

## U.S. Market Review

The U.S. stock market is off to a great start to 2017 with the S&P 500 Index gaining over 6.1% despite a waning of the so-called “Trump Trade” that drove stocks shooting higher at the end of last year. Those more cyclical stocks in the Financial, Energy, and Industrial sectors have taken a breather this year, making way for strong gains in Technology, Consumer, and Healthcare stocks. The market seems to have reached a point of “wait-and-see” on the issue of whether the Trump administration will be able to follow through on the promises of lower taxes, softer business regulations and increased fiscal stimulus that triggered last year’s rally and have opted instead for growth companies that are less reliant on political outcomes. Alongside fiscal uncertainty, the market is also facing tightening monetary policy, with the Federal Reserve having recently raised short-term interest rates by 0.25% in March. The Fed is expected to raise rates two more times this year. With employment at full levels and economic indicators pointing up, we think the economy is strong enough to handle a move away from ultra-accommodative monetary policy.

## International Market

The international markets are off to an even better start than the U.S. in 2017. The developed international markets—represented by the MSCI EAFE (Europe, Australia and Far East) Index—have gained 7.2% while the emerging markets have gained 11.4%. This has been a welcomed change after several years of underperformance and feels like just the beginning. We believe that stronger projected economic growth here in the U.S. should also be beneficial to the rest of the world, particularly the emerging markets. There was obviously some negative rhetoric around border taxes and emerging market trading partners that caused some volatility after the election, but the market seems to be realizing the pent up growth and returns that could come through in the international markets. There are four things that make us hopeful about investing in the international markets:

1. They have been out of favor for longer than normal (about 8 years);
2. Stock valuations overseas, particularly in the emerging markets, appear more attractive;
3. Economic growth seems to have stabilized; and
4. Investor sentiment toward international stocks seems to have improved.

## Portfolio Review & Positioning

We have been very pleased with how the current fund lineup has performed in the first quarter, and over the last several years. You can see on the next page that most of the funds were ahead of or in line with their respective benchmarks and we believe continue to be great long-term holdings. Although the international markets have not performed quite as well as the U.S. over the past several years, the funds in your portfolios have been able to significantly outperform over that time. The FMI International and Dodge & Cox International funds have been among the best performing international funds over the past 5 years. In fact, over the past year, Dodge & Cox International is up 23.0%, which ranks in the top 1% of international mutual funds and beats the S&P 500.

The increase that we made to the emerging markets last summer has been a bit volatile but overall has provided really good returns. For the last several years, the bond allocation has been positioned to be less sensitive to increases in interest rates (lower duration) and a higher yield than the overall bond market. With the prospect for continued rate hikes, we still like that positioning. We remain underweighted in small cap stocks as their valuations have seemed elevated and even more so after a 25%+ rally in 2016. We’ve opted to have more midcap exposure which has, over time, provided similar returns to small cap stocks with less volatility.

We have been able to continue to drive expenses lower in the FundAdvisor models. We have opted for a very low cost index fund to cover the mid cap space, which has been a notoriously difficult place for active managers to outperform. Additionally, we believe that the low interest rate environment makes low expenses increasingly important for bond fund managers and have opted for two low cost funds with great track records. We are always looking for ways to improve the portfolios and will continue to keep a keen eye on expenses. We thank you for your confidence in Davenport & Company.

Market Returns	Q1 2017	1 Year
U.S. Large Caps	6.1	17.2
U.S. Mid Caps	5.1	17.0
U.S. Small Caps	2.5	26.2
International Developed Markets	7.2	11.7
Emerging Markets	11.4	17.2
Intermediate Term Bonds	0.8	0.4

Source: Morningstar Direct. Please see Important Disclosures on page 3 for index definitions.

