Fund Manager Commentary

As of September 30, 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 traded lower during the third quarter reflecting rising long-term interest rates, higher energy prices, and growing acceptance of the higher for longer message from the U.S. Federal Reserve (Fed). While there were headwinds, most of the economic data released during the quarter was better than expected, and the odds of a soft landing have increased.

For the quarter, the Russell 3000® Index declined 3.3%. While stocks traded lower across the market cap spectrum, shares of large companies held up better than shares of small and mid-sized companies. The Energy sector was the best performing sector, bolstered by higher oil prices.

In terms of factor analysis, companies exposed to growth and quality factors posted the best results, while yield factors continued to generate the weakest returns. Value, volatility, and momentum factors had a mixed impact. Overall, larger companies with a strong growth outlook and little/no dividend payouts traded lower during the quarter, but still outperformed the broader market.

U.S. economic activity continued to expand at a solid pace during the third quarter as a strong labor market and rising wages led to growth in consumer spending. While economic data has been better than expected for much of the year, there were signs of a slowdown in spending in September. Potential headwinds to future spending include tighter bank lending standards, higher energy prices, and the resumption of student loan payments.

Inflation measures have continued to moderate throughout the year. In the latest monthly readings, total inflation, both CPI and PCE pointed to annual increases in the 3% to 4% range, while annual growth in core inflation remains in the 4% range. Importantly, the three month annualized change in core PCE fell to 2.4%. Inflation is still a bit higher than the Fed's target, but the numbers are clearly moving in the right direction.

Housing data, while showing some signs of stabilization, trended lower during the quarter reflecting affordability issues due to higher interest rates. Higher interest rates relative to recent years is discouraging many homeowners with a mortgage from moving, leading to both weaker sales and lower inventory levels of existing homes. The lower supply of existing homes has helped establish a floor for prices, while pushing many buyers to purchase new homes.

The labor market remains quite strong and the U.S. economy added over 700 thousand net new jobs during the third quarter. In recent months, the unemployment rate moved slightly higher to 3.8%, while the labor force participation rate held steady at roughly 62.8%. Average hourly earnings rose 4.2% versus the prior year. With rising interest rates over the last couple of years, many economists expected a reduction in job creation and a higher unemployment rate. That has not happened yet, and the U.S. labor market has consistently posted stronger than expected results, which supports the higher for longer narrative on interest rates.

Survey results from the broader ISM data were mixed, as demand for services was stronger than demand for goods. In the latest monthly reading, the ISM manufacturing index improved a bit to 49.0, but remained below 50 reflecting the impact of higher interest rates on demand for goods. Meanwhile, the ISM services index declined a bit to 53.6, but remained above 50, posting its ninth consecutive month in expansion territory. For both surveys, a reading below 50 suggests economic contraction while any score over 50 suggests expansion.

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The Fed continued its tighter monetary policy in 2023 and raised the federal funds rate another four times - 25 basis points (bps) each time - earlier this year. The Federal Open Market Committee (FOMC) met during September and did not change the federal funds rate, which remained at 5.25% to 5.5%. While there were no changes to short-term interest rates, there were some important changes in the FOMC's Summary of Economic Projections. The Fed is now forecasting stronger economic growth in 2023 and 2024. Stronger growth, a tight labor market, along with inflation in the 3% to 4% range led to a forecast of higher interest rates for a longer period. Dot plots from the Fed now assume the possibility of one more 25 bps interest rate increase this year, with fewer rate cuts than previously expected over the next couple of years. We believe that the Fed may not need to raise the funds rate again, as decelerating inflation and some signs of cooling in the labor market may be enough to limit additional increases. However, rates may remain at elevated levels over the next couple of years.

Longer-term yields moved higher in recent months (10-year Treasuries ended the quarter at roughly 4.6%), but the yield curve remains inverted. Lower long-term relative to short-term yields suggest either weaker economic growth or lower inflation in the future, while higher short-term rates reflect the Fed's attempts to curb the rate of inflation and balance the tight labor market.

