

# Touchstone Dividend Equity Fund

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

U.S. Equity – Large-Cap Value

2Q/2025

## Fund Manager Commentary

As of June 30, 2025

### 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 uncertainty that unsettled investors in the first quarter extended into the second quarter. Escalating tariff policies peaked on April 2nd, dubbed "Liberation Day," with the announcement of reciprocal tariffs on all trading partners. A brief reprieve followed a week later, which helped ease market fears and lowered the chances of an immediate growth shock. However, it did little to clarify the outlook for consumers and businesses planning spending, capital expenditures, or hiring.

Despite softening sentiment, economic fundamentals remained resilient. Retail sales continued to grow, albeit with volatility driven by tariff-related front-running. The labor market held steady, with ongoing job creation and real wage growth. However, a rising personal savings rate suggested that consumers are preparing for potential policy shocks. Housing remained a persistent drag, as affordability challenges, driven by high mortgage rates and elevated home prices, continued to weigh on the sector.

Looking ahead, growth expectations for 2025 and 2026 have been revised downward due to continued uncertainty. Should this uncertainty persist, it may begin to reflect in weaker economic data. However, the recent passage of the reconciliation package, "One Big Beautiful Bill," is likely to provide a modest boost to economic activity in the short term, via extended tax cuts and incentives for capital expenditures through accelerated depreciation.

Markets were volatile but ended the second quarter cautiously optimistic. The S&P 500 Index briefly entered bear market territory mid-quarter but rebounded to close at all-time highs. Following outperformance in the first quarter, value stocks produced a low single-digit return, far below the upper teens return of growth stocks.

### Portfolio Review

The Touchstone Dividend Equity Fund (Class A Shares, Load Waived) outperformed its benchmark, the Russell 1000 Value Index for the quarter ended June 30, 2025.

Security selection and sector allocation were both positive contributors to relative performance during the period. The dividend orientation of the strategy was a negative for the quarter as above average dividend paying stocks underperformed below average dividend paying stocks.

Selection within Information Technology and Financials was the primary driver of positive security selection during the quarter. Selection within Industrials and Health Care was the largest detractor to security selection. An overweight to Information Technology was the primary contributor to positive sector allocation.

The largest individual contributors to relative performance included overweight positions in Broadcom Inc., Microsoft Corp., Oracle Corp., KLA Corp. (all Information Technology sector), and an underweight to Berkshire Hathaway Inc. (Financials sector).

Oracle is seeing very strong demand for its Oracle Cloud Infrastructure services from customers seeking artificial intelligence (AI) training infrastructure. As a result, revenues and profits are growing faster than prior expectations, and management provided strong guidance for future growth.

Microsoft's shares outperformed as its Azure cloud computing business delivered growth that was above expectations. Management also noted that the company retains capacity constrained in meeting demand for its AI services, which bodes well for sustained growth. Given Microsoft's strong competitive positioning in both cloud infrastructure and AI services, we believe the company is poised to deliver strong results going forward.

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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](https://TouchstoneInvestments.com/mutual-funds).**



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Broadcom outperformed in the second quarter, driven by strong investor enthusiasm around its growing exposure to AI infrastructure and robust performance in its core semiconductor and software businesses. The company reported solid earnings and raised guidance, highlighting accelerating demand for custom AI chips and networking solutions that support hyperscale data centers. Additionally, the successful integration of its VMware acquisition contributed to revenue diversification and margin expansion, reinforcing confidence in Broadcom's long-term growth trajectory. This combination of AI-driven tailwinds, operational execution, and strategic positioning helped propel the stock's strong relative performance.

The largest detractors from performance included overweight exposures to Becton Dickinson and Co. (Health Care sector), Apple Inc. (Information Technology sector), Alexandria Real Estate Equities Inc. (Real Estate sector), and an underweight to JPMorgan Chase and Co. (Financials sector) and GE Vernova Inc. (Industrials sector).

Becton Dickinson had a disappointing quarter from an organic sales growth perspective, with mostly market-driven issues impacting multiple businesses – namely, funding headwinds in biosciences globally and tougher pricing in China – plus a slower sales ramp for Bactec blood culture testing following a supply disruption. The company guided to a reacceleration in the second half of the year, but the market is skeptical, as management has struggled to forecast its businesses of late. Additionally, there was continued concern that the planned separation of the company's life sciences business was poorly timed, given current market issues. We understand the concerns about the second half of the year, and the frustration around guidance (and execution, to a degree), but still see Becton as a long-term mid-single-digit grower, and the shares as undervalued.

Alexandria Real Estate underperformed in the second quarter primarily due to ongoing headwinds in the life sciences real estate sector, including elevated interest rates and sluggish tenant demand recovery. While the company maintains a high-quality portfolio in premier innovation hubs, its significant exposure to the Boston market became a point of concern following political developments—specifically, the Trump administration's move to restrict federal funding to institutions like Harvard. This has added a layer of uncertainty for Alexandria's tenants and leasing outlook in the region, contributing to investor caution and further pressure on the stock's valuation.

Apple underperformed in the second quarter amid concerns over slowing iPhone sales, particularly in China, where increased competition and regulatory scrutiny weighed on consumer demand. Investor sentiment was further dampened by a lack of near-term catalysts, as the company's product refresh cycle remains in a lull ahead of expected hardware and AI-related updates later in the year. Additionally, questions around the pace and scale of Apple's generative AI integration into its ecosystem led to uncertainty about its ability to participate meaningfully in the broader tech-driven growth narrative. These headwinds collectively contributed to the stock's relative weakness during the quarter.

