

Fund Manager Commentary

As of June 30, 2021

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

International equities (as measured by the MSCI All Country World ex-U.S. Index) posted their fifth straight quarterly gain. The benchmark was driven higher by growth equities, which saw a reversal relative to value equities, following the worst quarter for international growth relative to value since 2016. The strength this quarter was broad-based, with all regions and 10 out of 11 sectors trading higher. Western Europe was the top-contributing region, and Information Technology and Health Care were the top-contributing sectors. Utilities was the only sector that detracted from the benchmark's results.

Portfolio Review

The Touchstone Sands Capital International Growth Fund (Class Y Shares) outperformed its benchmark, the MSCI ACWI Ex-U.S. Index, for the quarter ended June 30, 2021.

Security selection was the primary driver of the Fund's outperformance in the second quarter. From a regional perspective, Western Europe was the top relative contributor, while Eastern Europe was the sole detractor. From a sector perspective, information technology and health care were the top relative contributors, and industrials and consumer staples detracted the most.

Among the top individual contributors to investment results were Shopify Inc., Sea Ltd., Wuxi Biologics Cayman Inc., Anta Sports Products Ltd., and Zalando SE.

Sea started 2021 on a strong note, with revenue growing 147% year-over-year in the first quarter to \$1.8 billion. This was especially impressive to us, given the 13% sequential growth over the strong fourth-quarter 2020 result. Garena (gaming) saw a 117% year-over-year expansion in bookings, and Free Fire remained the highest-grossing mobile game in Latin America, Southeast Asia, and India. Sea is seeking to turn Free Fire into a social gaming platform, which in addition to average revenue per user expansion, should support robust growth for the next few years. Shopee (ecommerce) delivered its fastest year-over-year revenue growth over the past eight quarters, processing \$12.5 billion in gross merchandise volume (GMV) for the quarter. While Shopee's operating loss came slightly above our expectations, such investments remain efficient (sequential decline in S&M as percentage of GMV) and strategic, in our view, given the region's single-digit ecommerce penetration and Shopee's crucial significance to Sea's digital financial services platform, SeaMoney. We remain confident in management's decision-making to strengthen the business's long-term competitive position amid the wave of digitalization across Sea's operating footprint.

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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.**



Wuxi Biologics continues to track our investment case. The business reported strong second-half 2020 results, with accelerating share gains in the biologics contract development and manufacturing market via its “follow the molecule” and “win the molecule” strategies. Revenue grew 54% year-over-year (accelerating from 21% in the first half of 2020) as the business saw strong growth in new integrated projects and in its backlog. Three-year backlog—or backlog expected to convert to revenue within the next three years—expanded 85% to \$1.5 billion, providing increased near-term revenue visibility. 2021 is already off to a strong start: despite typical slowness in the first quarter, Wuxi added 28 new molecules through the end of March and is targeting more than 80 new molecules for the year. We continue to believe that Wuxi is well positioned for outsized growth in the coming years, as its commercial business ramps and as its pipeline expands across early and late-stage projects.

Zalando reported strong first-quarter results for 2021 in May, with over 55% gross merchandise volume (GMV) growth, driven by new customers and increased order frequency among active customers. The company added 3.1 million customers in the quarter, leading to 31% year-over-year customer growth, the highest since 2013. Although the GMV growth comparable was relative to a weak first quarter of 2020 due to the pandemic, the two-year annualized growth was also strong at 34%. Strong sell-through and continued lower return rates drove earnings before interests and taxes (EBIT) margin expansion to 4.2%. In our view, the outlook continues to look optimistic for Zalando as it creates a differentiated marketplace for consumers to purchase apparel. Zalando understands the intricacies of the fashion industry, from the complex pricing relationships to order fulfillment and inventory management. We believe Zalando is a leader in the ecommerce fashion business space poised to benefit from the long-term secular trend.

Among the top individual detractors from performance were New Oriental Education and Technology Group Inc., Auto1 Group SE, MonotaRO Co. Ltd., HDFC Bank Ltd., and Nihon M&A Center Inc.

