

# Touchstone Sands Capital Emerging Markets Growth Fund

Sub-Advised by: Sands Capital Management, LLC

Emerging Markets – Large-Cap Growth

2Q/2025

## Fund Manager Commentary

As of June 30, 2025

### 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 equities, as measured by the MSCI Emerging Markets Index (MSCI EM), delivered their best quarterly return since 2020. For the second quarter in a row, emerging markets outpaced both developed markets and U.S. equities. Emerging markets have now outperformed developed markets and the U.S. in four of the past five quarters. The index's rise during the quarter reflected a mix of earnings growth, multiple expansion, and dividend yield.

Gains were broad, but leadership was narrow. Nearly 70% of companies in the index rose, as did 23 of 24 country constituents. However, only about one-third of companies outpaced the index itself. Taiwan Semiconductor alone contributed roughly one-quarter of the MSCI EM's total gain. Taiwan, South Korea, and India together accounted for more than 75% of the index's rise. At the sector level, 10 of 11 sectors moved higher, led by Information Technology and Financials. Saudi Arabia and the Consumer Discretionary sector were the only country and sector detractors, respectively. The U.S. dollar index fell for a second straight quarter and is now down more than 10% year to date. It declined in three of the past four quarters.

### 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, 2025.

In the second quarter security selection was the primary driver of performance, particularly within Taiwan and India and in the Consumer Discretionary sector. Overall, from a country perspective, Argentina and India were the Fund's top relative contributors, while South Korea and Kazakhstan were the top detractors. From a sector standpoint, Consumer Discretionary and Energy contributed most to relative results. Industrials and Financials were the top detractors. The strong relative contributions from Argentina, which is not included in the MSCI EM, and from India and the Consumer Discretionary sector, which underperformed the index, underscore the value of an active approach to emerging markets investing, in our view.

Among the top individual absolute contributors were Taiwan Semiconductor Manufacturing Co. Ltd. (Information Technology sector; Taiwan), MercadoLibre Inc. (Consumer Discretionary sector; Argentina), Nu Holdings Ltd. (Financials sector; Brazil), Sea Ltd. (Communication Services sector; Singapore), and Coupang Inc. (Consumer Discretionary sector; Korea).

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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](https://TouchstoneInvestments.com/mutual-funds).**



Taiwan Semiconductor (TSMC), the world's largest producer of leading-edge logic chips, reported strong quarterly results, supported by ongoing demand for artificial intelligence (AI) related semiconductors. Management reiterated its 2025 revenue growth target in the mid-20% range, with second-quarter guidance coming in above consensus. The company plans to double capacity for chip-on-wafer-on-substrate (CoWoS) packaging this year, noting that demand continues to exceed supply and capacity remains fully booked. TSMC also reaffirmed its long-term goal to grow AI-related revenue at a mid-40% compound annual rate through 2029, reflecting its critical position in the semiconductor value chain and sustained momentum in AI infrastructure buildout.

MercadoLibre is the leading ecommerce and fintech ecosystem in Latin America by market share. The business delivered another strong quarter, surpassing consensus estimates for revenue and operating income. The outperformance was driven in part by Argentina, where contribution margins are higher than in Brazil and Mexico. Despite its scale, MercadoLibre still represents less than 5% of the region's total retail market. To capture more of this opportunity, the company is investing across key strategic pillars, including marketplace, logistics, loyalty, and wallet. While these investments may pressure near-term profitability, especially in the absence of formal guidance, we expect them to reinforce MercadoLibre's competitive advantages and support long-term growth across its ecosystem.

Sea operates leading digital platforms in gaming, ecommerce, and financial services across Southeast Asia. The business posted strong results, with gaming bookings up 51% year-over-year following Free Fire's successful Naruto Shippuden campaign. Video impressions exceeded 300 million in less than 5 months, marking the game's top-rated collaboration to date. Ecommerce margins expanded on lower logistics costs and rising ad revenue. Advertisers increased 22%, and average spend rose 28%. Shopee Brazil grew market share while delivering its third consecutive profitable quarter. We expect Sea to more than double revenue and grow EBITDA sixfold by 2030. Despite a recent rally, the stock remains attractively valued in our view, ending the quarter trading at 35x forward earnings.

