Touchstone Sands Capital International Growth Fund

Sub-Advised by: Sands Capital Management, LLC

International Equity – Large-Cap Growth 1Q/2023

Fund Manager Commentary

As of March 31, 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 25-40 issuers
- 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 (MSCI ACWI ex-U.S.), traded higher in 2023's first quarter. This was the second consecutive quarterly gain for the index, and the longest such streak since mid-2021.

It was an eventful quarter where the U.S. Federal Reserve Board (Fed) remained in focus, along with anxieties about corporate earnings, the banking system, and the economy at large. Despite this, the MSCI ACWI ex-U.S. posted a high single-digit gain, with 61% of constituents trading higher.

Growth equities – and in particular, tech equities – were a bright spot. Larger-cap technology companies led the gains and helped growth-oriented stocks outperform value by the widest margin since 2020's third quarter. The strength in growth equities can be attributed to several factors, including the flight to the perceived safety of big tech businesses, containment of the banking crises to few institutions (at least thus far), better-than-feared earnings and consumer data, and the expectation for a dovish Fed pivot later this year.

From a regional perspective, Western Europe and Emerging Asia contributed most to the MSCI ACWI ex-U.S.'s rise, while the Mid-East & Africa was the sole detractor. From a sector perspective, Information Technology and Consumer Discretionary were the top contributors, and Real Estate and Energy were the sole detractors.

Portfolio Review

The Touchstone Sands Capital International Growth Fund (Class Y Shares) outperformed the MSCI ACWI ex-U.S. for the quarter ended March 31, 2023.

The Fund's security selection primarily drove results, with sector allocation also contributing. Regional allocation and currency effect were modest detractors from relative results. From a regional perspective, the U.S./Canada and Latin America were the top relative contributors, while Developed Asia was the sole relative detractor. From a sector perspective, Information Technology and Consumer Discretionary contributed most to relative results, and Industrials and Health Care were the top relative detractors.

The top individual absolute contributors to investment results for the quarter were MercadoLibre Inc., ASML Holding NV, Shopify Inc., Sea Ltd., and Keyence Corp.

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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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MercadoLibre shares rebounded in the first quarter following its worst calendar-year investment results since 2008. In the fourth quarter of last year, we conducted a research trip in Brazil to evaluate the ecommerce landscape, meeting with ecommerce platforms, local sellers, consumers, and logistics providers. We came away from the trip with higher conviction in MercadoLibre's growth and profitability trajectory. Over the past few quarters, MercadoLibre has gained significant ecommerce market share in Brazil. We attribute this to company initiatives to improve consumer experiences, including logistics, first-party inventory, and the user interface. The company has several other tools at its disposal to help drive its market-share leadership, in our view, including expanded logistics capabilities (including last mile delivery/returns), enhanced seller analytics tools, and advertising. Additionally, we expect MercadoLibre to capture market share following the collapse of ecommerce competitor Americanas SA, which filed for bankruptcy in January following the report of accounting inconsistencies. Beyond the overall growth trajectory, our research suggests that advertising and logistics will drive higher monetization at scale, potentially resulting in ecommerce margins of 6% to 7% of gross merchandise volume (GMV) over the next five years, up from 1% to 2% today. Its fourth-quarter 2022 results, reported in February, validated our positive view. Margin leverage – our main insight – was visible in the 11% point increase in operating margins. Importantly, the improved profitability didn't come at the expense of growth, as overall GMV expanded 35% year-over-year on a constant-currency basis.

