

Fund Manager Commentary

As of June 30, 2021

Fund Highlights

- Utilizes a bottom-up security selection process that screens potential investments against a proprietary quantitative model for return on capital, earnings to value ratio, free cash flow and return on equity
- Looks at a company's corporate governance structure and management incentives to try to ascertain whether or not management's interests are aligned with shareholder interests
- Seeks to identify the sources of a company's competitive advantage as well as what levers management has at its disposal to increase shareholder value
- Seeks to purchase generally profitable, financially stable small-cap companies that consistently generate high returns on unleveraged operating capital, are run by shareholder-oriented management, and are trading at a discount to their private market value

Market Recap

U.S. equities posted gains during the second quarter driven by improving economic data, an accommodative U.S. Federal Reserve Board (Fed), fiscal stimulus, and progress administering the vaccines to fight COVID-19. In May, positive economic data and declining COVID-19 cases were positives, offset by concerns about rising inflation and the timing of potential changes to monetary policy from the Fed. Solid economic data and improving corporate earnings fueled the strength in June, partially offset by concerns about rising inflation, the timing of potential changes to monetary policy from the Fed, and the possibility of future tax increases.

Most of the strength came early in the quarter. Growth outperformed Value across the market cap spectrum except in the small cap space. Cyclical sectors outperformed the more defensive sectors in the smaller cap arena, but there was little difference in the performance of cyclical and defensive sectors in the mid and large cap space.

Factors that affected individual stocks positively during the quarter were Growth, Quality, and Size. Value factors had a negative impact. Yield, Volatility, and Momentum factors had a mixed impact.

Within the benchmark, the Communication Services, Consumer Discretionary, Energy, Real Estate, Information Technology, and Materials sectors outperformed the broader benchmark while the Utilities, Industrials, and Financials sectors lagged the most.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 2000® Index, for the quarter ended June 30, 2021.

Both sector allocation and stock selection detracted from relative performance with stock selection being the bulk of the headwind. At the sector level, cash drag and an underweight to Communication Services had a negative effect while underweights to Utilities and Health Care helped relative performance.

In terms of stock selection, among the top contributors during the quarter were Armstrong World Industries Inc. (Industrials sector), First Industrial Realty Trust Inc. (Real Estate sector), LivaNova PLC (Health Care sector), Tempur Sealy International Inc. (Consumer Discretionary sector), and CTS Corp. (Information Technology sector).

Armstrong World Industries continued its rally reflecting improving market conditions and an increased normalization of business/office space operations. The Architectural Billing Index (ABI) is a leading indicator for Armstrong World Industries' business and hit its highest score in April and May since pre-2008. Lastly, the company saw a quicker than anticipated recovery in pricing during the quarter.

First Industrial outperformed following underperformance in the 2020 rally. Industrial real estate fundamentals remained strong, driven by a secular e-commerce tailwind, and the company is executing to plan. We have a high degree of confidence in management's ability to continue creating value.

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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.**

LivaNova reported stronger than expected results, with improving trends in neuromodulation. Pipeline updates were as anticipated, and management provided a deeper dive on the high profile RECOVER trial (for difficult-to-treat depression).

Tempur Sealy extended its rally in the second quarter. The company reported strong earnings and provided an intra-quarter update that indicated further momentum in mattress demand. Tempur Sealy has benefitted from the recent tailwind of consumers eager to spend on their homes. The company has gained market share in both the traditional and alternative retail channels and announced new capacity additions suggesting confidence in long-term growth. Robust free cash flow generation, strong brand equity, and solid management execution gives us confidence in the thesis going forward.

CTS Corp performed well after management offered a better than anticipated outlook which included plans for margin expansion. All of the company's end markets were strong and the outlook is reassuring as global auto production sharply rebounded. The industrywide supply chain issues continued, but CTS is executing on its operational efficiency plans. New business wins in the electrical vehicle market and non-auto, electric components business are promising. We believe management is taking the correct approach to improve the business for the long term. During the quarter, CTS announced a large buyback program, which we view favorably.

Among the detractors for the quarter were Haemonetics Corp. (Health Care sector), NewMarket Corp. (Materials sector), Cannae Holdings Inc. (Financials sector), Churchill Downs Inc. (Consumer Discretionary sector), and Landstar System Inc. (Industrials sector).

Haemonetics declined during the second quarter following the announcement of the pending loss of a large client. There was concern over the loss of a large client, but also the possibility that other clients won't want (or need) to pay up for the newer technology in Nexsys PCS. Following the significant drop in the share price, we decided to maintain the position, reflecting the opportunity for growth in the plasma division and pricing gains from the new system, Nexsys PCS. Many of Haemonetic's clients have already upgraded to the new system, including three of the company's largest clients (Takeda Pharmaceutical Company Limited, Grifols, S.A., and Octapharma AG) with no issues.

NewMarket underperformed following a weak earnings report driven by rising oil and base oil prices combined with growing concerns over the ramp of hybrid and electric vehicles. NewMarket's margins have tended to suffer in periods of rising base oil prices until they roll over and the company can capture the lag in spreads. We remain attracted to the company's positioning in the consolidated market for fuel additives and lubricants.