Concerns about after-school tutoring regulation have pressured New Oriental Education’s stock in recent months. The final measures—which are expected in July—will determine whether we recommend selling or adding to the Fund’s position. The government will enact one of four measures, ranging from restricting tutoring on one day per weekend to both weekend days plus holidays. Depending on the measure, this could result in as much as a 70% reduction in demand. Our research indicates that the Chinese government is trying to reduce pressure on students. The system is highly competitive, resulting in overstressed parents and students, which the government believes is (in part) keeping birth rates low. That said, the culture of academic achievement and the underlying competitiveness it fosters is difficult to change. Efforts to limit or outright ban after-school tutoring in other Asian countries (namely Japan and South Korea) have largely failed. In addition, the Chinese government has issued memos indicating that it doesn’t want to destroy the industry. Regulation aside, we believe the business and its growth prospects are attractive, with a massive addressable market and ample opportunity for consolidation by market leaders. However, regulatory measures could significantly alter the business’s growth trajectory, and we won’t have clarity until the official ruling is made.

Auto1 traded lower despite reporting solid first-quarter 2021 results. Units sold at the AutoHero segment grew 88% quarter-over-quarter, and management raised unit guidance from 35,000 to 38,000 for 2021. We also saw several data points suggesting that the segment continues to scale and build consumer awareness. The Merchant business saw revenue fall 5% year-over-year due to COVID-19 lockdowns. Longer term we anticipate that Auto1’s merchant business should be a pandemic beneficiary, as dealers are forced to increasingly procure vehicles online. 2021 unit-growth guidance for the merchant segment was maintained at 30%. We continue to view Auto1 as a primary beneficiary of the digitalization of car buying in Europe, and raised our earnings estimates following the reported results to reflect higher AutoHero guidance and management execution.

Nihon M&A Center (NMA) underperformed the MSCI All Country World Index, along with Japanese equities more broadly. The business continues to track our case, with merger & acquisition revenue growing 32% and earnings growing 77% year-over-year in the fourth quarter of its fiscal 2020 (ended March 31, 2021). Throughout the pandemic, Nihon has adapted to remote working conditions to maintain strong transaction volumes and to continue to grow the business. Additionally, the company has continued to see its ancillary businesses (e.g. Batonz, TPM) continue to grow rapidly, with Batonz reaching full-year breakeven, a year ahead of management’s expectations. Management remains optimistic about demand for its services and is continuing to invest in the company’s long-term growth via new hires and additional training programs. Importantly, Nihon continued to make progress toward becoming a global ESG leader announcing the creation of two new board advisory committees and continued to diversify its board and workforce. Overall, the company continued to demonstrate strong execution and we believe should continue to benefit from tailwinds in a strong demand, underpenetrated environment.

There were no purchases or sales in the second quarter.

The Fund’s regional and sector exposures are largely a byproduct of our bottom-up investment process, and below was the Fund’s portfolio positioning at the end of the second quarter:

Western Europe was the strategy’s largest absolute weight and the U.S./Canada was the largest relative weight. Western Europe was also the Fund’s largest underweight, and the Fund had no exposure to Eastern Europe and to the Middle East & Africa.

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From a sector perspective, Information Technology was the Fund's largest absolute and relative weight. Financials was the largest underweight, and the Fund had a zero percent weighting to Energy, Materials, Real Estate, and Utilities.

Outlook and Conclusion

The shift in market leadership from the first to second quarters of 2021 illustrates how unpredictable markets can be in the short term. Exogenous factors can have an outsized influence in short-term price movements, and these factors are impossible to correctly predict, we believe, with any repeatable process.

Over longer time periods, history shows us that stock prices tend to follow compounded earnings growth, and that most value creation accrues to a select group of winners. Therefore, we will continue to focus on efforts on finding the select few companies that we believe can generate above-average growth over the next five or more years.

Today, many of the businesses benefit from one or more of the following secular trends, which we anticipate to underpin above-average earnings growth. Many of these trends have accelerated amid the pandemic, and we anticipate their growth trajectory to persist beyond the crisis:

Mobile Internet

Rising internet connectivity and mobile device penetration are spurring broad-based economic activity in emerging markets. Commercial opportunities—including ecommerce, mobile gaming, on-demand video, ride-sharing, and social media—are being enabled by new cloud, logistics, and enterprise solutions. The internet is changing how people consume information, leading to opportunities for advertisers and digital media providers. Potential portfolio beneficiaries include Entain PLC, Sea, Shopify, and Zalando.

