Fund Manager Commentary

As of March 31, 2024

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. stocks posted solid gains in first quarter of 2024 as stable economic growth, decelerating inflation, and some weakening in the labor market suggest a greater chance of a soft landing. If these trends continue, the U.S. Federal Reserve (Fed) may be able to start reducing the funds rate from restrictive territory to neutral later this year.

The breadth of the market widened out a bit, but the larger growth names still performed the best. Returns for equities were strongest for large caps, and Growth outperformed Value across the capitalization spectrum.

The U.S. economy continues to post solid results led by stability in consumer spending. The latest GDPNow estimate assumes roughly 2.8% real growth in the first quarter, which is still arguably higher than the long-term potential of the economy (which we believe is closer to 1.5%-2%).

Inflation remains a bit higher than the Fed's goal of roughly 2%. In the latest month, core Consumer Price Index rose 3.8% year-over-year (y/y), while the Fed's preferred measure of inflation, core Personal Consumption Expenditures, rose a more modest 2.5% y/y. Inflation has been moving in the right direction over the last year, but is proving to be more persistent. The last bit of progress 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.

The housing market has been relatively weak, but existing home sales rose by 9.5% in February as consumers have taken advantage of lower mortgage rates. Housing starts and permits also rose in the latest readings. Inventory of existing homes remains low and may not change in the near term, as many homeowners locked in lower interest rates in prior years and are not inclined to refinance a new home at a higher rate. Existing home prices have increased reflecting the limited inventory for sale. The market for new home sales is much looser than the existing home market.

The March jobs report showed stronger than expected job growth and in addition, the two prior months were revised higher. The Household survey showed that the unemployment rate declined a bit to 3.8% as expected, while the labor force participation rate ticked up slightly to 62.7%. Average hourly earnings rose 4.1% y/y. Immigration is easing some constraints on the labor supply, so it is possible that job growth could remain robust for some time. While this is positive for the Economy, it may further delay the rate cuts that the market is expecting.

The Institute for Supply Management Manufacturing Index increased for the first time in 18 months in March to 50.3, above the 48.5 level that consensus was expecting. The Services Index was weaker than expected at 51.4 versus expectations of 52.7, suggesting that the services side of the economy is still robust, but slowing. 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 basis points (bps). As inflation readings moderated over time, the Fed reduced the level of rate increases from 75bps to 25bps. Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening in June of 2022, which continues today.

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The Fed continued its tighter monetary policy in 2023 and raised the federal funds rate another four times (25bps each time) early that year. However, since July 2023, 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. With slowing inflation, signs of better balance in the labor market, and normalized GDP growth expectations, the Fed will probably start to lower rates later this year in an attempt to find the neutral rate over time. The most recent dot plots from Federal Open Market Committee members imply roughly 75bps of rate cuts in 2024. In recent weeks, investors have decreased their expectations of rate cuts to be more in line with what the Fed suggests.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares Load Waived) outperformed its benchmark, the Russell 2000® Index, for the quarter ended March 31, 2024.

The best performing factor for small caps was quality and the portfolio benefitted from its quality orientation. During the quarter, stock selection drove all of the relative outperformance while sector allocation slightly detracted from relative performance. At the sector level, an underweight position in Energy and an overweight position in Real Estate detracted from relative performance, partially offset by the positive impact of an underweight position in Utilities and Financials.

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were Masonite (Industrials sector), Vontier (Information Technology sector), Armstrong World Industries (Industrials sector), White Mountain (Financials sector), and NewMarket (Materials sector).

Masonite was up in the quarter after receiving a buyout offer from Owens Corning. Earlier in the quarter, Masonite had tried to acquire PGT Innovations, a deal that that we thought would have put too much leverage on the company, so we were quite happy to have Owens Corning acquire the company.

Shares of Vontier outperformed to start the year as the company continues to show progress on its portfolio transformation efforts and drive efficiencies across the core business. Underlying demand has been stronger than expected, especially for its fueling infrastructure products, driven by industry consolidation, site buildouts, and technology modernization. Management expects momentum to continue this year with good visibility into customer project pipelines. They have made encouraging progress optimizing the cost structure, and plenty of opportunity remains to improve profitability over the medium-term. We believe Vontier's portfolio of resilient franchises remain well positioned to serve its large customer base with a variety of value-added solutions and capitalize on emerging trends within the mobility market.

Armstrong World Industries was up in the quarter after reporting strong quarterly results and solid guidance. The team is executing effectively on key growth initiatives, leveraging pricing power, and demonstrating earnings resiliency. Results were solid in both mineral fiber and architectural specialties. Free cash flow grew in 2023 and the company increased the dividend in October and opportunistically repurchased stock at lower prices. Since 2015, the company has repurchased a quarter of its shares. We remain attracted to the business because of its strong pricing power, the annuity-like nature of the remodel portion of the business and management's excellent capital allocation.

White Mountain performed well this quarter due to their nearly 50% ownership stake in MediaAlpha Inc. Management had taken the opportunity to increase their position in MediaAlpha and we believe this was the primary contributor to White Mountain's performance during the same period. We continue to like the company for management's exceptional skill in capital allocation, as exemplified by this transaction.

NewMarket continued its outperformance trend that began in early 2023. Part of this outperformance can be attributed to the successful closing of the AMPAC acquisition, which diversified the company away from petroleum additives into the stable end markets of solid rocket fuel and fire suppression. The company also increased its quarterly dividend, likely providing a signal to the market that record cash flows seen over the past year can be sustained in the face of the large acquisition.

The more challenged positions based on relative performance during the quarter were Cable One (Communication Services sector), Qualys (Information Technology sector), Malibu (Consumer Discretionary sector), Alexander and Baldwin (Real Estate sector), and Marten Transport (Industrials sector).

