

Touchstone Sands Capital International Growth Equity Fund

Sub-Advised by: Sands Capital Management, LLC

International Equity – Large-Cap Core

4Q/2023

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- The Fund seeks long-term growth of capital, investing primarily in equity securities of non-U.S. companies of any size, but generally focuses on larger, more established companies
- Applies bottom-up security analysis that includes fundamental, sector-based research in seeking to identify businesses that have high or improving returns on capital, barriers to competition and compelling valuations
- Selects investments based on an evaluation of a company's sustainability practices which considers and analyzes the potential Environmental, Social and Governance (ESG) impacts and risks of a company, how well the company manages these impacts and risks, and ascertains the company's willingness and ability to take a leadership position in implementing best practices

Market Recap

International equities (as measured by the MSCI ACWI ex-U.S. Index) bounced back in the fourth quarter as economies globally began to show signs of slowing inflation. The rise was broad-based with 62% of constituents trading higher.

Growth outperformed value during the period as the market outlook changed for Western Europe with signs that inflation may have turned a corner. Inflation readings in the UK and Eurozone were slower than forecasted and Eurozone inflation reached its lowest point since August 2021. Government yield curves in the region dove lower as markets anticipated easier monetary policy in tandem with that of the U.S. Federal Reserve (Fed) policy. This buoyed technology stocks that had been punished in prior quarters.

Within Asia, poor headlines concerning China were plentiful and defaults in the country soared to record highs since the pandemic. However, outside China there were bright spots. Highlights included South Korean industrial production rebounding as new chip production resumed and Japanese equities gaining interest as the country grapples with the prospect of possibly sticky inflation for the first time in 30 years.

All regions and sectors were positive contributors to fourth quarter results. Western Europe was the top regional contributor and Eastern Europe contributed the least. From a sector perspective, Information Technology was the top contributor and Energy contributed the least.

The fourth quarter capped off the best year for International Equities since 2019 despite pessimistic investor sentiment entering 2023 and intra-year bouts of volatility. A more constructive

macroeconomic and interest rate outlook helped equities bounce back from 2022's selloff, and other contributing factors included AI enthusiasm and positive corporate earnings revisions.

Portfolio Review

The Touchstone Sands Capital International Growth Fund (Class A Shares Load Waived) outperformed the MSCI ACWI ex-U.S. Index for the quarter ended December 31, 2023.

Security selection primarily drove results with additional tailwinds from sector and regional allocation. Currency was a slight headwind. All regions were positive contributors to relative results. Western Europe was the largest relative contributor and Emerging Asia contributed the least. From a sector perspective, Information Technology (IT) was the top contributor to relative results and Health Care was the top relative detractor.

The top individual absolute contributors for the quarter were Adyen (Financials sector), Lasertec, ASML, and Shopify (IT sector), and MercadoLibre (Consumer Discretionary sector).

Adyen shares traded higher following third quarter results released during its investor day. Management's commentary in addition to strong results were conclusive in dispelling recent fears around growing competition and added increased visibility into the businesses' growth prospects.

Third quarter results were significantly ahead of the market's expectations with revenue and volumes growing over 20% year-over-year. Additionally, Adyen now expects to achieve nearly 50% EBITDA margins by 2026. Importantly, the company set clear building blocks for its growth plan illustrating expected volume growth, wallet share gains, and new customer wins. This time bound guidance and enhanced disclosure helped build confidence in Adyen's growth trajectory. Investors were also pleased to hear

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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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that Adyen has agreed to now provide quarterly updates to improve operational visibility and that the company has begun to slow its previously aggressive headcount growth.

The U.S. continues to be one of Adyen's fastest growing regions and, we believe, a clear source of market-share gains. Within the U.S. online segment, the most competitive area, we have started to note irrational competitors withdrawing from unsustainable and unprofitable growth such as Braintree. As competitors begin to rationalize, we see Adyen's competitive position only growing stronger supported by increasing partnerships with Bill.com, Plaid, and Shopify. We believe partnerships like these serve as a signal that Adyen is viewed as best in class by some of the most demanding partners. Looking ahead, we continue to have high conviction in Adyen.

