Fund Manager Commentary

As of March 31, 2024

Fund Highlights

- Seeks a high level of income consistent with reasonable risk by investing primarily in income producing securities
- Primarily invests in investment grade corporate bonds, high yield corporate bonds, preferred stocks, U.S. municipal bonds and U.S. Treasuries
- Actively manages the portfolio by rotating among asset classes and tactically hedging during various interest rate and market environments
- Seeks to identify relative value across asset classes and capture opportunities primarily within the corporate, U.S. Treasury, municipal and preferred security markets
- Analyzes and targets the portfolio's level of risk and interest rate sensitivity
- Selects individual positions based on security credit metrics and structures
- Focuses on liquid securities with transparent pricing and actively-traded capital structures

Market Recap

Following the dovish "Powell Pivot" in December, investors entered 2024 expecting the U.S. Federal Reserve Bank (Fed) to cut interest rates multiple times starting as early as the March Federal Open Market (FOMC) Committee meeting. Based on the Summary of Economic Projections released at the December 2023 meeting the Fed was projected to cut interest rates a total of 75 basis points (bps) in 2024 from the current 5.25% - 5.50% level. However, the futures market was indicating more than six 25bps cuts in 2024 with the earliest rate cut occurring at the March meeting. At the January 31 FOMC meeting. Fed Chair Jerome Powell reiterated the committee's focus on data dependency and flexibility to react to incoming economic data keeping the benchmark interest rate unchanged. After the FOMC meeting Chair Powell stated, "Based on the meeting today, I would tell you that I don't think it's likely that the committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that. But that's to be seen." At subsequent interviews, Chair Powell spoke about the potential for three 25bps rate cuts by year-end. Then on February 2 the January non-farm payroll (NFP) report was released with estimates ranging from 120,000 to 300,000 with the median estimate coming in at 185,000 jobs created but the actual number was 353,000 jobs added with the unemployment rate at 3.7%. Another concern for the Fed was that average hourly earnings increased 0.6%, double the monthly estimate. On a year-over-year basis wages jumped 4.5% well above the 4.1% forecast. The report also indicated revisions for the December NFP report which was revised higher by 117,000 jobs. The blockbuster report raised questions whether persistent wage growth could indicate continued inflationary pressures as increased labor costs may be passed on to the consumer in the form of higher prices. On the heels of the strong jobs report the 10-year U.S. Treasury Note yield rose 16bps to 4.02% and the 2-year U.S. Treasury Note climbing 17bps to 4.37% and the bond market priced just a 3% chance the Fed would cut rates at its March meeting. Following its two-day policy meeting in March, the FOMC kept its benchmark overnight borrowing rate in a range of 5.25% - 5.50% where it has held since July 2023. Chair Powell said he could not elaborate on timing but said he still expects three interest rate cuts to come as long as the data cooperates. The Fed also released the updated dot plot which indicated three interest rate cuts in 2025 – one fewer than the last time the dot plot was updated in December 2023. The 2's-10's spread (the difference between the yield of the 10-year U.S. Treasury Note and the 2-year U.S. Treasury Note) steepened to -42bps from -37bps at the end of the first quarter of 2024.

A dovish Fed, resilient growth forecasts and an economy set for a soft landing took equity markets to record highs in the first quarter. Equities have been able to defy a rise in yields as

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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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the 10-year U.S. Treasury Note yield closed at 4.2% up from 3.9% at the end of 2023. Fourth quarter earnings numbers came in better than expected as companies are effectively managing rising costs. Surging shares of big technology companies and optimism over artificial intelligence (AI) drove stocks higher. The Magnificent 7, comprised of Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla hold a disproportionate influence on the market capitalization weighted Nasdaq and S&P 500 indexes. The S&P 500's forward price-to-earnings ratio has crept up to 20.4x about 15% above its 10-year average of 17.7x.

After eleven interest rate hikes since March 2022, the increased debt burdens and higher cost of borrowing has been keenly felt by young consumers and lower-income households that live paycheck-to-paycheck. The Federal Reserve Bank of New York's Center for Macroeconomic Data noted in its February 2024 report that household debt and credit card balances increased by $50 billion to $1.13 trillion and auto loan balances rose by $12 billion to end 2023 at $1.61 trillion. The Fed noted on an annualized basis about 8.5% of credit card balances and 7.7% of auto loans have transitioned into delinquency status.

