retail sales fell by the greatest degree in nearly a year (-0.6% month over month), and the Senior Loan Officers Survey shows 39% of respondents tightening lending standards; 14% were loosening standards in January 2022.

At its December meeting, the Fed took its foot off the accelerator raising rates 50 bps to 4.25%. But hawkish rhetoric and a higher implied terminal rate (~5.1%) out of the Fed drove immediate equity market weakness and a selloff in the Treasury market. This hike came after four successive 75 bps moves. Seven increases were made in 2022 within the fastest rate hike cycle since 1980. Numerous other Central Banks have slowed their pace of rate increases, but few show any indication of loosening policy near term.

As go ETF flows, so goes the direction of the High Yield market. During fourth quarter, High Yield experienced $15 billion of ETF inflows, providing a technical tailwind as ETFs chased higher levels. As spreads tightened, a few issuers successfully accessed the market, but overall, 2022 saw less than $110 billion in new issues, down 78% from 2021 volume of $457 billion. While the market has a manageable maturity profile, less than 15% matures in the next three years, expectations are for the new issue market to be more active next year.

Portfolio Review

The Touchstone High Yield Fund (Class A Shares Load-Waived) outperformed its benchmark, the ICE BofA High Yield Cash Pay Index, for the quarter ended December 31, 2022.

Attribution from sector allocation was positive. Overweight positioning in Oil Field Services was positive, as it was the top performing sector in the quarter. Underweight positioning in Wirelines was also additive as the sector

(continued)

◊ *Fort Washington is a member of Western & Southern Financial Group* broadly lagged. Underweight positioning in Pharmaceuticals was a slight negative as a rally in Bausch Health led the sector to be a top five performer.

Attribution from security selection was positive. Primary themes for the quarter were 1) the credit rally was more beneficial to BB/B rated bonds as CCC rated securities lagged, 2) the rally was broad based as there were very few negative returning sectors. Overweight positioning in Wynn Macau and Sands China were beneficial as the Chinese based gaming operators began to recover from COVID-19 closures and prospects of increased foot traffic. Uncertainty over expanding gaming licenses/operators and a potential increase in competition was also favorably resolved as Chinese regulators opted to maintain the current structure and deny a license for a new competitor. Overweight positioning in Howden Corp. was materially positive as the industrial company was acquired by investment grade rated Chart Industries. Overweight positioning in Altice USA was a detractor as the cable company continued to struggle with its capital expenditure program limiting its cash flow. The company also called off the sale of its SuddenLink subsidiary due to market conditions. Overweight positioning in Grey Television was negative as the television operator released poor results stemming from less than expected political revenue.

There were some meaningful shifts in ratings allocations for the fund quarter over quarter. The fund continues to be underweight CCC rated and below securities by approximately 550 bps which we believe is prudent at this point of the credit cycle. In addition, the Fund increased its exposure to BB/BBB rated securities primarily by reducing holdings of B rated securities and a slight reduction in cash.

Largest increases in sector weights were in Automotive and Chemicals. These are both sectors that we found value in bottom up credit selection and in our move for the Fund to own higher quality/rated securities, especially within more cyclical industries. The largest decreases in the quarter came from Oil Field Services, primarily due to the reduction in Unit Corp., and Cable Satellite with a reduction in Charter Communications.

Duration of the portfolio at quarter end was 3.96 years. The portfolio started the quarter approximately -0.10 years short duration vs the benchmark and ended the quarter at -0.07 years relative to the benchmark. We do not anticipate that duration meaningfully impacted performance of the portfolio in the quarter.

