

FUND PROFILE

Putting the Odds in Their Favor

Talking With Brian Campbell
Co-Manager, Touchstone Mid Cap Fund

By SARAH MAX

After Brian Campbell graduated with a finance degree from the University of Kentucky in 1998, he was happy to land a job as an analyst—even if it wasn't exactly where he had envisioned. Instead of launching his career at an investment firm, the Louisville native went to work on the Glory of Rome, a newly built riverboat casino on the Indiana side of the Ohio River.

Still, the casino, which was operated by Caesars Entertainment, turned out to be a great introduction to behavioral finance and corporate decision-making. Campbell tracked win percentages for games and analyzed the casino's operations, working directly with senior management. "We convinced them to stop charging admissions," says Campbell, who along with another analyst, proved his theory that people would spend more if there wasn't a cover charge.

The riverboat experience was relatively short-lived—two years later Campbell took a job as an equity analyst and then went to business school—but it helped shape his investment philosophy as the co-manager of the \$3.2 billion Touchstone Mid Cap fund (ticker: TMAPX).

Don't bet on speculative growth when you can buy high-quality companies that offer a high margin of safety today, says Campbell, now 44. He and his colleagues at the fund's subadvisor, the London Company, take significant long-term positions in midsize companies with high and growing returns on capital; pricing power that is improving over time; and strong balance sheets with flexibility to take on additional debt if needed.

This way of investing is particularly



Photograph by Bobby Bruderle

(over please)

well-suited for times of economic, market, and political uncertainty. “Our whole process is designed to reduce the chances of being wrong,” says Campbell, who co-manages the fund with Steve Goddard, the founder and CIO of the London Company. The team took over management of the fund in 2011 and has ushered it to the top 1% of its Morningstar midcap blend category for three- and five-year returns. The fund’s A shares carry a 5% load.

Rather than place big bets on the potential for growth, they take a private-equity approach to sussing out the true value of a company. “This gives us a margin of safety that’s more concrete and not based on forecasting or speculation,” says Campbell, who thinks market volatility will continue.

In a perfect world, he and his colleagues buy stocks trading at a 30% discount to a company’s intrinsic value, though Campbell admits they have been harder to find. Fortunately, the team’s concentrated portfolio—about 30 holdings, with the top 10 accounting for more than 40% of assets—means they need only a few new ideas every year.

Midcaps are an ideal universe for finding companies with inherent competitive advantages in their respective niches. “You’re not fighting the law of large numbers, but you still get industry leaders,” he says.

The London Company team takes a holistic approach to finding ideas, including asking other management teams about companies they admire. When they posed this question to executives at a wallboard manufacturer several years ago, they said,

“without hesitation,” Armstrong World Industries (AWI). “They even went so far as to say they would have loved to acquire them if they could,” says Campbell, whose fund invested in Armstrong in 2016.

The company has a commanding share of ceiling and wall panels that are used widely in schools, hospitals, and other commercial buildings. While it has expanded its portfolio to include acoustic and design-oriented products, roughly 75% of its revenue is in repairs and replacements, says Campbell. “One of the things that makes them so attractive is they have exclusive distribution,” adds Campbell. That translates to 30% margins and a high ceiling for continued pricing power.

Another tactic for spotting potential winners is to “follow the jockey,” says Campbell, who invested in over-the-counter pharmaceutical maker Perrigo (PRGO) after its current CEO, Murray Kessler, took the helm in late 2018.

The team says Kessler has what it takes to get things on track at Perrigo, which reincorporated in Ireland in 2013 and has been sitting under a cloud of tax disputes. Meanwhile, its business model is solid and it benefits from continued growth in private-label brands. “When you strip it down, this is a business with strong cash flows, significant market share, and the opportunity to really innovate and improve that business,” Campbell says.

Outside managers can bring a lot to the table, but there is also something to be said for well-run family-controlled companies. “When management teams have a lot of

personal equity tied to the business, it gives us additional comfort,” says Campbell. About a third of the fund’s holdings have close ties to their founders or significant insider ownership. “They tend to be more longer-term focused and disciplined with investors’ capital.”

He says this is the case for Copart (CPRT), which connects buyers and sellers of salvaged vehicles via its online platform. CEO Jay Adair joined the company in 1989 and is the son-in-law of the company’s founder; he has proven to be a prudent allocator of capital. The Dallas-based company and its closest competitor, IAA (IAA), control more than 80% of the market, says Campbell, and Copart is making inroads internationally as well.