Portfolio Review

The Touchstone Mid Cap Fund (Class A Shares Load-Waived) outperformed its benchmark, the Russell MidCap® Index, for the quarter ended September 30, 2023.

The Energy and Financials sectors were the strongest sectors for the Russell Midcap index and were the only sectors that posted positive returns, while the Healthcare and Communication Services sectors were the weakest sectors for the index.

During the quarter, positive stock selection offset headwinds from sector allocation. At the sector level, an underweight position in both Energy and Financials and an overweight position in Consumer Staples had a negative impact on relative performance, partially offset by the positive impact of an underweight position in both Health Care and Communication Services. The quality tilt (sustainably high returns on capital, lower leverage ratios) of the portfolio aided relative performance.

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were Black Knight, Inc. (Information Technology sector), Lennox International, Inc. (Industrials sector), Old Dominion Freight Line, Inc. (Industrials sector), NewMarket Corporation (Materials sector), and AptarGroup Inc. (Materials sector).

Black Knight shares rallied as it became clear that its pending acquisition by Intercontinental Exchange (ICE) would close. To allow the deal to close, Black Knight had to sell its Empower and Optimal Blue divisions. We sold Black Knight shares from the Fund's portfolio just before the closing of the ICE deal as the stock was trading close to the deal price.

Lennox International continued to perform well reflecting a faster than expected recovery in its Commercial HVAC segment. We have been pleased with the company's operational performance and progress on exiting non-core business lines since CEO, Alok Maskara, took over. While we remain attracted to the business longer term, we took advantage of strength and trimmed the position in the quarter.

Old Dominion Freight delivered significant positive performance during the quarter as a large less-than-truckload competitor, Yellow, began losing business ahead of a looming strike of its mostly unionized workforce. Yellow eventually filed for Chapter 11 bankruptcy, and Old Dominion made a bid for its terminal assets. The stock also responded positively as the lingering freight recession and inventory de-stocking showed some possible signs of coming to an end.

NewMarket outperformed early in the quarter after a strong earnings report that showed some recovery in pricing and margins after a long period of higher base oil and chemical prices. The stock flattened out later in the quarter as oil prices rose. NewMarket also used stronger cash flow to repay debt and repurchase company shares.

Aptar outperformed during the quarter due to strong demand in its pharma business and continued progress in its cost savings initiatives. Aptar's profitable prescription drug business division grew over 20% and demand for its injectable business remains strong. Capacity investment projects are expected to slow in the coming years and Aptar's free cash flow is expected to grow at a healthy annual rate. We remain attracted to its leading position in the pharma business and the stickiness of its contracts with clients.

The more challenged positions based on relative performance during the quarter were Dollar Tree Inc. (Consumer Staples sector), Lamb Weston Holdings, Inc. (Consumer Staples sector), Entegris Inc. (Information Technology sector), Churchill Downs Inc. (Consumer Discretionary sector), and CarMax, Inc. (Consumer Discretionary sector).

Dollar Tree's underperformance in the third quarter reflected ongoing profitability challenges brought on by an unfavorable mix shift toward lower margin consumables, shrink, and higher operating and remodeling costs. We believe the investments the business is making today will be supportive of improved profitability going forward, and that the challenges the business has faced recently are transitory in nature. Dollar Tree's management team now consists of the best operators in the retail industry, the business is well positioned to benefit in today's economic climate, and we view the stock's current valuation (roughly 10 times EV/EBITDA) as attractive.

Shares of Lamb Weston underperformed after the company reported lower volumes and provided a cautious outlook. This sparked fears that the industry could have too much capacity as volumes slow. However, management has been clear that the majority of the lower volume for Lamb Weston has been intentional by shedding lower margin contracts. On a positive note, the fry attachment rate remained high. We remain attracted to Lamb Weston's market share, pricing power, and industry tailwinds.

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Following a strong first half performance, shares of Entegris underperformed during the third quarter following lackluster guidance from management for the back half of the year. Entegris is gaining market share, but industry sales are down. Looking ahead, we believe the company is well positioned for future growth in semiconductor capital spending. In terms of capital allocation, management is delivering on its debt reduction strategy. We remain attracted to the industry's high barriers to entry, limited competition, and high switching costs.

