Touchstone Small Cap Fund

Sub-Advised by: The London Company

U.S. Equities - Small Cap Core 1Q/2026

Fund Manager Commentary

As of 03-31-2026

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 were lower during the quarter. The themes driving performance were AI displacement anxiety weighing on software, private credit concerns, and the Iran conflict escalation, creating ripple effects throughout the economy. The broader market declined during the quarter. The 10-year Treasury yield rose with a steep curve-flattening, reflecting a repricing of rate cut expectations.

The U.S. economy has faced mounting headwinds in early 2026 as geopolitical turmoil and energy shocks overshadow earlier resilience. Fourth-quarter GDP was revised lower to 0.7% from 1.4%, while some survey data suggested stagflationary signals. The Iran conflict has disrupted global trade flows and increased uncertainty for the growth outlook. Consumer spending has weakened recently as households struggle with higher energy costs and persistent affordability concerns. However, several positive factors remain favorable for the outlook, including previous Federal Reserve (Fed) rate cuts working their way through the economy, banks becoming more willing to lend, and fiscal stimulus providing support through spending incentives and tax refunds. Deregulation is helping smaller businesses and productivity gains continue to accelerate throughout the workforce.

Inflation has become more worrisome as energy prices surge, and consumer expectations shift rapidly. This has led to higher inflation expectations for longer, and the speed at which inflation expectations are shifting makes it harder for the Fed to cut rates. Core PCE, the Fed's preferred measure, rose to 2.8% year-over-year in February. With tariff costs continuing to pass through to consumers and higher energy prices, inflation is unlikely to return sustainably to the Fed's 2% target until late 2026.

The labor market has been sending mixed signals, with stability but little evidence of reacceleration. The most recent jobs report came in better than expected, though wage growth has continued to ease. The unemployment rate ticked down to 4.3%, driven in part by a decline in labor force participation, which fell to its lowest level since late 2021. While employment gains have picked up in cyclical sectors such as construction and manufacturing, hiring in AI-exposed areas like tech and finance remains soft. Looking ahead, elevated long-term unemployment and accelerating AI adoption could present additional headwinds for labor demand. That said, underlying trends continue to point to a gradual cooling rather than a sharp deterioration.

The Fed held rates steady in March at 3.5% to 3.75% and signaled a cautious approach going forward. While policymakers continue to signal the potential for rate cuts later this year, those expectations have become increasingly conditional on further progress in inflation declining. The Fed is navigating a more complex backdrop, with persistent inflation pressures alongside signs of softening in parts of the economy. Markets currently expect one or no rate cuts in 2026, with the first potentially arriving around December, though the path will depend on progress on inflation and labor market conditions.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 2000® Index, for the quarter ended March 31, 2026.

The underweight in the Energy sector during a sharp sector rally pressured relative performance and was a significant headwind. Both stock selection and sector allocation detracted from results. From a sector perspective, an underweight in Health Care and an overweight in Industrials helped relative performance.

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An underweight in Energy and an overweight in Consumer Discretionary detracted.

Turning to stock selection, Matson, Inc. (Industrials sector) was the top contributor as container shipping rates strengthened amid supply chain disruptions and management executed on operational efficiency initiatives. Strong pricing power in the Hawaii trade lane and improving West Coast logistics drove margin expansion. The company's disciplined capital allocation, including share buybacks at attractive valuations, reinforced our confidence in management's ability to generate shareholder value through the cycle.

UniFirst Corp. (Industrials sector) was a positive contributor as the board of directors reached an agreement with Cintas to be acquired for a premium above the prior trading price. In response to that news, the stock rallied. We anticipate the merger will be completed but acknowledge that potential antitrust issues could prolong deal timelines.

Acushnet Holdings Corp. (Consumer Discretionary sector) delivered strong returns from steady golf participation and premium brand resilience amidst operational headwinds and mixed results. Inventories are healthy, and the company is well positioned for planned product launches later this year. We believe the company continues to benefit from the secular growth of golf while appealing to the dedicated golfer who remains relatively resilient.

