Fund Manager Commentary

As of June 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

After a volatile end to the first quarter, the second quarter of 2023 was marked by continued resilience of the U.S. economy and slow progress on reducing inflation, resulting in strong performance for risk assets, further hawkish U.S. Federal Reserve (Fed) policy expectations, and higher interest rates. Recession has been widely expected by economists in 2023, but incoming data has remained sturdy as the labor market continues to support consumer spending. Interest rates rose in the quarter, with short-term interest rates rising more than long-term rates. Across many parts of the Treasury yield curve, the inversion of short- to long-term rates is approaching the most negative of 2023. A re-pricing of Fed expectations drove the rise in short-term rates, as the Fed remained concerned that inflation remains too high and not improving quickly enough to halt rate increases. Markets now price a "higher for longer" path of Fed policy, whereby the Fed takes rates to a restrictive level and remains unchanged into at least mid-2024.

Consensus expectations for the U.S. economy have shifted from fears over recession to mostly achieving a soft landing, with the economy skirting a worse outcome in spite of the aggressive Fed tightening cycle. The main driver of this shift in expectation is the continued resilience of the U.S. consumer. Consumer spending, representing approximately 70% of the economy, has provided a solid foundation. In most recent data, consumer spending rose at the quickest pace in several quarters. Driven by a healthy labor market, above-average wage gains, and excess savings, consumers have defied the drag from higher interest rates and other headwinds.

Business spending, especially in the manufacturing sector, remains challenged. Manufacturing surveys have been solidly in contractionary territory for the past several months, indicating near-zero growth or outright declines in activity. The service sector has fared better relatively when compared to manufacturing, but risks are to the downside alongside the headwinds faced by consumers. Global growth has moderated from the first quarter, providing another potential downside risk. Further rate hikes as inflation remains sticky will challenge the U.K. and Eurozone economies. Growth in China has remained uneven and somewhat disappointing as it struggles to gain momentum post-COVID. Once a source of significant upward price pressures, inflation from the manufacturing sector has mostly normalized. Commodity prices have declined, and supply chains have healed. For the U.S. economy, declining goods inflation has helped to reduce overall inflation rates throughout 2023.

Inflation, especially headline, has fallen sharply in the first half of 2023. For example, the annual rate of inflation measured by CPI has fallen from nearly a 9% peak in 2022 to just above 4% in the most recent data. Core measures, which exclude food and energy, have also adjusted lower, but at a much slower pace. The Fed's preferred measure of inflation, Core person consumption expenditure, peaked at 5.4% in 2022, but has only declined to 4.6%. Within the data, there has been significant progress on inflation in the goods sector, but the service sector has remained sticky. Looking forward, however, service sector inflation is likely to fall sharply over the next several months and help move core measures of inflation lower. Shelter inflation, the largest component of services inflation, has begun to decelerate and real-time rental data indicates that improvement will continue toward levels that are more normal. As inflation moves lower, this will have broad implications for Fed policy and interest rates.

The Fed raised interest rates in May as the banking concerns of the first quarter receded, inflation declined at a slower pace, and economic data outperformed expectations. In June, the Fed decided to forgo another hike, but strongly indicated that further hikes are likely. In a surprise to markets, the Fed indicated they

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might raise rates above 5.5% by the end of 2023. Treasury yields increased sharply, now reflect more hikes, and reduced chances of cuts in the future.

Equities generated positive returns during the second quarter with the S&P 500 returning 8.7%. The S&P 500 performance was driven by the outperformance of mega-cap technology names, as large-cap growth stocks returned 12.8% compared to only 4.1% for value. Through the first 6 months of the year, the S&P 500 returned 16.9%, with only seven stocks responsible for 75% of the return. Breadth within the market has deteriorated and is at historically poor levels following the outperformance of a select few names. Dividend stocks underperformed because 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 June 30, 2023.

The Fund's relative performance was primarily driven by negative security selection and dividend style while sector allocation was a positive to relative performance.

Non-dividend paying stocks within the Russell 1000 Value Index significantly outperformed dividend-paying stocks. This detracted from relative performance for the quarter.