# Returns Net of Fees as of March 31, 2017

Fund / Index Name	Fund / Index Performance at Net Asset Value**					Up Capture	Down Capture	Expense Ratio	
	YTD	1 Year	3 Years*	5 Years*	10 Years*			Gross	Net
<b>Large Cap</b>									
American Funds AMCAP F2	5.96	15.21	8.44	13.10	8.22	99.41	95.37	0.47	0.47
Diamond Hill Large Cap I	6.34	20.50	9.58	13.47	7.77	98.84	97.02	0.69	0.69
FMI Large Cap Institutional	5.53	16.13	8.69	12.17	8.01	90.63	84.35	0.72	0.72
Benchmark: S&P 500 Index	6.07	17.17	10.37	13.30	7.51	100.00	100.00	-	-
<b>Mid Cap and Small Cap</b>									
Vanguard Mid Cap Index Admiral	6.19	16.74	8.68	12.88	7.82	91.81	88.98	0.08	0.08
JHancock Small Cap Value I	-1.49	15.96	7.71	12.19	-	-	-	1.26	1.26
Benchmark: Russell 2500 Index	3.76	21.53	7.43	12.60	7.71	100.00	100.00	-	-
<b>International</b>									
FMI International Institutional	5.69	14.38	7.23	10.99	-	-	-	0.80	0.80
Dodge & Cox International Stock	9.32	22.97	0.72	7.32	2.52	110.92	105.05	0.64	0.64
MFS International New Discovery I	8.42	8.31	2.65	7.23	4.51	94.51	80.74	1.08	1.08
Benchmark: MSCI EAFE Index	7.25	11.67	0.50	5.83	1.05	100.00	100.00	-	-
<b>Emerging Markets</b>									
Touchstone Sands Cptl Emerg Mkts Gr Y <sup>1</sup>	13.35	13.83	-	-	-	-	-	1.60	1.50
Vanguard Emerging Mkts Stock Idx Adm	10.84	17.57	1.91	0.87	2.70	100.96	101.06	0.14	0.14
Benchmark: MSCI EM Index	11.45	17.22	1.18	0.81	2.72	100.00	100.00	-	-
<b>Intermediate Gov't/Credit</b>									
Eaton Vance Gbl Macr Absolute Return I	1.53	5.39	3.72	2.52	4.10	62.68	-16.91	0.76	0.73
Hartford Floating Rate I	1.29	11.19	3.13	4.18	3.66	58.24	-9.15	0.74	0.74
Vanguard Interm-Term Investment-Grde Adm	1.33	1.69	3.45	3.60	5.34	151.59	168.73	0.10	0.10
Benchmark: BBgBarc US Interm Govt/Credit Index	0.78	0.42	2.01	1.88	3.76	100.00	100.00	-	-
<b>Short-Term Bond</b>									
Vanguard Short-Term Investment-Grade Adm	0.83	1.88	1.94	2.14	3.26	145.84	169.86	0.10	0.10
Benchmark: Citi USBIG Govt/Corp 1-3 Yr	0.38	0.71	0.92	0.89	2.32	100.00	100.00	-	-

Performance shown is historical and is no guarantee of future results. Current performance may be lower or higher than the data quoted. To obtain performance data current to the most recent month end, please call (800) 846-6666.

\*Returns greater than one year are annualized.

\*\*Mutual funds are offered in the FundAdvisor program at net asset value, but are subject to an annual investment advisory fee of up to 1.25%. The Davenport wrap fee includes investment advice and brokerage execution. In addition to the FundAdvisor fee, clients will bear a proportionate share of each mutual fund's management and administrative expenses, including advisory fees paid to the mutual fund's investment advisors. The performance shows the actual performance of the shares at net asset value, and does not represent individual account performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the data quoted. To obtain performance data current to the most recent month-end, please visit the following web sites: [www.americanfunds.com](http://www.americanfunds.com), [www.blackrock.com](http://www.blackrock.com), [www.diamond-hill.com](http://www.diamond-hill.com), [www.dodgeandcox.com](http://www.dodgeandcox.com), [www.eatonvance.com](http://www.eatonvance.com), [www.fiduciarymgt.com](http://www.fiduciarymgt.com), [www.hartfordinvestor.com](http://www.hartfordinvestor.com), [www.ivafunds.com](http://www.ivafunds.com), [www.ivyfund.com](http://www.ivyfund.com), [www.jhinvestments.com](http://www.jhinvestments.com), [www.kineticsfunds.com](http://www.kineticsfunds.com), [www.mfs.com](http://www.mfs.com), [www.munder.com](http://www.munder.com), [www.vanguard.com](http://www.vanguard.com), [www.wellsfargo.com](http://www.wellsfargo.com), [www.wintergreenfund.com](http://www.wintergreenfund.com). The investment and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Mutual Fund and Index returns are provided by Morningstar and Zephyr StyleADVISOR.

# Important Disclosures

Diversification and Asset Allocation does not ensure a profit or guarantee protection against a loss. It is important to note that short-term and trailing performance will fluctuate. We expect all of the funds at some point to experience underperformance versus their benchmarks and peer groups. However, we believe that our research process has helped us identify funds that are likely to perform well over the long term. Our decision to remove a fund is not based on short-term performance, but on in-depth analysis using our Monitoring Criteria. The mutual fund categories are determined by Davenport using a combination of Morningstar categories and a returns-based style analysis provided by Zephyr StyleADVISOR.

Any opinions expressed here are statements of judgment on this date and are subject to future change without notice. This information may contain forward looking predictions that are subject to certain risks and uncertainties which could cause actual results to differ materially from those currently anticipated or projected. The information contained herein has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. There is no guarantee that a company will continue to pay a dividend. The investment return and principal value of an investment will fluctuate. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. The portfolios may invest in foreign securities which are subject to additional risks such as currency fluctuations, political instability, differing financial standards and the potential for illiquid markets.

