Touchstone Sands Capital Emerging Markets Growth Fund

Sub-Advised by: Sands Capital Management, LLC

Emerging Markets – Large-Cap Growth 2Q/2023

Fund Manager Commentary

As of June 30, 2023

Fund Highlights

- Seeks to identify leading growth businesses that meet the following criteria:
  – Sustainable, above-average earnings growth
  – Leadership position in a promising business space
  – Significant competitive advantages / distinctive business franchise
  – Clear mission and value-added focus
  – Financial strength
  – Rational valuation relative to the market and business prospects
- Concentrated, conviction-weighted portfolio typically holds 30-50 companies within global emerging markets
- Country and sector exposures are primarily a byproduct of individual stock selection

Market Recap

Emerging market (EM) equities (as measured by the MSCI EM Index) rose in 2023's second quarter. This was the third consecutive quarterly gain for the index. India, Brazil, and Taiwan contributed most to the index's rise. China was a significant detractor, with the 30% index weight falling nearly 10% during the quarter. Ten of 11 sectors in China fell, but consumer discretionary led the decline, amid concerns about the country's economic recovery. There was an over 20-percentage point spread between the index's top and bottom country contributors, with the MSCI India Index rising 12% in the second quarter and the MSCI China Index falling 10%.

Financials and Information Technology were the largest sector contributors to the MSCI EM's second-quarter results, while Consumer Discretionary and Communication Services were the top detractors.

Portfolio Review

The Touchstone Sands Capital Emerging Markets Growth Fund (Class A Shares Load-Waived) outperformed its benchmark, the MSCI Emerging Markets Index, for the quarter ended June 30, 2023. Emerging Markets Growth's outperformance in the second quarter was largely attributable to security selection, but country allocation and currency effect were also tailwinds. Sector allocation detracted from relative results. From a country perspective, India and Brazil contributed most to relative results, while Singapore and China detracted the most. From a sector perspective, Financials and Materials were the top relative contributors, while Communication Services and Consumer Discretionary were the top detractors.

Among the top individual absolute contributors were XP (Financials sector, Brazil), Nu Holdings (Financials sector, Brazil), Bajaj Finance (Financials sector, India), and Apollo Hospitals (Healthcare sector, India), and Localiza (Industrials sector, Brazil).

Nu Holdings reported strong first-quarter results in May. Revenues and gross profits grew 85% and 121% year-over-year, respectively, and operating profit margins reached 15%, up from minus 8% a year ago. Shares also benefited from the rally in Brazilian equities, which outperformed the MSCI Emerging Markets Index.

We believe that Nu is entering a phase of structural, multiyear net interest margin expansion. We saw signs of this in the quarterly results, with NIMs nearly doubling year-over-year to 16%, as interest-earning loan growth outpaced deposit growth and as Nu's new deposit pricing strategy improved funding costs. We expect product cross-selling over its large customer base (over 80 million and growing) to account for much of Nu's growth and for the growth to occur at high incremental margins, taking into account Nu's scale

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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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and structural cost advantages as a digital bank. One of these cross-selling opportunities is payroll lending, which we estimate to be similar to credit cards in terms of overall profit potential. Nubank recently launched its first payroll product, and early data suggests that Nubank's digital convenience has been a main driver of new client acquisition. Another opportunity is to expand the wallet share among its affluent credit cardholders via expedited credit limit increases, more product offerings (e.g., investments), and its Ultravioleta premium card. We expect Nu's annual earnings to approximately quadruple by 2028.

XP traded higher along with Brazilian equities more broadly. The stock also benefitted, we believe, from optimism about the changing macro environment, which should be more favorable for XP's business. Interest rates in Brazil are expected to fall along with inflation, which should benefit XP as investors on its platform shift to higher-margin investment vehicles (independent financial advisors that we spoke to in Brazil suggested that high single-digit rates are the "golden range" for balance inflows across asset classes). Meanwhile, XP has made fundamental improvements to its business, including better cost controls and business model diversification via banking solutions, would could sustain any earnings uplift from the macro environment. Overall, we continue to view XP as a market-share winner from incumbent banks, and as a beneficiary from further financial inclusion in Brazil.

