# Touchstone Value Fund

## Sub-Advised by: Barrow, Hanley, Mewhinney & Strauss, LLC

U.S. Equity – Large-Cap Value 4Q/2023

# Fund Manager Commentary

*As of December 31, 2023*

### 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

The fourth quarter of 2023 capped what was expected to be a lackluster year for equities with a bang, as equity markets raced higher in posting fourth quarter gains of 8%-10% or more. In fact, more than 2/3rds of the S&P 500®'s full year 2023 return of 26% came in the last two months of the year. From a style perspective, growth style indices outperformed value-oriented indices. Within the value-oriented benchmark, performance across sectors during the quarter was largely positive, led by Real Estate and Information Technology, with only Energy falling during the period. However, the performance of the Magnificent 7 was the material driver of the broader U.S. equities market.

### Portfolio Review

The Touchstone Value Fund (Class A Share Load-Waived) underperformed its benchmark, the Russell 1000® Value Index, for the quarter ended December 31, 2023.

The market rallied sharply in the fourth quarter and broadened out, boosted by the combination of a resilient employment picture along with the hope of significantly lower rates over the coming year. Within this environment, the portfolio performed in line with the benchmark but trailed more growth-oriented indices like the S&P 500. The primary relative contributor to performance was stock selection within the Industrials, Information Technology, Energy, and Health Care sectors. Stock performance within the Consumer Discretionary and Communication Services sectors detracted from relative performance. An overweight to the Energy sector also detracted from performance, but was more than offset by the aforementioned stock performance within the sector. Below is a discussion on key drivers of performance for the fourth quarter.

Within the Information Technology sector, Broadcom Inc. positively contributed to relative performance during the quarter after reporting continued growth in the AI and enterprise software segments, which offset moderate slowing in the enterprise server and storage segment. The company is a global technology leader that designs, develops, and supplies semiconductor and infrastructure software solutions. The company is integrating recently acquired VMWare, which could provide long-term upside surprises, even if it causes some quarter-to-quarter volatility as the integration proceeds. QUALCOMM Incorporated (Information Technology sector) positively contributed to relative performance during the quarter after reporting in line numbers and issuing more positive guidance than others in the semiconductor industry. The company engages in developing and commercializing foundational technologies and products used in mobile devices and other wireless products. The handset market is in the early stages of recovery, which should provide investors with some confidence that earnings have stabilized and can push higher as the market normalizes. The company currently trades at an attractive 14.4 times forward earnings, with a dividend yield of 2.3%.

Within the Energy sector, oil prices declined close to 20% during the fourth quarter after a strong late summer rally. The decline in global oil prices was due to supply and demand imbalances caused by a slowdown in the Chinese economy. Similar to the correction in oil prices, oil producers and oil field services companies declined during the fourth quarter after a strong rally in the prior quarter.

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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.***

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As a result, oil and gas producers Pioneer Natural Resources Company and Hess Corporation and oil field services company, Halliburton Company, detracted from relative performance during the quarter. Going into 2024, the Energy sector remains attractive as the global economy recovers and demand for oil and gas is expected to recover. Pioneer Natural Resources trades at 10.3 times forward earnings and has a 6.0% dividend yield, Hess trades at 16.5 times forward earnings, and Halliburton trades at 10.6 times forward earnings with a 1.8% dividend yield.

Vertiv Holdings Co. Class A (Industrials sector) positively contributed to relative performance during the quarter due to continued bullish sentiment surrounding AI stocks and positive quarterly results. As a leading supplier of cooling equipment and technology to data centers, the company stands to benefit from increased spending on digital infrastructure for expansion and upgrades. Company management continues to execute its strategy to improve margins, reverse the cost headwinds from the prior year, deliver on operational improvements, and greater free cash flow conversion. Backed by sustainable growth in their end markets, Vertiv continues to trade at an attractive valuation and remains well positioned for future earnings growth.

Within the Materials sector, Axalta Coating Systems Ltd. positively contributed to relative performance in the quarter after weak performance the prior quarter. The positive performance was largely driven by a quarter of beating expectations and raising guidance through higher margins in spite of the UAW strike. Axalta is a leading provider of coating systems (e.g. paint) for new vehicles, body shops, and industrial applications that derives most of its business from the premium segment within end markets. A continued pickup in earnings exceeding expectations would benefit the stock. Air Products and Chemicals, Inc. (Materials sector) detracted from relative performance in the quarter after reporting an in line quarter and guidance. The focus of investors was the new Louisiana blue hydrogen project, where costs have increased from $4.5 billion to $7 billion. Some of this was pure cost inflation, while the scope of the project also increased. This seems like a market overreaction earlier in the year to a similar announcement, as management has a strong history of providing investors with solid returns on capital or walking away from projects that do not meet return thresholds. Overall, the company still has a large backlog of projects that should fuel future growth.

Allstate Corporation (Financials sector) positively contributed to relative performance during the quarter as several positive events propelled the stock higher. First, Allstate's third quarter earnings marked an inflection in profitability as the past two years of price increases are starting to be reflected in earnings, leading to higher profits. Secondly, California, New York and New Jersey make up approximately 21% of premiums for the company. These three states have been a significant drag on profitability due to the regulators' hesitation to implement large price increases. During the fourth quarter, Allstate announced that price increase approvals in California, New York, and New Jersey of 30%, 15% and 17%, respectively. These rate increases, along with a decline in loss cost trends from lower inflation, provide high visibility to Allstate achieving over $17.00 in normalized earnings per share by 2025. Finally, Trian Fund Management reported that it now owns $3.6 billion in Allstate stock. While there was no announcement of Trian becoming active in the stock, we view this positively as this development provides a good support level for the stock. We continue to hold a position in Allstate as earnings growth over the next few years is highly visible and the stock remains inexpensive at approximately 12.2 times forward earnings with a dividend yield of 2.5%.