Nu Holdings operates Nubank, a digital financial services platform serving more than 100 million customers across Latin America. First-quarter 2025 results, along with recent conversations with management, reinforced our view that Nubank is one of the strongest emerging market franchises we cover. While the quarter included several positive developments, we were particularly encouraged by the re-acceleration in PIX financing origination, a key driver of both growth and net interest margin, as well as Nubank's progress toward breakeven in Mexico. Looking ahead, we expect Nu's earnings to quadruple by 2030. Despite strong second-quarter investment performance, the stock continues to trade at under 20x forward consensus earnings estimates.

Coupang is the market-leading ecommerce platform in South Korea and continues to execute in line with our investment case. In addition to solid operational results reported in early May, we believe the stock has benefitted from its perceived resilience amid broader economic uncertainty. The company has not reported any significant macro-related headwinds and is not exposed to U.S. tariffs. Coupang once again outpaced the broader Korean ecommerce market in 2025's first quarter and reaffirmed its guidance for approximately 20% revenue growth in 2025 on a currency-neutral basis. The company also authorized a \$1 billion opportunistic share repurchase program.

Among the top individual absolute detractors were Kanzhun Ltd. (Communication Services sector; China), Globant SA (Information Technology sector; Argentina), Full Truck Alliance Co. Ltd. (Industrials sector; China), Raia Drogasil SA (Consumer Staples sector; Brazil), and Haidilao International Holding Ltd. (Consumer Discretionary sector; China).

Kanzhun operates Boss Zhipin, a leading online job classifieds platform in China. We exited the business during the quarter.

Globant is a leading provider of digital business services to global corporations. The stock declined after the company missed both its own and consensus expectations and lowered full-year revenue growth guidance from 11% to 14% down to just 2%. We believe the slowdown reflects broader macroeconomic pressure, especially among U.S. consumer-facing clients and key markets like Mexico and Brazil. Despite near-term challenges, we continue to view Globant as a long-term enabler of generative AI adoption. The stock ended the quarter at its lowest forward earnings multiple since going public. We believe a small strategic weight remains appropriate, balancing long-term potential with ongoing macro uncertainty.

Full Truck Alliance (FTA) is China's leading digital freight platform by market share. Shares declined after the company lowered its full-year operating profit guidance by 4%. The revision reflects a slower monetization ramp, increased operating expenses related to AI, and losses from higher investment in Plus PRC, an innovative but loss-making autonomous trucking startup. We view the first two factors as largely constructive, as they extend the company's long-term compounding potential and strengthen its competitive positioning. That said, we would have preferred that FTA focus on more organic opportunities than pursue speculative merger and acquisition. Separately, the company continues to work on its Hong Kong listing but has not provided a public timeline update.

Raia Drogasil is Brazil's largest pharmacy chain by market share. The business has faced several external pressures—pricing regulations, weaker demand for personal care and beauty products, labor shortages, and increased theft of high-end medications—that have weighed on same-store sales, earnings, and valuation. Despite these headwinds, which we view as transient and manageable, Raia continues to gain share nationwide. A softer competitive landscape, strong digital execution (with digital sales up 40% year-over-year), and a capable new CEO reinforce our conviction in the business. With less than 20% share in a fragmented market and rising long-term demand from Brazil's aging population, we believe Raia's structural growth opportunity remains intact.

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Haidilao is China's largest full-service Chinese restaurant chain by market share. Our long-term earnings growth outlook depends on the success of new formats and margin improvements at existing stores. Both we and the market were disappointed by a slower-than-expected pace of new openings for its new barbecue franchise and stagnation at Haidilao's core hotpot concept. We are actively evaluating whether the business continues to meet our criteria relative to other investment opportunities.

In the second quarter we completed the purchases of MediaTek Inc. (Information Technology sector; Taiwan) and Xiaomi Corp. (Information Technology sector; China). We exited Avenue Supermarts Ltd. (Consumer Staples sector; India), Kanzhun, Samsung SDI (Information Technology sector; Korea), and Hangzhou Tigermed Consulting Co. Ltd. (Health Care sector; China). Each of our exited businesses were small weights (each accounting for less than 1% of the portfolio), and, in our view, faced greater vulnerability in the current environment relative to our other holdings.