Apollo Hospitals traded higher along with Indian equities more broadly, with the MSCI India Index outperforming the MSCI EM by over 11 percentage points. Shares also benefitted by favorable sell-side coverage in June. Fundamentally, the business' core hospital segment continues to execute well. While occupancies were lower in the most recently reported quarter, this was largely driven by payor mix rationalization and the holiday calendar, and management guided for 70% occupancy by the end of fiscal 2024 (which ends March 2024). The company guided for low-to-mid teens revenue growth from the segment, with EBITDA growing faster, and reiterated its plans to add 2,000 beds over the next four years. We are less optimistic about the digital healthcare platform Apollo 24/7, which reported higher-than-expected losses for the quarter. We believe that management is overestimating its ability to slow expense growth, and that its gross merchandise volume growth forecasts are too ambitious. Apollo's premium valuation reflects management and investors' enthusiasm for the segment, which adds risk if results continue to fall short of expectations. Apollo continues to be a market-share leader in what we view as a long-duration secular growth opportunity. That said, we have lower conviction in its new digital initiatives, and are assessing Apollo's appropriate strategic weight in the portfolio.

The top individual absolute detractors were Foshan Haitian Flavoring (Consumer Staples sector, China), MercadoLibre Inc. (Consumer Discretionary sector, Brazil), Anta Sports Products (Consumer Discretionary sector, China), Sea (Communication Services sector, Singapore), and Tigermed (Healthcare sector, China).

Shares of Foshan Haitian have come under pressure amid industry headwinds for China's condiment industry, where pandemic-related distortions have affected both demand and distribution channels. Chinese consumer discretionary stocks have been hit this year amid the weaker-than-expected economic recovery, further exacerbating these fundamental issues. The long-term investment case for Haitian remains intact, which we concluded following our research trip to China in late May, which included meetings with competitors, regional distributors, and Haitian's chairman and CEO. The business remains the top producer by market share for soy sauce, oyster sauce, mixing sauce, and cooking wine, and it is the third largest in vinegar. We think it will continue to win share and lead the industry as the volume-led growth of the past decade gives way to a premiumization-led era reflective of local consumers' growing sophistication. The company's combination of scale, unit economics, national omnichannel distribution, branding, merger and acquisition capabilities, and product innovation come together to constitute a quite formidable competitive moat, in our view. Testament to this is the lack of real traction achieved by occasional new entrants. The unusually large research and development budget of 3% of sales (versus leading global consumer packaged goods companies at about 1%) gives us confidence that innovation will remain front and center. Both Haitian and the distributors we spoke with expect the distortions to resolve in the coming months. We continue to view the business as a long-duration compounder with exposure to an attractive and durable consumer market and as lacking the geopolitical risks facing other Chinese businesses.

Sea shares sold off after the business reported first quarter 2023 results. The reported results were positive, in our view, but fell short of the blowout results reported for 2022's fourth quarter, when Sea reported profitability four quarters earlier than previously guided. We believe the negative stock reaction was primarily driven by profit taking, with the stock up considerably year-to-date leading into the announcement. The keys to our investment case – ecommerce growth and profitability – continued to show progress. Ecommerce revenues and adjusted EBITDA both beat consensus expectations, and the business reported overall adjusted EBITDA that was 30% higher than the consensus expected. Gaming revenue was the sole soft spot, with revenue falling short of consensus estimates. While many investors may continue to focus on Sea's legacy gaming franchise, it is not a core component of our investment case. Its importance continues to wane now that the overall business no longer relies on gaming's profits to sustain its ecommerce and fintech segments, which were profitable over the past two quarters and are expected to remain so going forward, based on consensus estimates. Overall, Sea generated over $600 million in operating cash flow and $200 million in net income (excluding goodwill) during the quarter. We think these results will provide a valuation floor in the near term and further cement management's credibility and our long-term conviction in the business. Sea remains well positioned, in our view, to benefit from its ecommerce opportunity in Southeast Asia, which accounts for almost 70% of our terminal value estimate for the entire business.

