Touchstone International Equity Fund

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

International Equity – Large-Cap Core

1Q/2023

Fund Manager Commentary

As of March 31, 2023

Fund Highlights

- Invests primarily in common stocks of established companies across the capitalization spectrum, located in or that conduct their business mainly in one or more foreign countries
- Focuses on quality at a reasonable price, beginning with a regular quantitative screening in order to narrow the investable universe
- Analyzes companies based on the following five fundamental factors: business quality, valuation, growth, management and balance sheet strength
- Manages risk through portfolio diversification, by individual issuer, sector and country
- Index-agnostic portfolio construction approach typically results in a concentrated, high-conviction portfolio

Market Recap

Global equities started the first quarter of 2023 in a buoyant mood helped by easing inflation indicators and receding recession worries, continuing the bounce, which began in October. China's earlier than expected pivot away from its longstanding COVID-zero policy also bolstered investor sentiment. In March, however, the sudden implosions of Silicon Valley Bank and Signature Bank sent shockwaves throughout markets, and in Europe, UBS Group AG was "asked" by Swiss policy makers to buy its troubled competitor, Credit Suisse Group AG. The market plunge, concentrated in global financial stocks, was short-lived, however, as the FDIC moved swiftly to shore up confidence in the financial system and the U.S. Federal Reserve Board (Fed) slowed the pace of policy tightening, helping to assuage fears of wider contagion. In sum, after a brief dip in March caused by the mini banking crisis, investors' expectations of an impending end to rate hikes helped to propel global equity markets higher, with the MSCI EAFE Index registering a positive return for the quarter.

For the quarter, developed markets outperformed emerging market equity returns and large capitalization stocks edged out small caps, as increasing concerns about a broader banking crisis weighed on smaller companies, which are more dependent on bank credit. From an investment style standpoint, growth handily beat value, as long duration assets benefitted from the fall in bond yields during the period and bank stocks weighed down value indices. Economically sensitive stocks performed well, amid hopes that central banks might look to cut interest rates in late 2023. Thus, Information Technology and Consumer Discretionary stocks performed particularly well in the quarter while defensive sectors such as Health Care and Utilities lagged. It is notable that a handful of large cap technology names in the U.S. accounted for virtually all of the S&P 500 gains in the quarter, following a forgettable 2022. Energy stocks were down with warmer than expected winter weather in Europe and a normalization of oil and gas supplies following the initial shock from the Ukraine war and resulting sanctions. Commodities in general were weak in the quarter after the policy-induced spike in goods prices the last couple of years. Financial stocks actually finished the quarter in the black, though they lagged the market, following Silicon Valley Bank's collapse. Gold posted a solid return as investors anticipated future central bank easing in the wake of the weakness in U.S. regional banks, while the dollar and bond yields fell in anticipation of easier monetary policy later in the year.

Portfolio Review

The Touchstone International Equity Fund (Class A Shares Load-Waived) outperformed its benchmark, the MSCI EAFE Index, for the quarter ended March 31, 2023.

From a sector perspective, the Fund benefited from holdings in Information Technology, Real Estate, Consumer Staples and being underweight Financials, whereas holdings in Communication Services and Health Care detracted from relative performance. Looking at the Fund broken down by geography, the Fund benefited from holdings in the U.K., Norway, France and Japan and being underweight Australia, whereas holdings in India, Ireland and Switzerland detracted from relative performance. The Fund's cash position was also a negative factor in a strong market. As always, given the Fund's concentration and bottom-up approach, it is more meaningful to discuss the drivers of performance attribution by looking at individual holdings.

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◊ *Fort Washington is a member of Western & Southern Financial Group*

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.***

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The main contributors to relative performance were Accor SA (France, Consumer Discretionary sector), SAP SE (Germany, Information Technology sector), Kimberly-Clark de Mexico SAB (Mexico, Consumer Staples sector), Taiwan Semiconductor Manufacturing Company Ltd. (Taiwan, Information Technology sector), and Spectris plc (UK, Industrials sector).

The biggest detractors from relative performance in the quarter were Indus Towers Limited (India, Communication Services sector), Roche Holding AG (Switzerland, Health Care sector) and TotalEnergies SE (France, Energy sector).

