

Fund Manager Commentary

As of June 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 throughout the first half of 2024. Healthy job and wage gains coupled with significant increases in net worth have supported recent spending as excess savings from pandemic era programs are now largely exhausted. The labor market has become more balanced in recent months and the unemployment rate has moved modestly higher to 4.1% compared to last year's low of 3.4%. While this slowing should put downward pressure on inflation, it could also lead to a larger decline in consumption.

Amid continued strength in the economy and softening in the labor market, inflation has remained volatile and investors have maintained their focus on the U.S. Federal Reserve Board (Fed) and when the U.S. can expect rate cuts. Forecasts for the path of the federal funds rate have varied meaningfully this year and are likely to continue as new economic data is released. Inflation came into the year near the Fed's 2% target on a 6-month basis but upside surprises for the first few months of 2024 sparked concerns around elevated inflation. While inflation worries are still present, recent data has renewed faith that inflation will move lower and the larger trend remains intact. The Fed's preferred gauge of inflation, Core PCE, is at a yearly rate of 2.6%, down from 4.7% last May. While continued progression should increase the Fed's confidence to cut, they have emphasized the desire to move slowly and stay data dependent.

The market is anticipating 2 to 3 interest rate cuts in the second half of the year with consensus forecasts pointing toward continued growth and leading to a 'soft landing'. As a result, equity markets have moved higher and interest rates appear to have stabilized following recent inflation reports. The equity market remains

bifurcated as enthusiasm around artificial intelligence (AI) boosted mega-cap technology names while value and dividend-oriented stocks underperformed.

Portfolio Review

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

Security selection was a positive contributor to relative performance during the period while sector allocation was a modest negative. The dividend orientation of the Fund was a modest positive factor for the quarter as dividend paying stocks outperformed non-dividend paying stocks. Selection within Information Technology, Materials, and Communication Services was the primary driver of positive security selection during the quarter. Selection within Consumer Staples and Health Care was the largest detractor to security selection. An overweight to Consumer Discretionary was the primary detractor to sector allocation.

Among the largest individual contributors to relative performance were overweight positions in Broadcom Inc., Apple Inc., KLA Corp., Microsoft Corp., and Qualcomm Inc. (all Information Technology sector).

Broadcom continued to move higher during the quarter and returned 21.5%, bringing its first half of the year return to 44.9%. The stock rose 12% the day following its better than expected second quarter earnings release, largely driven by increased demand for its AI products.

KLA experienced a similar quarter, with the stock returning 18.3% after the company reported better than expected earnings and an optimistic outlook. KLA is expected to be an AI beneficiary as new

(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.**



AI capabilities drive upgrade cycles in smartphones and PCs resulting in increased demand for the process control equipment sold by KLA.

Apple outperformed during the second quarter after being an underperforming stock in the first quarter. The company reported better than expected earnings and upbeat guidance during the quarter that led to a wave of price target increases from analysts. Several factors contributed to the positive sentiment around Apple during the period, including better than expected sales in China, an increased share buyback program, and increased investment in AI.

The largest detractors from performance were overweight exposures to Stanley Black & Decker Inc. (Industrials sector), CVS Health Corp. (Health Care sector), Starbucks Corp. (Consumer Discretionary sector), and Target Corp. (Consumer Staples sector), and an underweight to Walmart Inc. (Consumer Staples sector).

Stanley Black & Decker underperformed during the quarter despite reporting quarterly results that met investor expectations as a weakening consumer backdrop weighed on the shares. It remains a high conviction position in the Fund as the company continues to execute on its inventory reduction and cost cutting initiatives. Starbucks reported second quarter results that missed expectations and led to a 16% drop in the stock the following day. Softening consumer spending and sluggish growth in international markets pressured sales during the period and led to lower guidance. Similar to Stanley Black & Decker and Starbucks, Target underperformed during the period following a miss in earnings as slowing consumer spending impacted sales.

Portfolio activity during the quarter was below average. The Fund added two new names during the quarter.

The Fund initiated a position in Salesforce Inc. (Information Technology sector) during the quarter. The name had been on our radar for some time and its post-earnings sell-off during the quarter presented an opportunity to add. The stock fell 20% following a miss in earnings driven by weakness in bookings. Our view is this is being caused by macro uncertainty, and that the deals are still in the pipeline, rather than a reallocation of spending toward AI. The stock was pricing in a permanent impairment in growth, which we think is unlikely, providing a reasonable margin of safety in the investment.

Amgen Inc. (Health Care sector) was also added to the Fund during the quarter. This thesis is largely driven by the potential success of their obesity drug that's in phase 3 studies. The drug is somewhat differentiated, as it requires less frequent shots than current obesity drugs. Our modest initial position reflects the chance that the drug proves unsuccessful, and results in some modest downside for the stock.

There were no material sector changes during the quarter beyond modest differences due to market performance. Information Technology remains the largest sector overweight, while Financials, Energy, and Industrials are the largest underweights.

Outlook and Conclusion

Investor attention will remain on inflation forecasts and the implications for the amount and timing of future rate cuts. Although we expect inflation to continue its gradual trajectory toward 2%, progress is slowing as we near the target due to service inflation. The Fed continues to emphasize data dependence and, because the labor market is currently balanced, they have the luxury of remaining patient. The Fed's most recent forecast shows one 25 basis point cut this year and 100 basis points next year which implies the policy rate will remain restrictive for some time.

While higher rates haven't appeared to impact the economy as meaningfully as past cycles, recent data suggests current rates are still curbing aggregate demand. Consumer spending slowed in the first quarter and looks poised to continue below trend in the second quarter. Stress can be seen in lower income cohorts as delinquencies are rising, and have the potential to keep increasing, now that pandemic era savings have been depleted. Higher rates and elevated service inflation will continue to force more Americans to reduce discretionary spending.

The lagged effects of monetary policy along with tight lending standards and geopolitical risks present downside risks to current economic trends. However, most companies are financially stable having termed out debt at low rates, providing them room to weather the current environment. Separately, the consumer has been able to stay resilient despite the Fed trying to restrict growth. This positive consumer and corporate backdrop has resulted in markets anticipating a soft landing, especially as they expect the Fed to cut rates later this year.

We believe consumers will face increased challenges going forward, but the magnitude and impact to the economy is unclear. Separately, the U.S. elections could have significant implications for the deficit, inflation, and growth over the next couple years.

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. 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.

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	\$2.4 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

	2Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-1.09%	6.14%	12.95%	5.73%	6.07%	6.87%	7.03%
C Shares	-1.24%	5.79%	12.22%	4.99%	5.36%	6.17%	6.33%
Y Shares	-1.04%	6.27%	13.24%	5.97%	6.32%	7.10%	7.95%
INST Shares	-1.01%	6.32%	13.35%	—	—	—	6.92%
R6 Shares	-0.96%	6.38%	13.43%	—	—	—	6.37%
Benchmark	-2.17%	6.63%	13.06%	5.52%	9.01%	8.23%	—
Including Max Sales Charge							
A Shares	-6.03%	0.84%	7.30%	3.67%	4.83%	6.23%	6.79%
C Shares	-2.22%	4.79%	11.22%	4.99%	5.36%	6.17%	6.33%

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)		(% of Portfolio)		
1	Microsoft Corp.	4.2	6	Medtronic PLC	1.9
2	Broadcom Inc.	2.4	7	Texas Instruments Inc.	1.9
3	Apple, Inc.	2.2	8	Qualcomm, Inc.	1.9
4	Oracle Corp.	2.0	9	BlackRock Inc.	1.7
5	KLA Corp.	2.0	10	Johnson & Johnson	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.

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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 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](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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