The fund took a position in 2015 after Copart’s senior executives—who are compensated exclusively with equity options—issued five-year equity options that were underwater at the time. “This showed management’s conviction that shares would appreciate,” he says.

While the bear case for Copart has been that more automated vehicles translates to fewer accidents, the growing use of sensors and computers in cars means that more cars are deemed totaled—and bound for auction. Copart is a textbook example of the economic force of a network effect. “They get the most sellers, which means they get the most buyers,” says Campbell. “That creates a marketplace advantage that dominates.”

Touchstone Mid Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Mid-Cap Core

2Q/2020

Fund Facts (As of 06/30/20)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	05/14/07	TMAPX	89155H629	1.36%	1.21%
C Shares	05/14/07	TM CJX	89155H611	2.07%	1.96%
Y Shares	01/02/03	TM CPX	89155H793	1.07%	0.96%
Z Shares	04/24/06	TM CTX	89155H785	1.37%	1.21%
INST Shares	01/27/12	TM PIX	89155T649	0.97%	0.89%
Total Fund Assets	\$3.3 Billion				

*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 1.21% for Class A Shares, 1.96% for Class C Shares, 0.96% for Class Y Shares, 1.21% for Class Z Shares and 0.89% for Class INST Shares. These expense limitations will remain in effect until at least 01/30/21.

Annualized Total Returns** (As of 06/30/20)

Class	2Q20	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Including Max Sales Charge							
A Shares	11.76%	-13.29%	-3.37%	8.52%	7.68%	12.92%	10.19%
C Shares	16.44%	-9.98%	-0.05%	9.86%	8.15%	12.75%	9.80%
Excluding Max Sales Charge							
A Shares	17.65%	-8.73%	1.72%	10.68%	8.97%	13.59%	10.56%
C Shares	17.44%	-9.07%	0.94%	9.86%	8.15%	12.75%	9.80%
Y Shares	17.73%	-8.60%	1.99%	10.96%	9.24%	13.89%	10.80%
Z Shares	17.64%	-8.71%	1.71%	10.68%	8.97%	13.59%	10.52%
INST Shares	17.76%	-8.56%	2.06%	11.05%	9.32%	13.95%	10.84%
Benchmark [^]	24.61%	-9.13%	-2.24%	5.79%	6.76%	12.35%	10.56%

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

Calendar Year Returns**

Class	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A Shares	35.95%	-3.42%	19.93%	15.34%	-5.71%	9.25%	35.09%	19.50%	1.70%	23.14%
Benchmark [^]	30.54%	-9.06%	18.52%	13.80%	-2.44%	13.22%	34.76%	17.28%	-1.55%	25.48%

[^]Benchmark - Russell Midcap[®] Index¹

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 sales charges and class expenses. Calendar year returns of the Fund and the Benchmark do not include the effects of the applicable sales charge which would lower returns. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.

Morningstar Ratings (As of 06/30/20)

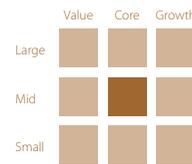
	Overall	3 Year	5 Year	10 Year
A Shares	★★★★★	★★★★★	★★★★★	★★★★★
C Shares	★★★★★	★★★★★	★★★★★	★★★★★
Y Shares	★★★★★	★★★★★	★★★★★	★★★★★
Z Shares	★★★★★	★★★★★	★★★★★	★★★★★
INST Shares	★★★★★	★★★★★	★★★★★	★★★★★
Funds in Mid-Cap Blend Category	—	370	296	216

The Morningstar Rating[™] for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds and separate accounts) with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating[™] does not include any adjustment for sales load. The top 10% of products in each product category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods.

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Class A Shares star ratings do not include any front-end sales load and are intended for those investors who have access to such purchase terms.

****The performance presented for Class A, C, Z, INST Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 01/02/03, with the performance since the inception date of each share class.**



Objective

The Fund seeks long-term capital growth by investing primarily in common stocks of mid-cap U.S. listed companies.

