Touchstone Dividend Equity Fund

Sub-Advised by: Fort Washington Investment Advisors, Inc.

U.S. Equity – Large-Cap Value 3Q/2024

Fund Manager Commentary

As of September 30, 2024

Fund Highlights

- U.S. large capitalization companies
- Historically paid consistent, growing dividends
- 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

Market Recap

The economy has continued to grow at a robust pace and the base case for investors remains a soft landing, especially now that the U.S. Federal Reserve Board (Fed) has begun normalizing interest rates. A balanced labor market along with wage gains and large increases in net worth have supported consumer spending. However, employment has cooled, and markets are worried the economy is not creating as many new jobs. Consequently, the Fed has shifted focus to this part of the economic environment, which was a contributor to its decision to cut the federal funds rate by 50 basis points in September.

In addition, continued disinflation and 'greater confidence' that it will return to the 2% target provided the Fed further data needed to begin cutting. The main area investors will be monitoring is the service side of inflation, which has remained elevated, largely because of shelter. Nevertheless, with inflation seemingly under control the emphasis is being placed on the labor market as Fed Chair Powell has mentioned that the Federal Open Market Committee does not want to see 'further weakening' in employment. While non-farm payrolls show continued job growth, it has trended lower over the last few quarters, and reports over the past year ending March 2024 were revised down significantly.

This economic backdrop combined with the Fed's willingness to act more aggressively than previously anticipated increases the odds that the U.S. will avert a recession and has been a catalyst for rising asset prices.

Portfolio Review

The Touchstone Dividend Equity Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 1000 Value Index for the quarter ended September 30, 2024.

Security selection was a positive contributor to relative performance during the period while sector allocation was a negative. The dividend orientation of the Fund was a neutral factor for the quarter as dividend paying stocks performed in-line with non-dividend paying stocks.

Selection within Industrials, Consumer Discretionary, and Communication Services were the primary drivers of positive security selection during the quarter. Selection within Consumer Staples and Financials were the largest detractors to security selection. An overweight to Information Technology was the primary detractor to sector allocation.

Among the largest individual contributors to relative performance included overweight positions in Stanley Black & Decker Inc. (Industrials sector), Starbucks Corp. (Consumer Discretionary sector), 3M Co. (Industrials sector), Entergy Corp. (Utilities sector), and BlackRock Inc. (Financials sector).

Stanley Black & Decker outperformed after beating second quarter estimates largely driven by better than expected margin expansion. Stanley remains a high conviction position in the Fund as the company continues to execute on its inventory reduction and cost cutting initiatives.

3M shares soared 23% the day after reporting better than expected second quarter earnings, driven by both sales and margins beats, while also raising full-year guidance. 3M's new CEO highlighted their renewed focus on organic growth and capital allocation – an outlook that was well received by investors.

Starbucks was a top contributor to performance during the quarter after being one of the largest detractors during the second quarter. Following a year of underperformance for the company and the stock, Starbucks named Brian Niccol, Chipotle's CEO, as Chairman and CEO in a bid to regain growth. The stock posted a record one-day gain of 24.5% following the announcement.

(continued)

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.***

Among the largest detractors from performance included overweight exposures to Microsoft Corp. (Information Technology sector), Qualcomm Inc. (Information Technology sector), Dollar General Corp. (Consumer Staples sector), Merck & Co. Inc. (Health Care sector), and KLA Corp. (Information Technology sector).

Microsoft, Qualcomm, and KLA were top detractors during the quarter following several quarters of outperformance. These names have been beneficiaries of the artificial intelligence boom over the last 18 months and lagged the broader market during the third quarter as the market broadened out.

Dollar General underperformed during the quarter after posting a record one-day drop of 32% following a significant re-rating for the stock. The company released second quarter earnings that missed expectations and slashed their full-year outlook amid continued macro headwinds and competitive pressures.

The Fund added four new names during the quarter: Microchip Technology Inc., Union Pacific Corp., Walt Disney Co., and Kinder Morgan Inc.

Microchip (Information Technology sector) is a leading supplier of analog and microcontroller semiconductors and is set to benefit from a rebound in the analog cycle. The company pays a 2.4% dividend yield and has grown it by an impressive 20% annually over the past 5 years.

Union Pacific (Industrials sector) is one of North America's largest railroads providing rail freight transportation over a network of 30,000+ miles across the western two-thirds of the United States. As a result of its oligopolistic nature, Union Pacific benefits from a captive customer base and is able to push through annual price increases to their customers that more than offsets inflationary cost pressures. As a result of this pricing discipline and a management team that is focused on return on capital metrics, Union Pacific has been able to achieve improving returns on capital over a long period of time. Union Pacific maintains a healthy dividend yield of 2.2% with 8% annual growth over the last five years and has paid a dividend for 124 consecutive years.