Portfolio Review

The Touchstone Flexible Income Fund (Class A Shares, Load Waived) outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended March 31, 2024.

At the end of the first quarter of 2024, the Fund was invested across Preferred Securities (PFD), Agency Commercial Mortgage-Backed Securities (ACMBS) and Seasoned Residential Mortgage Backed Securities (RMBS) backed by Single Family Rental Homes (SFR) and Prime borrower backed Asset Backed Securities (ABS). Our PFD holdings in less rate sensitive, fixed-to-reset structures have outperformed the index. As Fed rate cuts were pushed back, the securities tightened in spread to the call and rallied for a strong first quarter. We continue to favor these structures over long duration fixed-for-life structures which are trading very tight in spread. Furthermore, we target securities in quality credits with high backend resets. This significantly mitigates the volatility and risk in a scenario where the Fed is forced to reverse course and take rates lower. Furthermore, if rates stay at these levels, these securities shorten in duration as the likelihood of a call increases. The ACMBS positions are backed by loans on multi-family residential housing properties originated by U.S. government agencies (Freddie Mac). These assets have solid credit metrics (60% loan-to-value/1.3x debt service coverage ratio) with low effective durations and have historically performed very well due to low delinquencies and defaults by the borrowers. We also added assets backed by Single Family Rental Homes in the private label market which offer strong total return potential due to structural deleveraging, limited issuance and resilient housing fundaments. These seasoned deals offer significant hard credit enhancement via the deal structure and years of home price appreciation which would mitigate any potential losses. In addition, our allocation to long duration investment grade corporates tightened significantly in spread during the quarter. Toward the end of last year, we allocated capital to several long duration investment grade credits that were issued during the COVID-era low-rate environment and were trading down 30.0% - 40.0% below issuance price. We targeted several names which had been in our bullpen that were trading in the $60 price range, yielding approximately 6.50% - 6.75% on average. While they sold off moderately with the rate rise in first quarter, the significant spread tightening dampened much of the sell off.

Credit spreads tightened during the first quarter of 2024 as the rally in the bond market saw risk assets participate in the rally. However corporate investment-grade and high-yield credit spreads are hovering tight to 20-year averages. While all-in yields are at some of the highest levels in recent years for investment grade and high-yield bonds, the composition of that yield comes from the higher base case U.S. Treasury rate whereas in securitized markets investors are being compensated with wider credit spreads for taking risk over U.S. Treasuries. Finally, we remained wary of investments in lower credits and/or with longer durations and focused on rotating into shorter, higher quality investments or building our cash and cash equivalents instead. From a credit standpoint we are closely watching the resumption of the student loan payments beginning in the fourth quarter of 2023 that could potentially negatively impact subprime borrower performance in recent deals.

PFD allocation in the Fund decreased slightly during the quarter. We continue to like our PFD holdings versus the total preferred universe as we are focused on shorter in duration securities due to their high back-end resets and short call dates. We moderately reduced our exposure to securities we felt outperformed and/or had potential to be dragged down further with the market. Specifically, we reduced our holdings in some of our PFDs that contained backend resets in the lower end of our target range.

Investment Grades securities (IG) allocation in the Fund increased during the quarter. IG corporate allocation in the Fund increased as we continue to like the positions we hold for their credit and carry and were able to add some exposure in the front end considering the sell-off in U.S. Treasuries. We added moderately to our positions in low dollar price IG bonds. These IG credits that were issued during the COVID-era low-rate environment and were trading down 30-40% below issuance price. We targeted several names which had been in our bullpen that were trading in the $60 price range, yielding approximately 6.50 to 6.75% on average (during the 4Q where we made the bulk of this allocation). We will continue to monitor price action and look to put more capital to work as they reach our downside price targets. We will look to add to this asset class on a tactical basis. IG Structured Products Securities allocation in the fund increased as well. We are converting our cash and monthly distributions from our shorter duration and/or amortizing IG Structured Products Securities into cash and short-dated U.S. Treasury Bills in order to optimize liquidity.

