# **Touchstone Small Cap Fund**

Sub-Advised by: The London Company

U.S. Equity – Small-Cap Core

3Q/2025

# **Fund Manager Commentary**

As of September 30, 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 continued their advance in the third quarter, fueled by a U.S. Federal Reserve (Fed) rate cut, solid corporate earnings and enthusiasm around artificial intelligence (AI). Economic data released throughout the third quarter was mixed, but the economy retained most of its momentum from the second quarter. Expectations for additional interest rate cuts by the Fed also drove more optimism in the market. High volatility stocks extended their sharp rebound off April 8th lows, notching the strongest high volatility rally since the bounce off the Global Financial Crisis trough in 2009. For the quarter, the broader market, as measured by the Russell 3000 Index, increased 8.2%, and the S&P 500 and small cap Russell 2000 both hit all-time record highs. Stylistically, Growth outperformed Value, and Small Cap stocks led Large Caps. Turning to market factors, Volatility and Yield factors posted the strongest returns. Value and Growth factors were mixed.

#### **Portfolio Review**

The Touchstone Small Cap Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 2000° Index, for the quarter ended September 30, 2025.

Stock selection was a headwind to relative performance, partially offset by sector exposure. Quality factors, which the Fund's portfolio tilt towards, were mostly headwinds. An overweight to Materials and Industrials (two better performing sectors) helped relative performance. An overweight to Consumer Staples and Real Estate (two weaker performing sectors) hurt relative performance.

The Fund trailed the benchmark and came up short of our 85-90% participation in up-market periods. There have been pockets

of idiosyncratic weakness across the Fund's portfolio, but ultimately our high Quality, low Volatility positioning has been out of favor since April 8th. Quality factors, a tailwind during the drawdown earlier in the year, turned into a headwind as Volatility surged. The high volatility rally has been driven by low quality, negative earning companies which have rallied on hopes of further Fed rate cuts. The recent weakness by Quality factors is consistent with historical patterns. In the aftermath of recessions or policy shifts, markets often reward speed and speculation over stability. We remain confident in our holdings: durable advantages, strong balance sheets, and steady free cash flow underpin long-term value.

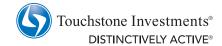
Among the largest contributors to Fund performance were Armstrong World Industries, Inc. (Industrials sector), Ingevity Corporation (Materials sector), and Graham Holdings Co. (Consumer Discretionary sector).

Armstrong World Industries, Inc. shares outperformed in the quarter due to beating expectations, driven by better than expected volumes, favorable positioning in key verticals, and strong operating leverage. We continue to like Armstrong for its consistent execution, strong financials, leading market share and persistent moats through its exclusivity agreements and warranties.

Ingevity Corporation outperformed its benchmark after showing a significant margin recovery in recent earnings, exceeding low expectations. It cleared major headwinds in its Performance Chemicals segment, fueling year-over-year gains. The strategic portfolio shifts are driving meaningful profit recovery for the next few years. While much of the business is experiencing a cyclical downturn, the overall mix of revenue is improving, as performance materials makes up a larger portion of the pie.

(continued)

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 Touchstonelnvestments.com/mutual-funds.



Graham Holdings Co. outperformed the benchmark on strong second quarter results, led by solid growth in Kaplan Education and the continued expansion of its Healthcare segment. The stock likely benefited from the perceived easing of broadcast TV merger and acquisition regulation, which could enable future station monetization or local consolidation. We remain positive on the Graham Holdings family's fiduciary leadership, strong balance sheet, and track record of returning capital to shareholders.

Among the largest detractors from Fund performance were Interparfums, Inc. (Consumer Discretionary sector), Haemonetics Corporation (Health Care sector), and White Mountains Insurance Group, Ltd. (Financials sector).

Interparfums, Inc. was a bottom holding as retailers are managing inventory more cautiously and the overall fragrance market has softened. Interparfum's brands continue to be resilient with solid growth and incremental share gains. We remain confident in its ability to outgrow its end market through rising adoption and strong execution in innovation plus brand partnerships.

