Touchstone Small Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Small-Cap Core 2Q/2023

Fund Manager Commentary

As of June 30, 2023

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. stocks posted positive returns during the second quarter with most of the gains generated during the month of June. Slowing inflation, optimism around the potential benefits of artificial intelligence (AI), and resilient consumer spending combined to drive the market.

For the quarter, the Russell 3000® Index returned 8.4%. Large cap stocks led the way, followed by mid-caps, then small cap stocks. U.S. economic activity continued to expand at a modest pace during the second quarter, led by consumer spending. While higher interest rates are leading to slower growth, recent economic news and corporate earnings have exceeded expectations - driven by a strong labor market and rising wages for workers. First quarter real GDP was upwardly revised to 2% annualized growth.

Inflation continued to decelerate, but remains above the U.S. Federal Reserve (Fed) goal of 2%. In the latest monthly reading, total Consumer Price Index (CPI) rose 4% year-over-year (y/y) aided by lower energy costs, while core CPI rose 5.3% y/y. The Fed's preferred measure of inflation, core Personal Consumption Expenditures (PCE), rose 4.6% y/y. Services inflation is the primary contributor to overall inflation, and is typically highly correlated with rising wages. Reversing higher services inflation may be challenging with a strong labor market.

The latest housing data reflect stabilization, including strength in housing starts along with modest gains in existing home sales. National housing inventory remains low, which may keep a floor on prices despite affordability challenges from higher interest rates.

The labor market remains quite strong and the U.S. economy added over 700,000 net new jobs during the quarter. In the latest readings, the labor force participation rate was 62.6% while the unemployment rate was relatively unchanged at 3.6%. Average hourly earnings rose 4.4% versus the prior year. Looking ahead, we expect job growth and average hourly earnings growth to decelerate reflecting tighter monetary policy, but note that the labor market has been stronger than expected for quite some time.

The Institute of Supply Management (ISM) survey data reflected mixed results, as demand for services was stronger than demand for goods. The latest reading of the ISM manufacturing index was 46.0, the tenth consecutive monthly reading below 50, reflecting the impact of higher interest rates on demand for goods. Meanwhile, the ISM services index has improved and remains above 50. For both surveys, a reading below 50 suggests economic contraction, while any score over 50 suggests expansion.

With regard to monetary policy, a strong labor market combined with higher than desired inflation resulted in a shift toward tighter monetary policy from the Fed in early 2022. Throughout 2022, the Fed raised the fed funds rate 425 basis points (bps). As inflation readings moderated over time, the Fed reduced the level of rate increases from 75 bps to 25 bps. Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening in June of 2022.

Following three 25 bps rate increases in 2023 (January, March, and May), the target range of the fed funds rate is now 5.0% - 5.25%. We believe additional increases in the fed funds rate could be limited. However, recent strength in the economic data, along with higher than desired inflation and strength in the labor market, led to a recent shift in the dot plots from Fed members. The current dot plots assume another 50 bps in fed funds rate increases in 2023

(continued)

with a likely 25 bps hike later this month. Both the dot plots and the futures market assume short-term rates begin to fall next year, but that will depend on the broader economic data.

The yield curve remains inverted as longer-term Treasuries point to expectations of either weak economic growth, lower inflation, or a Fed pivot; while short-term rates reflect the Fed's attempts to curb the rate of inflation and balance the tight labor market. An inverted yield curve is often a sign of a pending recession and many economists expect a recession sometime in the next 12-18 months, although the risk of recession has declined in recent months.

Companies exposed to growth and volatility factors posted the best results, while yield and value factors were laggards. Quality and momentum factors had a mixed impact. The Health Care and Information Technology sectors were the best performing sectors for the Russell 2000® Index while the Utilities and Financial sectors lagged the broader market.

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, 2023.

The lack of exposure to growth factors and limited benefit from quality factors were headwinds. We also do not expect London Company portfolios to keep up when the broader market is posting annualized double-digit returns.

During the quarter, both sector allocation and stock selection were headwinds. At the sector level, an underweight position in Health Care and an overweight position in Materials had a negative impact on relative performance, partially offset by the positive impact of an underweight position in Utilities and an overweight position in Industrials.

Turning to stock selection, among the best performing stocks based on relative performance vs. the benchmark during the quarter were Matson Inc. (Industrials sector), Murphy USA Inc. (Consumer Discretionary sector), Enovis Corp. (Health Care sector), Moelis & Company (Financials sector), and Vontier Corp. (Information Technology sector).

