Touchstone Small Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Small-Cap Core 4Q/2025

Fund Manager Commentary

As of December 31, 2025

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 finished higher for a third consecutive quarter, led by a shift towards a more accommodative monetary policy, resilient consumer spending, and better-than-expected earnings results. Clarity in trade policy also helped ease uncertainties. The 10-year Treasury yield increased to 4.2% amid sticky inflation and delayed expectations of further U.S. Federal Reserve (Fed) cuts.

Economic data during the quarter was mixed but generally better than expected, reflecting an economy that remained resilient. Real GDP accelerated to a 4.3% annualized pace in the third quarter, providing a strong starting point for the fourth quarter, supported by solid consumer spending and business investment. However, estimates are showing a moderation in growth expectations going forward, alongside modest labor market softening and sticky inflation. Affordability pressures and labor market concerns weighed on consumer sentiment. Despite these headwinds and a government shutdown, earnings results remained supportive, reinforcing a constructive fundamental backdrop even as economic momentum began to cool.

Near-term data continues to be delayed by the government shutdown, but the most recent data showed signs of progress being made on the inflation side. Inflation surprised to the downside in November, with core CPI cooling more than expected. The most recent Core PCE, the Fed's preferred gauge (which excludes food and energy), has not been updated since September. All that said, inflation remains above the Fed's target.

The labor market data showed unemployment increased and has continued to soften. Labor demand has fallen more than supply, which has been a main driver for the unemployment rate ticking higher, not necessarily due to layoffs. On a positive note, productivity also increased significantly. Unemployment rates were 4.6%. The weakening unemployment numbers continue to be a bigger risk to the overall economy.

Regarding monetary policy, the Fed maintained its restrictive monetary policy but lowered the federal funds rate by 25 basis points to 3.5-3.75% in December due to the rising downside risk of higher unemployment. The three rate cuts this year were all framed as a risk management move to bring policy closer to neutral. The Fed is trying to execute a careful balancing act with the decision to cut rates despite still elevated and potentially persistent inflation. Fed projections now show only one 2026 cut, which may be close to the neutral rate. Additional easing is possible depending on economic data throughout the year.

Health Care, Materials, and Communication Services were the top-performing sectors, while Information Technology and Consumer Staples were the worst.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares, Load Waived) outperformed its benchmark, the Russell 2000® Index, for the quarter ended December 31, 2025.

Quality factors within smaller market capitalization were favored this quarter, which helped relative performance. Performance was driven by stock selection, partially offset by sector exposure.

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From a sector side, underweight Utilities (a weaker performing sector) and overweight Materials (a better performing sector) helped. Underweight Health Care (the best performing sector) and overweight Consumer Staples (a weaker performing sector) detracted.

Turning to stock selection, the best performing stocks based on relative performance vs. the benchmark during the quarter included White Mountains Insurance Group (Financials sector), Revolve Group Inc. (Consumer Discretionary sector), and Haemonetics Corp. (Health Care sector).

White Mountains was a top performer after announcing the sale of a controlling stake in its retail brokerage platform, Bamboo, generating a roughly 4x return in just two years. The transaction, alongside a concurrent share buyback, drove a meaningful increase in book value per share and reinforced confidence in management's disciplined capital allocation and ability to compound shareholder capital.

Revolve was a positive contributor this quarter as shares rallied nearly 40%, reversing much of the year-to-date decline after earnings alleviated concerns around tariffs and margin pressure. Management demonstrated the ability to fully offset tariff impacts while maintaining demand, highlighting strong pricing power and brand resilience. We continue to see a long runway for market share gains and structural margin improvement over the medium term.

Haemonetics entered the quarter with very low expectations, which helped drive a strong stock reaction following earnings. Guidance increased due to improving margins from initiatives. Haemonetics will likely reach its long-term margin targets outlined at its prior investor day. While some parts of the business are still improving, strength in other areas has helped offset those challenges. Buybacks increased at these depressed valuation prices, enhancing shareholder value. Overall, we believe the setup remains attractive, supported by the company's underlying quality.

The more challenged positions based on relative performance during the quarter included NewMarket Corp. (Materials sector), Certara Inc. (Health Care sector), and Gates Industrial Corp plc (Industrials sector).

NewMarket was a weaker performer as a softer global environment (mostly China's slowdown) pressured Petroleum Additives volumes and margins. The Specialty Materials business had lumpy demand, which weighed on results. Lower oil prices reduced operating leverage. Despite near-term pressure, we continue to view NewMarket as a strong business with disciplined capital allocation, balance sheet flexibility, and strong cash flow generation.

Certara was a bottom performer as the stock sold off on softer top line and bookings results, despite improving profitability and higher earnings per share guidance. While organic software growth has fallen short of expectations, margins, cash flow, and software mix continue to trend positively. We continue to like Certara for its dominant market position, low capital intensity, strong cash flow generation, and a long-term growth opportunity as computer simulation adoption expands over traditional methods.