*Performance shown is historical and is no guarantee of future results. Investing in securities carries risk including the possible loss of principal.*

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**Index Definitions:** U.S. Large Caps represented by the **S&P 500 Index**. U.S. Mid Caps represented by the **Russell Midcap Index**. U.S. Small Caps represented by the **Russell 2000 Index**. International Developed Markets represented by the **MSCI EAFE Index**. Emerging Markets represented by the **MSCI EM Index**. Intermediate Term Bonds represented by the **Bloomberg Barclays Intermediate Government/Credit Index**.

The **S&P 500 Index** is comprised of 500 U.S. stocks and is an indicator of the performance of the overall U.S. stock market. The **Russell 2000® Index** measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market. The **Russell Midcap® Index** measures the performance of the 800 smallest companies in the Russell 1000, which represent approximately 25% of the total market capitalization of the Russell 1000. The Russell 2000® Index and Russell Midcap® Index are trademark/service marks of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. The **Lipper Equity Income Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Equity Income Fund category. The **Lipper Large Cap Growth Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Large Cap Growth Fund category. The **Lipper Large Cap Value Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Large Cap Value Fund category. The **MSCI Europe, Australia and Far East (MSCI EAFE) Index** is an unmanaged index composed of the stocks of approximately 1,000 companies traded on 20 stock exchanges from around the world, excluding the U.S., Canada, and Latin America. The **MSCI Emerging Markets (MSCI EM) Index** is a capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors. The reported returns reflect equities priced in US dollars and do not include the effects of reinvested dividends. The **Bloomberg Barclays U.S. Corporate High Yield Index** measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The **Bloomberg Barclays Intermediate Government/Credit Index** is an unmanaged index composed of debt securities with maturities from one to ten years issued or guaranteed by the U.S. Treasury, U.S. Government agencies, quasi-federal corporations and fixed rate dollar denominated SEC-registered corporate debt that are rated investment grade or higher by Moody's Investors Service and Standard and Poor's Corporation or Fitch Investor's Service, in that order. The **Bloomberg Barclays Municipal Index** covers the U.S. dollar-denominated long-term tax exempt bond market. The **Bloomberg Barclays U.S. Government/Credit Bond Index** measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities. **An investor cannot invest in these indices and their returns are not indicative of the performance of any specific investment.**

**Risk Considerations:** International funds invest primarily in equity securities of issuers outside the United States. International investments are subject to additional risks such as currency fluctuations, political instability, and the potential for illiquid markets. Funds that invest in foreign securities may involve greater risks, including political and economic uncertainties, as well as risk of currency fluctuations. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. Investments in bonds and other fixed income securities may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, while their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes. An issuer suffering an adverse change in its financial condition could see the credit quality of its securities deteriorate, leading to greater price volatility of the security. Funds investing in lower quality debt securities are more susceptible to these problems and their value may be more volatile.

**You should consider each mutual fund's investment objectives, risks, charges and expenses carefully before investing. Each mutual fund's prospectus contains this and other important information, should be read carefully before investing or sending money, and can be obtained by contacting your Investment Executive, or by calling (800) 846-6666. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Investing in securities carries risk including the possible loss of principal.**

**Upside Capture Ratio** measures a manager's performance in up markets relative to the market (benchmark) itself over the preceding 10-year period. **Downside Capture Ratio** measures a manager's performance in down markets relative to the market (benchmark) itself over the preceding 10-year period. **Gross Expense Ratio:** The total annual operating expenses of a fund divided by its average net assets. **Net Expense Ratio:** The total annual operating expenses of a fund, less any fee waivers, divided by its average net assets. This is the expense ratio actually charged by the fund for the previous fiscal year.

<sup>1</sup>Touchstone Advisors, Inc. (the "Advisor" or "Touchstone Advisors") and Touchstone Strategic Trust (the "Trust") have entered into a contractual expense limitation agreement whereby Touchstone Advisors will waive a portion of its fees or reimburse certain Fund expenses (excluding dividend and interest expenses relating to short sales; interest; taxes; brokerage commissions and other transaction costs; portfolio transactions and investment related expenses; other expenditures which are capitalized in accordance with U.S. generally accepted accounting principles; the cost of "Acquired Fund Fees and Expenses," if any; and other extraordinary expenses not incurred in the ordinary course of business) in order to limit annual Fund operating expenses to 1.09%, 1.84%, 0.84%, and 0.74% of average daily net assets for Classes A, C, Y, and Institutional Class shares, respectively. This contractual expense limitation is effective through July 29, 2017, but can be terminated by a vote of the Board of Trustees of the Trust (the "Board") if it deems the termination to be beneficial to the Fund's shareholders. The terms of the contractual expense limitation agreement provide that Touchstone Advisors is entitled to recoup, subject to approval by the Board, such amounts waived or reimbursed for a period of up to three years from the year in which Touchstone Advisors reduced its compensation or assumed expenses for the Fund. No recoupment will occur unless the Fund's expenses are below the expense limitation amount in effect at the time of the waiver or reimbursement.

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