Fund Manager Commentary
As of March 31, 2020

Fund Highlights

• Employs a process that is focused on long-only, bottom-up value management
• Uses traditional methods of stock selection - research and analysis - to identify securities believed to be undervalued, and searches for companies that have price-to-earnings and price-to-book ratios below the market and that have above-average dividend yields
• Process seeks to identify the reasons for a temporary undervaluation of a company’s shares and believes that value can be added through individual stock selection
• Fundamentals of companies are analyzed one at a time rather than on broader market themes
• Utilizes risk management techniques in an effort to keep the Fund’s portfolio from becoming overexposed to particular market segments

Market Recap
A global pandemic emerged during the first quarter of 2020, the human toll and economic cost of which thus far have been devastating, historic, and are still rising. On the economic side, global equity markets entered the fastest onset of a bear market in history. Throughout this period, many of the market’s indicators were in free-fall: interest rates collapsed and short-term rates went negative in the U. S., while credit spreads widened massively, making it difficult for many borrowers to access credit markets. Share buybacks and many dividends were suspended as management and investor attention shifted from “capital allocation” to “capital preservation.” Energy markets led the bear market lower, as the price of oil fell by two-thirds to its lowest level in two decades. Global central banks and governments stepped in to try and revive markets with unprecedented prescriptions of monetary and fiscal stimulus. While the magnitude of these measures have shown a positive impact, it remains to be seen whether it will be sustained or whether it will follow the pattern of the actual virus – following an unknown and inconsistent, non-linear path.

Stylistically, growth stocks (particularly technology stocks) massively outperformed value stocks—pushing the valuation disparity between the two to multi-decade extremes. The most expensive stocks outperformed the least expensive stocks, which is atypical in a bear market decline.

Portfolio Review
The Touchstone Value Fund (Class A Shares) underperformed its benchmark, the Russell 1000® Value Index, for the quarter ended March 31, 2020.

Overall, on a sector basis versus the benchmark, the Fund’s overweight and stock selection within Information Technology, as well as stock selection within Materials, added to the Fund’s relative performance. Conversely, the Fund’s overweight to Energy, lack of holdings to Consumer Staples stocks, as well as not owning certain areas of Health Care, like biotech, detracted from relative performance.

Among the Fund’s Information Technology sector holdings, Microsoft Corp. and Oracle Corp. were top contributors to relative performance. Microsoft posted a positive return, one of the few stocks in the Fund to do so, as the company continued to successfully pivot to the cloud. Microsoft continues to make gains in a duopolistic cloud infrastructure business and has either exited or mostly moved away from low return businesses. It also continues to ramp up cloud based Office, Azure, and Dynamics businesses. Oracle also held up relatively well during the quarter. Our initial thesis revolved around the company’s move from database licensing to the cloud, similar to Microsoft’s move to bring Office to the cloud. This quarter marked the cross-over where cloud business now accounts for more than licensing revenue, which means higher gross dollar contribution each quarter as it replaces the lower quality profit stream from off the shelf licensing. We believe Oracle remained undervalued relative to its peers and the market, and we remain constructive on the company as the conversion to the cloud is finally gaining critical mass.

Our stock selection in the Materials sector added to relative performance. Air Products and Chemicals, Inc., a producer of industrial gases, was a positive contributor in the first quarter. Gasification continues to drive a new wave of project growth for the industry with $80 billion of projects expected over the next few years.

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.
years. Air Products and Chemicals is in a prime position to capture a meaningful portion of this large opportunity. Additionally, the company’s relatively defensive business model and strong balance sheet will enable it to strategically deploy capital despite macro headwinds. Furthermore, in a low oil price environment, coal gasification could be limited and, given the company’s global reach, puts Air Products and Chemicals in a competitive position for smaller-scale acquisitions in traditional industrial gas projects.

While the market was in the process of being battered by effects of the COVID-19 pandemic, the Energy sector faced its own crisis. After a strong fourth quarter for both the price of oil and the Energy sector, concerns regarding an oversupply of oil surfaced early in the year as new fields were going to start up and add to production. Meanwhile, the U.S. was likely to increase production, leaving 2020 supply in a massive surplus situation. Finally, the economic fallout from COVID-19 meant demand destruction for gasoline, diesel, jet fuel, etc. Without a plan to cut production from OPEC+ (OPEC plus Russia) or by the U.S., oil prices plummeted. With Russia and other OPEC members announcing plans for higher production in April, the oil price war was on. Needless to say, the Fund’s overweight to Energy and stock selection within the sector detracted from results. We decreased Fund positions in many stocks and completely exited other positions. We stress-tested the Fund’s Energy holdings for a $20-$30 per barrel Brent oil price environment in 2020 with $30-$35 in 2021 and a longer-term price of $40. It became apparent that the Energy sector would be handicapped coming out of the pandemic as the inventory overhang, along with a slow recovery in gasoline and jet fuel demand on a worldwide basis, would keep a lid on the demand for oil and refined products, limiting production gains and the earnings and cash flows that would make the sector attractive on a relative basis. As a result, we eliminated positions where we could see dividend reductions, rating agency downgrades, or meaningful declines in cash flow due to production declines in 2020-2021. We sold EOG Resources, Inc. due to concerns over the levels of debt coming due in 2020-2021 and the outlook for production declines in both years. We also exited the Fund’s position in Schlumberger NV due to concerns over lower international demand for their services and the prospects for a decline in their bond ratings, which could lead to a reduction in their dividend.