Cannae Holdings underperformed as its largest investments detracted from quarterly results. Its largest investment is in Dun & Bradstreet, which is in the early innings of a turnaround yet still suffering from COVID-19-related headwinds. Cannae's SPAC investments, led by Bill Foley, were negatively impacted by the broad sell-off in SPAC vehicles despite little change in the

fundamentals. Cannae continues to trade at a discount to the fair value of the underlying investments, and we believe further upside will come from Foley's value creation efforts.

Churchill Downs pulled back during the quarter after strong performance in 2020. We viewed Churchill Downs' execution through the worst of the pandemic as exceptional, and we continue to be positive on management's capital allocation decisions. In our view, the recent underperformance is noise and not indicative of a change in the long-term fundamentals, and we remain confident in the position.

Landstar declined during the quarter reflecting the stock's somewhat elevated valuation after a strong rally early in the year. Concerns rose during the quarter for trucking companies around finding qualified drivers amid strong demand, and the ability of the supply chain to process a large influx of imports. Landstar reported a strong quarter highlighted by one of the strongest quarters in recent history for signing up Business Company Owners to join the Landstar network.

Outlook and Conclusion

Looking ahead, we maintain a positive view on the U.S. economy and anticipate strong real GDP growth in 2021. Over half of the U.S. population has been vaccinated for COVID-19 and most of the U.S. economy has re-opened. We believe consumer spending will continue to rise as the labor market improves. Separately, the manufacturing and services segments of the economy are firmly in expansionary territory. Fiscal stimulus should continue to help in the near term and the Fed will likely remain accommodative until its goals of stable pricing and maximum employment are met. Despite the positives, we recognize that risks remain. Relatively high unemployment/underemployment levels could dampen consumer spending as the benefits of fiscal stimulus wind down. Separately, strong economic growth could spark inflation and rising interest rates. Longer term, we remain optimistic about the prospects for the U.S. economy and think real GDP growth will be in the 2-3% range beyond 2021.

In terms of the equity market, we recognize valuations are on the rich side, while interest rates will likely remain low versus history. At current valuations along with various short term risks to the economic outlook, we anticipate greater volatility in stock prices and possibly more muted returns in the near term. Longer term, we continue to believe that quality attributes and solid company fundamentals position the Fund for the long-term. The companies in the Fund generate higher returns on capital with stronger balance sheets at reasonable valuations relative to the broader market.

We believe the Fund provides the opportunity to own a group of competitively advantaged businesses (judged by return on capital), with strong balance sheets (lower net debt/earnings before interest, taxes, depreciation and amortization (EBITDA)), at valuations slightly less than the broader market. Finally, we believe in the quality of the Fund's holdings for the next few years and believe it is positioned well.

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As of June 30, 2021, Armstrong World Industries Inc. made up 3.66%, First Industrial Realty Trust Inc. made up 3.50%, LivaNova PLC made up 2.75%, Tempur Sealy International Inc. made up 6.22%, CTS Corp. made up 3.05%, Haemonetics Corp. made up 1.64%, NewMarket Corp. made up 3.20%, Cannae Holdings Inc. made up 3.01%, Churchill Downs Inc. made up 3.44%, Landstar System Inc. made up 5.13%, Takeda Pharmaceutical Company Limited, Grifols, S.A., Octapharma AG and Dun & Bradstreet Corp. made up 0.00% of the Touchstone Small Cap 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 |
| A Shares | 09/30/09 | TSFAX | 89155H272 | 2.10% | 1.28% |
| C Shares | 09/30/09 | TSFCX | 89155H264 | 3.11% | 2.03% |
| Y Shares | 09/30/09 | TSFYX | 89155H249 | 1.33% | 1.03% |
| INST Shares | 09/30/09 | TSFIX | 89155H256 | 1.22% | 0.95% |
| Total Fund Assets | \$96.0 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 1.24% for Class A Shares, 1.99% for Class C Shares, 0.99% for Class Y Shares and 0.91% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/22. Share class availability differs by firm.

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

| Class | 2Q21 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Inception |
|----------------------------|--------|--------|--------|--------|--------|---------|-----------|
| Excluding Max Sales Charge | | | | | | | |
| A Shares | -0.43% | 9.79% | 44.86% | 8.93% | 8.50% | 8.80% | 10.64% |
| C Shares | -0.63% | 9.30% | 43.91% | 8.19% | 7.72% | 8.16% | 10.09% |
| Y Shares | -0.35% | 9.88% | 45.26% | 9.22% | 8.78% | 9.09% | 10.95% |
| INST Shares | -0.35% | 9.92% | 45.29% | 9.31% | 8.87% | 9.19% | 11.04% |
| Benchmark ¹ | 4.29% | 17.54% | 62.03% | 13.52% | 16.47% | 12.34% | 13.61% |
| Including Max Sales Charge | | | | | | | |
| A Shares | -5.40% | 4.32% | 37.58% | 6.80% | 7.22% | 8.16% | 10.08% |
| C Shares | -1.62% | 8.30% | 42.91% | 8.19% | 7.72% | 8.16% | 10.09% |

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

¹Benchmark - Russell 2000[®] Index¹

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¹The Russell 2000[®] Index measures the performance of the small-cap segment of the U.S. equity universe.

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.

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A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of small-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. 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. A fund that focuses its investments in the securities of a particular market sector is subject to the risk that adverse circumstances will have a greater impact on the fund than a fund that does not focus its investments in a particular sector. 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](https://www.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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