MercadoLibre shares slumped as investors sought to book gains, given the strong year-to-date investment results. In addition to trading considerations, we believe macro concerns weighed on the stock: the Argentine peso sank to all-time lows vs. USD amid 100%+ inflation, dwindling foreign exchange reserves, exports affected by droughts, and other issues. Notably, MercadoLibre derives 75% of

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revenue outside of Argentina, so these country-specific macro woes are not relevant to our long-term investment case. MercadoLibre remains one of our highest-conviction businesses (largest overall weight) and the most recent business results demonstrated how it has been expanding profitability without sacrificing growth.

In the second quarter, we purchased Dino Polska (Consumer Staples, Poland) and sold CP All (Consumer Staples, Thailand).

Dino Polska is a leading Polish supermarket chain. We expect Dino to benefit from the continued consolidation and formalization of Poland's retail food industry. The business is the third-largest food retailer in Poland by market share, and it sets itself apart by its rural store footprint, vertical integration, and focus on fresh and locally sourced food. Dino's vertically integrated business model has enabled the business to scale to 2,000 stores across rural Poland while maintaining a consistent customer experience and product quality. For example, our research indicates that Dino's locally sourced fresh meat counter is a key traffic driver and is recognized nationally for its quality and value. The company owns its stores' land and operates its own construction company, which helps avoid delays and quality issues. Land ownership also eliminates rental costs, resulting in higher store operating margins than for its peers. Over our investment horizon, we expect Dino to nearly double its store count, with scale gains gradually improving its overall profitability.

We exited CP All due to its weakening fit with our first and fourth criteria, which focus on sustainable above-average earnings growth and management execution. CP All is the exclusive, perpetual franchisee of the 7-Eleven brand in Thailand. From 2012 to 2022, CP All nearly doubled its store footprint to 13,800 locations as it consolidated and formalized the industry. Looking ahead, we expect its store expansion and earnings growth to naturally slow. In addition to CP All's maturing growth profile, we no longer view the company as a strong fit with our management execution criterion. Over the past several years, CP All's parent company – through its nonindependent board of directors – has misallocated capital in what we view as empire-building ventures that have disadvantaged minority shareholders. One recent example is the acquisition of the Tesco Lotus hypermarket chain, which materially raised CP All's cost structure via more debt and higher operating expenses, resulting in lower margins. The business could continue to benefit in the near term as Thailand's economy reopens, leading to higher foot traffic and same-store sales. That said, we believe there are other businesses that are a better fit with our criteria, including Dino Polska, which was funded in part with the sale proceeds.

Overall portfolio positioning was largely unchanged.

The largest absolute country exposures were to India and China, which together accounted for approximately 48% of the portfolio. The largest overweight was to India (33% versus 15% for MSCI EM), and the largest underweight was to China (15% versus 30%). The portfolio had holdings across 12 countries, versus 24 for the index.

From a sector perspective, Financials and Consumer Discretionary were the largest absolute exposures, together accounting for approximately 47% of the portfolio. Financials was also the largest overweight at 28% versus 22% for the index. Information Technology was the largest underweight (13% versus 21% for the index) and the portfolio had no exposure to Real Estate or Utilities.

Outlook and Conclusion

We continue to believe that selectivity – and a focus on long-term business fundamentals – will be key for emerging market equity investors. Over the past decade, the MSCI EM Index has lagged the returns of developed-market indices, including the Russell 1000 Index and the MSCI EAFE Index. This has occurred even despite faster economic growth among the MSCI EM's largest country constituents. This underperformance – coupled with a seeming lack of diversification benefit amid periods of broader equity market stress – has caused some to question the benefit of EM equity exposure.