Churchill Downs underperformed in the quarter, as recent results were a bit weaker than expected reflecting softness in the casino business and partially due to a temporary issue in the live racing business. We are not overly concerned about the issues that have pressured the stock, and we continue to have a very favorable view of the long-term outlook for the company. In our view, Churchill Downs has a thoughtful and long-term oriented management team running a portfolio of highly cash-generative assets, with a very attractive set of investment opportunities.

CarMax shares lagged the broader market as affordability and higher interest rate issues remain headwinds to used car purchases. CarMax continues to maintain high gross profit per unit sold while improving its cost structure. The company's investments in digital and seamless retail offerings have improved its competitive advantages and we maintain our conviction in the stock.

In early July, we used excess cash in the portfolio to add to two existing holdings: M&T Bank Corporation (Financials sector) and Cincinnati Financial Corp. (Financials sector). Both stocks have underperformed the broader market in recent months, but we maintain a positive outlook on the businesses and believe the stocks trade at attractive discounts to intrinsic value.

In mid-August, we sold the entire position in Black Knight and trimmed the existing position in Lennox International. With the proceeds, we initiated a position in both Fidelity National Information Services (Financials sector) and Waters Corporation (Health Care sector).

Outlook and Conclusion

Looking ahead, while we have been pleased with the better than expected economic data and improving inflation readings this year, we note that core inflation remains higher than the Fed's long-term target of 2% and the labor market remains tight with unemployment below 4%. With that backdrop, it has become more apparent to investors that interest rates may stay higher for longer than previously expected.

Predicting the future direction of the economy is always challenging. Potential positives include a strong labor market, rising wages, and lower inflation. Potential negatives include higher interest rates, elevated energy prices, tighter bank lending standards, and the drawdown of savings accumulated by consumers during the pandemic. While the odds of a recession over the next 12 to 18 months remains elevated, there are signs that suggest a soft landing may be possible. 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 a specific point in the economic cycle. Valuations based on near term earnings are somewhat elevated in the context of higher interest rates and a possible recession. Going forward, we believe that equity returns in the near term may be muted, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return from equities. We continue to expect greater volatility in share prices in the months ahead.

Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in the Fund generate much higher returns on capital, with lower leverage ratios, 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 Fund 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. Our goal remains to outperform the broader market over full market cycles with less volatility.

Fund Facts *(As of 09/30/23)*

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	**$4.5 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 09/30/23)*

	3Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-3.30%	12.90%	19.55%	7.59%	8.22%	9.70%	10.39%
C Shares	-3.47%	12.32%	18.70%	6.84%	7.44%	9.04%	9.96%
Y Shares	-3.21%	13.16%	19.90%	7.90%	8.51%	9.98%	10.65%
Z Shares	-3.28%	12.93%	19.56%	7.60%	8.22%	9.69%	10.36%
INST Shares	-3.22%	13.20%	19.96%	7.99%	8.59%	10.06%	10.69%
R6 Shares	-3.17%	13.28%	20.07%	8.03%	8.59%	10.02%	10.67%
Benchmark^	-4.68%	3.91%	13.45%	8.09%	6.38%	8.98%	10.45%
Including Max Sales Charge							
A Shares	-8.13%	7.27%	13.58%	5.77%	7.12%	9.05%	10.08%
C Shares	-4.43%	11.32%	17.70%	6.84%	7.44%	9.04%	9.96%

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]

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.*** *From time to time, the investment adviser may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.*

*****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.***

Top 10 Equity Holdings of Fund *(As of 09/30/23)*

		(% of Portfolio)
1	Copart, Inc.	6.1
2	Old Dominion Freight Line Inc.	4.6
3	Vulcan Materials Co.	4.6
4	Entegris Inc.	4.6
5	AerCap Holdings NV	4.3
6	Lennox International, Inc.	4.1
7	STERIS PLC	3.9
8	Lamb Weston Holdings Inc.	3.7
9	Otis Worldwide Corp.	3.6
10	Skyworks Solutions, Inc.	3.6

Source: BNY Mellon Asset Servicing

[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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