MercadoLibre reported strong third quarter results, with 40% net revenue growth and 131% operating income growth, year over year. Operating margin expanded by over 7 percentage points to 18%, driven by higher ecommerce take rate, gross margin expansion, and operating leverage. The latter continued to grow despite incrementally higher investment in first-party ecommerce, fulfillment, and branding.

Gross merchandise volume (GMV) growth in constant currency terms accelerated to 59% year-over-year in the third quarter, up from 47% last quarter. The company gained market share in Brazil and Mexico, despite Temu's aggressive entry into Mexico. Notably, the growth came with higher profitability, with ecommerce take rate growing 160 basis points year-over-year to 15.8% of GMV. This rise was attributable to commission increases, net shipping fee growth, and advertising. Additionally, preliminary sales statistics for the fourth quarter indicated continued acceleration is likely as MercadoLibre continued to gain share from struggling offline retailers. Brazil GMV grew 39% year-over-year from November 1 to November 25 due to strong Black Friday sales. Furthermore, GMV in Mexico during the country's El Buen Fin nationwide shopping event grew 34% year-over-year.

Fintech was also a highlight, with off-platform total payment volumes growing 145% year-over-year, across 49 million active users. Quarterly credit originations grew 46% year-over-year, with net interest margin after losses, expanding as well.

Shares of ASML rose along with other semiconductor related businesses due to expanding expected use cases for AI.

As AI continues to evolve, we know the need for faster and more efficient chips will only grow. We see the potential for significant ramifications across multiple semiconductor end-markets including smartphones, PCs, and purpose-built AI chips. In turn, all these applications will likely drive increased computing power requiring newer and more complex processing nodes. This places ASML at a focal point to enable AI adoption, as it is the monopolistic supplier of ultraviolet lithography (EUV) machinery. This machinery is required to produce leading-edge chips. Looking ahead, each new generation of chips is expected to require approximately 20% more EUV processes, further engraining ASML into the future of computing. We believe by 2030 three new nodes will be in production which should compound semiconductor manufacturing intensity by at least 60%, tripling ASML's revenues.

The top absolute individual detractors were Aptiv (Consumer Discretionary sector), Stevanato Group, Genmab, and Lonza (Healthcare sector), and Bajaj Finance (Financials sector).

The bioprocess industry underwent an unprecedented overlapping of headwinds in 2023. Rapid demands declines of COVID vaccines, low levels of biotech funding and the Chinese macroeconomic environment have weighed on company share prices.

Within International Growth, our life sciences related holdings were not immune to these historic industry headwinds. While this has been painful in the short-term, we continue to believe we own the leaders in innovative biologic cancer drugs in Genmab, outsourced drug manufacturing in Lonza, and ready-to-use injectables in Stevanato.

Genmab now has seven internally generated biologics drugs on the market. Its leading drug, Darzalex is a practice changing biologic drug approved for the treatment of multiple myeloma. The drug is currently on track to achieve over \$15 billion in peak sales by the end of the decade. Despite short-term industry headwinds, we expect Genmab to continue harvesting its deep drug pipeline as it transitions from a drug discovery powerhouse to a commercial biopharmaceutical. We project Genmab to deliver approximately 20%-annualized earnings growth over the next five years.

In our view, Lonza remains uniquely positioned as the industry leader within the outsourced contract drug manufacturing industry. We believe the company has the most complete technology, scale, and geographic footprint among its competitors. While the unexpected departure of its CEO has added increased short-term uncertainty, compounding the already significant bioprocess industry headwinds, we remain confident in business due to its wide competitive moat. We expect Lonza to deliver nearly 20% annualized earnings growth over the next five years as customers from small biotechnology businesses to large pharmaceutical companies demand an established drug manufacturer that can suit their diversified needs.