Among the detractors, Revolve Group, Inc. (Consumer Discretionary sector) sold off as the online fashion retailer faced softer consumer demand and lower discretionary spending. While near-term headwinds created volatility, we remain confident in the company due to its premium positioning, high full-price sell-through rate, and strong direct-to-consumer model. Its loyal customer base, proprietary data analytics, and influencer-driven marketing strategy position it well for long-term growth.

CCC Intelligent Solutions Holdings Inc. (Information Technology sector), while a newer position, detracted during the quarter. Investor concerns have focused on potential AI disruption; however, we believe the company's deeply embedded platform and leading share in insurance workflows remain durable. Early AI monetization is emerging, with new solutions growing rapidly and increased customer spending. Management's conviction is reinforced by insider buying and increased share repurchases.

Haemonetics Corp. (Health Care sector) was a weaker performer on softer blood management product volumes and delayed hospital capital equipment purchases, with the Health Care sector also weak during the quarter. While procedure volumes remain below pre-pandemic levels in certain geographies, the company's installed base, recurring revenue model, and operational improvement initiatives position it well for margin expansion as volumes normalize. We believe the current valuation offers an attractive entry point for a high-quality medical device franchise.

There were no significant changes to the portfolio during the quarter that would reflect a major change in overweights or underweights relative to the index. However, the Fund completed one round of trading during the quarter.

In March, the Fund sold entire positions in Certara Inc. (Health Care sector) and Ingevity Corp. (Materials sector) to redeploy capital into opportunities with more attractive risk-reward profiles. With the proceeds, the Fund initiated a position in Hawkins, Inc. (Materials sector) and added to positions in Moelis & Company (Financials sector) and Haemonetics (Health Care sector).

The Fund exited Certara following continued frustration with the execution of its Software business. It had become a smaller position, and we did not have conviction to add to it. Despite strong long-term bio simulation adoption potential, recent execution has lagged expectations, and management acknowledged the need for an operational reset.

The Fund exited Ingevity after recent strength in the stock. While the company has executed well on its self-improvement initiatives, earnings remain tied to cyclical end markets, particularly automotive demand, and assume modest improvement across key segments despite ongoing industry and competitive pressures.

The Fund added to Moelis & Company following share price weakness. We believe the firm's capital-light model and strong franchise position it well to benefit as merger and acquisition activity continues.

The Fund also added to Haemonetics following recent share price volatility. The company maintains a leading position in plasma collection technologies and is well positioned to benefit from structural growth in demand for plasma-derived therapies.

The Fund initiated a position in Hawkins, a specialty chemicals distributor and manufacturer with leading positions in water treatment, food, and industrial process chemicals. The company benefits from stable demand driven by essential end markets such as municipal water treatment, food processing, and industrial applications. Hawkins operates across three segments: Water Treatment, Industrial, and Health & Nutrition, with Water Treatment serving as the primary value driver. Hawkins' competitive advantage is centered around route density, technical service, and regulated end-market demand, particularly within its Water segment. Distribution scale is a key advantage, as hazardous liquid chemicals are expensive and difficult to transport long distances, requiring specialized infrastructure and localized service networks. The business has structurally improved as the portfolio has shifted away from bulk chemicals.

We believe the company is well positioned to benefit from long-term demand for water treatment solutions supported by regulatory requirements and infrastructure investment. Its asset-light distribution model, consistent execution, and strong returns on capital, combined with family ownership, are attractive characteristics for long-term shareholders.

Outlook and Conclusion

Despite sector volatility and mixed economic data, the economy has remained resilient, supported by steady consumer spending and stabilizing manufacturing activity. Historically, sustained market downturns require clear economic deterioration, which has yet to materialize. That said, risks are building, including geopolitical uncertainty, a bumpy labor market, renewed inflation pressures, and ongoing affordability constraints. As growth moderates and policy support becomes less certain, markets may become more vulnerable.

The U.S. economy continues to show resilience, with GDP growing at 2.4% (above trend) and corporate earnings expected to be above 17% year-over-year. Consumer spending remains steady, and manufacturing activity has stabilized. Under normal circumstances, this economic strength would support accommodative monetary policy and expanding equity valuations. However, the Fed remains constrained by its price stability mandate. Markets currently expect one or no rate cuts in 2026, with the first potentially arriving around December, though the path will depend on progress on inflation and labor market conditions.

