Touchstone Large Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Large-Cap Core 4Q/2022

Fund Manager Commentary

As of December 31, 2022

Fund Highlights

- Utilizes a bottom-up security selection process that screens potential investments against a proprietary quantitative model for return on capital, earnings to value ratio, free cash flow and return on equity
- Looks at a company's corporate governance structure and management incentives to try to ascertain whether or not management's interests are aligned with shareholder interests
- Seeks to identify the sources of a company's competitive advantage as well as what levers management has at its disposal to increase shareholder value
- Seeks to purchase generally profitable, financially stable large-cap companies that consistently generate high returns on unleveraged operating capital, are run by shareholder-oriented management, and are trading at a discount to their private market value

Market Recap

U.S. stocks traded higher during fourth quarter 2022 reflecting softening inflation data and a slowdown in the pace of interest rate increases from the U.S. Federal Reserve (Fed). The quarter started strong as stocks rallied in October and November following reports that broader inflationary pressures were beginning to moderate. Stock prices reversed course in December as more hawkish commentary from the Fed led to falling prices. Fears of a pending recession remained high and the yield curve remained inverted at the end of the quarter.

Stocks traded higher across the market cap spectrum led by strength in mid cap companies. In terms of factor analysis, Value and Yield factors had a positive impact on returns. Volatility factors presented headwinds, while Growth, Quality, and Momentum factors had a mixed impact.

Economic data released during the quarter was mixed. The weakest area was housing, while growth in consumer income remained solid, reflecting high levels of employment, rising wages, and the benefit of excess savings accumulated during the pandemic.

Housing data weakened throughout the year and existing home sales declined for ten consecutive months. Housing starts and permits declined as well reflecting higher interest rates and affordability challenges.

The labor market remained strong and the U.S. economy added over 700k net new jobs during the quarter. While the numbers moved around a bit from month to month, the labor force participation rate and the U3 unemployment rate remained steady vs. the prior quarter at 62.3% and 3.7%, respectively, at the end of December. Average hourly earnings rose 4.6% vs. the prior year. While the economy has continued to add net new jobs, we note that the growth rate in the number of net new jobs is decelerating and more companies are announcing layoffs or hiring freezes. Looking ahead, we believe that the unemployment rate will likely move higher as economic growth may decelerate reflecting the lagged impact of higher interest rates.

The latest inflation readings continued to show signs of deceleration. Both core Consumer Price Index and core Personal Consumption Expenditures remain above the Fed's 2% target, but are now trending in the range of roughly 5% year over year increases. Shelter costs are a meaningful contributor to inflation today, but should start to roll over by the middle of 2023. Global supply chain issues have also improved, which should help reduce inflation over time. A potential concern is wage inflation, which can lead to higher costs across many labor-intensive service sectors. As we look ahead, while there are signs of improvement in the battle against inflation, there is still more work to do to reach the Fed's 2% target.

The survey data weakened during the quarter. After remaining above 50 for over two years, the ISM Manufacturing Index fell to 48.4 in December, the second consecutive monthly reading below 50. There was evidence of a pullback in manufacturing demand as consumers rotated from goods to services spending. Meanwhile, the ISM Services Index declined to 49.6 in December, a significant drop from the 56.5 registered in the November report. This was the first reading below 50 since May 2020. Any reading below 50 suggests economic contraction and any score over 50 suggests growth.

With regard to monetary policy, a strong labor market combined with higher than desired inflation resulted in a shift toward tighter

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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.***

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monetary policy early in 2022 from the Fed. Beginning in March, the Fed raised the Fed Funds rate on seven occasions over the remainder of the year, including a 50 basis point (bps) hike in December, for a total increase of 425 bps. Following the latest increase, the target for the Fed Funds rate is now 4.25%-4.5%. Recent comments from the Fed suggest that rates may continue to move higher in early 2023, and that higher rates could remain in place for some time. Fighting inflation often takes a while, so hopes for a reversal of monetary policy in the near term may be optimistic.

Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening (QT) in June of 2022. QT will likely continue and may add upward pressure to longer-term interest rates.

The yield curve remains inverted as longer-term treasuries point to expectations of either weak economic growth, lower inflation, or a Fed pivot; while short-term rates reflect the Fed's attempts to curb the rate of inflation and balance the tight labor market. An inverted yield curve is often a sign of a pending recession and many economists expect a recession sometime in the next two years.