Investment Style

- Emphasizes investments in mid-cap companies
- 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 means management has at its disposal to increase shareholder value
- Seeks to purchase generally profitable, financially stable 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

Sub-Advisor

The London Company

Managed Fund since 12/2011

Portfolio Managers

Stephen M. Goddard, CFA

- Investment Experience: Since 1985

Jonathan T. Moody, CFA

- Investment Experience: Since 1987

J. Brian Campbell, CFA

- Investment Experience: Since 2000

Mark E. DeVaul, CFA, CPA

- Investment Experience: Since 1998

Samuel D. Hutchings, CFA

- Investment Experience: Since 2011

Not FDIC Insured | No Bank Guarantee | May Lose Value



Touchstone Investments[®]
DISTINCTIVELY ACTIVE[®]

Fund Characteristics (As of 06/30/20)

	Touchstone Mid Cap Fund	Russell Midcap® Index ¹
Total number of holdings [^]	31	811
Active Share ²	95	N/A
Morningstar market capitalization		
Giant	0.0%	0.3%
Large	12.2%	23.2%
Mid	79.1%	71.1%
Small	6.8%	5.4%
Micro	1.9%	0.0%
Weighted average market capitalization (\$ billion)	\$13.6	\$15.6
Median market capitalization (\$ billion)	\$10.3	\$7.5
P/E (wtd. harmonic avg.)	21.1x	16.7x
P/B (wtd. harmonic avg.)	3.0x	2.3x
Portfolio turnover rate ³	25%	N/A

Source: Morningstar Direct

[^]Total number of holdings includes cash equivalents, but excludes currencies.

²Active Share measures the percentage of the Fund's holdings that differ from those of the benchmark. It is calculated by taking the sum of the absolute difference between all of the holdings and weights in the portfolio and those of the benchmark holdings and weights and dividing the result by two.

³The portfolio turnover rate is annualized as of 09/30/19. Subject to change.

The Weighted Harmonic Average measures the valuation of the portfolio as a whole. For price/earnings ratio, it is the ratio of the portfolio's total market value in equities to its share of the underlying stocks' earnings. For price/book ratio, it is the ratio of the portfolio's total market value in equities to its share of the underlying book value. This method evaluates the entire portfolio like a single stock and it minimizes the impact of outliers.

Top 10 Equity Holdings of Fund (As of 06/30/20)

	(% of Portfolio)		(% of Portfolio)
1 Skyworks Solutions, Inc.	5.1	6 Copart, Inc.	4.2
2 Old Dominion Freight Line Inc.	5.0	7 CarMax, Inc.	4.1
3 Citrix Systems, Inc.	5.0	8 Amphenol Corp.	4.1
4 Entegris Inc.	4.8	9 Armstrong World Industries Inc.	4.0
5 Cintas Corp.	4.6	10 Black Knight Inc.	4.0

Source: BNY Mellon Asset Servicing

Portfolio Composition (As of 06/30/20)

	(% of Portfolio)
Equities	94.7
Cash Equivalents	5.3

Source: Morningstar Direct

Sector Allocation (As of 06/30/20)

(% of Portfolio)	Touchstone Mid Cap Fund	Russell Midcap® Index ¹	(% of Portfolio)	Touchstone Mid Cap Fund	Russell Midcap® Index ¹
1 Industrials	25.4	14.9	7 Health Care	3.8	0.0
2 Information Technology	24.6	19.3	8 Real Estate	2.5	7.7
3 Financials	10.7	11.4	9 Communication Services	2.3	4.3
4 Materials	10.6	5.1	10 Energy	0.0	3.0
5 Consumer Staples	10.2	4.4	11 Utilities	0.0	5.9
6 Consumer Discretionary	9.9	11.1			

Source: Morningstar Direct

Top 5 Industries of Fund (As of 06/30/20)

	(% of Portfolio)
1 Semiconductors & Semiconductors Equipment	9.6
2 Commercial Services & Supplies	8.9
3 Software	6.8
4 Food Products	6.6
5 Insurance	5.7

Source: Morningstar Direct

There is no guarantee that the Fund will continue to hold any one particular security or stay invested in any one particular sector. Holdings are subject to change. Data may not total due to rounding.

As of June 30 2020, Caesars Entertainment made up 0.00%, Armstrong World Industries Inc. made up 4.0%, Perrigo Co. PLC made up 3.8%, Copart, Inc. made up 4.2% and IAA made up 0.00% of the Touchstone Mid Cap Fund. Current and future portfolio holdings are subject to change.

¹The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index.

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 mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. 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. Events affecting the financial markets, such as a health crisis, 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. 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.

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