High Yield Securities (HY) allocation in the Fund increased

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during the quarter. Specifically, HY Corporate Securities allocation in the Fund increased. While we do not find spreads attractive at this level, we do see value in nominal yields. Furthermore, with the curve inverted, we find attractive opportunities in short duration, liquid, HY ETFs yielding north of 8%. Furthermore, we find value in selecting idiosyncratic opportunities. If we begin to see forward looking economic data roll over, we will monetize the more liquid portions of this allocation. Also, HY Structured Products Securities allocation in the Fund increased as well. In structured products, we continue to capture high quality credit spreads in bonds backed by strong housing and consumer fundamentals whereas the option-adjusted spreads in Investment Grade bonds saw credit spreads compress from 106bps to 98bps and HY bonds saw credit spreads tighten in the first quarter which look less attractive than the risk adjusted in returns in securitized products. On the prospects of three interest rate cuts in 2024 and the broader market rally in risk assets RMBS spreads were tighter across senior AAA tranches. The combination of resilient housing fundamentals and limited new issue supply helped the sector tighten across the capital structure. Homeowners have nearly $36 trillion in home equity after the fifteen-year runup in home prices which supports the strong underlying credit fundamentals in the sector, and it continues to look cheap versus other asset classes.

The Fund's Municipal Bonds allocation in the Fund decreased over the course of the quarter. An asset class susceptible to an increase in long term rates, Municipals were under pressure again this quarter. We decreased our exposure as many of our closed end funds have rallied significantly since last fall. Furthermore, Municipals are trading at extremely tight levels/ratios vs. benchmark treasuries.

The Fund's U.S. Treasury allocation decreased by trimming exposure to both our U.S. Treasury exposure in short duration U.S. Treasury Bills yielding north of 5% and our U.S. Treasury exposure in 20yr U.S. Treasury Bonds.

The Fund's Cash allocation in the Fund decreased from the end of 2023 to the end of the first quarter. We continue to remain patient and look to further aggregate cashflows generated from the securities held by the Fund and may continue to reinvest any cashflows received into short-dated U.S. Treasuries and/or other short duration investments to prepare for any corrections and/or better entry points.

Overall, the Fund's lower duration versus the benchmark was to take advantage of the severely inverted yield curve that now has short duration strategies much more attractive on a risk adjusted return basis. Our decreased position in Cash and short-dated U.S. Treasuries during the first quarter of 2024 was a result of finding mispriced assets that were cheap on a risk adjusted basis. As a result, the Fund added incremental exposure to the inverted front-end of the yield curve which was overweight versus the benchmark index which had a higher exposure to the belly of the curve. The overweighting to the front-end helped performance as the belly of the U.S. Treasury curve steepened during the first quarter of 2024.

Outlook and Conclusion

While rate cuts will broadly benefit much of the securitized market the potential reduction from five cuts to two cuts in 2024 may increase rate volatility reducing the potential for total return however with positive economic growth, strong labor market, and moderating inflation the sector is poised to deliver strong risk adjusted returns in 2024.

We continue to be weary and avoid credit sensitive asset classes (i.e., generic HY), although they are currently much more fairly priced on a risk-adjusted basis than they have been in a few years. However, while nominal yields have reached more attractive levels, credit spreads have yet to widen to levels we find worthy of investment. In our view, we will remain tentative to rotate into such investments as they have a meaningfully higher probability of default. We will look to take advantage of investment opportunities in this space on a tactical basis.

As always, we remain diligent and patient as we are focused on avoiding any positions that have the potential to suffer from extreme illiquidity, which could be caused by an unforeseen event. The main driver of our returns in the first quarter of 2024 was generated from our high current income of the Fund in addition to total return opportunities that we will capitalize on via portfolio rotation, asset allocation, opportunistic investing, etc. If the Fed is near the end of its interest rate hiking campaign and rates stabilize for the foreseeable future or the possibility of interest rate cuts, we believe that fixed income investments are well positioned to deliver compelling risk adjusted returns.

