Touchstone Dividend Equity Fund

Sub-Advised by: Fort Washington Investment Advisors, Inc.†

U.S. Equity – Large-Cap Value 3Q/2023

Fund Manager Commentary

As of September 30, 2023

Fund Highlights

- U.S. large capitalization companies
- Historically paid consistent, growing dividends
- Distinctive approach is centered on linking valuations with barriers to entry
- Seeks to invest in businesses that are trading below what is believed to be its estimate of the companies' intrinsic value
- Focuses on businesses that are believed to have a sustainable competitive advantage or a high barrier to entry in place

Market Recap

The third quarter of 2023 was another challenging environment for fixed income investors as the market began pricing in the effects of rates being higher for longer. While a recession is not off the table, investors are beginning to put more weight behind a soft landing. In addition to higher rates and tight lending standards, there are a few new headwinds for the U.S. economy, such as the resumption of student loan payments, a potential government shutdown, and ongoing geopolitical instability. As a result, we believe risks to the economy remain to the downside, especially relative to consensus market expectations of a soft landing.

The U.S. Federal Open-Market Committee (FOMC) was unanimous to leave the U.S. Federal Reserve's (Fed) Fed funds rate unchanged at the September meeting but left room for an additional hike before the end of the year as they wait for further information on the state of the economy. The U.S. continued to see improvement on inflation as COVID-era fiscal policy and supply chain disruptions from the pandemic wear off. Core goods inflation has stabilized below the 2% target while services has remained elevated. Inflation should continue its larger march downward although it may not be in a straight line as contributors such as gas, airfare, and used cars have the potential to be volatile.

The labor market has been robust during this tightening cycle as the unemployment rate remains near historic lows and jobless claims continue in a low range. While this data shows economic resiliency, it also provides the FOMC a longer leash to keep rates higher for longer. The number of unemployed persons per job openings spiked to about 5 in 2020 but has since decreased to less than 1, indicating a tight labor market. Tighter bank lending continues to weight on consumers and businesses as can be seen in the Senior Loan Officer Opinion Survey approaching levels typically preceding a recession. In conjunction, we have also observed delinquency rates rising on consumer loans.

Policymakers on Capitol Hill narrowly avoided a government shutdown set for October 1. However, the agreement is temporary and it only keeps the government open until November 17th. If it were to occur, a prolonged shutdown may impact the Fed's current stance on another potential hike this year. Estimates are that a shutdown would shave around 10 basis points of GDP per week.

Most of the larger COVID relief programs (stimulus checks, expanded unemployment benefits, etc.) have already expired, but student loan forgiveness is set to end in October which will affect roughly 28 million borrowers. Economists estimate these loan payments will cost households about $70 billion per year which could detract 0.8% from consumer spending, the largest component of GDP. The current contract dispute between UAW employees and the big 3 automakers also represents a further downside risk to growth, with the ultimate magnitude depending on the length and breadth of the current strike. Inventory levels provide automakers with some relief as output is constrained, but negative effects on growth will increase as strikes continue. These described risks in addition to others, such as geopolitical uncertainties around the globe, pose potential disruptions to the state of the U.S. economy and future inflation.

The equity market generated negative returns during the third quarter. Value and Growth performance was similar during the quarter following the material outperformance of Growth during the first six months of the year. Through the first 3 quarters of the year, just 7 stocks have been responsible for 85% of the S&P 500® return. Breadth within the market has deteriorated and is at

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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 month recent month-end, visit TouchstoneInvestments.com/mutual-funds.***

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historically poor levels following the outperformance of a select few names. Dividend stocks have also underperformed as a result of the narrow breadth and growth-oriented style leadership.

Portfolio Review

The Touchstone Dividend Equity Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 1000 Value Index for the quarter ended September 30, 2023.

Security selection and sector allocation detracted from relative performance during the period. The dividend orientation of the Fund's portfolio was a neutral factor for the quarter. Selection within Communication Services, Consumer Staples, and Information Technology were the primary drivers of negative security selection during the quarter. Selection within Consumer Discretionary, Energy, and Health Care added to performance. An underweight allocation to Energy also detracted from performance as the sector outperformed following a sharp rise in oil prices.

The largest individual contributors to relative performance were overweight positions in Phillips 66, Valero Energy Corporation (both Energy sector), Caterpillar Inc., Automatic Data Processing Inc. (both Industrials sector), and AbbVie Inc. (Health Care sector).

Phillips 66 and Valero outperformed amid a surge in oil prices, which rose 29% during the quarter, and elevated crack spreads. Caterpillar outperformed following a strong second quarter earnings report that beat both sales and earnings estimates due to solid demand and improving inventories despite an anticipated challenging macro environment. Automatic Data Processing also posted better than expected quarterly results that beat on both the top- and bottom-line. The company saw robust demand across its suite of payroll and human resource offerings as the labor market remains robust.

The largest detractors from performance were overweight exposures to Dollar General Corp.(Consumer Staples sector), Apple Inc., Microsoft Corporation (both Information Technology sector), and Raytheon Technologies Corp. (RTX) (Industrials sector). An underweight exposure to Berkshire Hathaway Inc. (Financials sector) was also a top detractor for the quarter.