Outlook and Conclusion

The current environment has gotten more uncertain over the last several quarters as the Fed has turned significantly more hawkish in its efforts to fight inflation. The pace of interest rate hikes and balance sheet runoff have materially increased and quickened. This has led to some instability in the markets and concern that the Fed may raise rates to the point of causing a recession; although more recently the markets have taken a more benign view and seem to believe that a soft landing is possible. The portfolio has been overweight Energy in previous quarters as that sector was in the process of healing its balance sheets and recovering from the COVID-19 pandemic. The predominance of credits in that sector now trade inside of High Yield and we have taken the opportunity to reduce that exposure and have transitioned those holdings to more stable and less cyclical sectors such as Utilities, Media, and Cable. At this stage of the credit cycle, which we would deem as ‘late stage’, we are preferring higher quality and/or less cyclical sectors as volatility due to rate hikes and further global macroeconomic weakness can quickly resurface. The Fund is meaningfully underweight CCC rated securities, as this segment of the market will experience the most default losses when tight financial conditions eventually take hold. The Fund is also meaningfully under-spreading and under-yielding the index as this final move in spreads can be quite significant.

We find the best value on the market to currently be in the BB/B categories as this segment has sold off and has the best characteristics going forward – either to retighten in the face of market stability or to sell off less in the case of a material misstep by the Fed or other global macro developments. These segments also have a higher duration and can experience some stability in the face of further spread widening as the Treasury market stabilizes. The underweight to higher spreading CCCs has the potential to be a headwind if the market materially tightens from here; however, that is not our base case scenario. CCCs will bear the brunt of the default cycle as it unfolds in the coming quarters and we remain cautious on this subsector until it begins to price in a more significant downturn.

Our outlook for High Yield is Neutral as we are balancing our concern for economic weakness and tighter financial conditions. The current level of yields are able to absorb and offset a significant amount of spread widening should the economy have a hard landing. We anticipate the next default cycle to be less than historic averages as issuers have termed out maturities and balance sheets are in relatively good shape. The predominance of mergers and acquisitions and leveraged buy-out issuance has occurred in the leveraged loan market which we suspect may see a higher level of defaults than previous cycles. We will be monitoring markets closely and looking for the final signs of increasing defaults and market capitulation as financial conditions become too much for the weakest and most highly leveraged companies to bear.

As of December 31, 2022, Granite US Holdings Corp. 11.00% 10/01/2027 made up 1.48%, Altice Financing SA 5.00% 01/15/2028 made up 0.39%, Altice Financing SA 5.75% 08/15/2029 made up 0.52%, Gray Television Inc. 7.00% 05/15/2027 made up 0.29%, Unit Corporation made up 0.94%, CCO Holdings LLC / CCO Holding 4.25% 02/01/2031 made up 0.60%, CCO Holdings LLC / CCO Holding 6.38% 09/01/2029 made up 0.60%, and Chart Industries, Bausch Health made up 0.00% of the Touchstone High Yield Fund. Current and future portfolio holdings are subject to change.

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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	05/01/00	**THYAX**	89154W809	1.21%	1.05%
C Shares	05/23/00	**THYCX**	89154W882	2.83%	1.80%
Y Shares	02/01/07	**THYYX**	89154W817	0.89%	0.80%
INST Shares	01/27/12	**THIYX**	89154W775	0.75%	0.72%

Total Fund Assets $102.3 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 1.05% for Class A Shares, 1.80% for Class C Shares, 0.80% for Class Y Shares and 0.72% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/24.*

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	4.85%	-11.01%	-11.01%	-1.07%	1.38%	2.64%	5.44%
C Shares	4.67%	-11.70%	-11.70%	-1.81%	0.63%	2.04%	5.19%
Y Shares	4.91%	-10.82%	-10.82%	-0.84%	1.63%	2.91%	5.65%
INST Shares	4.94%	-10.74%	-10.74%	-0.73%	1.73%	3.00%	5.62%
Benchmark^	4.07%	-11.11%	-11.11%	-0.20%	2.14%	3.94%	6.32%
Including Max Sales Charge							
A Shares	1.41%	-13.92%	-13.92%	-1.73%	0.38%	2.14%	5.21%
C Shares	3.67%	-12.55%	-12.55%	-1.81%	0.63%	2.04%	5.19%

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 - ICE BofA High Yield Cash Pay 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, 05/01/00, with the performance since the inception date of each share class.***

[1]The ICE BofA High Yield Cash Pay Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par which is greater than or equal to $50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.

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 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 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. Current and future portfolio holdings are subject to change.

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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