We do not see any obvious fundamental issues in any of the asset classes / sectors that we are currently invested in as higher risk-free starting rates provide a cushion to any potential sell-off in treasuries. Nominal spreads are fair in IG and HY with potential downside if a hard landing is realized. Spreads in Structured Products have tightened throughout the first quarter of 2024 as the asset class was cheap but certain sub-sectors are still cheap with higher all-in yields. We feel that we are conservatively positioned for further downside with a large amount of cash and cash equivalents at the end of the first quarter of 2024. We anticipate allocating our liquidity (cash and cash equivalents) into more optimal risk-adjusted returns on a tactical basis. We believe that our active portfolio management methodologies will be important to add returns and reduce risk. While we put capital to work when U.S. Treasuries sold off (yields higher) to levels not seen in years, we still remain conservatively positioned for further downside via credit spread widening with a large amount of cash equivalents at the end of the first quarter of 2024. We anticipate allocating our liquidity into more optimal risk-adjusted returns on a tactical basis. We believe that our active portfolio management methodologies will be important to add returns and reduce risk.

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Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	04/01/04	**FFSAX**	89154Q620	1.27%	1.22%
C Shares	10/29/01	**FRACX**	89154Q612	2.04%	1.97%
Y Shares	09/01/98	**MXIIX**	89154Q596	1.01%	0.97%
INST Shares	09/10/12	**TFSLX**	89154Q588	0.99%	0.87%
Total Fund Assets	**$1.4 Billion**				

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 1.04% for Class A Shares, 1.79% for Class C Shares, 0.79% for Class Y Shares and 0.69% for Class INST Shares. These expense limitations will remain in effect until at least 07/29/24.

Share class availability differs by firm.

Fifth Third Strategic Income Fund Class I Shares became Touchstone Flexible Income Fund Class Y Shares on 09/10/12.

Annualized Total Returns

	1Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.57%	1.57%	7.69%	1.08%	2.93%	3.30%	5.75%
C Shares	1.31%	1.31%	6.93%	0.31%	2.15%	2.68%	5.28%
Y Shares	1.63%	1.63%	8.04%	1.33%	3.20%	3.56%	6.10%
INST Shares	1.65%	1.65%	8.15%	1.45%	3.30%	3.67%	6.19%
Benchmark	-0.78%	-0.78%	1.70%	-2.46%	0.36%	1.54%	5.97%
Including Max Sales Charge							
A Shares	-1.71%	-1.71%	4.21%	-0.02%	2.51%	2.68%	5.59%
C Shares	0.31%	0.31%	5.93%	0.31%	2.15%	2.68%	5.28%

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

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.

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.*

Class A, Class C and Class Y shares performance was calculated using the historical performance of the Fifth Third/Maxus Income Fund Investor shares, with an inception date of March 10, 1985, for periods prior to April 1, 2004, October 29, 2001, and September 1, 1998, respectively. Institutional Class shares performance information was calculated using the historical performance of Class Y shares for the periods prior to September 10, 2012. The returns have been restated to reflect sales charges and fees applicable to Class A, Class C, Class Y and Institutional Class shares.

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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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 Fund invests in equities which are subject to market volatility and loss. The Fund invests in preferred stocks which are relegated below bonds for payment should the issuer be liquidated. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing their price to decline. The Fund's investments in other investment companies will be subject to substantially the same risks as those associated with the direct ownership of the securities comprising the portfolios of such investment companies, and the value of the Fund's investment will fluctuate in response to the performance of such portfolios. In addition, if the Fund acquires shares of investment companies, shareholders of the Fund will bear their proportionate share of the fees and expenses of the Fund and, indirectly, the fees and expenses of the investment companies or ETFs. 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. The Fund invests in convertible securities which are subject to the risks of both debt securities and equity securities. The Fund invests in derivatives such as futures contracts. Derivatives can be highly volatile, illiquid and difficult to value, subject to counterparty and leverage risks and there is risk that changes in the value of a derivative held by the Fund will not correlate with the Fund's other investments. Gains or losses from speculative positions in a derivative may be much greater than the original cost and potential losses may be substantial. 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. Current and future portfolio holdings are subject to change.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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