We continue to monitor the remaining holdings closely and believe that some type of agreement between OPEC+, the U.S. and other players, will manifest itself as many governments require much higher oil prices for their gross domestic products (GDP) to breakeven. The distress involved in the economic fallout from the COVID-19 pandemic is certainly high, but the losses from a no-deal scenario will only serve to multiply their woes.

**Outlook and Conclusion**

The current environment (and the on-going bear market fears associated with it) is unusual in that the healthcare solution and financial remedies are uncertain both in their timing and effectiveness. The longer a healthcare solution requires, the greater the financial risk to the system. We believe that both innovation and resiliency will be a large part of the solution. This has been true in past cycles and should be true again in this cycle. It is also why our approach is to remain fully invested. It is only with the benefit of hindsight that we will know when this bear market has ended. In the interim, we remain vigilant and unwavering in applying our time-tested valuation- and dividend-centric investment process.

As of March 31, 2020, Microsoft Corp. made up 3.11%, Oracle Corp. made up 2.87%, Air Products & Chemicals, Inc. made up 3.40%, EOG Resources, Inc. and Schlumberger NV made up 0.00% of the Touchstone Value Fund. Current and future portfolio holdings are subject to change.

Dividend paying investments may not experience the same price appreciation as non-dividend paying instruments, dividend-issuing companies may choose not to pay a dividend or the dividend may be less than what is anticipated.
Annual Fund Operating Expense Ratio* for Class Y Shares and 0.68% for Class INST Shares. These expense limitations will remain in effect until at least 10/30/20.

Acquired Fund Fees and Expenses (AFFE), and other expenses, if any) to 1.08% for Class A Shares, 1.83% for Class C Shares, 0.83% for Class Y Shares and 0.68% for Class INST Shares. These expense limitations will remain in effect until at least 10/30/20.

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

Excluding Max Sales Charge

C Y C Y

Class 1Q20 YTD 1 Year 3 Year 5 Year 10 Year Inception

A Shares -33.79% -33.79% -24.62% -5.01% -0.46% 5.78% 6.36%

C Shares -31.02% -31.02% -21.83% -3.81% -0.02% 5.79% 5.93%

T Y T Y

Class 1Q20 YTD 1 Year 3 Year 5 Year 10 Year Inception

A Shares -30.31% -30.31% -20.62% -3.13% 0.72% 6.41% 6.65%

C Shares -30.33% -30.33% -21.08% -3.81% -0.02% 5.79% 5.93%

INST Shares -30.19% -30.19% -20.26% -2.72% 1.13% 6.83% 7.01%

Benchmark1 -26.73% -26.73% -17.17% -2.18% 1.90% 7.67% 6.30%

Total Fund Assets $222.4 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 1.08% for Class A Shares, 1.83% for Class C Shares, 0.83% for Class Y Shares and 0.68% for Class INST Shares. These expense limitations will remain in effect until at least 10/30/20.

**Benchmark - Russell 1000® Value 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.

**The performance presented for Class A, C, and INST Shares combines the performance of an older class of shares (Y Shares) from the Fund’s inception, 09/10/98, with the performance since the inception date of each share class.

A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in stocks of mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. The Fund invests in value stocks which may not appreciate in value as anticipated or may experience a decline in value. The Fund invests in preferred stocks which are relegated below bonds for payment should the issuer be liquidated. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing their price to decline. The Fund invests in foreign securities, including depository receipts, 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 specific sectors and therefore be susceptible to positive or negative developments in the sector which may increase the Fund’s volatility and magnify its effects on total return. A health crisis may negatively affect the worldwide economy, as well as the economies of individual countries, individual companies and the market in general in significant and unforeseen ways, which could adversely affect the Fund’s performance, the performance of the securities in which the Fund invests and may lead to losses on an investment in a Fund. Current and future portfolio holdings are subject to risk. 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.

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.

Touchstone Funds are distributed by Touchstone Securities, Inc.*

* A registered broker-dealer and member FINRA and SIPC

Touchstone is a member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value