The Fund had a relatively quiet quarter, adding two names and selling two. The Fund took advantage of the market volatility to acquire companies with high quality businesses with defensible growth, strong cash flows and solid balance sheets. These changes were minor, leaving sector and country allocation stable.

The Fund added Pernod Ricard SA (France, Consumer Staples), one of the largest spirits manufacturers in the world, with a diversified portfolio across spirits categories and a broad regional exposure including emerging markets, which account for over 40% of its sales. We also bought Koninklijke Philips NV (Netherlands, Health Care sector); a Netherlands based diversified global medical technology company operating in three segments: diagnosis and treatment, connected care and personal health.

The Fund exited its position in Boa Vista Servicos (Brazil, Industrials sector), which operates Brazil's second largest credit bureau, offering business and consumer credit data and analytics, as well as fraud management services. We decided to sell our position after the company received a buyout offer from Equifax, a U.S. credit reporting agency, and the stock quickly traded up to the offer price.

Finally, we sold Tencent Holdings Ltd. (China, Communications Services sector), an operator of the largest social networking sites in China. Following a sharp bounce in the share price and given increasing geopolitical tensions between the U.S. and China, we sought to reduce our China exposure and sold our position.

Outlook and Conclusion

It has been an eventful start to the year in financial markets, with signs of significant stress in the banking system driven by the steep rise of central bank administered interest rates across most of the developed world. The rapid collapse of Silicon Valley Bank and forced marriage of Credit Suisse Group AG and UBS Group AG in March are stark reminders of the tenuous nature of confidence in our modern fractional reserve banking system and a shot across the bow for markets, given that these events occurred even before the emergence of any serious credit quality concerns. As the lagged effects of monetary tightening and the structural changes in commercial real estate markets in the wake of the pandemic begin to be felt in earnest, we expect further stresses to emerge in the financial system.

We continue to believe that inflationary pressures peaked in the U.S. last year, with annualized consumer price inflation running at less than 3% since June of 2022, and broad indices of commodity prices down double digits over the same period. Part of the confusion, in our opinion, is that market participants, led by the financial press and the Fed, conflate year-over-year price changes with the current annualized rate of inflation, which is much more relevant. This "base effect illusion" is compounded by the seasonal effect of annual price changes at the start of the calendar year. With banks under strain from falling deposits and credit quality set to deteriorate we would expect lending growth to slow going forward, accentuating the already negative growth in money supply dating back to last year. As such, changes operate with long and variable lags; we remain concerned that central bankers, particularly at the Fed, are making policy utilizing backward looking data and risking a significant deflationary bust, of which Silicon Valley Bank was just a foreshadowing.

Ongoing strength in the labor market, although showing some recent cracks, has been another argument for continuing to raise rates this year, though it should be noted that real wages have taken a hit since inflation started to accelerate in 2021, and total labor compensation costs remain subdued as a percentage of corporate revenues relative to history, suggesting that the Fed's concern over low unemployment rates may be exaggerated. Nonetheless, we suspect that accelerating job losses in the coming months are probably inevitable. Combined with the imminent end to drawdowns of COVID era excess savings, consumer spending is likely to weaken as the year progresses.

One could make a case that such softness is already evident in the numbers, with the strength in corporate revenues and earnings mainly reflecting cumulative price increases since 2021. By the fourth quarter of last year, consumer-facing companies across the spectrum were reporting actual decreases in sales volumes. Price increases combined with now falling input costs helped to mask this underlying weakness, though this is not a sustainable strategy for driving earnings growth. As corporate margins are pressured, we anticipate a renewed emphasis on cost cutting, leading to rising unemployment later this year.

Though it hasn't necessarily reached the public consciousness yet, there have been further moves toward the de-dollarization of global trade flows and, consequently, foreign reserves, led by China and Russia of course, but now also including a substantial portion of the developing world, including oil producers in the Middle East as well as India, Brazil, South Africa and others. The slow but steady erosion of trust in the U.S. as a financial steward seems to be accelerating following the COVID fiscal spending orgy and the Fed's miscalculations about inflation, as well as the confiscation of hundreds of billions of dollars' worth of Russia's foreign reserves. As America's largest export and the source of its political and financial power around the world, the dollar's value is reliant on continued investor trust to forestall potential pressure on the U.S. balance of payments and fiscal accounts. Although there is as of yet no single obvious alternative to the U.S. dollar as the primary global reserve asset, it is likely only a matter of time before one or more appears, and delaying the day of reckoning will depend in part on the restoration of trust in American policy.