We continue to find businesses that meet our criteria in emerging markets. Below are some of the key considerations for investors, in our view:

- The index's results obscure the attractive investment results from a select group of businesses over the period.
- Emerging markets can have market structures that uniquely enable local monopolies to exist, while dissuading competition.
- Emerging market equities can provide access to differentiated growth drivers, given differing levels of development relative to developed markets.
- Meaningful emerging market growth opportunities might not be captured in the MSCI EM.
- ESG improvement and engagement impact could be greater in emerging markets than in developed markets.

Looking ahead, the operating environment remains challenging for many businesses, as the global economy continues to work through the "bullwhip" effects that were created by the pandemic. We're encouraged by the financial strength of our portfolio companies, as Emerging Markets Growth tends to invest in businesses with robust cash balances, strong unit economics, and less debt than the average MSCI EM constituent. Financial strength could become a competitive advantage should the economic environment worsen.

Meanwhile, we continue to believe that our businesses are poised to benefit from secular growth opportunities such as rising compute power demand, financial services digitalization, and life sciences innovation. Fundamentals have driven our investment results over the long run, and we continue to have conviction in the growth potential of the businesses we own today.

Fund Facts *(As of 06/30/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	11/16/18	**TSMGX**	89154Q141	1.66%	1.61%
C Shares	11/16/18	**TEGCX**	89154Q133	2.57%	2.36%
Y Shares	05/09/14	**TSEMX**	89154Q570	1.30%	1.30%
INST Shares	05/09/14	**TSEGX**	89154Q562	1.24%	1.24%
R6 Shares	04/26/21	**TSRMX**	89154M702	1.19%	1.19%
Total Fund Assets	**$2.3 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 1.60% for Class A Shares, 2.35% for Class C Shares, 1.35% for Class Y Shares, 1.25% for Class INST Shares and 1.19% for Class R6 Shares. These expense limitations will remain in effect until at least 07/29/24.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 06/30/23)*

	2Q23	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	2.80%	9.32%	4.29%	-3.18%	1.03%	3.54%
C Shares	2.71%	8.96%	3.60%	-3.89%	0.29%	2.78%
Y Shares	2.92%	9.48%	4.65%	-2.88%	1.33%	3.83%
INST Shares	2.98%	9.59%	4.69%	-2.80%	1.40%	3.91%
R6 Shares	2.90%	9.50%	4.71%	-2.81%	1.37%	3.85%
Benchmark^	0.90%	4.89%	1.75%	2.32%	0.93%	2.27%
Including Max Sales Charge						
A Shares	-2.37%	3.81%	-0.95%	-4.82%	0.00%	2.96%
C Shares	1.71%	7.96%	2.60%	-3.89%	0.29%	2.78%

^Benchmark - MSCI Emerging Markets Index[1]

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*****The performance presented for Class A and C Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 05/09/14, with the performance since the inception date of each share class.***

Top 10 Equity Holdings of Fund *(As of 06/30/23)*

		(% of Portfolio)
1	Mercadolibre Inc.	7.0
2	Taiwan Semiconductor Mfg. Co. Ltd.	6.2
3	Bajaj Finance Ltd.	5.6
4	HDFC Bank Ltd.	4.7
5	Apollo Hospitals Enterprise Ltd.	4.5
6	Britannia Industries Ltd.	4.3
7	Tencent Holdings Ltd.	3.9
8	AIA Group Ltd.	3.8
9	Sea Ltd.	3.8
10	Titan Co. Ltd.	3.5

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

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[1]The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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 stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in stocks of small- and mid-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. The Fund invests in preferred stocks which are relegated below bonds for payment should the issuer be liquidated. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing their price to decline. The Fund may invest in equity-related securities to gain exposure to issuers in certain emerging or frontier market countries. These securities entail both counterparty risk and liquidity risk. The Fund invests in foreign, emerging and frontier 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, and in frontier markets due to their smaller and less developed economies. The Fund invests in growth stocks which may be more volatile than investing in other stocks and may underperform when value investing is in favor. 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 sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so. 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. 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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