

Fund Manager Commentary

As of June 30, 2023

Fund Highlights

- Invests primarily in common stocks of small companies
- Research intensive approach focuses on finding high quality companies that are believed to have improving business models, solid management teams, sustainable growth potential and favorable industry dynamics
- Quality companies are those that possess the following traits: consistent earnings, reasonable valuations, low debt levels, solid free cash flows and strong management with a history of good capital allocation

Market Recap

The Russell 2000® Index returned 5.2% for the quarter ended June 30, 2023. The quarter started weak with April and May declines of 1.8% and 0.9%, respectively, which brought year-to-date returns to flat. Small cap stocks rallied strong in June with a positive 8.1% return, resulting in year-to-date returns of 8.1% as well. From a sector perspective for the quarter, Health Care, Industrials, and Information Technology outperformed the overall index. Utilities, Financials, Materials, Communication Services, Consumer Staples, Real Estate, Consumer Discretionary, and Energy sectors underperformed the overall index.

We believe the positive return in the Russell 2000 Index in June was due to the resiliency of economic growth in the wake of significant inflationary pressures and the rapid increase in interest rates over the last year. The resiliency of economic growth has been positive compared to the highly anticipated market expectations for a recession going back almost a year now.

Portfolio Review

The Touchstone Small Company Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 2000 Index, for the quarter ended June 30, 2023.

We are overweight Industrials and this is our largest sector allocation. The sector weight decreased from last quarter. We exited two positions. Forward Air Corp is a leading asset-light provider of transportation services across North America. We exited the position due to concerns that the economic slowdown, lower fuel surcharges, and most importantly destocking of elevated inventory levels across multiple industries would result in declining earnings for the company over 2023 with little visibility into the next up cycle. Quanta Services Inc. is a leading engineering and construction services company providing solutions to the utility,

renewable energy, pipeline, and energy industries. The company was a top five performer since inception, but ultimately we sold the stock due to its mid-cap market capitalization.

We are overweight Health Care and this is our second largest sector allocation. The sector weight decreased from last quarter. We exited three positions. Integra Lifesciences Holding Corp. is a global provider of regenerative tissue technologies and neurological solutions. We exited the position due to its operational execution challenges meeting both near-term and long-term targets and negatively affecting future earnings. InMode Ltd. is a global provider of medical technologies to the plastic surgery, dermatology, gynecology, and ophthalmology markets. We exited the position due to concerns about slowing procedural demand and new competitive threats negatively affecting future earnings. Amedisys is a leading health care at home company delivering home health, hospice, and high-acuity services. We exited the position due to concerns the challenging government reimbursement environment would negatively affect future earnings for the near future.

We are overweight Consumer Discretionary and this is our third largest sector allocation. The sector weight decreased from last quarter. We added one new position, Gentex Corp. Gentex is a leading global supplier of automatic-dimming mirrors and electronics to the automotive industry. We believe Gentex revenue growth will benefit from global auto production volumes recovering from pandemic-induced supply chain challenges. Additionally, we expect the increasing adoption of technology in full display mirrors to drive Gentex growth above the automotive industry. The expected revenue growth combined with easing inflationary pressures and operational efficiencies should drive double-digit earnings growth over the next few years. We exited one position. Fox Factory Holding Corp manufactures performance products for bicycles, on-road and off-road vehicles, and is a direct supplier to leading powered vehicle original

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◊ Fort Washington is a member of Western & Southern Financial Group

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.**



equipment manufacturer. We exited the position due to concerns that pandemic fueled demand for bicycles and on-road and off-road vehicles would moderate, which when combined with elevated inventory levels negatively affect the company's earnings in 2023. Additionally, the surprise departure of their well-respected Chief Financial Officer concerned us in a challenging environment.

We are overweight Information Technology and this is our fourth largest sector allocation. The sector weight increased from last quarter. We added one new position. Qualys Inc. is a leading provider of security software to enterprises for vulnerability management. We believe demand for security software will remain a priority for enterprises through an uncertain economic environment. Additionally, we expect Qualys' new product introductions to gain traction and for the company to grow revenue and earnings double digits over the next few years.

We are overweight Real Estate and this is our fifth largest sector allocation. The sector weight did not change from last quarter.

Lastly, we are underweight Financials and this is our sixth largest allocation. We added one new position. SouthState Corp. is a leading regional bank headquartered in Florida positioned in the country's fastest population growth markets with a strong local community branch presence and core deposit franchise. The company's regional footprint, low cost deposit franchise, well capitalized balance sheet, and conservative credit culture position them well to gain market share in the current challenging Bank environment and we believe grow earnings faster than the industry over the cycle. We exited one position. Banner Corp. is a regional bank headquartered in the Pacific Northwest. We exited the position due to concerns about net interest income growth negatively affecting future earnings in a challenging Bank industry environment.

The Funds' underperformance was driven by negative stock selection within the Health Care, Consumer Discretionary, Industrials, Real Estate, Financials, and Materials sectors. The Funds' underweight in Financials partially offset the negative selection effect. Among the top three individual contributors were Onto Innovation Inc. (Information Technology sector), Zurn Elkay Water Solutions Corp. (Industrials sector), and CCC Intelligent Solutions Inc. (Information Technology sector).

Onto Innovation Inc. is a leading global provider of process control equipment across the entire semiconductor manufacturing value chain. The stock outperformed in the second quarter we believe for three reasons. First, the company reported solid first quarter results and a positive 2023 outlook, which was followed shortly by optimism on the implications of GenerativeAI for advanced semiconductor demand. Finally, and we believe most importantly, the company hosted an Investor Day highlighting their strong competitive position and market expansion opportunities to drive long-term earnings growth.