Aptiv plc (Consumer Discretionary sector) detracted from relative performance in the quarter after experiencing strong returns in the prior quarter. Aptiv reported in line earnings, but growth slowed during the quarter and led to concerns about the long-term growth rate of Electric Vehicles (EV). Aptiv provides integrated power management solutions – which as a whole use less power – adding to electric vehicle efficiency, and improving their range, a key selling point to the end consumer. However, the company stands to benefit as auto manufacturers' production normalizes and increasingly demand their solutions for electrical systems, safety, and autonomous vehicles. The valuation remains attractive at 14.3 times forward earnings as the company continues to grow in a cyclical industry that should reaccelerate.

## Outlook and Conclusion

As 2024 begins, market expectations have settled on the desired outcome of a 'soft landing'. After already participating in the "Santa Claus" rally into year-end, investors are now greedily preparing for the perfect mix of moderating inflation and allowing for easing of monetary policy through rate cuts, all while effectively slowing the economy without tipping it into any kind of meaningful recession and keeping employment strong. Possible? Yes. Likely, based on history? Not so much. Valuations certainly reflect the optimism; however, the S&P 500 is trading at 20 times forward earnings despite earnings growth being forecasted at a more modest 12%. In contrast, the Russell 1000 Value Index is a much more reasonable valuation of 15 times with a similar 10% growth rate. Should reality fall short of expectations, growth may bear more of the pain given its even more expensive starting point, though dispersion should remain high, benefitting active managers as they evaluate these impacts on a company-by-company basis.

Further complicating an already challenging environment, 2024 will be the year of elections around the globe. More than 40% of the world's population and 65% of the world's market capitalization will face a national election of some sort this year. Even some regions without elections, like China, could be impacted by these votes as new leadership may have different views towards trade and other relations with neighboring countries. This is also a powerful motivator for stimulative policies, both fiscal and monetary, regardless of the cost. While the U.S. Federal Reserve made the headlines, more for monetary policy in 2023, decisions by U.S. Treasury to issue long-term debt for the first time in three years in August, followed by a reversal in November, were likely meaningful contributors to the positive sentiment into year-end. The impact of those decisions can be quite meaningful, considering that on a total return basis, the S&P 500 has not declined in a presidential re-election year since 1940. 13 of the past 13 re-election years have been positive for the S&P 500. 2024 will likely see more decisions of this nature, favoring the near-term and currently elected officials, both here in the U.S. and around the world. Politics and geopolitics may well take center stage this year given the sheer magnitude of the world population and markets

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with elections. Investors should remember that much like markets, elections can also be quite unpredictable.

## Fund Facts *(As of 12/31/23)*

| Class | Inception Date | Symbol | CUSIP | Annual Fund Operating Expense Ratio Total | Net |
|---|---|---|---|---|---|
| A Shares | 07/31/03 | **TVLAX** | 89154X468 | 1.12% | 1.08% |
| C Shares | 04/12/12 | **TVLCX** | 89154X450 | 2.05% | 1.83% |
| Y Shares | 09/10/98 | **TVLYX** | 89154X443 | 0.88% | 0.83% |
| INST Shares | 12/20/06 | **TVLIX** | 89154X435 | 0.80% | 0.68% |
| R6 Shares | 10/28/21 | **TVLRX** | 89154M876 | 0.91% | 0.63% |
| **Total Fund Assets** | **$506.3 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, 0.68% for Class INST Shares and 0.63% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/24.*

*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 | 9.23% | 10.80% | 10.80% | 10.24% | 11.63% | 8.61% | 8.53% |
| C Shares | 9.07% | 9.96% | 9.96% | 9.38% | 10.79% | 7.96% | 7.90% |
| Y Shares | 9.35% | 11.01% | 11.01% | 10.49% | 11.93% | 8.89% | 8.81% |
| INST Shares | 9.42% | 11.23% | 11.23% | 10.69% | 12.08% | 9.05% | 8.90% |
| R6 Shares | 9.33% | 11.28% | 11.28% | 10.64% | 12.03% | 8.94% | 8.83% |
| Benchmark | 9.50% | 11.46% | 11.46% | 8.86% | 10.91% | 8.40% | 7.84% |
| Including Max Sales Charge | | | | | | | |
| A Shares | 3.78% | 5.25% | 5.25% | 8.37% | 10.50% | 7.97% | 8.28% |
| C Shares | 8.07% | 8.96% | 8.96% | 9.38% | 10.79% | 7.96% | 7.90% |

*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 1000® Value Index*

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***The performance presented for Class A, C, INST and R6 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.***

## Top 10 Equity Holdings of Fund *(As of 12/31/23)*

| | | *(% of Portfolio)* |
|---|---|---|
| 1 | Vertiv Holdings Co. | 4.5 |
| 2 | Broadcom Inc. | 3.7 |
| 3 | Comcast Corp. | 3.3 |
| 4 | Fidelity National Information | 3.2 |
| 5 | Las Vegas Sands Corp. | 3.1 |

| | | *(% of Portfolio)* |
|---|---|---|
| 6 | Philip Morris International Inc. | 2.9 |
| 7 | Air Products & Chemicals, Inc. | 2.8 |
| 8 | Elevance Health Inc. | 2.8 |
| 9 | Pioneer Natural Resources Co. | 2.6 |
| 10 | Halliburton Co. | 2.6 |

*Source: BNY Mellon Asset Servicing*

*The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.*

*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 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 depositary receipts, such as American Depositary Receipts, Global Depositary Receipts, and European Depositary 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 is subject to the risk that adverse circumstances will have greater impact on the fund than on the fund that does not do so. 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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.**

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