Portfolio Review

The Touchstone Large Cap Fund (Class A Shares Load Waived) outperformed its benchmark, the Russell 1000® Index, for the quarter ended December 31, 2022.

The Energy and Industrials sectors led the benchmark, while the Consumer Discretionary and Communication Services sectors lagged the broader market. Turning to attribution for the quarter, stock selection was a tailwind partially offset by the impact of sector allocation. At the sector level, an underweight position in Energy had a negative impact on relative performance, partially offset by the positive impact of an overweight position in Materials and Financials.

Turning to stock selection, the best performing stocks based on relative performance vs. the benchmark during the quarter were BlackRock Inc., Air Products and Chemicals Inc., O'Reilly Automotive Inc., Berkshire Hathaway Inc., and Charles Schwab Corp.

BlackRock outperformed in in the fourth quarter after underperforming for the first three quarters of the year. In the short term, Blackrock tends to trade with market sentiment due to the bulk of revenue being driven by assets under management, but longer term we see Blackrock as a high quality compounder over full cycles. We view Blackrock as a strong fit to our process, with its strong competitive positioning, low leverage, high margins, and healthy capital return.

Air Products contributed this quarter after reporting a quarter well above estimates. The benefits of competing in a rational, oligopolistic industry were demonstrated as the company showed strong pricing power. Not only was the company able to recoup higher costs, but volumes were up 8%. Management is deploying capital around the world in clean hydrogen projects, which we believe should deliver attractive returns while also returning capital shareholders.

O'Reilly Automotive contributed during the quarter reflecting market share gains with Pro customers and solid do-it-yourself results. O'Reilly has been successful in passing on higher costs and customers have not traded down to lower-priced products. O'Reilly remains the gold standard for service, part availability, and logistics in this industry. The average age of cars on the road continues to rise and is now in the sweet spot for auto repairs and failures. O'Reilly has a strong balance sheet and continued to return capital to shareholders through its buyback program.

We believe Berkshire Hathaway's contributed this quarter was attributable to the Fed signaling "higher for longer" interest rates, which we think should directly benefit Berkshire's insurance subsidiaries. We believe that Berkshire's strong balance sheet positions them well to capitalize on potential mispricing during a downturn, particularly on the investments side.

Charles Schwab contributed this quarter, reflecting the signaling of "higher for longer" interest rates from the Fed, which would directly benefit the company's spread-based business. Although client cash sorting accelerated in, client asset inflows remain resilient. We like the company for its strong competitive positioning and the prospects for better monetizing on client assets going forward.

The more challenged positions based on relative performance during the quarter were Meta Platforms Inc., Alphabet Inc., CarMax Inc. and NewMarket Corp.

Meta Platforms Inc. detracted the broader market during the brief period in which the Fund held the shares during the fourth quarter. We sold the stock in October reflecting headwinds to topline growth along with concerns about future spending.

Alphabet Inc. detracted reflecting the slowdown in digital advertising spending and concerns around expense controls in a softening environment. The search business decelerated sequentially and there is uncertainty in the advertising business. YouTube continued to take advertising dollar share from linear TV and the Cloud business continued to ramp up. Management started to right size the cost structure of the business by realigning resources, reducing the pace of hiring, and reallocating capital expenditures. Alphabet has a solid balance sheet, significant market share, and has become more shareholder friendly in its capital allocation decisions.

CarMax underperformed during the quarter due to concerns around vehicle affordability, worsening macro conditions, and mortgage delinquencies. Vehicle depreciation negatively impacted the business but does help affordability. Despite the weakening macro environment, CarMax continued to maintain high gross profit per unit. We believe management's cost-saving initiatives should help preserve profitability in this environment. Carmax's reinvestments in digital offerings and reconditioning processes should benefit the company over the long term. CarMax continues to disrupt the used car ecosystem and we maintain our conviction in the stock.

NewMarket was up during the quarter, but lagged the strength in the broader market. The company reported solid third quarter results amidst backdrop of surging base oil and chemicals prices, and the market seems concerned that higher oil prices will continue to dampen the company's profitability. Further, the

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continued proliferation of electric vehicles and establishment of global standards to reduce internal combustion engine vehicles is an overhang on the stock. That said, NewMarket operates in a stable oligopoly and the decline of internal combustion engine vehicles could take decades to unfold. Management bought back $50M of stock during quarter. We continue to like the oligopolistic nature of the industry and the shareholder oriented capital allocation of management.