Given the industry headwinds, Stevanato has managed its post-COVID transition well, in our view, delivering strong growth in its core drug containment business of 10% year-over-year. Importantly, the business' core demand drivers remain intact. We are seeing growth in biologics volumes, GLP-1 usage, as well as new drug modalities. Additionally, Stevanato has remained aggressive in reinvesting in its business. The company recently announced the production of two new facilities focused on high-margin high-value solutions. We expect commercial revenues for the facilities to begin by mid-2024. Looking forward, we believe Stevanato has a highly visible growth trajectory operating in an industry with high barriers to entry, which should allow it to compound earnings over time.

Outlook and Conclusion

The whipsawing of market direction from 2023's third quarter to fourth quarter—along with the consensus expectation for markets in 2023 versus the ultimate result—demonstrates the unpredictability of short-term market movements. This is why we continue to focus on long-term fundamentals, which tend to explain the stock price movements over time.

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Looking ahead, we continue to seek businesses with high degrees of financial strength, including robust cash balances, strong unit economics, and less debt than the average MSCI ACWI ex-U.S. constituent. While a global recession did not materialize in 2023, financial strength could become a competitive advantage if the economic environment worsens.



Fund Facts (As of 12/31/23)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	12/03/07	TPYAX	89155H579	1.79%	1.17%
C Shares	12/03/07	TPYCX	89155H561	3.62%	1.95%
Y Shares	08/12/08	TPYYX	89155H553	1.46%	0.90%
INST Shares	08/23/19	TPYIX	89155T532	1.27%	0.86%
R6 Shares	08/31/23	TPYRX	89155T425	1.56%	0.82%
Total Fund Assets		\$41.1 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 1.17% for Class A Shares, 1.95% for Class C Shares, 0.90% for Class Y Shares, 0.86% for Class INST Shares and 0.82% for Class R6 Shares. These expense limitations will remain in effect until at least 01/29/25.

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	19.16%	23.56%	23.56%	2.72%	8.52%	6.01%	4.59%
C Shares	19.05%	22.67%	22.67%	1.98%	7.75%	5.39%	4.21%
Y Shares	19.27%	23.83%	23.83%	3.01%	8.83%	6.29%	4.84%
INST Shares	19.27%	23.85%	23.85%	3.04%	8.85%	6.30%	4.85%
R6 Shares	19.29%	23.86%	23.86%	3.05%	8.85%	6.30%	4.85%
Benchmark	9.75%	15.62%	15.62%	1.55%	7.08%	3.83%	2.84%
Including Max Sales Charge							
A Shares	13.20%	17.33%	17.33%	0.96%	7.42%	5.38%	4.21%
C Shares	18.05%	21.67%	21.67%	1.98%	7.75%	5.39%	4.21%

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

The MSCI All Country World Ex-U.S. Index is an unmanaged, capitalization-weighted index composed of companies representative of both developed and emerging markets excluding the United States.

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.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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.

The performance presented for Class Y, INST and R6 Shares combines the performance of an older class of shares (Class A Shares) from the Fund's inception, 12/03/07, with the performance since the inception date of each share class.

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

	(% of Portfolio)		(% of Portfolio)
1 ASML Holding NV	7.0	6 VAT Group AG	4.1
2 Mercadolibre Inc.	6.4	7 Atlassian Corp.	4.1
3 Adyen NV	5.6	8 Sika AG	4.0
4 Keyence Corp.	4.7	9 Shopify Inc.	3.9
5 Lasertec Corp.	4.5	10 HDFC Bank Ltd.	3.8

Source: BNY Mellon Asset Servicing

A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. 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, emerging and frontier markets securities, and 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 risks associated with investing in foreign markets are magnified in emerging markets, and in frontier markets due to their smaller and less developed economies. The Fund invests in growth stocks which may be more volatile than investing in other stocks and may underperform when value investing is in favor. 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. Financial institutions could suffer losses if interest rates rise or economic conditions deteriorate. The Fund is non-diversified, which means that it may invest a greater percentage of its assets in the securities of a limited number of issuers and may be subject to greater risks. The sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to do so. 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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