

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- Primarily invests in a diversified portfolio of fixed-income and equity securities. Under normal circumstances, the Fund generally expects to allocate its assets as follows:
 - 60% equity securities
 - 40% fixed-income securities
- Allocates assets based on relative attractiveness
 - Equity/fixed income weights
 - Sector/industry weights
 - Active duration management and yield curve positioning
- Fundamentally driven equity and credit analysis
- Strategic long-term execution of asset class allocation

Market Recap

The fourth quarter was a stark contrast to the previous three quarters of 2023 for fixed income and welcomed by all investors as equity markets also made strong returns. Despite volatility at the beginning of the quarter, rates ended meaningfully lower as the market shifted its focus from rate hikes to cuts. The combination of lower inflation and positive economic growth has also paved the way for increasing momentum around a “soft landing”. This outlook led to a rally in risk assets over November and December, with credit spreads tightening well below their historical averages and the S&P 500 approaching all-time highs. While a meaningful economic slowdown does not appear to be on the immediate horizon, risks to growth are still elevated as many Americans have pulled forward personal consumption and, at the same time, corporate spending and government outlays are not anticipated to be tailwinds into 2024.

October began how most of 2023 had evolved for rates as we reached 5% on the 10-year treasury and credit spreads experienced volatility. However, in November we observed a shift in expectations, which was prompted by lower inflation data. While the market had previously been fixated on the potential for more rate hikes, inflation and labor market figures prompted investors to recognize the probable end of the hiking cycle. The change in view was confirmed by economic data over the remaining quarter, which also showed resilient growth, supporting a soft landing view.

By the end of December market consensus was to avert a recession and for multiple rate cuts next year as inflation declines further. As a result, the longer part of the curve (10-30 year) rallied about 70 basis points (bps) in fourth quarter and the 10 year ended below 4%, at 3.9%. Investment grade spreads (10yr BBB Industrials) rallied 32bps since the end of September to their 26 percentile and high yield (single B corporates) tightened 89bps and ended at their 10 percentile. These moves drove significant performance for the Bloomberg U.S. Aggregate Bond Index, which had its strongest quarterly return since the 1980s. In addition, the S&P 500 had a very strong quarter and was up 11.7%, ending less than 1% from the all-time high.

The focus over the next few months will continue to be inflation as the market gauges the timing and magnitude of potential Federal Reserve (Fed) rate cuts. While core inflation is 3.2% on a year over year basis, more recent data (6 month annualized) shows core inflation already below the target at 1.9%. It is worthwhile to also keep in mind that year over year core inflation has been held up due to shelter, which is calculated on a lag and expected to continue normalizing toward 2%. This would signal the economy is certainly within striking distance of the Fed’s target, if not already there.

At the December press conference, Chair Powell indicated the Fed would need to begin cutting rates before we get to 2% inflation, which implies the first cut could be soon.

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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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Currently, the market anticipates 150bps of cuts, starting in March, while Fed officials averaged 75bps of cuts in their most recent dot plot.

Ongoing strength of the U.S. consumer is still an unknown as excess savings decline, student loan payments resume, and lending standards remain tight. Credit usage has risen and is now in line with the pre-COVID trend while delinquencies on consumer loans are above 2019 levels. The labor market continues to exhibit strength, as shown by the low unemployment rate, but continuing jobless claims have risen. Additionally, wage growth remains strong but has slowed over the year.

Portfolio Review

The Touchstone Balanced Fund (Class A Shares Load Waived) underperformed its blended benchmark, the 60% S&P 500 Index 40% Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2023.

The allocation effect was positive over the quarter as the Fund had a slightly higher allocation to equities, which outperformed fixed income. Security selection had a negative impact on relative performance as the equity within the Fund underperformed the S&P 500 during the quarter, muted somewhat by outperformance within the fixed income allocation. Equity underperformance was primarily due to negative security selection within the Information Technology and Financials sectors. Overweight positions in Exxon Mobil (Energy sector), Berkshire Hathaway (Financials sector), and Markel Group (Financials sector) were the largest detractors to security selection as the names underperformed the broader market over the period. Fixed income was a positive contributor due to the overweight to credit through Investment Grade (IG) corporates, securitized products, and emerging market debt. Within the IG, corporate additional volatility was the primary driver of outperformance.

There were no significant changes to Fund positioning during the quarter. The Fund entered the fourth quarter with a 63% weight in equities, largely concentrated in U.S. large cap securities. Amid strong performance during the quarter, the Fund opportunistically trimmed some slight exposure to equities. The team added exposure to Bristol-Myers (Health Care sector) and Schwab (Financials sector) while reducing a few names including Schlumberger (Energy sector) and Netflix (Consumer Discretionary sector). Fixed Income positioning remained relatively unchanged during the quarter. The Fund maintained its overweight to Emerging Markets debt and IG Credit while the team continues to favor higher quality credit with favorable risk/reward characteristics.