MediaTek is one of the world's largest fabless semiconductor designers and the largest in Asia. Its system-on-chip (SoC) solutions power billions of devices worldwide, including about one-third of all new smartphones. Smartphone SoCs remain the company's largest and most critical revenue driver—and are central to our investment case. We expect both pricing and volumes to rise in the premium smartphone segment (devices priced above \$500), driven by premiumization trends, 5G adoption, increasing AI functionality, and new form factors, such as foldable devices. Beyond smartphones, MediaTek is applying its design expertise and intellectual property portfolio to AI accelerators, automotive computing, and personal computers. Its project with Google for AI chips and its collaboration with NVIDIA, notably in PCs and automotive solutions, underscores its capabilities in high-performance chip design. We see limited geopolitical or tariff risk for MediaTek. The U.S. accounts for roughly 10% of MediaTek's revenue, and continued tension between China and the U.S. could benefit non-U.S. suppliers like MediaTek at the expense of Qualcomm, its biggest competitor.

Xiaomi is a global consumer technology leader with a uniquely integrated ecosystem spanning smartphones, internet-of-things devices, and electric vehicles (EVs). This unified "Human x Car x Home" ecosystem in our view positions Xiaomi to benefit from multiple long-term growth trends, including rising EV adoption, smartphone premiumization, and the emergence of AI-powered consumer devices. What sets Xiaomi apart, in our view, is its ability to deliver high-quality, feature-rich products at accessible price points—supported by supply chain scale, operational efficiency, and a strong brand. The company's unified HyperOS operating system and large, engaged user base enable seamless integration across product categories, efficient cross-sell, and a rapid feedback loop that informs product development and go-to-market strategies. Xiaomi's execution track record, omni-channel distribution, and adaptability allow it to move quickly across categories—exemplified by its recent entrance into EVs. While still early, this initiative is central to the company's long-term strategy and builds on its core strengths in hardware, software integration, and scale manufacturing. With billions of connected devices and a growing foundation in AI, we believe Xiaomi is well positioned to lead in the next wave of intelligent, connected consumer experiences offering long-term potential across a diversified set of high-growth end markets.

We exited Avenue Supermarts, which operates DMart, a leading discount food retailer in India. The business no longer aligns with several of our investment criteria. We had repurchased DMart in 2024, based on the view that it could leverage its leadership position to consolidate India's large, fast-growing, and highly fragmented food retail market. Since then, the industry has entered a period of rapid structural change. DMart, once positioned as a disruptor, now appears increasingly at risk of being disrupted. The most significant shift has been the rise of quick commerce in large Indian cities. Our extensive research into this channel revealed strong unit economics, which supported our investment in Eternal Ltd. (Consumer Discretionary sector; India) during the first quarter of 2025. DMart now faces multiple headwinds. The company is pivoting to smaller cities, investing in its ecommerce capabilities, and addressing operational issues—all while contending with structural margin pressure. These challenges are compounded by a leadership change. CEO Neville Noronha, who led the business for 22 years, announced his departure earlier this year. While we view the incoming leadership favorably, the transition introduces execution risk. Despite these pressures, DMart continues to trade at a substantial premium to the broader Indian equity market, offering limited margin of safety. We balanced DMart's risk and reward potential through position sizing, holding DMart at a 1% strategic weight during our ownership period. This approach helped limit the impact on overall investment results.

Kanzhun operates Boss Zhipin, a leading online job classifieds platform in China. While we believe the business benefits from durable secular trends, the business remains more economically sensitive than our other Chinese holdings. Hiring activity tends to decline early in a downturn and recover later, making the employment sector more cyclical by nature. The business has multiple avenues to expand monetization, but we believe it is unlikely to pursue them in the near term. These include introducing new recruiting tools and raising prices in select industries where Boss Zhipin has high market share. However, economic uncertainty, labor market imbalances, and increased regulatory scrutiny may limit the company's willingness to act on these opportunities. These factors have contributed to our lower expected returns for the business. Despite its market leadership and compelling long-term tailwinds, Kanzhun's sensitivity to economic shifts reduces our conviction relative to other China-based businesses in the portfolio.

We originally purchased Samsung SDI in 2023, believing it could become a leading battery supplier for EVs and energy storage systems in the U.S. and Europe. We initiated the position alongside Contemporary Amperex Technology Co. Ltd. (CATL), (Industrials sector; China), which we expected to lead in China and other non-Western markets.

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Since then, U.S. EV adoption has stalled around 10% penetration, and Europe's pullback in incentives has slowed market growth. CATL has gained share in Europe by offering more affordable battery solutions, narrowing the technology gap in lithium-ion chemistries that Korean firms once dominated. As a result, automakers have increasingly shifted away from Samsung SDI and its Korean peers. We believe Samsung SDI now faces a more difficult path to recovery, given the risk of a global growth slowdown and the potential rollback of pro-EV regulations in the U.S. and Europe.