Walt Disney (Communication Services sector) was added during the quarter but was owned previously before being sold in 2021. Disney eliminated their dividend amid the Covid-19 global pandemic and reinstated it in late 2023. Despite challenges to the media industry, Disney remains well positioned to generate excess returns on capital given its habitual content, intangible assets, and scale which is most prominent through its experiences segment.

Kinder Morgan (Energy sector) is a beneficiary of the energy transition away from coal to renewable energy sources. Kinder Morgan provides the pipelines moving natural gas from the producers to the consumers at the lowest variable cost among transportation modes. The company distributes 50% of its earnings through a 4.6% dividend.

There were no material sector changes during the quarter. Information Technology remains the largest sector overweight, while Financials, Energy, and Industrials are the largest underweights.

Outlook and Conclusion

U.S. equities made new all-time highs in September, lifted by the decisive first step of the Fed toward normalizing interest rate policy. After being slow to address the rise in inflation, investors had assumed the Fed would be reluctant to meaningfully reduce interest rates until it was clear the job on inflation was done. September's rate cut of 0.50% alleviated concerns the Fed would be too slow in acknowledging the cooling of the labor market, thus improving the odds of a soft landing.

The labor market continues to normalize. Shortages seen in the aftermath of the pandemic have been largely alleviated. The ratio of open jobs to those seeking them has returned to pre-pandemic levels, while new jobs and wage growth have considerably slowed. With inflation appearing to be on a sustainable path lower, the Fed can again focus on the other side of its dual mandate – maximum employment.

With the path of interest rates now better understood, we expect investors to focus principally on the developing economic conditions as a determinant of market movements, as opposed to the guessing game regarding Fed policy. While we acknowledge pockets of stress among consumers, the aggregate economic trend still appears largely favorable, albeit slower. Retail sales reported last month were better than expected, and near-term GDP projections appear solid.

With the Fed likely to act more aggressively than previously assumed to combat further weakening of the labor market, our base case assumption of a "soft landing" is strengthened. If our expectations of slower but non-recessionary growth play out, we could expect less concentrated returns going forward. Absolute gains in equities may be more modest given the strong gains to date and elevated valuations; however, pockets of opportunity remain – including areas that have lagged, such as large cap value and small caps.

We are maintaining a cautious stance due to stretched valuations for the market but are selectively finding bottom-up opportunities. We are prioritizing high barrier to entry companies with high returns on capital while seeking to upgrade valuation where possible.

Although risks remain, the economic outlook is positive. As such, we remain constructive on U.S. equities but acknowledge near-term headwinds exist and valuations have become stretched in certain sectors of the market. Following the material outperformance of growth-oriented stocks, dividend strategies are a compelling option as earnings begin to converge while the valuation discount remains at historically attractive levels. Dividend strategies have the potential to provide both capital appreciation and a growing stream of income while also providing downside protection through lower volatility during times of distress.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	06/08/98	**TQCAX**	89155T482	1.02%	0.99%
C Shares	06/08/98	**TQCCX**	89155T474	1.78%	1.69%
Y Shares	05/15/13	**TQCYX**	89155T466	0.76%	0.76%
INST Shares	07/19/21	**TQCIX**	89155T458	0.96%	0.67%
R6 Shares	08/02/21	**TQCRX**	89155T441	1.39%	0.65%
Total Fund Assets	**$2.5 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 0.99% for Class A Shares, 1.69% for Class C Shares, 0.77% for Class Y Shares, 0.67% for Class INST Shares and 0.65% 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

	3Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	8.71%	15.38%	28.97%	9.69%	7.53%	7.49%	7.30%
C Shares	8.46%	14.74%	28.08%	8.92%	6.80%	6.77%	6.60%
Y Shares	8.73%	15.54%	29.25%	9.95%	7.77%	7.72%	8.56%
INST Shares	8.70%	15.57%	29.31%	10.01%	—	—	9.17%
R6 Shares	8.76%	15.70%	29.47%	10.09%	—	—	8.70%
Benchmark	9.43%	16.68%	27.76%	9.03%	10.69%	9.23%	—
Including Max Sales Charge							
A Shares	3.26%	9.62%	22.55%	7.83%	6.27%	6.85%	7.06%
C Shares	7.46%	13.74%	27.08%	8.92%	6.80%	6.77%	6.60%

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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Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	Microsoft Corp.	3.6
2	Broadcom Inc.	2.2
3	Apple, Inc.	2.0
4	Medtronic PLC	2.0
5	BlackRock Inc.	1.9
6	Stanley Black & Decker Inc.	1.8
7	Johnson & Johnson	1.7
8	Oracle Corp.	1.7
9	Home Depot Inc.	1.7
10	Philip Morris International Inc.	1.7

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 dividend-paying companies. There is no guarantee that the companies in which the Fund invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. Securities that pay dividends may be sensitive to changes in interest rates, and as interest rates rise or fall, the prices of such securities may fall. 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 invests in value stocks which may not appreciate in value as anticipated or may experience a decline in value. 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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