Despite increased risks from tightening financial conditions, a Fed Funds rate above neutral, and increased global uncertainties; the team continues to have a favorable long-term outlook for the U.S. economy. As such, we remain cautious and have prudently reduced risk as financial markets price in an increased probability of a soft landing for the US economy.

Outlook and Conclusion

The Fund is targeting a neutral risk positioning compared to the benchmark. Although near term recession risk has dropped, valuations have become stretched as the market anticipates rate cuts next year while inflation falls further.

Looking ahead, risks to strategy positioning are focused on the lagged effects of Fed tightening, tight credit conditions in bank lending, and the time horizon of how long rates will remain overly restrictive. Although recent data has been in line with expectations, overall growth is likely to continue at below-trend pace over coming quarters, with downside risk from the above factors. Inflation has declined from peak levels and is nearing the Fed's target range. However, the Fed does not believe the battle with inflation is over and they will likely lean hawkish until they are more confident on the lower trajectory. At current levels, the biggest risk to markets is a sharper slowing in economic growth that would challenge the expectation of a soft landing. As our view of the economy and monetary policy changes, we will adjust positioning accordingly.

Sector positioning reflects generally expensive valuations, relative value, and opportunities within each sector. During the quarter, the Fund reduced its exposure to equities slightly following strong performance within the sector. The Fund ended the quarter with 61% invested in equities, a 1% overweight compared to the benchmark.

Within equities, the Fund remains overweight to Communication Services and Health Care sectors. The largest underweights are to the Utilities and Consumer Staples sectors. Although improving, our cautious economic outlook coupled with full valuations results in low risk levels within investment portfolios. Valuations generally reflect a high probability of a soft landing with limited margin of safety at current levels, though there are still risks to the downside for the economy as policy remains restrictive and economic growth is set to slow. We are prioritizing high barrier to entry companies with high returns on capital and maintaining a defensive posture within the Fund.

Within fixed income, the Fund remains underweight U.S. Government and Securitized while overweight Investment Grade Credit and Emerging Markets Debt. We are positioning portfolios slightly short duration compared to the benchmark as longer rates are now more fairly priced following the significant rally over the quarter. However, the market's current expectations for rate cuts will likely shift with new economic data in 2024, which we expect, will lead to volatility and present opportunities for tactical adjustments.

Given our outlook for the economy and markets, we believe the Fund is appropriately positioned to generate compelling investment returns relative to the market and peers. Our base case scenario assumes the economy avoids a deep recession, and markets will likely perform well over the medium-term despite near-term volatility. The Fund's exposure to equities and credit sectors should perform well in a stable to improving economic environment, and the high quality

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security selection focus should provide some degree of downside risk mitigation in a risk off environment. However, if economic growth slows more than expected, the Fund is also in a position to add exposure opportunistically if risk assets experience weakness. The high conviction nature of the strategy is designed to generate excess return through positive security selection in various economic environments.



Fund Facts (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	11/15/38	SEBLX	89154Q323	1.03%	1.03%
C Shares	05/04/98	SBACX	89154Q174	1.79%	1.79%
Y Shares	08/27/07	SIBLX	89154Q315	0.80%	0.80%
R6 Shares	10/28/21	TBARX	89154M801	6.12%	0.66%
Total Fund Assets		\$871.5 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 1.01% for Class A Shares, 1.78% for Class C Shares, 0.81% for Class Y Shares and 0.64% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/24.

Share class availability differs by firm.

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

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	8.83%	18.16%	18.16%	4.13%	10.52%	7.84%	8.58%
C Shares	8.66%	17.28%	17.28%	3.35%	9.68%	7.18%	7.72%
Y Shares	8.89%	18.43%	18.43%	4.35%	10.75%	8.08%	8.61%
R6 Shares	8.98%	18.59%	18.59%	4.41%	10.70%	7.93%	8.59%
Benchmark	9.74%	17.67%	17.67%	4.71%	9.98%	8.09%	—
Including Max Sales Charge							
A Shares	3.40%	12.23%	12.23%	2.37%	9.40%	7.29%	8.52%
C Shares	7.66%	16.28%	16.28%	3.35%	9.68%	7.18%	7.72%

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

Benchmark - 60% S&P 500® Index 40% Bloomberg U.S. Aggregate Bond Index

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The performance presented for Class C, Y and R6 Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 11/15/38, 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.

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The S&P 500® Index is a group of 500 widely held stocks and is commonly regarded to be representative of the large capitalization stock universe. 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 equities which are subject to market volatility and loss. The Fund invests in stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in stocks of mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. The Fund invests in foreign securities, including depositary receipts, such as American Depositary Receipts, Global Depositary Receipts, and European Depositary Receipts, 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 emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. 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 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. 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 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 derivatives and securities such as futures contracts, options, forward contracts 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. Leverage can create an interest expense that may lower the Fund's overall returns. There can be no guarantee that a leveraging strategy will be successful. 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 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 may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. 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. Current and future portfolio holdings are subject to change. 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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