Sea shares continued to benefit from the business' strong quarterly results, highlighted by its first-ever profitable quarter at the group level. Importantly, this profitability didn't come at the expense of growth, as revenue for its gaming, ecommerce, and digital financial services verticals all exceeded our expectations. Adjusted earnings before interest, taxes, depreciation and amortization was $495 million, versus consensus expectations of a $350 million loss. Shopee (Sea's ecommerce arm) turned profitable two quarters earlier than we expected, and four quarters earlier than the company's prior guidance. Its digital financial services arm also generated a profit during the quarter, which was faster than we expected. Despite cutting sales and marketing spending by over 50% year-over-year, Shopee was still able to generate year-over-year GMV growth of 8% on a foreign currency neutral basis. The announcement, in our view, addressed key investor concerns that, 1) Sea is capable of turning a profit, and 2) any profits would come at the expense of growth. We think these results should help management win back some of the credibility it lost last year, as its cost-cutting initiatives have borne fruit—and far faster than most investors expected. Looking ahead, we expect ecommerce to remain the key value driver for Sea. Within the ecommerce segment, Shopee Asia is the crux of our investment case, accounting for almost 70% of our terminal value for the entire business.

ASML shares rose along with semiconductors more broadly. The business also reported strong results, beating consensus estimates on revenue and earnings. 2023 guidance calls for 25% revenue growth, which is entirely based off actual deliveries and excluding realization of deferred revenue. That said, operating leverage is guided to be muted in 2023 due to inflation and other costs. We believe ASML is likely being conservative, given that inflation and revenue recognition are likely to be less of a headwind in 2023 than in 2022. We continue to have a constructive long-term view, with ASML positioned as a beneficiary of the industry's increased manufacturing complexity and capital intensity, driven by exponential growth in compute demand.

The top absolute individual detractors to investment results were Nihon M&A Center Holdings Inc., Bajaj Finance Ltd., Genmab A/S, Recruit Holdings Co. Ltd., and MonotaRO Co. Ltd.

Nihon M&A Center shares sold off in response to its January earnings release, where merger and acquisition revenue, operating profit, and earnings all fell short of consensus expectations. While total deals were higher than we expected (at 258 versus 213), average deal price fell 15% year-over-year. We attribute the decline to last year's compliance overhauls, which restricted management from growing its middle-market team, an important driver of deal-size growth. It remains a chokepoint aggregator in what we view as a secular growth industry, but it has taken longer than we expected for the business to recover from early 2022's revenue-recognition issue and the subsequent, self-imposed six-month hiring freeze. The freeze was part of a serious and appropriate response to the issue, but has resulted in a slower-than-expected recovery. The key to our Nihon M&A Center thesis is that the business will retain the competitive advantage it derives from its network of small businesses. Our research over the past year reinforced our view that it has maintained its network despite the revenue-recognition issue in late 2021. While near-term financial results have fallen short of our expectations, its industry positioning and reputation remains intact, in our view. Looking ahead, we're optimistic that the core business can enter a strong recovery in the near term as new hires become productive and as Japan continues its post-pandemic recovery.

Bajaj Finance shares traded lower over the past few months as investors feared slowing growth, rising competition in the consumer durables segment, and increased reliance on new lending segments where the company is less established. We have a more positive view, with recent results suggesting that the company is maintaining elevated growth across segments without sacrificing asset quality. Results for the most recently reported quarter saw revenues and earnings expand by 24% and 40% year-over-year, respectively. Bajaj grew its loan book by 27% – with all lending segments contributing – and net interest margins were flat quarter-over-quarter as the company passed along higher funding costs. Margins benefited from incremental operating leverage, though provisioning expense rose slightly, due to management's prudent approach to new loans disbursed during India's festive season. We continue to see a long runway for growth. Bajaj accounts for less than 2% of total credit in India today, and – even if it delivers on its growth targets – it would account for only a 3% share by fiscal 2027. We maintain high conviction that Bajaj will be able to sustain annual earnings growth in excess of 25% over the next five or more years. We could see upside to these estimates from additional operating leverage and fee generation from the company's digital initiatives.