It is perhaps no coincidence then that the dollar has resumed its decline following the recent mini-banking crisis, in anticipation of an end to the monetary tightening that precipitated it. Strength in gold during the quarter was the other side of this coin, so to speak. We continue to like the diversification that gold offers in this environment and we maintain our exposure via two Canada-based mining companies.

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On balance, it looks as if the U.S. is leading the world into recession, with Purchasing Mangers' Index in Europe still mostly in expansionary territory for the time being, led primarily by continued recovery in services. Europe has had the benefit of a relatively warm winter, which helped mitigate the impact of geopolitical events on energy markets. Japan has been slow to tighten monetary policy in line with other developed countries, fearing a resumption of the deflation, which it struggled for so long to fight its way out of. In addition, China is benefiting from a post-COVID bounce in consumer spending following the authorities' surprise decision to end virtually all pandemic mitigation measures there this past December. Nonetheless, we think that China is unlikely to be the powerful engine of growth that it was following the financial crisis fifteen years ago given the amount of debt that has been accumulated there since then.

In summary, we think that the combined policy errors of the last several years are now on the verge of coming home to roost, leading to slowing demand and output growth, and eventually forcing central bankers to relent and pivot policy. Given increasingly strained sovereign balance sheets and continued outsized fiscal deficits, we think that policy makers may be forced to allow higher structural inflation going forward than we grew accustomed to in the years following the global financial crisis. Such an environment should prove fruitful for our strategy of emphasizing quality growth and avoiding businesses with weak balance sheets and, as an aside, should favor precious metals.

As of March 31, 2023, Accor SA made up 3.00%, SAP SE made up 2.56%, Kimberly-Clark de Mexico SAB made up 2.90%, Taiwan Semiconductor Manufacturing Company Ltd. made up 1.63%, Spectris plc made up 2.43%, Indus Towers Limited made up 1.37%, Roche Holding AG made up 2.36%, TotalEnergies SE made up 3.31%, Pernod Ricard SA made up 1.68%, Koninklijke Philips NV made up 2.16%, Equifax, Silicon Valley Bank, Signature Bank, Credit Suisse Group AG and UBS Group AG made up 0.00% of the Touchstone International Equity Fund. Current and future portfolio holdings are subject to change.

Fund Facts *(As of 03/31/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	03/01/93	**SWRLX**	89154Q216	1.41%	1.37%
C Shares	05/04/98	**SWFCX**	89154Q190	2.72%	2.00%
Y Shares	08/27/07	**SIIEX**	89154Q182	1.20%	1.00%
INST Shares	10/30/17	**TOIIX**	89154Q158	1.35%	0.90%
Total Fund Assets	**$110.0 Million**				

**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 1.36% for Class A Shares, 1.99% for Class C Shares, 0.99% for Class Y Shares and 0.89% for Class INST Shares. These expense limitations will remain in effect until at least 10/29/23.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 03/31/23)*

	1Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	9.49%	9.49%	0.75%	14.23%	2.62%	5.23%	6.46%
C Shares	9.33%	9.33%	0.05%	13.39%	1.73%	4.24%	5.91%
Y Shares	9.63%	9.63%	1.16%	14.65%	2.97%	5.63%	6.67%
INST Shares	9.65%	9.65%	1.21%	14.77%	3.07%	5.67%	6.67%
Benchmark^	8.47%	8.47%	-1.38%	12.99%	3.52%	5.00%	5.78%
Including Max Sales Charge							
A Shares	3.98%	3.98%	-4.29%	12.29%	1.41%	4.69%	6.27%
C Shares	8.33%	8.33%	-0.94%	13.39%	1.73%	4.24%	5.91%

^Benchmark - MSCI EAFE Index[1]

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

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*****The performance presented for Class C, Y, and INST Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 03/01/93, with the performance since the inception date of each share class.***

[1] The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance excluding the U.S. and Canada.

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.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in foreign and emerging markets securities, and depositary receipts, such as American Depositary Receipts, Global Depositary Receipts, and European Depositary Receipts, which carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The risks associated with investing in foreign markets are magnified in emerging markets due to their smaller economies. 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. Current and future portfolio holdings are subject to change. 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.

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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