

# Touchstone Moderate Growth Allocation Fund

Sub-Advised by: Ibbotson Associates Inc.®

## Fund Manager Commentary

As of September 30, 2015

### Fund Highlights

- This fund of funds primarily invests in a diversified portfolio of underlying equity and fixed income funds; the underlying funds, in turn, invest in a variety of U.S. and foreign equities, fixed income securities, and cash equivalents
- It seeks to develop an optimal model allocation among underlying funds using an analysis that looks at forecasted returns, standard deviations in historical returns, and the correlation of the performance of different market sectors
- The underlying funds are selected and weighted based on historical returns-based style analysis, holdings-based style analysis, manager interviews, relative and absolute performance, including correlations with other underlying funds as well as corresponding benchmarks, and historical volatility (the variability of returns from one period to the next)
- Under normal circumstances, the Fund expects to allocate its assets among equity and fixed income funds as follows: Equity Fund Allocation: 70–90 percent; Fixed Income Fund Allocation: 10–30 percent

### Market Recap

Global equities retreated during the third quarter in part due to heightened concerns about slowing growth in China, which triggered a sell-off in commodities and the emerging markets that produce those commodities. Economic news in the U.S. was mixed. Gross domestic product (GDP) growth was revised upward for the second quarter due to increases in consumer expenditures, fixed investments, and government spending at the state and local levels. However, job growth slowed in August and September as private sector payroll gains were lower than expected. Further, an appreciating U.S. dollar made exports more expensive, which crimped earnings for multinational companies. As a result of these headwinds, the S&P 500 Index declined during the third quarter, with Energy, Materials and Health Care sectors losing the most ground. Oil prices in particular reached a multi-year low. The U.S. small-cap stock market also declined as a result of increased market volatility.

Overseas, international stocks underperformed relative to their U.S. counterparts. Japan reported that its economy contracted in the second quarter, which undermined investors' confidence in Prime Minister Abe's efforts. European markets suffered as a result of massive losses in the auto industry after Volkswagen AG admitted that it systematically cheated on emissions tests for its diesel cars. Emerging markets also experienced sharp declines. Mainland China stocks displayed dramatic volatility after a sharp bull-market rally quickly turned into panicked selling. The selling

persisted despite several measures by China's regulators to calm investors. Commodity-producing countries such as Brazil and Russia saw their stock markets move lower as well.

High-quality bonds, which benefited from the U.S. Federal Reserve Board's (Fed) decision to delay a hike in short-term interest rates, were a rare source of stability during the quarter. Long-term bonds outperformed as 10-year Treasury yields fell. Credit-sensitive bonds did not fare as well, as energy-related bonds in particular contributed to a loss for the Barclays U.S. Corporate High Yield Index.

### Portfolio Review

The Touchstone Moderate Growth Allocation Fund (Class A Shares Load-Waived) underperformed its benchmark, the Barclays U.S. Aggregate Bond Index (20 percent), S&P Composite 1500 Index (80 percent), for the quarter ended September 30, 2015.

Asset allocation positioning detracted from Fund performance during the quarter. Strategically, non-U.S. equities and mid-cap equities were the largest detractors from performance. Real estate investment trusts (REITs) and large-cap growth equities were the main contributors.

During the period, the Fund held multiple dynamic asset allocation positions. Overall, the Fund's defensive positioning had a positive impact on performance. An underweight position to mid-cap and small-cap equities and an overweight allocation to short-term bonds contributed to performance. An overweight allocation to non-U.S. equities detracted from performance.

(continued)

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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/pricing-performance](http://TouchstoneInvestments.com/pricing-performance).**



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Most underlying funds underperformed their respective benchmarks during the quarter. Touchstone International Value Fund and Touchstone Premium Yield Equity Fund were the main detractors from relative performance, while Touchstone Total Return Bond Fund and Touchstone Flexible Income Fund were the main contributors.

### Outlook and Conclusion

The prospect of lower rates around the world has lowered discount rates, further extending what we perceive to be already stretched valuations. We believe this makes recent above-average returns unsustainable over the longer term. Consequently, investors may face lower potential returns as economies and central banks embark on different paths. The divergence has already led to changes in currencies and asset prices across countries, while the fall in commodity prices has driven down inflation globally.

In our view, U.S. stocks are overpriced due to cash flows being ahead of longer-term trends. Investors are overweight U.S. stocks and, in general, have increasingly positive expectations for the U.S. economy and corporate earnings, which creates downside risk for U.S. stocks and makes them less attractive on a relative basis. Conversely, we find international stocks offer better value than U.S. stocks on a relative basis. International stocks are more moderately overpriced, and stocks within emerging markets and Japan appear to have more attractive opportunities within the international markets. We believe Europe also provides attractive opportunities, as growth concerns have impacted sentiment and prices. Profit and growth expectations appear less optimistic than in the U.S. and, while this may be justified by the challenges overseas, we believe lower growth and profit expectations are better reflected in current valuations.