Life Sciences Innovation

Over the next decade, we view genes and genomics, minimally invasive technologies, consumerization of health care, the humanization of pets, and globalization of innovation as the most important secular trends in life sciences. We focus on investing in businesses that are changing the standard-of-care, providing best-in-class “picks and shovels” to biopharma and life science researchers, and meaningfully improving access and cost in healthcare delivery. Potential portfolio beneficiaries include CSL Ltd., Genmab A/S, Lonza Group AG, and Wuxi Biologics.

Financial Services Digital Revolution

The combination of modern technology and disruptive customer acquisition models are fundamentally rearchitecting how financial products are designed, manufactured, and distributed, with software displacing paper and bank branches in each stage of the process. New technologies are enabling broader access to basic financial products and adding innovative layers of intelligence and automation. Potential portfolio beneficiaries include Adyen NV, HDFC Bank Ltd., MercadoLibre Inc., and Tencent Holdings Ltd.

Industry Digital Transformation

Digital technologies are introducing new capabilities and disrupting the status quo in several industries, including education, industrial process and manufacturing, and automotive technology. IT and R&D spending continues to shift toward innovations that make processes more accurate, efficient, and safe. Potential portfolio beneficiaries include Aptiv PLC, Hexagon AB, Keyence Corp., and Recruit Holdings Co. Ltd.

We have long owned businesses that are driving and/or benefitting from digitalization, and the pandemic has accelerated this shift. We anticipate digitization will proliferate faster than previous technology-driven shifts (e.g. the telephone, electricity, personal computers), and with unprecedented scale, touching nearly every aspect of commerce and daily life. Businesses can reach more customers faster than ever, a dynamic that we anticipate will lead to quicker margin expansion for the select few businesses driving and/or benefiting from the digital shift.

As of June 30, 2021, Shopify Inc. made up 6.01%, Sea Ltd. made up 5.65%, Wuxi Biologics Cayman Inc. made up 3.68%, Anta Sports Products Ltd. made up 2.95%, Zalando SE made up 4.19%, New Oriental Education and Technology Group Inc. made up 0.97%, Auto1 Group SE made up 1.44%, MonotaRO Co. Ltd. made up 1.90%, HDFC Bank Ltd. made up 4.24%, Nihon M&A Center Inc. made up 2.21%, Entain PLC made up 3.56%, CSL Ltd. made up 2.14%, Genmab A/S made up 3.01%, Lonza Group AG made up 2.32%, Adyen NV made up 4.51%, MercadoLibre Inc. made up 3.37%, Tencent Holdings Ltd. made up 2.89%, Aptiv PLC made up 2.72%, Hexagon AB made up 2.70%, Keyence Corp. made up 3.43%, and Recruit Holdings Co. Ltd. made up 2.55% of the Touchstone Sands Capital International Growth Fund. Current and future portfolio holdings are subject to change.



Fund Facts (As of 06/30/21)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
Y Shares	03/08/21	TCDYX	89154Q125	1.27%	0.98%
INST Shares	03/08/21	TCDIX	89154M207	1.21%	0.88%
R6 Shares	03/08/21	TCDRX	89154M108	1.21%	0.82%
Total Fund Assets	\$27.8 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 0.98% for Class Y Shares, 0.88% for Class INST Shares and 0.82% for Class R6 Shares. These expense limitations will remain in effect until at least 04/29/22.

Share class availability differs by firm.

Annualized Total Returns** (As of 06/30/21)

Class	2Q21	Inception
Excluding Max Sales Charge		
Y Shares	10.00%	10.00%
INST Shares	9.89%	10.00%
R6 Shares	9.89%	10.00%
Benchmark [^]	5.48%	7.21%

[^]Benchmark - MSCI ACWI Ex-U.S. Index¹

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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, 03/08/21, with the performance since the inception date of each share class.

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 invests in growth stocks which may be more volatile than investing in other stocks and may underperform when value investing is in favor. 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 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. Events affecting the financial markets, such as a health crisis, 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. Current and future portfolio holdings are subject to change. The Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors.

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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