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Genmab sold off after reporting light 2023 guidance, with the business only expecting 5% revenue growth, fewer milestones, and higher operating expenses due to continued pipeline investment. Our view on the business remains unchanged. Genmab has now developed six FDA-approved biologic drugs – including the multi-blockbuster Darzalex – together with a broad pipeline addressing large commercial opportunities in cancer treatment. Darzalex remains on a strong growth trajectory ($8 billion sales in 2022, up 32% year-over-year) on continued penetration in first-line myeloma, while Genmab's total royalty base (up 70% year-over-year in 2022) continues to compound with Darzalex, and partnered assets Kesimpta and Tepazza all achieving blockbuster (i.e., $1 billion annual sales) status. The pipeline also continues to advance, with Epcoritimab Genmab's next potential blockbuster in blood cancers poised to launch in 2023's second half, followed by additional products moving to mid-late stage development.

During the quarter we purchased Ferrari NV, and Lasertec Corp. We sold Anta Sports Products Ltd.

Ferrari is the iconic producer of high-performance luxury cars. Eighty percent of its revenue is derived from car sales, with the balance attributable to aftermarket parts and service, Formula One revenue sharing, and the company's "lifestyle" business (e.g., merchandise, licensing, etc.). We view the business as a duration grower with limited recession-driven earnings risk, given its focus on high and ultra-high-net-worth customers. Over our investment horizon, we expect steady single-digit volume and pricing growth, with modest margin expansion driven by pricing, mix (e.g., more electric vehicles (EV) and special models), and operating leverage at higher production volumes. Ferrari has embraced the transition to electrification, creating several critically acclaimed models that use powertrain electrification to boost driver experience and performance beyond what's possible with internal combustion engines alone. By 2030, Ferrari expects EVs and hybrids to account for more than 50% of its sales volumes. We expect the company to deliver low- to mid-teens annual earnings growth if it can preserve its brand power amid a profitable transition to hybrid and EVs while exerting capital discipline.

Lasertec is a leading provider of photomask inspection tools used in the semiconductor fabrication process. New technologies and use cases are driving increasing demand for computing power, resulting in rising manufacturing complexity for leading-edge semiconductors. Photomasks are plates containing chip patterns used with lithography machines to print circuit patterns on wafers. Lasertec is the creator and monopoly provider of actinic mask inspection tools, which use 13.5nm extreme ultraviolet (EUV) light. The company is also the market leader in mask blank and die-to-die mask inspection tools. Increasing chip complexity is driving more use of EUV lithography, and we expect cumulative EUV steps to grow exponentially by 2028. Each EUV step requires a corresponding photomask, and its integrity is essential to successfully creating a working transistor. Over time, we expect semiconductor fabrication plants to increasingly adopt the more expensive actinic mask inspection tools, given their competitive defect detection capabilities; this has the potential to drive revenue increases and margin expansion for Lasertec. The company combines what we view as a market-leading position – bolstered by technological benefits and high barriers to entry – in a growing secular market.

We sold Anta Sports Products to complete our exit from China in the International Growth strategy. International Growth's China weight peaked at nearly 14% in late 2020. Given the portfolio's broad opportunity set, we decided to seek criteria-meeting businesses in other geographies. In our view, China faces a range of issues that present headwinds to above-average earnings growth. These include economic (demographics and debt) and external (supply chain reshoring and international sanctions) issues, as well as uncertainty stemming from domestic policy initiatives. While these issues may ultimately have a minimal impact on corporate earnings, we decided they aren't risks worth taking, especially in a concentrated portfolio with a nearly global opportunity set. Anta Sports Products continues to meet our criteria and is one of our highest-conviction Chinese businesses at the firm. It continues to be owned in other portfolios, including Emerging Markets Growth, which has a narrower investable universe. Aside from the exit from China, overall portfolio positioning was largely unchanged.

The largest absolute regional exposure was to Western Europe, while the largest overweight was to Latin America. The portfolio's largest regional underweight was to Emerging Asia, and the portfolio had no exposure to the Mid-East & Africa.

From a sector perspective, Information Technology and Consumer Discretionary were the largest absolute exposures, together accounting for approximately 45% of the portfolio. Information Technology was also the largest overweight at 28.7% versus 11.3% for the index. Financials was the largest underweight (13.9% versus 20.2%), and the portfolio had no exposure to Energy, Real Estate, and Utilities.