Bond yields on U.S. fixed income assets have remained low. The level of government debt is high relative to income, and we believe the ability to finance this debt at higher yields is being questioned. As yields rise however, this could create significant downside to bonds. Investors have scaled back their holdings but still hold larger than normal weights in U.S. fixed income assets, which helps create further downside risk for investors. With regard to U.S. fixed income assets in the Fund, we prefer short-term bonds.

On balance, the Fund's strategy of identifying assets with the most attractive reward-for-risk profile remains defensive and more focused on preserving capital. As such, the Fund ended the quarter with greater international equity exposure and more short-term bonds than usual. Going forward, we will continue to monitor valuations and sentiment, and will adjust the portfolio should the opportunity present itself.

As of September 30, 2015, Touchstone International Value Fund made up 11.58%, Touchstone Premium Yield Equity Fund made up 6.99%, Touchstone Total Return Bond Fund made up 10.26%, Touchstone Flexible Income Fund made up 5.79% and Volkswagen AG made up 0.00% of the Touchstone Moderate Growth Allocation Fund. Current and future portfolio holdings are subject to risk.



**Fund Facts** (As of 09/30/15)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	09/30/04	TSMAX	89154Q307	1.78%	1.40%
C Shares	09/30/04	TSMCX	89154Q406	2.51%	2.15%
Y Shares	12/09/05	TSMYX	89154Q505	1.51%	1.15%
INST Shares	09/30/04	TSMIX	89154Q604	166.23%	1.15%
<b>Total Fund Assets</b>		<b>\$99.8 Million</b>			

\*Expense ratio is annualized. Data as of 04/30/15 prospectus. Touchstone Advisors has contractually agreed to waive a portion of its fees and/or reimburse certain Fund expenses in order to limit annual fund operating expenses (excluding Acquired Fund Fees and Expenses "AFFE") to 0.49% for Class A Shares, 1.24% for Class C Shares, 0.24% for Class Y Shares and 0.24% for Class INST Shares. These expense limitations will remain in effect until at least 04/29/16.

**Annualized Total Returns\*\*** (As of 09/30/15)

Class	3Q15	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Including Max Sales Charge							
A Shares	-12.88%	-11.30%	-10.16%	3.76%	5.83%	3.66%	4.68%
C Shares	-8.63%	-7.33%	-6.34%	5.00%	6.29%	3.49%	4.46%
Excluding Max Sales Charge							
A Shares	-7.56%	-5.86%	-4.66%	5.81%	7.10%	4.27%	5.24%
C Shares	-7.70%	-6.39%	-5.44%	5.00%	6.29%	3.49%	4.46%
Y Shares	-7.52%	-5.64%	-4.45%	6.06%	7.35%	4.53%	5.51%
INST Shares	-7.47%	-5.66%	-4.47%	6.09%	7.38%	4.55%	5.53%
Benchmark <sup>^</sup>	-5.12%	-3.90%	0.44%	10.34%	11.36%	6.69%	7.10%

Max 5.75% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

<sup>^</sup>Benchmark - 20% Barclays U.S. Aggregate Bond Index/80% S&P Composite 1500 Index<sup>1</sup>

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**\*\*The performance presented for Class Y Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 09/30/04, with the performance since the inception date of each share class.**

The indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

<sup>1</sup>The Barclays 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 Standard & Poor's Composite 1500 Index is an unmanaged, broad market index representing the large-cap, mid-cap, and small-cap segments of the U.S. equity market.

**A Word About Risk**

The value of an investment in the Fund is based on the performance of the underlying funds in which it invests and the allocation of its assets among those funds. The Fund bears a proportionate amount of the expenses charged by the underlying funds. The Fund's ability to achieve its investment goal depends upon Ibbotson's skill in selecting the best mix of underlying funds. The principal risks of an investment in the Fund include the principal risks of investing in the underlying funds in addition to those of the Fund. The Fund invests in equities which are subject to market volatility and loss. The Fund invests in foreign securities, foreign depositary receipts and emerging markets securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and differences in accounting standards. The Fund invests in debt securities which can lose their value as interest rates rise and are subject to the risk of deterioration in 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 non-investment grade debt securities which have additional risks and an investor can lose principal. The Fund invests in derivatives which may expose the fund to additional risk than directly investing in securities and may lack a liquid market, are subject to counterparty risk and leverage risk which could result in increased volatility of returns as well as losses. The Fund invests in companies that are or expected to be the subject of a publicly announced transaction that may not be completed or may be completed on less favorable terms than originally expected. Current and future portfolio holdings are subject to risk. The advisor engages the sub-advisor to manage the Fund's portfolio; the sub-advisor's judgment may impact the Fund's performance.

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 advisor or download and/or request one at [TouchstoneInvestments.com/literature-center](http://TouchstoneInvestments.com/literature-center) or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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