Fund Manager Commentary

As of December 31, 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. equities rallied during the fourth quarter with the major indices posting double-digit returns. Moderating inflation, some weakening in the labor market, and slowing economic growth raised the odds of a soft landing. This led to lower long-term yields and rising expectations for interest rate cuts from the U.S. Federal Reserve Board (Fed) later in the year.

While stocks traded higher across the market cap spectrum, shares of smaller companies posted the strongest gains. In terms of factor analysis, companies exposed to higher volatility and growth factors posted the best results, while quality and momentum factors presented headwinds. Value and yield factors had a mixed impact. Stocks posted broad based gains in the fourth quarter, but shares of the Magnificent Seven, a group of seven high-performing U.S. stocks, still modestly outperformed.

U.S. economic activity continued to expand at a solid pace during the fourth quarter. Consumer spending remained the key driver of growth, reflecting rising wages and low unemployment. Housing and auto sales improved as longer-term interest rates declined late in the quarter. Looking ahead, while real GDP growth will likely decelerate from third quarter levels (4.9% annualized), we expect annualized real GDP growth in the 1.5% - 2.0% range over the next few quarters.

Inflation remains a bit higher than the Fed's goal of roughly 2%, but continues to move in the right direction. Broad inflation measures (total and core CPI and Personal Consumption Expenditures) reflect annual increases in the 3.0% - 3.5% range. The last bit of improvement needed to reach the Fed's inflation goal will probably have to come from restrictive monetary policy restraining the growth of aggregate demand along with better balance in the labor market.

While elevated interest rates remain a headwind to the housing market, a recent downturn in rates led to improving housing sales late in the year. 30-year mortgage rates are around 7% today, following a decline of over 100 basis points (bps) in recent weeks. Both housing starts and existing home sales improved. While existing homes sales improved versus the prior month, they remain at low levels reflecting the lack of inventory. Inventory of existing homes may not change in the near term as many homeowners locked in lower interest rates in recent years and are not inclined to refinance a new home at a higher rate.

The labor market remains strong and the U.S. economy added roughly 500,000 net new jobs during the fourth quarter. While unemployment remains low relative to history, there are signs of improvement in some of the supply/demand imbalances in the labor market. For example, the labor force participation rate has improved by roughly 100 bps since December 2020, with much of the improvement in the prime working age group (25-54). Meanwhile, both the quits rate and the wage premium for job switchers have declined back to pre-pandemic ranges. The unemployment rate held relatively steady at 3.7% during the quarter, while the labor force participation rate fell slightly to 62.5%. Average hourly earnings rose 4.1% versus the prior year in the latest month.

Survey results from the broader Institute for Supply Management (ISM) data have sent a consistent message of strength in services and weakness in manufacturing. In the most recent reports, the ISM manufacturing index improved a bit to 47.4, but remained

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below 50, reflecting the impact of higher interest rates on demand for goods. Meanwhile, the ISM services index declined during the month to 50.6, but remained above 50, posting its twelfth consecutive month in expansion territory. 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 federal funds rate 425 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 (QT) in June of 2022, which continues today.

The Fed continued its tighter monetary policy in 2023 and raised the federal funds rate another four times (25 bps each time) early in the year. However, since July, there have been no changes to the federal funds rate, which has remained at 5.25% - 5.5%. Looking ahead, we believe the Fed will proceed with caution, attempting to balance the risk of easing policy too early against the risk of maintaining rates in a restrictive position for too long. Recently, Federal Open Market Committee (FOMC) members raised their expectations for future U.S. GDP growth to the 1.5% - 2.0% range over the next few years, implying no near term recession. With slowing inflation, signs of better balance in the labor market, and normalized GDP growth expectations, the Fed will likely start to lower rates at some point in 2024 in an attempt to find the neutral rate over time. The most recent dot plots from FOMC members imply roughly 75 bps of rate cuts in 2024. Investors continue to expect a faster pace of rate cuts than members of the FOMC currently suggest. The difference in the pace of rate reductions could lead to volatility in equity prices.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 2000® Index, for the quarter ended December 31, 2023.

The portfolio's positive tilt toward quality factors and limited exposure to regional banks were headwinds during the quarter.

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

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were Armstrong World Industries Inc. (Industrials sector), Qualys Inc. (Information Technology sector), Atlantic Union Bankshares Corp. (Financials sector), Moelis and Company (Financials sector), and ACI Worldwide Inc. (Information Technology sector).