Zurn Elkay Water Solutions Corp. is a leading manufacturer sustainable water solutions public, commercial, and private end markets. The stock outperformed in the second quarter after reporting positive first quarter results and we believe an appreciation for the secular growth dynamics of their sustainable water solutions.

CCC Intelligent Solutions Inc. is a leading Software as a Service (SaaS) platform for the property and casualty insurance industry providing solutions to insurance companies, repair shops, and parts suppliers. We believe the stock outperformed due to increasing market appreciation for the strong competitive position in this ecosystem and large addressable market for both increasing penetration of existing solutions and marketing new solutions.

The top three individual detractors were WNS Limited ADR (Industrials sector), Integra Lifesciences Holding Corp. (Health Care sector), and Certara (Health Care sector).

WNS Limited ADR is a leading Business Process Management (BPM) company. We believe the stock underperformed due to concerns about the competitive threat of GenerativeAI on future demand for outsourcing BPM industry solutions. We continue to hold the position with the view that GenerativeAI is a tool to potentially expand the addressable market of business processes that can be outsourced.

Integra Lifesciences Holding Corp. is a global provider of regenerative tissue technologies and neurological solutions. The stock underperformed due to operational execution challenges meeting both near-term and long-term targets and negatively impacting future earnings. We exited the position.

Certara is a leading provider of software and services to biopharmaceutical companies, academic institutions, and regulatory agencies. The stock underperformed after providing a mid-quarter business update that bookings demand for their solutions was weakening due to macro factors negatively affecting biopharmaceutical spending. We are closely monitoring the situation to determine it is transitory or a long-term issue.

Outlook and Conclusion

Our investment philosophy is based on the belief that earnings growth is the primary driver of long-term equity returns. As a result, we only invest in profitable small cap companies and our investment process is focused on identifying investments where we believe future earnings expectations will improve over time. The earnings environment for small caps overall remains challenging. In fact, over the second quarter of 2023, 2023 earnings expectations for small caps declined for the twelfth straight month, with aggregate small cap earnings for 2023 now 25% below where they were expected in June 2022. Compared to reported 2022 earnings, 2023 earnings are now forecast down (15%) year-over-year. In these environments, the risk management aspects of the investment process play an important role, as illustrated by the down market capture of 85% since inception for the strategy. Our focus on investing in quality businesses with low leverage and earnings that convert into free cash flow is very important.

As we look forward, we believe it is likely that future earnings expectations continue to decline. However, it is important to note that we have already experienced a reduction in future earnings over 25% over the last twelve months. We believe small cap valuations reflect the future earnings uncertainty at 14 times forward earnings compared to an average of about 16 times over the last 25 years. More notable in our opinion, is small cap valuations compared to large cap at 0.7 times (14 times vs. 20 times) are not much above the 25 year low from September 2022

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and compared to an average of parity of the last 25 years. Historically, small cap earnings expand faster when the next earnings cycle materializes, and stock prices and valuation follow.

We have favorable views on the long-term earnings outlook for our profitable, higher quality small cap portfolio. We consistently execute our stock selection and portfolio construction process on companies positioned favorably across the investment cycle with a high probability of outperformance, while executing our risk management discipline on companies positioned unfavorably for downside protection.



Fund Facts (As of 06/30/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	03/01/93	SAGWX	89154Q257	1.17%	1.17%
C Shares	07/09/01	SSCOX	89154Q240	2.02%	1.97%
Y Shares	05/04/07	SIGWX	89154Q224	0.97%	0.91%
INST Shares	10/30/17	TICSX	89154Q166	0.96%	0.81%
R6 Shares	12/31/14	SSRRX	89154Q232	0.87%	0.81%
Total Fund Assets	\$903.4 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 1.22% for Class A Shares, 1.95% for Class C Shares, 0.89% for Class Y Shares, 0.79% for Class INST Shares and 0.79% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/23.

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	3.83%	6.63%	15.80%	16.04%	6.70%	9.51%	10.66%
C Shares	3.66%	6.25%	15.26%	15.08%	5.88%	8.87%	10.03%
Y Shares	3.85%	6.85%	16.33%	16.32%	6.96%	9.84%	10.86%
INST Shares	3.85%	6.83%	16.52%	16.47%	7.01%	9.84%	10.86%
R6 Shares	3.83%	6.90%	16.37%	16.48%	7.09%	9.91%	10.79%
Benchmark [^]	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%	8.77%
Including Max Sales Charge							
A Shares	-1.34%	1.38%	10.01%	14.11%	5.44%	8.96%	10.47%
C Shares	2.66%	5.25%	14.26%	15.08%	5.88%	8.87%	10.03%

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[®] Index¹

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**The performance presented for Class C, Y, INST and R6 Shares combines the performance of an older class of shares (Class A Shares) from the Fund's inception, 03/01/93, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund (As of 06/30/23)

	(% of Portfolio)		(% of Portfolio)		
1	Maximus, Inc.	2.5	6	Steven Madden, Ltd.	2.1
2	Corporate Office Properties Trust	2.3	7	Box Inc.	2.1
3	ITT Inc.	2.2	8	F.N.B. Corp.	2.1
4	CCC Intelligent Solutions Holdings Inc.	2.2	9	KBR, Inc.	2.1
5	Onto Innovation Inc.	2.2	10	Ensign Group Inc.	2.0

Source: BNY Mellon Asset Servicing

¹The 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 Fund invests in foreign securities which carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The Fund may focus its investments in a particular industry and/or market sector which may increase the Fund's volatility and magnify its effects on total return. 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. Current and future portfolio holdings are subject to change. 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.

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](https://www.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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