Tigermid is the leading clinical research organization in China by market share, helping domestic and multinational biopharmaceutical and biotechnology companies bring innovative drugs to market. China's biopharma and biotech sector has undergone a deep, multiyear cyclical correction, driven by a significant decline in funding, regulatory shifts, and broader macroeconomic weakness. Drug developers have responded by rationalizing pipelines and conserving capital. We began to see early signs of recovery in new bookings and project backlog from customers, but we believe a broader industry rebound will be delayed by subdued biotech funding, increasing competition for capital, rising U.S.-China tensions, and the overall fragility of the global economy. Given these headwinds and limited visibility into Tigermid's earnings trajectory, we chose to redeploy the capital.

## Outlook and Conclusion

Entering this year, many investors questioned "why bother" with emerging market equities. The answer, at least so far, is "2025." After four consecutive years of underperformance versus developed markets—and seven years lagging U.S. equities—emerging markets are now outperforming both, delivering double-digit returns in a volatile environment. They've reminded investors of their potential to offer idiosyncratic growth, resulting in portfolio diversification and overall return enhancement.

Importantly, this has not been just a "catch-up" trade. While multiple expansion has contributed, the rally has also been supported by a narrowing earnings growth gap with U.S. equities, a weaker U.S. dollar, and higher dividend yields. We continue to see several secular forces capable of underpinning strong earnings growth for select businesses, from financial penetration to industry formalization and consolidation. AI is accelerating a "winner-takes-most" dynamic, benefitting companies with scale, differentiated offerings, and the ability to productize innovation. These businesses are gaining pricing power, expanding margins, and deepening moats.

Despite the auspicious start, we expect the remainder of 2025 to bring periods of volatility as markets respond to developments in AI, geopolitics, and the global economy. That said, we believe our portfolio is well positioned to navigate this uncertainty. It is diversified across end markets, geographies, and growth stages, with improved earnings visibility and stability. Key portfolio metrics—including profitability, balance sheet resilience, and valuation—have also strengthened without compromising long-term growth potential.

We remain committed to our high-conviction, long-term approach—one rooted in growth durability and executed with discipline. We believe this positions us well for both the challenges and opportunities ahead.





## Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	11/16/18	TSMGX	89154Q141	1.60%	1.44%
C Shares	11/16/18	TEGCX	89154Q133	2.53%	2.14%
Y Shares	05/09/14	TSEMX	89154Q570	1.17%	1.17%
INST Shares	05/09/14	TSEGX	89154Q562	1.10%	1.05%
R6 Shares	04/26/21	TSRMX	89154M702	1.06%	1.01%
<b>Total Fund Assets</b>		<b>\$1.9 Billion</b>			

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 1.43% for Class A Shares, 2.13% for Class C Shares, 1.21% for Class Y Shares, 1.04% for Class INST Shares and 1.00% for Class R6 Shares. These expense limitations will remain in effect until at least 07/29/26.

Share class availability differs by firm.

## Annualized Total Returns

	2Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	12.08%	14.55%	11.77%	7.34%	1.48%	4.56%	4.49%
C Shares	11.93%	14.24%	10.97%	6.57%	0.73%	3.79%	3.71%
Y Shares	12.12%	14.72%	12.02%	7.67%	1.79%	4.85%	4.78%
INST Shares	12.18%	14.75%	12.15%	7.74%	1.87%	4.95%	4.86%
R6 Shares	12.24%	14.81%	12.27%	7.80%	1.90%	4.91%	4.82%
Benchmark	11.99%	15.27%	15.29%	9.70%	6.81%	4.81%	4.27%
Including Max Sales Charge							
A Shares	6.46%	8.83%	6.18%	5.51%	0.45%	4.03%	4.00%
C Shares	10.93%	13.24%	9.97%	6.57%	0.73%	3.79%	3.71%

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 - MSCI Emerging Markets Index

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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

	(% of Portfolio)		(% of Portfolio)
1 Taiwan Semiconductor Mfg. Co. Ltd.	11.2	6 HDFC Bank Ltd.	4.6
2 Mercadolibre Inc.	5.6	7 ANTA Sports Products Ltd.	3.5
3 Bajaj Finance Ltd.	5.6	8 AIA Group Ltd.	3.4
4 Tencent Holdings Ltd.	5.1	9 Nu Holdings Ltd.	3.4
5 Sea Ltd.	4.9	10 Coupang Inc.	2.8

Source: BNY Mellon Asset Servicing

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](https://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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