Among the more challenged positions based on relative performance during the quarter were Ingevity Corp. (Materials sector), Atlantic Union Bankshares Corp. (Financials sector), CTS Corp. (Information Technology sector), The Hanover Insurance Group Inc. (Financials sector), and Cable One Inc. (Communication Services sector).

In early May, we sold our entire position in Ritchie Brothers and trimmed the existing holding in Evoqua Water Technologies. With the proceeds, along with some excess cash, we initiated positions in Cable One, Inc., Casella Waste Systems, Inc. (Industrials sector), and Marten Transport, Ltd. (Industrials sector).

Beginning in mid-June, we sold the entire position in Xylem, Inc. (Industrials sector), and used the proceeds to add to the existing positions in both Atlantic Union Bankshares Corp. (Financials sector) and Casella Waste Systems, Inc. Shares of Xylem were not in the portfolio very long as they were received as part of the acquisition of Evoqua Water Technologies by Xylem Inc. Xylem has a market cap over $20 billion, which is too large for the small cap portfolio.

Outlook and Conclusion

Looking ahead, while we have been pleased with the better than expected economic data and improving inflation readings. We note that core inflation remains higher than the Fed's long-term target of 2% and the labor market remains tight with unemployment below 4%. In that environment, it is likely that the Fed will continue to increase the fed funds rate. Importantly, monetary policy works with a lag, and we have probably not felt the full impact of prior rate increases.

While the U.S. economy has surprised to the upside so far this year, the impact of higher interest rates and the inverted yield curve suggest that the odds of a recession over the next 12-18 months remain elevated. While a shallow recession is the consensus view, solid consumer spending may continue to allow the U.S. economy to avoid recession. Longer term, we remain positive on the U.S. economy and expect real GDP growth in the 2%-3% range driven by growth in the labor force and improving productivity.

In terms of the equity market, we recognize the difficulty in determining what investors have priced into stocks at any given point in the economic cycle. Valuations based on near term earnings appear relatively high versus history despite concerns about a pending recession and higher interest rates. Narrow markets can be quite fragile, and we continue to expect greater volatility in share prices in the months ahead. With elevated valuations and the possibility of a recession, we believe that we may experience muted returns in the near term with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return from equities.

Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. We believe the companies in the Touchstone Small Cap Fund generate much higher returns on capital, with lower leverage ratios, at reasonable valuations relative to the broader market.

We believe the quality of the portfolio positions it well for the next few years, even if the market trades modestly higher. The Touchstone Small Cap Fund may struggle to keep up in an environment of double-digit returns. In an environment of possibly lower expected returns and greater volatility, we believe the Fund offers an attractive option for equity investors. Our goal remains to outperform the broader market over full market cycles with less volatility.

Fund Facts *(As of 06/30/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	09/30/09	**TSFAX**	89155H272	1.77%	1.25%
C Shares	09/30/09	**TSFCX**	89155H264	6.81%	2.00%
Y Shares	09/30/09	**TSFYX**	89155H249	1.23%	1.00%
INST Shares	09/30/09	**TSFIX**	89155H256	1.14%	0.92%
Total Fund Assets	**$128.6 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 01/29/24.*

Share class availability differs by firm.

Annualized Total Returns *(As of 06/30/23)*

	2Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	2.19%	9.67%	19.52%	16.01%	6.86%	6.14%	9.62%
C Shares	2.05%	9.26%	18.54%	15.17%	6.09%	5.52%	9.15%
Y Shares	2.30%	9.80%	19.74%	16.31%	7.13%	6.41%	9.92%
INST Shares	2.23%	9.84%	19.85%	16.37%	7.22%	6.49%	10.01%
Benchmark^	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%	10.12%
Including Max Sales Charge							
A Shares	-2.90%	4.15%	13.59%	14.03%	5.59%	5.51%	9.15%
C Shares	1.05%	8.26%	17.54%	15.17%	6.09%	5.52%	9.15%

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[1]

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 adviser 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 *(As of 06/30/23)*

		(% of Portfolio)
1	Tempur Sealy International, Inc.	6.7
2	Landstar System, Inc.	6.0
3	Masonite International Corp.	5.2
4	White Mountains Insurance Group	4.9
5	Vontier Corp.	3.9
6	NewMarket Corp.	3.8
7	Qualys Inc.	3.6
8	Lancaster Colony Corp.	3.6
9	Murphy USA Inc.	3.5
10	Moelis & Co.	3.5

Source: BNY Mellon Asset Servicing

[1] 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 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. 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. 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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