Dollar General was one the largest detractors to relative performance as the stock fell 12% the day after reporting weak second quarter earnings and guidance. The company missed earnings expectations as a weakening consumer pressured sales coupled with increasing costs for the discount retailer. Importantly, the company cut its guidance for the second quarter in a row, resulting in a severe re-rating of the stock over the past two quarters. RTX underperformed in the quarter as it announced a defect in its geared turbofan jet engine that would affect 1,200 engines. This development, though one-time in nature, will be costly for the firm, requiring increased labor and material costs and concessions to airline customers who will be losing access to aircraft for up to eight months. Moreover, the issues with the engine do not build confidence in the relatively new engine program. While the update was disconcerting, the company's other segments performed slightly better than we expected, and the defense segment announced new wins that bolstered the backlog. Apple lagged the broader market during the period as the company reported in-line results but provided guidance that missed investor expectations. The name continues to be a top performer within the portfolio despite its third quarter underperformance.

There were three new positions added to the portfolio during the quarter. The Fund initiated positions in Southwest Airlines Co. (Industrials sector), International Flavors & Fragrances Inc. (Materials sector), and The Charles Schwab Corporation (Financials sector). There were no material sector changes during the quarter beyond modest differences due to market performance. Information Technology remains among the largest sector overweight, while Financials, Energy, and Industrials are among the largest underweights.

Outlook and Conclusion

The resilience of the U.S. economy through this unprecedented hiking cycle is surprising to many considering that most economists had been forecasting a recession. The economy has been resilient because the most important part of growth from a GDP perspective is personal consumption, which accounts for about 70% of GDP. Apart from spending that relies on a loan, such as housing or auto purchases, most items people consume are not highly sensitive to interest rates. Rather, overall spending generally depends on personal income that is impacted by the strength of the job market and wages. Due to the extraordinary fiscal measures taken during the pandemic, many Americans also had excess savings in addition to seeing wage growth. However, those savings are being depleted and that is likely to speed up as other pandemic era policies end, such as student debt forgiveness.

We believe the risk of a recession remains elevated, even as recent economic data has been in line with or exceeded expectations. The lagged effects of Fed tightening and more restrictive bank lending standards are important downside risks over the next several months. Despite more restrictive financial conditions and elevated inflation, the resilience of the labor market has supported consumer spending thus far. If continued, an economic downturn is likely to be relatively shallow compared to past recessions. Financial markets have performed well in recent months, resulting in valuations that are not fully reflecting increased economic risks. In our view, the risk to assets is that rates stay above the neutral rate for an extended period, which will deteriorate the consumer, and businesses that could lead to a deeper recession.

The bottom line is that the U.S. economy has weathered Fed rate hikes much better than expected, but there are two key risks that could cause it to weaken. One is that the cumulative effect of Fed rate hikes could dampen economic activity, particularly in interest rate sensitive sectors. The other is that weakness abroad coupled with renewed dollar strength could hamper U.S. exports. In our view, downside risk to economic growth is more pronounced. Against the backdrop of market expectations are for a soft landing, caution is warranted when constructing portfolios.

We are maintaining a cautious stance but are selectively finding bottom-up opportunities. Valuations have adjusted to more normalized levels and earnings expectations have fallen, but continued slowing in economic growth will weigh on both valuations and earnings. We are prioritizing high barrier-to-entry companies with high returns on capital and maintaining a defensive posture within portfolios.

Fund Facts *(As of 09/30/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	06/08/98	**TQCAX**	89155T482	1.00%	0.99%
C Shares	06/08/98	**TQCCX**	89155T474	1.76%	1.69%
Y Shares	05/15/13	**TQCYX**	89155T466	0.74%	0.74%
INST Shares	07/19/21	**TQCIX**	89155T458	1.80%	0.67%
R6 Shares	08/02/21	**TQCRX**	89155T441	1.76%	0.65%
Total Fund Assets	**$2.4 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 0.99% for Class A Shares, 1.69% for Class C Shares, 0.77% for Class Y Shares, 0.67% for Class INST Shares and 0.65% for Class R6 Shares. These expense limitations will remain in effect until at least 01/29/24.*

Share class availability differs by firm.

Annualized Total Returns *(As of 09/30/23)*

	3Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-4.80%	-0.85%	13.59%	6.82%	2.12%	6.12%	6.53%
C Shares	-4.96%	-1.42%	12.79%	6.09%	1.43%	5.42%	5.83%
Y Shares	-4.74%	-0.67%	13.89%	7.05%	2.35%	6.34%	6.75%
INST Shares	-4.72%	-0.61%	13.91%	—	—	—	1.08%
R6 Shares	-4.72%	-0.65%	13.94%	—	—	—	0.25%
Benchmark^	-3.16%	1.79%	14.44%	11.05%	6.23%	8.45%	—
Including Max Sales Charge							
A Shares	-9.56%	-5.79%	7.93%	4.74%	0.92%	5.49%	6.28%
C Shares	-5.91%	-2.40%	11.79%	6.09%	1.43%	5.42%	5.83%

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 - Russell 1000® Value Index[1]

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Top 10 Equity Holdings of Fund *(As of 09/30/23)*

		(% of Portfolio)
1	Microsoft Corp.	4.4
2	Apple, Inc.	2.2
3	Stanley Black & Decker Inc.	2.1
4	Broadcom Inc.	2.0
5	Johnson & Johnson	2.0
6	Cisco Systems Inc.	2.0
7	Exxon Mobil Corp.	2.0
8	Medtronic PLC	1.9
9	Oracle Corp.	1.9
10	Comcast Corp.	1.9

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

[1]The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

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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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 dividend-paying companies. There is no guarantee that the companies in which the Fund invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. Securities that pay dividends may be sensitive to changes in interest rates, and as interest rates rise or fall, the prices of such securities may fall. 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. 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 value stocks which may not appreciate in value as anticipated or may experience a decline in value. Current and future portfolio holdings are subject to change.

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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