The market environment remains challenging for Cable One with greater competition and lower move activity. While the competitive threats from fixed wireless and fiber-to-the-home are not impacting Cable One's existing customer base, the market's perception is that it will limit the growth opportunities for the broadband provider going forward. Cable One's recent subscriber growth was driven by new pricing schemes and promotions which negatively impacted average revenue per user during the quarter. While investors fear this trend will continue, management remains disciplined with its pricing strategy to ensure durable free cash flow growth over the long-term. Cable One remains well positioned as an advantaged provider of high-speed internet in rural markets. We believe its relatively low penetration, superior service, and merger & acquisition prowess are supportive of long-term earnings growth.

Qualys's underperformance this quarter was largely the result of timing — it was trading near all-time high at year-end 2023. However, due to a challenging macro environment for cybersecurity spend, the stock traded down in the first quarter. Our conviction in the stock is based on their strong product strategy, competitive moat, and potential to improve their go-to-market execution, all of which are intact despite the macro issues.

Malibu's stock dropped in late January after the CEO unexpectedly announced his retirement following growing positive sentiment following the Miami Boat Show and generally bottoming industry demand. The way the company went about disclosing the news, as well as our having recently met with the CEO without getting so much as a whiff of this change, has shaken our confidence. Couple that with a relatively new CFO, and we view Malibu as being solidly on the exit ramp from the portfolio.

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REITs as a group underperformed in the first quarter, and Alexander & Baldwin lagged the REIT group on disappointing 2024 financial guidance. While the office exposure in Alexander & Baldwin's portfolio is small, office vacancies are enough to offset solid trends in the other asset classes and drag down net operating income growth. While we understand market reaction to lower than expected guidance, over the long haul, we do not view the office assets as a material piece of the value of the portfolio, and in fact we believe the vacancy as a potential opportunity for redevelopment or land sale. We continue to like Alexander & Baldwin's advantaged position as a "local sharpshooter" in the land-constrained Hawaiian market.

Marten Transport underperformed in the first quarter of 2024. The current trucking industry backdrop is very challenging, with a sustained supply-demand imbalance pressuring earnings in the sector. Despite this industry backdrop, the company has grown its customer base and remains committed to its disciplined pricing philosophy. Longer term, we believe the business remains uniquely defensive and well positioned to capitalize on attractive demand themes including dedicated customer conversion and U.S.-Mexico trade. The company's net cash balance sheet supports downside risk mitigation.

In late January, we trimmed three positions Tempur Sealy (Consumer Discretionary sector), Qualys and Matson (Industrials sector), and used the proceeds to initiate a position in Certara, Inc (Health Care sector). We trimmed Tempur Sealy on strength and because the market capitalization of the company is over $8.5B. Qulays shares rose 2023 and the market capitalization of the company now exceeds $7B, so we need to start moving it out of the small cap portfolio as well. Matson was also strong in 2023. We maintain a position based on its moat due to the Jones Act for many shipping lanes as well as its expedited service to China.

Certara is the global leader in biosimulation technology. Biosimulation is a computer-aided modeling of biological processes and systems to predict how the human body will affect a drug and how a drug will affect the human body. Certara sells its software and science-based services to big pharma, biotechs and drug regulatory bodies. Legacy private equity holder Arsenal Capital owns 23% of the company. The company runs an attractive software and services model that generates high-margin recurring revenues. Over 50% of revenues come from blue-chip customers, including 39 of the top 40 biopharma companies in the world.

The biosimulation market is expected to grow mid to high teens through the end of the decade, and Certara should be the greatest beneficiary of that growth. R&D pipelines and clinical trials fuel industry growth, and biosimulation will grow above that as new use cases are developed and pushed down from regulatory agencies.

Outlook and Conclusion

Looking ahead, moderating inflation, signs of softening in the labor market, along with solid consumer spending suggest that the Fed could begin to reduce short-term interest rates later in 2024. We do not expect significant rate cuts from the Fed in the near term, but we believe they will slowly reduce rates in an attempt to find the neutral interest rate (the rate that is neither accommodative nor restrictive). We recognize the challenges in navigating a soft landing but believe that the odds of a near term recession are low.

Predicting the future direction of the economy is always challenging. Potential positives include low unemployment, rising wages, and lower inflation. Potential negatives include the impact of restrictive 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% range driven by growth in the labor force and improving productivity.

In terms of the equity market, valuations based on near term earnings are 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 continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in the Touchstone Small Cap Fund generate much higher returns on capital, with strong balance sheets 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 Small Cap Fund 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

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	**$268.2 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

	1Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	8.08%	8.08%	21.26%	8.39%	11.10%	6.53%	10.39%
C Shares	7.95%	7.95%	20.50%	7.59%	10.32%	5.90%	9.95%
Y Shares	8.18%	8.18%	21.66%	8.68%	11.38%	6.80%	10.70%
INST Shares	8.22%	8.22%	21.67%	8.76%	11.47%	6.88%	10.79%
Benchmark	5.18%	5.18%	19.71%	-0.10%	8.10%	7.58%	10.55%
Including Max Sales Charge							
A Shares	2.67%	2.67%	15.21%	6.55%	9.96%	5.90%	9.94%
C Shares	6.95%	6.95%	19.50%	7.59%	10.32%	5.90%	9.95%

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

		(% of Portfolio)
1	Masonite International Corp.	5.5
2	Tempur Sealy International, Inc.	5.3
3	White Mountains Insurance Group	5.2
4	NewMarket Corp.	5.0
5	Landstar System, Inc.	4.9
6	Vontier Corp.	4.5
7	Armstrong World Industries Inc.	4.1
8	Moelis & Co.	3.7
9	Acushnet Holdings Corp.	3.2
10	Matson Inc.	3.2

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

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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