Haemonetics Corporation was a bottom performer after reporting a mixed quarter, with the price reaction seemingly extrapolating forward near-term headwinds. Its vascular closure business is facing some elevated competitive pressures due to legacy vendors reacting more aggressively to the perceived threat from its business. However, we believe the company's portfolio of clinically differentiated, high-margin products will win market share and drive robust earnings growth over time. The thesis relies on minimal improvement in the core segments to drive strong investor returns.

White Mountains Insurance Group Ltd was a bottom name due to industry headwinds and investment volatility in its portfolio. Concerns about residuals from early catastrophe hits have also pressured the stock. We remain confident in the company's ability to deliver outsized growth in book value per share over time through prudent capital allocation.

# **Outlook and Conclusion**

Despite the twists and turns of uncertainty, the U.S. economy has displayed impressive resilience this year. Housing, the impact of recent tariffs, and the labor market continue to be areas of concern. That said, the past six months were filled with powerful catalysts—including tax reform, Fed easing, lower long-term rates, tariff clarity, and record capital spending—which gave new life to risk-taking and economic optimism. Still, sticky inflationary pressures combined with a weakening labor market have complicated the Fed's dual mandate.

Turning to equities, the markets remain concentrated and expensive, potentially limiting room for multiple expansion and raising the prospect of muted returns with higher volatility. Expectations are being partly driven by productivity gains, broadening of earnings growth, and less restricted monetary policy. Yet, the momentum and sustainability of AI and the capital expenditures behind it have been questioned more frequently. High volatility rallies, like the past six months, are rare, short-lived, and historically mean-reverting. In the aftermath of recessions or policy shifts, markets often reward speed and speculation over stability. Quality factors usually lag in these

circumstances, then regain leadership when fundamentals reassert themselves. With valuations stretched and speculation abundant, we believe focusing on resilient, attractively valued businesses remains the best path to compounding wealth across full cycles. Our Quality-at-a-Reasonable-Price discipline is designed to protect capital during frothy periods and deliver steadier results when the cycle turns.



#### **Fund Facts**

			_	Annuai runa Opera	ating expense ratio
Class	Inception Date	Symbol	CUSIP	Total	Net
A Shares	09/30/09	TSFAX	89155H272	1.66%	1.25%
C Shares	09/30/09	TSFCX	89155H264	3.67%	1.95%
Y Shares	09/30/09	TSFYX	89155H249	1.19%	1.00%
INST Shares	09/30/09	TSFIX	89155H256	1.12%	0.92%
<b>Total Fund Asset</b>	s \$266.4 Millio	n			

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 01/29/26. Share class availability differs by firm.

#### **Annualized Total Returns**

	3Q25	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	1.53%	-3.56%	-1.51%	12.21%	11.83%	7.32%	9.29%
C Shares	1.37%	-4.04%	-2.20%	11.42%	11.01%	6.69%	8.89%
Y Shares	1.62%	-3.35%	-1.29%	12.52%	12.11%	7.59%	9.59%
INST Shares	1.63%	-3.30%	-1.15%	12.60%	12.19%	7.69%	9.68%
Benchmark	12.39%	10.39%	10.76%	15.21%	11.56%	9.77%	10.60%
Including Max Sales Charge							
A Shares	-3.56%	-8.39%	-6.42%	10.31%	10.69%	6.69%	8.89%
C Shares	0.37%	-5.00%	-3.17%	11.42%	11.01%	6.69%	8.89%

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

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## **Top 10 Equity Holdings of Fund**

		(% of Portfolio)
1	Armstrong World Industries Inc.	6.4
2	ACI Worldwide Inc.	5.2
3	White Mountains Insurance Group	4.9
4	NewMarket Corp.	4.7
5	Moelis & Co.	4.6
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Source: BNY Mellon Asset Servicing

		(% of Portfolio)
6	Vontier Corp.	4.2
7	Gates Industrial Corp. PLC	4.1
8	Acushnet Holdings Corp.	3.9
9	Essential Properties Realty Trust Inc.	3.6
10	Atlantic Union Bankshares Corp.	3.5

Annual Fund Operating Expense Patio

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.

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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 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

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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