Fund Manager Commentary

As of March 31, 2023

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 mid-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. Equities finished mostly higher during the first quarter. The quarter began on a positive note as stocks rallied in January reflecting moderating inflation and hope that we were nearing the peak federal funds rate. Things cooled off a bit in February following another 25 basis points (bps) increase in the federal funds rate as well as comments from the U.S. Federal Reserve (Fed) Chairman Jerome Powell that suggested rates could stay higher for longer relative to market expectations. March was quite volatile reflecting turmoil in the banking system. The failure of both Silicon Valley Bank and Signature Bank led to fears of a broader banking crisis and added another layer of uncertainty to an already cloudy economic outlook. The U.S. Treasury, Fed, and FDIC stepped in and guaranteed deposits at both banks, established the Bank Term Funding Program to enhance liquidity in the banking system, and coordinated swap lines between other central banks. These actions helped restore confidence in the banking system, and by the end of the month, markets had largely stabilized.

Turning to factors driving performance during the quarter, companies exposed to higher volatility and growth factors, as well as large cap companies, posted the strongest results. Exposure to value, yield, and quality factors presented headwinds.

Domestic economic data released during the quarter pointed to modest growth. Consumer spending remained resilient driven by wage gains and a strong labor market. Housing had been one of the weaker areas of the economy in recent months, but housing data showed improvement late in the quarter. Housing starts, new home sales and existing home sales all posted year-over-year (y/y) gains in March. This was the first y/y gain in existing home sales in 13 months. Housing inventory remains low, which may be a positive for housing prices in the future.

The labor market remained strong as the U.S. economy added over one million new jobs during the quarter. The labor force participation rate improved a bit and ended the quarter at 62.6%, while the unemployment rate was essentially flat. Average hourly earnings rose versus the prior year. Looking ahead, we expect job growth and average hourly earnings growth to continue to decelerate, while the unemployment rate could move higher reflecting weaker economic growth due to the lagged impact of higher interest rates.

Inflation data continued to moderate during the quarter, but the y/y rate is still higher than the Fed's goal of 2%. In the latest monthly reading, total Consumer Price Index (CPI) rose 6.0% y/y, while core CPI rose 5.5% y/y. The Fed's preferred measure of inflation, core Personal Consumption Expenditures, rose 4.6% y/y. Services inflation is now the primary contributor to overall inflation, and it is typically highly correlated with rising wages. Reversing higher services inflation may be challenging with a strong labor market.

The latest Institute of Supply Management (ISM) survey data pointed to deceleration in the economy. The March ISM manufacturing index declined versus the prior month to end at 46.3, the fifth consecutive monthly reading below 50. Meanwhile, the March ISM services index declined versus the prior month, but still registered a 51.2, its third consecutive month in expansion territory. Any reading below 50 suggests economic contraction while any score over 50 suggests expansion.

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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.***

With regard to monetary policy, a strong labor market combined with higher than desired inflation resulted in a shift toward tighter monetary policy from the Fed in early 2022. Throughout 2022, the Fed raised the federal funds rate 425 bps. As inflation readings improved over time, the Fed reduced the level of rate increases from 75 bps to 25 bps. Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening in June of 2022.

Things were a bit more complicated for the Fed in March following turmoil in the banking sector. Banks will likely continue to tighten credit standards, which may contribute to slower economic growth in the months ahead, and may limit the need for the Fed to raise rates much further. At the March Federal Open Market Committee (FOMC) meeting, the Fed did raise the federal funds rate another 25 bps, with the target for the funds rate now 4.75% - 5.0%. However, the Fed's language turned a bit more dovish, suggesting few, if any, additional hikes in the near term. While rates may not move much higher for the rest of the year, Chairman Powell was clear that he is not planning to reduce the funds rate in the near term. The dot plots from FOMC members suggest one more 25 bps hike in 2023 before rates begin to decline in 2024. Based on the futures market, investors expect short-term rates to decline 75 bps before year-end, followed by another 125 bps reduction in rates in 2024. This would result in a funds rate of roughly 3.0% at the end of 2024, roughly 100 bps lower than the median of the latest dot plots. Investors may be too optimistic in the speed of interest rate reductions. Changes in the federal funds rate will depend on inflation and labor market readings as well as other broader economic data.

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 Mid Cap Fund (Class A Shares Load-Waived) outperformed its benchmark, the Russell MidCap® Index, for the quarter ended March 31, 2023.

Both sector allocation and stock selection were tailwinds to relative performance. At the sector level, an underweight position in both Financials and Energy had a positive impact on relative performance, partially offset by the negative impact of an underweight position in both Communication Services and Information Technology sectors as well as an overweight position in Consumer Staples sector.

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were: Skyworks Solutions Inc. (Information Technology sector), Copart Inc. (Industrials sector), Entegris Inc. (Information Technology sector), Lamb Weston Holdings Inc. (Consumer Staples sector), and Old Dominion Freight Line Inc. (Industrials sector).

The more challenged positions based on relative performance during the quarter were: M&T Bank Corp. (Financials Sector), UniFirst Corp. (Industrials sector), Hasbro Inc. (Consumer Discretionary sector), CBRE Group Inc. (Real Estate sector), Black Knight Inc. (Information Technology sector) and AerCap Holdings NV (Industrials sector).

