

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- Employs flexibility by allocating assets among core investments and opportunistic investments as market conditions change
- Identifies companies and securities that are believed to offer attractive relative values when compared to their fundamental credit risk
- Actively hedges portfolio risks, including credit, interest rate and currency, in an effort to preserve capital
- Consists of several broad investment categories, including high yield bonds, bank loans, special situations, structured credit and hedges

Market Recap

Capital markets concluded the year on a high note as positive economic data prints and dovish central bank rhetoric led to a widespread rally, offsetting geopolitical and interest rate volatility in October. Headline and core inflation moved lower during the period, though remained well above the Federal Reserve's (Fed) 2% target, while labor market conditions remained firm. The Fed increased their guidance to 75 basis points (bps) of cuts in 2024, with some economists forecasting as many as six cuts in 2024, due to lower inflation while keeping growth and unemployment forecasts largely unchanged. This news had a pronounced impact as 10-year U.S. Treasury yields moved 45bps tighter in December as optimism regarding an aggressive easing cycle led to a rally across equity and fixed income markets.

Within fixed income, most asset classes were positive though long duration outperformed as investors prepared for a potential shift in monetary policy. High yield bonds (proxy: ICE BofA U.S. High Yield Constrained Index) returned 7.06% as credit spreads snapped tighter after reaching their historical median at October month-end. Syndicated loans (proxy: Credit Suisse Leveraged Loan Index) returned 2.85%, benefitting to a lesser extent from market sentiment though remained a consistent source of returns during the period and calendar year. Contrary to trends earlier in the year, lower credit quality underperformed in the period as investors remained cognizant of the potential impacts of higher for longer rates on corporate fundamentals. Based on J.P. Morgan's analysis, default activity concluded the period

on a quiet note with the lightest monthly volume since October 2022. While default rates moved up year-over-year, they concluded the period around their respective historical averages.

Both sub-investment grade asset classes underperformed equities (proxy: S&P 500 Index), which rode a strong November to a 11.68% return. Traditional fixed income (proxy: Bloomberg U.S. Aggregate Bond Index) returned 6.82%, underperforming high yield bonds and outperforming syndicated loans. The fourth quarter concluded a strong calendar year for sub-investment grade credit, with high yield bonds and syndicated loans returning 13.47% and 13.04%, respectively.

Portfolio Review

The Touchstone Ares Credit Opportunities Fund (Class A Shares Load Waived) underperformed its benchmark, the ICE BofA U.S. High Yield Constrained Index, for the 3-month period ended December 31, 2023.

The Fund's relative performance was largely driven by the Fund's prominent allocation to floating rate credit, which materially underperformed fixed rate assets. While a detractor in the fourth quarter, the allocation was a source of value-add during multiple bouts of market volatility throughout the calendar year. The Fund's decision to move overweight duration within the high yield bond allocation earlier in the year was a source of value-add in the fourth quarter, as longer duration assets outperformed.

The Fund's allocations to high yield bonds and syndicated loans remained roughly intact during the quarter as we focused on idiosyncratic events such as corporate earnings

(continued)

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.**





while swapping out of names that had run up in price amid the broad-based rally. Within the floating rate allocation, the presence of Collateralized Loan Obligation equity increased as we leveraged our scale to source new opportunities amid seasonally thin liquidity. By credit quality, the allocation to CCCs increased as we rotated out BBs and single Bs that had run up to our sale price. By industry, the presence of Energy decreased as credit spreads moved inside the broader market during the period.

At quarter-end, the Fund remained underweight duration, though overweight within the bond allocation, and overweight risk from a credit spread perspective. The Fund remains well positioned for capital appreciation and income relative to the broader high yield market.

Outlook and Conclusion

Following a strong risk rally in December, performance across credit markets has been mixed thus far in January; specifically, bond yields widened as investors began to question the high level of uncertainty over policy easing in 2024. At the most recent meeting, the Federal Open Market Committee (FOMC) noted the progress that has been made in the battle to bring down inflation, agreed to hold its benchmark rate steady in a range between 5.25% and 5.5% and indicated they expect three 25bps cuts by the end of 2024. However, there was an elevated degree of uncertainty about the policy path as participants stressed that it will highly depend on how the economy evolves. Despite the cautionary tone from FOMC officials, the market continues to expect the central bank to cut aggressively in 2024. Looking forward, the balance of risks may soon shift from persistent inflation to concerns around employment and the broader economy, which are demonstrating resilience for the time being. In addition to resilient growth and progress on disinflation, improving capital market conditions and stable credit fundamentals are expected to support current valuations through at least the first quarter of this year. Regarding fundamentals, corporate earnings are in a good position heading into a more challenging landscape in 2024; however, forward guidance remains conservative, and the number of misses has increased, leading to a rise in single name dispersion. Default rates are expected to modestly decline in 2024 amid limited near-term maturities, strong balance sheets, and a year-over-year decrease in the distressed universe. Meanwhile, the technical environment should remain modestly supportive this year amid stable demand from global institutional investors and a pick-up in bond retail inflows; however, we do expect an increase in capital market activity amid lower rates. Looking ahead, we continue to closely monitor leading economic indicators and potential headwinds including the 2024 elections and the potential impacts of elevated geopolitical tensions. Importantly, we remain focused on security selection as we expect single-name dispersion to continue to increase in the coming months.



Fund Facts (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	08/31/15	TMARX	89155T631	1.27%	1.08%
C Shares	08/31/15	TMACX	89155T623	2.08%	1.48%
Y Shares	08/31/15	TMAYX	89155T615	1.01%	0.88%
INST Shares	08/31/15	TARBX	89155T599	1.22%	0.78%
Total Fund Assets	\$369.8 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 1.03% for Class A Shares, 1.43% for Class C Shares, 0.83% for Class Y Shares and 0.73% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/25.

Share class availability differs by firm.

Annualized Total Returns (As of 12/31/23)

	4Q23	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	6.08%	12.99%	12.99%	4.07%	6.09%	5.12%
C Shares	5.97%	12.54%	12.54%	3.62%	5.47%	4.51%
Y Shares	6.03%	13.24%	13.24%	4.27%	6.32%	5.35%
INST Shares	6.12%	13.25%	13.25%	4.38%	6.42%	5.45%
Benchmark	7.07%	13.47%	13.47%	2.01%	5.19%	5.11%
Including Max Sales Charge						
A Shares	2.68%	9.34%	9.34%	2.93%	5.01%	4.37%
C Shares	4.97%	11.54%	11.54%	3.62%	5.47%	4.51%

Max 3.25% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

The ICE BofA U.S. High Yield Constrained Index is a market-value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3 but are not in default. The index limits any individual issuer to a maximum of 2% benchmark exposure.

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.

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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](https://www.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 registered broker-dealer and member FINRA and SIPC

Touchstone is a member of Western and Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

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, distressed securities and corporate loans which are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and have more frequent and larger price changes than other debt securities. There is a high risk that the Fund could suffer losses from investments in non-investment grade debt securities caused by the default of an issuer. 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 Collateralized Loan Obligations (CLOs) that have risks that largely depend on the type of underlying collateral and risks may include illiquidity, limited active market, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the potential for a decline in the quality of the collateral, and can bear the risk of default by the loans. The Fund invests in derivatives and securities such as futures contracts, options and swap agreements. 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. The Fund invests in convertible securities which are subject to the risks of both debt securities and equity securities. 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 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 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 is involved in short selling which may result in additional costs associated with covering short positions and a possibility of unlimited loss. 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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