Armstrong World Industries outperformed during the fourth quarter after demonstrating earnings stability amidst a challenging demand backdrop, as well as strong progress on key growth initiatives. Armstrong World Industries' unique competitive advantages, diverse end market mix, and a favorable industry structure should support outperformance going forward. Additionally, Armstrong World Industries' strong balance sheet provides ample downside risk mitigation.

Qualys reported excellent third quarter earnings, showing another acceleration in bookings as well as solid margins. Additionally, the stock benefited from the rotation into growth in December, after dovish comments from the Fed. The company continues to execute on their new go-to-market strategy, having brought in a new Chief Revenue Officer. We have conviction that the company should be able to return to its prior organic growth rates over time and still maintain their industry-leading profitability.

Atlantic Union rallied during the quarter after reporting solid earnings. The bank has been quite active on many fronts, including the planned acquisition of a smaller bank in Southeast Virginia, solid execution on their cost reduction program, the sale-leaseback of several branch properties, and the restructuring of the securities portfolio in order to achieve much higher yields. Additionally, recent sentiment around banks ebbs and flows with the potential for Fed rate cuts, as higher rates are typically better for banks.

Investors warmed up to Moelis during the quarter, as it seems that the drought in merger and acquisition activity may be nearing its end. The company went on to report earnings that were significantly better than expected due to strong restructuring engagements brought on by the volatile macroeconomic backdrop. We continue to like Moelis' debt-free balance sheet, strong shareholder focus, and willingness to reinvest in the business.

ACI Worldwide operates a licensed software model that can generate lumpy results from quarter to quarter, with profits weighted heavily towards fourth quarter. Any smoothing in the quarterly results typically leads to a rally in the shares. This was the case in the latest reported quarter, which highlighted pulled forward business and a de-risked guide for the year. Management also reiterated guidance for 2024 given the high visibility of the recurring software model.

The more challenged positions based on relative performance during the quarter were Masonite International Corp. (Industrials sector), Cable One Inc. (Communication Services sector), White Mountains Insurance Group (Financials sector), Lancaster Colony Corp. (Consumer Staples sector), and Haemonetics Corp. (Health Care sector).

Masonite underperformed in the fourth quarter after proposing an acquisition of PGT Innovations, a premium window and door manufacturer. Masonite's long-term capital allocation record is strong, and the management team has proven to be dutiful toward shareholders and thoughtful about integrating acquired businesses that enhance current products and enable wallet share gains from customers. We believe the business remains well positioned to capitalize on a supportive demand backdrop, and that the business's large market share and pricing power will support outperformance over the long term.

The market environment remains challenging for Cable One with lower move activity and greater competition from fixed wireless offerings. Despite muted subscriber trends, the company continues to generate profitable growth for its broadband service. Management appears disciplined in striking an appropriate balance between pricing and incremental penetration, while prioritizing

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free cash flow generation. Cable One is well positioned as an advantaged provider of high-speed internet in rural markets. We believe its relatively low penetration, superior service, and merger and acquisition prowess are supportive of long-term earnings growth.

We believe that the relative underperformance of White Mountains in the quarter reflected dovish comments from the Fed and a rotation into more aggressive stocks. During the quarter, White Mountains launched a private investment fund led by John Daly, who founded Alleghany Capital. We have confidence in management's ability to increase book value per share over time through both conservative underwriting and portfolio changes.

Fundamentals at Lancaster Colony remain strong, but investor sentiment toward the manufactured food industry weakened in recent months. These companies benefited from price-driven growth the last couple of years, with prices now expected to moderate or even deflate going forward. The company should realize tailwinds to margins and free cash flow over the next 12 months, with enterprise resource planning and capacity expansions complete, and mix continuing to shift towards margin-accretive volumes. The company has attractive opportunities for growth, and the cash balance sheet is available to support investment.

Shares of Haemonetics underperformed the broader market, reflecting its more defensive business model. The plasma business brings an element of counter-cyclicality to Haemonetics's business. In October, Haemonetics announced an opportunistic acquisition of a Canadian interventional cardiology business that will fit nicely with their portfolio. We believe the company is well positioned to accelerate growth and expand margins as its higher-margin products grow to a bigger proportion of the business – Haemonetics continues to become a better business over time.