Outlook and Conclusion

We believe the dramatic move higher in rates over the past year has set off a process of rationalization in equity markets. Equity valuations felt the initial impact, falling from near all-time highs, back to near historic norms. More recently, signs of financial stress and deteriorating corporate profitability have emerged. In our view, these dynamics magnify the gap between fundamentally strong and weak businesses and advantage those businesses with financial strength and competitive advantage – two components of our investment criteria.

The recent bankruptcy of Silicon Valley Bank was the first notable sign of higher rates stressing the financial system. We believe this event emphasizes the importance of identifying businesses with limited influence from outsized factors, such as interest rates or commodity prices. For this reason, we invest in businesses we expect to produce above-average earnings growth by providing innovative products or services. These businesses tend to be less susceptible to changes in economic activity, compared to more cyclical, value oriented market segments, such as the banking industry. With strategists such as Goldman Sachs calling for low-to-mid single digit earnings growth in 2023 and 2024 – with risks to the downside due to banking system stress – many of our holdings could benefit from their higher-growth profile bolstered by secular drivers.

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Amid this environment, we are encouraged by the financial strength of our portfolio companies. International Growth tends to invest in businesses with strong cash balances and unit economics and with less debt than the average index constituent. In the case of businesses choosing to depress near-term profits through reinvesting cash flows, we believe these decisions will result in opportunities for stronger long-term profitability that is broadly underestimated by the market consensus.

It's this financial strength that allows many of our businesses to improve their competitive position. In recent years, low interest rates supported fierce competition across several industries as businesses without the underlying profitability to fund their growth often received ample external capital. In the higher rate environment, many sub-scale businesses are reducing spending due to slowing capital availability, benefitting industry leaders with the financial strength to self-fund growth initiatives.

As long-term investors, we realize the fundamental progress of our businesses is often overwhelmed in the near-term by macro-driven changes in investor sentiment. This dynamic was on display in 2020 through 2022 as businesses largely delivered results in-line with our pre-pandemic estimates to become fundamentally stronger, despite valuations that are often back to multi-year lows. For this reason, we believe the risk-reward outlook for the portfolio is attractive and are encouraged by the underpinnings of secular growth that support this view.

As of March 31, 2023, MercadoLibre Inc. made up 5.51%, ASML Holding NV made up 6.47%, Shopify Inc. made up 4.35%, Sea Ltd. made up 2.71%, Keyence Corp. made up 5.24%, Nihon M&A Center Holdings Inc. made up 1.92%, Bajaj Finance Ltd. made up 2.75%, Genmab A/S made up 3.03%, Recruit Holdings Co. Ltd. made up 2.25%, MonotaRO Co. Ltd. made up 1.82%, Ferrari NV made up 2.19%, Lasertec Corp. made up 3.15% and Anta Sports Products Ltd., Americanas SA and Silicon Valley Bank each made up 0.00% of the Touchstone Sands Capital International Growth 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
Y Shares	03/08/21	**TCDYX**	89154Q125	2.26%	0.99%
INST Shares	03/08/21	**TCDIX**	89154M207	1.84%	0.89%
R6 Shares	03/08/21	**TCDRX**	89154M108	1.42%	0.83%
Total Fund Assets	**$22.0 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 04/29/24.

Share class availability differs by firm.

Annualized Total Returns *(As of 03/31/23)*

	1Q23	YTD	1 Year	Inception
Excluding Max Sales Charge				
Y Shares	11.21%	11.21%	-15.81%	-18.54%
INST Shares	11.34%	11.34%	-15.53%	-18.36%
R6 Shares	11.17%	11.17%	-15.66%	-18.42%
Benchmark^	6.87%	6.87%	-5.07%	-4.94%

^Benchmark - MSCI ACWI Ex-U.S. Index[1]

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[1]The MSCI All Country World Ex-U.S. Index is an unmanaged, capitalization-weighted index composed of companies representative of both developed and emerging markets excluding the United States.

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 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 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. Financial institutions could suffer losses if interest rates rise or economic conditions deteriorate. 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 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. 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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