

## Fund Manager Commentary

As of December 31, 2023

### Fund Highlights

- Concentrated, high conviction portfolio
- Distinctive approach is centered on linking valuations with barriers to entry
- Seeks to invest in businesses that are trading below what is believed to be its estimate of the companies' intrinsic value
- Focuses on businesses that are believed to have a sustainable competitive advantage or a high barrier to entry in place
- Strategy provides the opportunity to invest in companies of all market capitalizations

### Market Recap

The U.S. equity market rallied in the fourth quarter of 2023 as the U.S. Federal Reserve guided toward cuts in the coming year and treasury yields recorded a significant reversal. Following a modest loss in the third quarter that continued into October, U.S. equities saw nine consecutive weeks of positive returns. While market gains for 2023 remain largely driven by a handful of mega cap stocks, fourth quarter performance was fairly broad as earnings are expected to improve for 2024. During the quarter, the best performing benchmark sectors were Real Estate, Information Technology, and Financials. The worst performing sectors for the benchmark were Energy, Consumer Staples, and Health Care.

### Portfolio Review

The Touchstone Focused Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 3000® Index, for the quarter ended December 31, 2023.

The Fund's underperformance was driven primarily by stock selection while the Fund's sector allocation also detracted during the quarter primarily due to the cash position and an underweight in Information Technology. Within the Fund, the sectors where holdings outperformed the most relative to the benchmark were Consumer Staples, Industrials, and Communication Services. Sectors that lagged the most relative to the benchmark include Energy, Financials, and Real Estate.

Three of the top positive contributors in the Fund during the quarter were Salesforce Inc. (Information Technology sector), The Boeing Co. (Industrials sector), and Coca-Cola Fesma SAB de CV (Consumer Staples sector). Salesforce's shares outperformed due to stronger than expected growth in new bookings coupled with continued improvement in operating margins. Management indicated continued improvement in margins going forward,

including contributions from material increase in sales productivity. Boeing shares outperformed primarily due to investor optimism over resumption of aircraft delivery to Chinese customers during the quarter. Coca-Cola Fesma shares outperformed primarily due to quarterly results that exceeded expectations as the company continues to expand in the fragmented South American market leveraging digital initiatives to service small retailers that were previously challenging to reach.

Three of the largest detractors from performance included Choice Hotels International Inc. (Consumer Discretionary sector), Exxon Mobil Corp. (Energy sector), and Berkshire Hathaway Inc. (Financials sector). Choice Hotels shares underperformed during the quarter primarily due to slower revenue growth particularly in their economy segment. Exxon shares underperformed in the quarter following an announcement by the company of its intentions to acquire Pioneer, a gas exploration and production company with assets predominantly in Texas. For several years, Exxon and the oil and gas industry committed to returning extra cash to investors via share repurchases and dividends. The \$60 billion acquisition of Pioneer seems in conflict with this objective. Oil prices declined through the quarter, lowering expected cash flows for current production. Despite solid operating results in aggregate, Berkshire Hathaway shares underperformed during the quarter due to some weakness in its consumer and housing related subsidiaries and its generally conservative nature in a significantly risk-on quarter.

During the quarter, the Fund did not have any additions or removals from the portfolio.

As the quarter ended, the strategy had an overweight in the Communication Services, Health Care, and Financials sectors and an underweight in the Information Technology, Industrials, Energy, Real Estate, and Consumer Discretionary sectors. The

*(continued)*

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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](https://TouchstoneInvestments.com/mutual-funds).**



weight in the Consumer Staples and Materials sectors was roughly in line with that of the index. The strategy held no positions in the Utilities sector.

### **Outlook and Conclusion**

Looking ahead, we continue to question whether a hard landing is still on the horizon. Soft landings are typically preceded by the easing of lending standards while the tightening of lending standards precedes hard landings. We continue to believe bank lending standards stay tight in the coming quarters. As a result, we see additional downside risk to growth and believe the path for a soft landing remains narrow mainly due to the lag effects of higher interest rates. Consistent with our approach over the past couple of years, we have maintained a high-quality portfolio with a focus on higher return on capital and higher barrier to entry businesses with pricing power. We continue to be alert for signals that would warrant a risk-on shift, but we believe, at this point, our high-quality posture will benefit the portfolio going forward.



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

| Class       | Inception Date | Symbol | CUSIP     | Annual Fund Operating Expense Ratio |       |
|-------------|----------------|--------|-----------|-------------------------------------|-------|
|             |                |        |           | Total                               | Net   |
| A Shares    | 09/30/03       | TFOAX  | 89154X245 | 1.18%                               | 1.18% |
| C Shares    | 04/12/12       | TFFCX  | 89154X237 | 1.97%                               | 1.97% |
| Y Shares    | 02/12/99       | TFFYX  | 89154X229 | 0.89%                               | 0.89% |
| INST Shares | 12/20/06       | TFFIX  | 89154X211 | 0.92%                               | 0.85% |

**Total Fund Assets \$1.2 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 1.20% for Class A Shares, 1.95% for Class C Shares, 0.95% for Class Y Shares and 0.83% for Class INST Shares. These expense limitations will remain in effect until at least 07/29/24. 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                   | 9.71%  | 24.74% | 24.74% | 8.77%  | 15.23% | 10.07%  | 10.16%    |
| C Shares                   | 9.49%  | 23.77% | 23.77% | 7.94%  | 14.35% | 9.42%   | 9.55%     |
| Y Shares                   | 9.80%  | 25.10% | 25.10% | 9.09%  | 15.57% | 10.39%  | 10.46%    |
| INST Shares                | 9.81%  | 25.18% | 25.18% | 9.14%  | 15.63% | 10.48%  | 10.55%    |
| Benchmark                  | 12.07% | 25.96% | 25.96% | 8.54%  | 15.16% | 11.48%  | 7.82%     |
| Including Max Sales Charge |        |        |        |        |        |         |           |
| A Shares                   | 4.21%  | 18.51% | 18.51% | 6.93%  | 14.05% | 9.42%   | 9.90%     |
| C Shares                   | 8.49%  | 22.77% | 22.77% | 7.94%  | 14.35% | 9.42%   | 9.55%     |

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 3000® Index

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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, 02/12/99, 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 | Microsoft Corp.                 | 9.1 | 6                | Amazon.com Inc.           | 4.3 |
| 2 | Apple, Inc.                     | 7.4 | 7                | UnitedHealth Group Inc.   | 3.2 |
| 3 | Alphabet Inc.                   | 5.3 | 8                | Coca-Cola Femsa SAB de CV | 2.7 |
| 4 | Berkshire Hathaway Inc. Class B | 4.7 | 9                | Johnson & Johnson         | 2.7 |
| 5 | Meta Platforms, Inc.            | 4.5 | 10               | Salesforce Inc.           | 2.7 |

Source: BNY Mellon Asset Servicing

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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 large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in stocks of small- and mid-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. 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 invests in emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. The Fund may focus its investments in a particular industry and/or market sector which may increase the Fund's volatility and magnify its effects on total return. 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. 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. Current and future portfolio holdings are subject to change.

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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](https://www.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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