We sold the remaining position in LivaNova (Health Care sector) reflecting higher conviction in the new positions. We reduced the position in Tempur Sealy International Inc. (Consumer Discretionary sector) and Murphy USA Inc. (Consumer Discretionary sector) as the market capitalization of the companies exceeded $7 billion.

We initiated two new positions – ePlus Inc. (Information Technology sector) and Revolve Group Inc. (Consumer Discretionary sector).

ePlus is an IT solutions provider that serves customers ranging from middle-market to large enterprises, as well as state and local government entities and educational institutions. The larger piece of the business is the Technology Business, in which ePlus sells third party IT products and services, as well as selling its own services. It is a well-run company with a veteran management team, improving as it grows, trading at a discount to peers, and fits our balance sheet optimization process. It has a net cash position and a favorable capital allocation strategy. There has been consolidation in the space and ePlus could be a candidate to get acquired.

Revolve is an online-only fashion retailer targeting Millennial and Gen Z customers that benefits from strong brand loyalty and its data-driven merchandising algorithms. Revolve's site offers a curated selection of premium brands across apparel, footwear, accessories, and beauty. Revolve has been able to grow revenues at 20%+ since its inception. The large amount of whitespace in the premium-price point apparel market offers a runway for future growth. The co-founders still own a significant amount and continue to run the business. Revolve is self-funding and has not taken on debt to reinvest in growth. Its clean balance sheet and strong return on invested capital make it an ideal candidate for our balance sheet optimization process.

Outlook and Conclusion

U.S. stocks rallied during the fourth quarter reflecting solid economic data and easing financial conditions. For the year, the major U.S. equity indices posted strong returns led by shares of larger companies. A handful of stocks drove the large cap core and growth indices for most of the year, but the market started to broaden out during the fourth quarter.

Looking ahead, decelerating inflation, some weakening in the labor market, along with solid consumer spending suggest that the Fed could begin to reduce short-term interest rates in 2024. We recognize the challenges in navigating a soft landing, but believe that the odds of a near term recession have declined.

Predicting the future direction of the economy is always challenging. Potential positives include low unemployment, rising wages, and lower inflation. Potential negatives include tighter bank lending standards, the impact of tighter monetary policy over the last two years, as well as the drawdown of savings accumulated by consumers during the pandemic. While the odds of a recession in the near term have declined, risks remain. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 2% - 3% range driven by growth in the labor force and improving productivity.

In terms of the equity market, valuations based on near term earnings are somewhat elevated in the context of moderate GDP growth. We believe that equity returns in the near term may be modest, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return from equities.

Longer term, we believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in The Touchstone Small Cap Fund generate sustainably high returns on capital, with low 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 portfolio 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 portfolio 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 12/31/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	09/30/09	**TSFAX**	89155H272	1.83%	1.25%
C Shares	09/30/09	**TSFCX**	89155H264	6.49%	2.00%
Y Shares	09/30/09	**TSFYX**	89155H249	1.22%	1.00%
INST Shares	09/30/09	**TSFIX**	89155H256	1.14%	0.92%
Total Fund Assets	**$154.1 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 01/29/25.

Share class availability differs by firm.

Annualized Total Returns *(As of 12/31/23)*

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	11.50%	20.40%	20.40%	9.11%	12.55%	5.69%	9.98%
C Shares	11.33%	19.51%	19.51%	8.27%	11.74%	5.07%	9.53%
Y Shares	11.60%	20.70%	20.70%	9.37%	12.84%	5.96%	10.28%
INST Shares	11.57%	20.80%	20.80%	9.46%	12.91%	6.05%	10.37%
Benchmark	14.03%	16.93%	16.93%	2.22%	9.97%	7.16%	10.35%
Including Max Sales Charge							
A Shares	5.89%	14.35%	14.35%	7.27%	11.39%	5.07%	9.52%
C Shares	10.33%	18.51%	18.51%	8.27%	11.74%	5.07%	9.53%

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 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 12/31/23)*

		(% of Portfolio)
1	Tempur Sealy International, Inc.	6.2
2	Landstar System, Inc.	5.4
3	Qualys Inc.	4.9
4	White Mountains Insurance Group	4.8
5	NewMarket Corp.	4.7
6	Matson Inc.	4.3
7	Moelis & Co.	3.9
8	Masonite International Corp.	3.8
9	Vontier Corp.	3.7
10	Armstrong World Industries Inc.	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 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. 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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