Stock performance within Communication Services and Consumer Staples were the primary drivers of negative security selection during the quarter. Selection within Information Technology and Health Care added to performance.

An overweight allocation to the Information Technology sector and underweight to the Utilities and Energy sectors were primary drivers of positive sector allocation. Information Technology outperformed as higher growth stocks outperformed during the quarter coupled with increased investor enthusiasm over the monetization and future business impact in the sector from artificial intelligence (AI).

The largest individual contributors to relative performance were overweight positions in Broadcom (Information Technology sector), Microsoft (Information Technology sector), Oracle (Information Technology sector), KLA Corp (Information Technology sector), and Apple (Information Technology sector).

The top 5 contributors to relative performance were all Information Technology companies. These stocks continued to generate above average earnings growth during the quarter while most companies experienced a slowdown in earnings during the period. In addition, share prices for these businesses moved higher as investors embraced AI and the potential impact it might have on future revenue growth and profitability.

Broadcom was the largest contributor to outperformance during the quarter, returning 36% for the period. The company reached a multi-year deal with Apple to continue providing components for the iPhone. Broadcom is also expected to be a beneficiary from AI adoption and has increased estimates as a result, further boosting the stock during the period.

Microsoft was a top contributor to performance following better than expected earnings across most of its segments along with positive commentary on the potential impact of AI on its cloud business.

Oracle's outperformance was primarily due to significant growth in its cloud infrastructure business, which helped the company deliver top and bottom-line quarterly results that exceeded expectations.

The largest detractors from performance were overweight exposures to Dollar General (Consumer Staples sector), Target (Consumer Staples sector), and Qualcomm (Information Technology sector). Underweight exposures to Meta (Communication Services sector) and Berkshire Hathaway (Consumer Staples sector) were also top detractors for the quarter.

An underweight exposure to Meta was the largest detractor of relative performance during the quarter. Meta posted one of the best returns in the equity market during the period of 35%. The name outperformed as the company's applications saw strong user engagement while its focus on efficiency led to improved fundamentals and outlook for the company. Meta does not pay a dividend, resulting in an underweight for the portfolio.

Dollar General was one the largest detractors to relative performance as the stock fell 19.5% the day after reporting first quarter earnings. The company missed earnings expectations but also lowered guidance citing significant macro pressures and a weakening consumer.

Despite beating first quarter expectations and maintaining guidance, Target underperformed during the quarter as fears of softening demand amid a deteriorating economic outlook weighed on the retailer.

Qualcomm detracted from performance after the company provided weaker than expected guidance for its smartphone business. Despite posting solid quarterly results, the company guided below consensus for the upcoming quarter and suggested the weakness could continue for several quarters.

There was one new position added and two removed from the portfolio during the quarter. The Fund initiated a position in Entergy (Utilities sector) and sold Dominion Energy (Utilities sector) and Eaton Corp (Industrials sector).

A change in the political and regulatory support for Dominion has led to a change in the rates that Dominion can charge and as a result affect the forward returns for the business, impairing the intrinsic value. Dominion's dividend is also at risk as it currently pays out more than 100% of its earnings. Swapping Entergy for Dominion is an opportunity to buy an undervalued regulated utility in Entergy while avoiding myriad issues within Dominion, which may culminate in some combination of asset sales, earnings reductions, and dividend cuts.

Eaton Corp was also sold during the quarter largely due to valuation. The price began reflecting profitability and growth scenarios that were implying no cyclicality and no normalization from recent levels in spite of the prospect for weakening demand and declining order backlogs. Eaton is a better business than when the position was initiated years ago as it has divested the hydraulics

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business and concentrated on wider moat aerospace and electrical businesses, but the current valuation leaves a slim margin for error for this late cycle industrial company.

There were no material sector changes during the quarter beyond modest differences due to market performance. Information Technology remains the largest sector overweight, while Financials, Health Care, and Industrials are the largest underweights.