The Fund added one new name during the quarter: Eli Lilly and Co. (Health Care sector). The Fund sold one name during the quarter: Gilead Sciences Inc. (Health Care sector). Eli Lilly is

viewed as a strategic investment within the Fund due to its leading position in the rapidly growing obesity and diabetes markets. The company has a robust product lineup and pipeline, including the fast-growing Mounjaro and Zepbound, which have helped it gain market share from major competitor Novo Nordisk. Its dividend yield is modest at 0.7%, but it boasts strong dividend growth (15% over five years) and a wide economic moat. Eli Lilly's wide moat is reinforced by its leading obesity and diabetes portfolio, strategic contracting with pharmacy benefit managers, and large-scale manufacturing investments that together create durable competitive and cost advantages beyond patent protections.

We exited our position in Gilead Sciences primarily due to elevated product concentration risk, with a substantial portion of the company's revenue tied to its HIV franchise. While Gilead has long been a leader in this therapeutic area, the HIV market is maturing, and future growth is expected to slow as competition intensifies and pricing pressures mount. The company's pipeline beyond HIV has yet to demonstrate a compelling trajectory that would sufficiently diversify revenue or offset potential erosion in its core business. Given the lack of near-term catalysts and limited visibility into meaningful non-HIV contributions, we believe the risk-reward profile has become unfavorable relative to other opportunities. There were no material sector changes during the quarter. Information Technology remains the largest sector overweight, while Financials, Energy, and Industrials are the largest underweights.

## Outlook and Conclusion

Uncertainty around trade policy, combined with slow progress on trade deals, is both dampening growth forecasts and amplifying inflation concerns. This backdrop creates uncertainty for market participants as well as the real economy. Consequently, we expect U.S. growth to stay positive but run below its recent trend, with risks skewed to the downside.

Although one- and two-year inflation expectations have risen over the past twelve months, longer-term forecasts remain largely grounded as investors anticipate the effects on inflation to be short lived. Service inflation should remain stable over the coming months, but tariff overhang creates uncertainty around goods inflation. We believe tariff-induced inflation would likely prove temporary, meaning overall inflation should stay in-check over a longer horizon as growth remains sluggish and services continue cooling. Against this backdrop, economic indicators arguably pave the way for policy easing, but tariff uncertainty is prompting the Federal Open Market Committee to proceed cautiously.

Consumer and investor sentiment are weaker than at the beginning of the year, but the employment picture remains largely balanced. The ratio of job openings per unemployed is around pre-pandemic levels and the unemployment rate is at a historically low 4.1%. As a result, the overall consumer remains on solid footing especially when considering the growth in household net worth due to home prices and investment portfolios. However, higher home prices along with high mortgage rates have kept housing sluggish and we expect that to continue as rates remain high.

Despite a solid fundamental backdrop to begin the year, there are still downside risks to U.S. growth due to ambiguity around trade

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policy, a restrictive federal funds rate, and geopolitical tensions. While uncertainty may linger, the ultimate impact on the U.S. economy remains unclear.

We remain constructive on U.S. equities but acknowledge near-term headwinds exist and aggregate market valuations do not fully compensate for such. Following the material outperformance of growth-oriented stocks, dividend strategies are a compelling option as earnings begin to converge while the valuation discount remains at historically attractive levels. 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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	06/08/98	TQCAX	89155T482	1.01%	0.99%
C Shares	06/08/98	TQCCX	89155T474	1.78%	1.69%
Y Shares	05/15/13	TQCYX	89155T466	0.76%	0.76%
INST Shares	07/19/21	TQCIX	89155T458	1.12%	0.67%
R6 Shares	08/02/21	TQCRX	89155T441	0.92%	0.65%
<b>Total Fund Assets</b>		<b>\$2.4 Billion</b>			

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, 0.65% for Class INST Shares and 0.65% for Class R6 Shares. These expense limitations will remain in effect until at least 01/29/26.

Share class availability differs by firm.

## Annualized Total Returns

	2Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	6.20%	7.63%	14.20%	12.65%	11.11%	7.38%	7.29%
C Shares	6.06%	7.30%	13.40%	11.87%	10.36%	6.67%	6.59%
Y Shares	6.27%	7.77%	14.42%	12.92%	11.37%	7.61%	8.47%
INST Shares	6.36%	7.83%	14.55%	13.00%	—	—	8.80%
R6 Shares	6.30%	7.83%	14.55%	13.04%	—	—	8.41%
Benchmark	3.79%	6.00%	13.70%	12.76%	13.93%	9.19%	—
Including Max Sales Charge							
A Shares	0.87%	2.24%	8.47%	10.73%	9.81%	6.75%	7.06%
C Shares	5.06%	6.30%	12.40%	11.87%	10.36%	6.67%	6.59%

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

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## Top 10 Equity Holdings of Fund

(% of Portfolio)			(% of Portfolio)		
1	Microsoft Corp.	4.6	6	Goldman Sachs Group Inc.	1.7
2	Broadcom Inc.	3.6	7	Bank of America Corp.	1.7
3	Apple, Inc.	1.9	8	Meta Platforms, Inc.	1.7
4	Oracle Corp.	1.8	9	International Business Machine	1.6
5	Johnson & Johnson	1.7	10	Texas Instruments Inc.	1.6

Source: BNY Mellon Asset Servicing

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. The Fund's service providers are susceptible to cyber security risks that could result in losses to a Fund and its shareholders. Cyber security incidents could affect issuers in which a Fund invests, thereby causing the Fund's investments to lose 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](https://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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