In March, we reduced the position in Lamb Weston reflecting the strong rally in recent months. The stock was up over 40% in 2022 and was up further in the first quarter. We maintain a positive view of the shares and the stock will continue to be a large position in the portfolio. With the proceeds from the trim, we added to the existing position in Black Knight Inc. While the company has some ties to the overall housing market, most of the business is from servicing mortgages, where the revenue stream should remain steady. There is an outstanding bid to buy the company from Intercontinental Exchange Inc. at a much higher price than the current price. The concern is the deal will not close due to anti-trust considerations. If Intercontinental Exchange walks away from the deal, the break-up fee paid to Black Knight would be $725 million.

Outlook and Conclusion

Looking ahead, while inflation readings have improved in recent months, core inflation remains higher than the Fed's long-term target of 2% and the labor market remains tight with unemployment below 4%. While those factors argue for higher interest rates, recent turmoil in the banking sector will likely lead to tighter credit conditions and weaker economic growth, which argues for lower rates. When reviewing the competing factors, it appears that future increases in the federal funds rate may not be necessary and rates may begin to fall in the months ahead.

Tighter credit, along with the lagged impact of higher interest rates, has raised the odds of a recession over the next two years. While a shallow recession seems to be the consensus view, solid consumer spending may allow the U.S. economy to avoid recession. Employment levels are high and wages are growing reflecting a strong labor market, which is important to maintaining solid consumer spending. Longer term, we remain positive on the U.S. economy and expect real GDP growth in the 2% to 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 investors have priced into stocks at this point in the economic cycle. Valuations based on near term earnings are relatively high versus history despite concerns about a pending recession and higher interest rates. As economic growth may continue to decelerate, equity valuations may compress while earnings estimates could decline. We continue to expect greater volatility in share prices, and we may experience muted returns in the near term with dividends comprising a large percentage of the total return from equities.

Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk-adjusted returns. We believe the companies in the Fund's portfolio generate higher returns on capital, with stronger balance sheets, at reasonable valuations relative to the broader market.

We believe the quality of the portfolio positions 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

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volatility, we believe the portfolio offers an attractive option for equity investors. Our goal remains to outperform the broader market over full market cycles with less volatility.

As of March 31, 2023, Skyworks Solutions Inc. made up 4.42%, Copart Inc. made up 5.49%, Entegris Inc. made up 4.14%, Lamb Weston Holdings Inc. made up 4.33%, Old Dominion Freight Line Inc. made up 3.98%, M&T Bank Corp. made up 2.42%, UniFirst Corp. made up 2.78%, Hasbro Inc. made up 2.29%, CBRE Group Inc. made up 2.68%, AerCap Holdings NV. made up 4.01%, Black Knight Inc. made up 3.80%, Intercontinental Exchange Inc., Silicon Valley Bank and Signature Bank made up 0.00% of the Touchstone Mid Cap 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	05/14/07	**TMAPX**	89155H629	1.23%	1.23%
C Shares	05/14/07	**TMCJX**	89155H611	1.93%	1.93%
Y Shares	01/02/03	**TMCPX**	89155H793	0.93%	0.93%
Z Shares	04/24/06	**TMCTX**	89155H785	1.26%	1.23%
INST Shares	01/27/12	**TMPIX**	89155T649	0.87%	0.87%
R6 Shares	02/22/21	**TMPRX**	89155T490	0.82%	0.81%
Total Fund Assets	**$4.4 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 1.21% for Class A Shares, 1.96% for Class C Shares, 0.96% for Class Y Shares, 1.21% for Class Z Shares, 0.89% for Class INST Shares and 0.79% 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 03/31/23)*

	1Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	6.17%	6.17%	-2.79%	14.12%	8.47%	9.59%	10.33%
C Shares	6.00%	6.00%	-3.48%	13.31%	7.68%	8.93%	9.88%
Y Shares	6.25%	6.25%	-2.50%	14.42%	8.75%	9.87%	10.58%
Z Shares	6.19%	6.19%	-2.77%	14.11%	8.47%	9.59%	10.29%
INST Shares	6.27%	6.27%	-2.43%	14.52%	8.84%	9.95%	10.62%
R6 Shares	6.29%	6.29%	-2.37%	14.53%	8.82%	9.90%	10.59%
Benchmark^	4.06%	4.06%	-8.78%	19.20%	8.05%	10.05%	10.73%
Including Max Sales Charge							
A Shares	0.87%	0.87%	-7.65%	12.18%	7.19%	8.94%	10.01%
C Shares	5.00%	5.00%	-4.43%	13.31%	7.68%	8.93%	9.88%

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 Midcap® Index[1]

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*****The performance presented for Class A, C, Z, INST and R6 Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 01/02/03, with the performance since the inception date of each share class.***

Not FDIC Insured | No Bank Guarantee | May Lose Value

[1]The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® 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.

A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. 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. A fund that focuses its investments in the securities of a particular market sector is subject to the risk that adverse circumstances will have a greater impact on the fund than a fund that does not focus its investments in a particular sector. 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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