After roughly 20 months in the Fund's portfolio, we sold its position in Meta Platforms. The stock underperformed the broader market over our holding period reflecting numerous issues (Apple's identifier for advertisers change, competition from TikTok, and a macroeconomic slowdown leading to weaker advertising spending). While the company faced headwinds to topline growth, management remained intent on spending on numerous initiatives. While the spending could lead to strong growth in the future, the willingness to spend in the face of a more uncertain revenue outlook, as well as no insider purchases from company executives on weakness, caused us to sell the stock. In December, we used excess cash to add to the existing position in Starbucks Corp. We first purchased a roughly 2% position in Starbucks in September.

Outlook and Conclusion

Looking ahead, as we enter 2023, inflation remains higher than desired, but inflation readings have improved from peak levels reached during the summer months. The U.S. labor market remains tight with U3 unemployment below 4%. As the Fed continues to balance its goals of stable pricing and full employment, additional rate hikes are likely early in the year. It is hard to predict what could happen longer term, but the message from the Fed is that rates will stay higher for longer. Much will depend on the level of inflation and the performance of the broader economy.

Many economists are predicting a shallow recession over the next two years. This view reflects the lagged impact of monetary policy on the broader economy. While that is the consensus view, solid consumer spending may keep the U.S. economy from a recession. With a strong labor market, employment levels are high and wages are growing, which are important to maintaining solid consumer spending. Longer term, we remain positive on the U.S. economy and expect real GDP growth in the 2-3% range driven by growth in the labor force and improving productivity.

In terms of the equity market, we recognize the difficulty in determining what is priced in to valuations at this point in the economic cycle. With higher interest rates likely, equity valuations may experience multiple compression, while a slowing economy may lead to weaker earnings from many companies. In this more challenging environment, we continue to expect greater volatility in share prices and lower expected returns relative to the strong returns generated from 2009-2021.

Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in the Touchstone Large Cap Fund generate much higher returns on capital, with strong balance sheets at reasonable valuations relative to the broader market.

We believe the quality of the Fund holdings position it well for the next few years, even if the market trades modestly higher. The portfolio may struggle to keep up in an environment of double-digit returns. In an environment of possibly lower expected returns and greater volatility, we believe the portfolio offers an attractive option for equity investors.

As of December 31, 2022, BlackRock Inc. made up 4.80%, Air Products and Chemicals Inc. made up 3.26%, O'Reilly Automotive Inc. made up 5.50%, Berkshire Hathaway Inc. made up 6.93%, Charles Schwab Corp. made up 5.01%, Alphabet Inc. made up 4.40%, CarMax Inc. made up 1.56%, NewMarket Corp. made up 2.30%, Apple Inc. made up 5.57%, and Starbucks Corp. made up 3.74% of the Touchstone Large Cap Fund. Current and future holdings are subject to change.

Fund Facts *(As of 12/31/22)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	07/09/14	**TACLX**	89154Q554	1.48%	1.05%
C Shares	07/09/14	**TFCCX**	89154Q547	2.12%	1.80%
Y Shares	07/09/14	**TLCYX**	89154Q521	0.88%	0.80%
INST Shares	07/09/14	**TLCIX**	89154Q539	0.82%	0.70%
Total Fund Assets	**$270.4 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 1.03% for Class A Shares, 1.78% for Class C Shares, 0.78% for Class Y Shares and 0.68% 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 12/31/22)*

	4Q22	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	9.97%	-15.38%	-15.38%	5.33%	6.08%	7.40%
C Shares	9.82%	-15.94%	-15.94%	4.58%	5.29%	6.66%
Y Shares	10.03%	-15.11%	-15.11%	5.62%	6.34%	7.67%
INST Shares	10.12%	-15.00%	-15.00%	5.72%	6.46%	7.78%
Benchmark^	7.24%	-19.13%	-19.13%	7.35%	9.13%	9.97%
Including Max Sales Charge						
A Shares	4.49%	-19.59%	-19.59%	3.55%	4.83%	6.66%
C Shares	8.82%	-16.75%	-16.75%	4.58%	5.29%	6.66%

^Benchmark - Russell 1000® 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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[1]The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index.

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 is non-diversified, which means that it may invest a greater percentage of its assets in the securities of a limited number of issuers and may be subject to greater risks. The Fund may focus its investments in specific sectors and therefore is subject to the risk that adverse circumstances will have greater impact on the fund than on the fund that does not do so. 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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