Inflation will not let the Fed ease, which keeps real yields restrictive, which mathematically compresses valuations on quality businesses. Looking ahead, the current environment is unlikely to persist indefinitely. As the cycle evolves, either growth slows, raising the importance of earnings stability, or inflation softens, which can create more flexibility for policymakers. Both scenarios have historically been supportive of Quality factors.

The broadening that began in late 2025 continued into the first quarter of 2026, with leadership expanding beyond mega-cap technology and extending across the market cap spectrum. The equal-weight index outperformed the cap-weighted index by a wide margin, one of the strongest periods of equal-weight outperformance in recent decades. We believe the broadening trend still has room to run. Prior episodes have tended to be uneven but extended, often lasting years rather than quarters. While geopolitical risks and supply shocks can create near-term volatility, they have rarely altered the long-term fundamentals of companies with structural competitive advantages.

Quality factors have historically posted their best relative returns during periods of decelerating growth and through recessions and have outperformed the broader market shortly after the Fed begins to reduce rates. If the Fed is cutting rates to help a weak economy, that is typically better for Quality factors. Quality factors typically lag in the early days of a recovery and keep pace during the mid-cycle years. While we may avoid a recession, we are likely mid to late in the economic cycle now. If that is correct, it bodes well for the relative performance of Quality factors over the next few years and for the Fund.

Longer term, we believe that quality attributes and solid company fundamentals will lead to strong risk-adjusted returns. We see the most compelling opportunities in high-quality companies with durable fundamentals, particularly those that generate strong free cash flow, maintain conservative balance sheets, and return capital to shareholders.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	09/30/09	**TSFAX**	89155H272	1.53%	1.25%
C Shares	09/30/09	**TSFCX**	89155H264	2.77%	1.95%
Y Shares	09/30/09	**TSFYX**	89155H249	1.18%	1.00%
INST Shares	09/30/09	**TSFIX**	89155H256	1.09%	0.92%

Total Fund Assets $244.4 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 and other expenses, if any) to 1.24% for Class A Shares, 1.94% 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 01/29/27.

Share class availability differs by firm.

Annualized Total Returns

	1Q26	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-2.13%	-2.13%	4.19%	6.31%	4.76%	7.02%	9.02%
C Shares	-2.25%	-2.25%	3.45%	5.57%	3.99%	6.25%	8.23%
Y Shares	-2.08%	-2.08%	4.50%	6.59%	5.03%	7.29%	9.31%
INST Shares	-2.03%	-2.03%	4.54%	6.66%	5.11%	7.38%	9.41%
Benchmark	0.89%	0.89%	25.72%	13.05%	3.77%	9.88%	10.47%
Including Max Sales Charge							
A Shares	-7.03%	-7.03%	-1.02%	4.51%	3.69%	6.47%	8.68%
C Shares	-3.23%	-3.23%	2.45%	5.57%	3.99%	6.25%	8.23%

Benchmark - Russell 2000® Index

Max 5% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The benchmark index mentioned is an unmanaged statistical composite of stock or bond market performance. Investing in an index is not possible. Index returns do not reflect any fees, expenses or sales charges.

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.*** *From time to time, the investment advisor may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.*

The performance presented combines the performance of the oldest share class from the Fund's inception with the performance since the inception date of each share class.
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Top 10 Holdings

		(% of Portfolio)
1	White Mountains Insurance Group Ltd	6.2
2	Matson Inc	4.5
3	Acushnet Holdings Corp	4.5
4	Moelis & Co Class A	4.3
5	Dreyfus Government Cash Mgmt Instl	4.3
6	Landstar System Inc	4.0
7	ACI Worldwide Inc	3.9
8	Gates Industrial Corp PLC	3.6
9	NewMarket Corp	3.5
10	Essential Properties Realty Trust Inc	3.5

Not FDIC Insured | No Bank Guarantee | May Lose Value

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 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. 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. 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. The Fund's service providers are susceptible to cyber security risks that could result in losses to a Fund and its shareholders. Cyber security incidents could affect issuers in which a Fund invests, thereby causing the Fund's investments to lose value. 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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