Gates Industrial reacted negatively to the announced restructuring and footprint optimization actions, along with enterprise resource planning implementation headwinds. These factors are expected to pressure margins in early 2026 and delay the EBITDA margin target to 2027. Despite near-term challenges, the underlying business is performing well amid weak industrial activity, and management remains disciplined in driving operational improvements. We believe Gates is well positioned for strong earnings growth, supported by secular tailwinds such as electrification and chain-to-belt retrofitting, and continued productivity gains.

In mid-December, we initiated a position in CCC Intelligence Solutions Holdings (Information Technology sector) and sold the smaller position in DoubleVerify Holdings Inc. (Communication Services sector).

We own CCC Intelligence Solutions in other portfolios and believe the market is discounting a high-quality company amid short term concerns of slower growth from new product rollouts and AI risks. While in reality, CCC AI-powered offerings have actually helped its core business by enhancing claims automation, accuracy, and speed. CCC operates a vertically integrated, mission-critical software platform for the automotive insurance ecosystem. Over 80% of U.S. auto claims run through its system and has a monopoly like position. This enables durable high-single-digit organic growth driven by product upsells and new customer wins in a fragmented repair market. The company is also benefiting from the digitalization of more complex auto claims. CCC implemented an accelerated share repurchase program and insiders have been buying shares in the open market to show conviction in the business. We believe the margin of safety is supported by the business's stability and a management team with a strong track record of innovation.

We exited DoubleVerify given it was a stub position and had higher conviction elsewhere. The inconsistency of the business and the limited visibility started to become more apparent. The variability of topline growth tied to large brand advertising budgets continued to mute the solid underlying fundamentals. Management credibility was lost due to poor execution in meeting expectations. We misunderstood the moat of ad verification and recognized that its core business is not as mission-critical when budgets are tight.

Outlook and Conclusion

Despite tariff pressures and a softening labor market, economic growth remained resilient through much of the year, supported by solid consumer spending, productivity, and continued AI-driven investment. Rising productivity increased earnings and fueled broad-based volatility and small cap equity gains. Elevated valuations now reflect optimistic assumptions around sustained earnings growth and productivity gains. Macro risks have grown more pronounced, including a softening labor market, mounting affordability pressures on consumers, and global policy uncertainty, suggesting markets may be more vulnerable to disappointment as growth slows and policy support becomes less certain.

We expect more modest returns amid elevated valuations, concentrated leadership, and rising macro uncertainty, which increases the risk of volatility and drawdowns. Although we are not forecasting a recession, late-cycle dynamics are becoming more

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apparent with the uneven economic data. Defensive portfolios like ours remain prudent protection against risks that could still materialize.

In terms of monetary policy, the Fed appears likely to hold interest rates steady at its next meeting, with the markets pricing in one additional rate cut later in 2026. Softer job market data has driven this shift, as policymakers aim to prevent further labor market deterioration while inflation remains above target. As policy moves toward neutral, it is important to note that monetary changes take time to impact the economy.

In terms of the equity market, valuations based on near term earnings and expectations are elevated. This has reduced the margin for error, as seen with recent earnings, generating limited upside for beats and outsized downside for misses. We believe that modest returns with unpredictable downdrafts appear likely for U.S. equities over the next decade. 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.

Given we appear to be late in the economic cycle, with growth strong but showing signs of moderation, this environment should favor Quality factors and our portfolios over the next few years. Importantly, when Quality outperforms, it tends to be significant, while underperformance during lagging periods is typically more modest.

Longer term, we believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies within the Fund generate sustainably high returns on capital, with low leverage ratios, at reasonable valuations relative to the broader market.

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	**$256.4 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 "AFFE," 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

	4Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	2.46%	-1.19%	-1.19%	9.63%	7.29%	7.65%	9.31%
C Shares	2.22%	-1.91%	-1.91%	8.82%	6.48%	7.03%	8.91%
Y Shares	2.53%	-0.90%	-0.90%	9.90%	7.55%	7.92%	9.60%
INST Shares	2.50%	-0.88%	-0.88%	9.99%	7.63%	8.01%	9.69%
Benchmark	2.19%	12.81%	12.81%	13.73%	6.09%	9.62%	10.57%
Including Max Sales Charge							
A Shares	-2.66%	-6.13%	-6.13%	7.76%	6.20%	7.01%	8.91%
C Shares	1.22%	-2.89%	-2.89%	8.82%	6.48%	7.03%	8.91%

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 - Russell 2000® Index

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.*

Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	White Mountains Insurance Group	5.9
2	ACI Worldwide Inc.	4.6
3	Moelis & Co.	4.3
4	Armstrong World Industries Inc.	4.0
5	Acushnet Holdings Corp.	3.8
6	NewMarket Corp.	3.8
7	Revolve Group Inc.	3.6
8	Vontier Corp.	3.6
9	Landstar System, Inc.	3.6
10	Gates Industrial Corp. PLC	3.5

Source: BNY Mellon Asset Servicing

The 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.

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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