Outlook and Conclusion

The first half of this year was full of surprises. It began with a stronger-than-expected performance for the economy and job market that caused bond yields to surge initially. Yields subsequently fell back in early April when several regional banks encountered problems that caused investors to worry about a possible credit squeeze. By midyear, however, yields had risen again as the economy proved resilient to Fed rate hikes.

Meanwhile, the S&P 500 Index, which had fluctuated in a broad trading range since mid-2022, broke decidedly to the upside in the second quarter, reaching its highest level since April 2022. The index has now entered a new bull phase in which it has advanced by more than 20% from its October low and by 16% this year. The rally has been powered by a narrow group of tech stocks that are perceived to be beneficiaries of the take-off in AI. Excluding these names, the remainder of the index is up by about 6% this year.

The resilience of the U.S. economy thus far is surprising to many considering that most economists have been forecasting a recession for some time now, and the Fed has raised interest rates by 500 basis points with more to come.

One reason is that the economy is inherently more interest-rate resilient than many observers appreciate. The main areas that have shown weakness include the manufacturing sector, where purchasing manager indexes have fallen below the 50% threshold, and residential housing, where higher mortgage rates and home prices have made houses unaffordable for many Americans.

The most important component of spending, however, is personal consumption, which accounts for 70% of overall demand. Apart from autos and other durable goods, most items people consume are not highly sensitive to interest rates. Rather, overall spending mainly depends on personal income growth that is impacted by the strength of the job market and wages.

Another reason for the economy's resilience is that interest rates have not been unduly restrictive. When measured against core inflation, for example, rates are close to zero. Moreover, even if core inflation were to fall to 4% or so later this year, interest rates would not be unusually high in real terms.

The main risk for the stock market is that it would be vulnerable if core inflation stays elevated. That said, the risk of stagflation – in which slow growth is accompanied by high inflation – has lessened as commodity prices have fallen and supply chain bottlenecks linked to the COVID-19 pandemic have eased. Therefore, if a mild recession were to ensue, bond yields would likely decline and offer investors some downside protection.

One risk that has lessened is the nation's largest banks passed the U.S. Federal Reserve's stress tests, which confirm the banking system is sound despite runs that led to the failure of Silicon Valley Bank, Signature Bank, and First Republic Bank. The Fed's report, however, did show some weakness among mid-size banks and super-regional banks, which will require ongoing monitoring.

We believe the risk of a recession remains elevated, even as recent economic data has 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.

Within equities, 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 within portfolios.

Although risks have risen, the long-term economic outlook is still promising. As such, we remain constructive on U.S. equities but acknowledge near-term headwinds exist and valuations have become stretched in certain sectors of the market. As investors seek to avoid the risks of inflation, higher interest rates, and recession, dividend strategies are a compelling option. Dividend strategies have the potential to provide both capital appreciation and a growing stream of income while also providing downside protection through lower volatility during times of distress.

Fund Facts *(As of 06/30/23)*

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	**$2.7 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 06/30/23)*

	2Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	3.57%	4.14%	10.82%	9.50%	3.94%	7.04%	6.80%
C Shares	3.34%	3.73%	10.02%	8.75%	3.24%	6.33%	6.11%
Y Shares	3.64%	4.27%	11.10%	9.77%	4.16%	7.26%	7.44%
INST Shares	3.66%	4.32%	11.13%	—	—	—	3.76%
R6 Shares	3.67%	4.27%	11.16%	—	—	—	2.85%
Benchmark^	4.07%	5.12%	11.54%	14.30%	8.11%	9.22%	—
Including Max Sales Charge							
A Shares	-1.59%	-1.05%	5.25%	7.36%	2.72%	6.41%	6.55%
C Shares	2.34%	2.73%	9.02%	8.75%	3.24%	6.33%	6.11%

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 06/30/23)*

		(% of Portfolio)
1	Microsoft Corp.	4.8
2	Apple, Inc.	2.6
3	Broadcom Inc.	2.5
4	Oracle Corp.	2.4
5	Johnson & Johnson	2.2
6	Stanley Black & Decker Inc.	2.1
7	Visa Inc.	2.1
8	Medtronic PLC	2.1
9	KLA Corp.	2.1
10	Cisco Systems Inc.	2.0

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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