

Fund Manager Commentary

As of June 30, 2024

Fund Highlights

- Invests primarily in issues having a market capitalization above \$5 billion at time of purchase
- 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
- Concentrated, high conviction portfolio generally holds 25-45 companies

Market Recap

U.S. equities had a slow start to begin the second quarter but finished strong through May and June. While market breadth saw a sharp decrease quarter-to-quarter, soft landing narratives continued to improve alongside optimism around inflation numbers as the quarter progressed. The best performing benchmark sectors were Information Technology, Communication Services, and Utilities. The worst performing sectors for the benchmark were Materials, Industrials, and Energy.

Portfolio Review

The Touchstone Large Cap Focused Fund (Class A Shares, Load Waived) underperformed its benchmark, the S&P 500® Index, for the quarter ended June 30, 2024.

Within the Touchstone Large Cap Focused Fund, the sectors where fund holdings outperformed the most relative to the benchmark were Materials, Real Estate, and Financials. Sectors that lagged the most relative to the benchmark included Consumer Staples, Health Care, and Information Technology. Stock selection detracted from performance for the period. Sector allocation contributed during the quarter primarily due to an overweight in Communication Services and an underweight in Consumer Discretionary.

Three of the holdings that contributed the most to performance were Alphabet (Communication Services sector), Taiwan Semiconductor (Information Technology sector), and Oracle (Information Technology sector).

Alphabet outperformed due to strong quarterly results across Search and YouTube drove outperformance in Alphabet's stock in the quarter. Although it is still early, artificial intelligence (AI) Search appears to be additive to Search volumes so far. Profits exceeded expectations as a result of cost cutting actions. We

continue to expect that Alphabet will successfully leverage advancements in AI technology to retain its market position in Search and Cloud.

Taiwan Semiconductor (TSMC) delivered solid results and management guided for strong growth driven by sales of chips that enable AI. Additionally, the market now expects TSMC to raise prices on leading edge chips, which should help alleviate gross margin pressure and improve profitability.

Oracle outperformed as quarterly results released during the period showed its pricing strategy in infrastructure as a service is unlocking more growth than investors initially expected.

Three of the holdings that detracted the most from performance included Nvidia (Information Technology sector), Salesforce (Information Technology sector), and Monster Beverage Corp (Consumer Staples sector).

Nvidia detracted from performance due to our underweight in the name. The stock outperformed due to expectations of continued strong sales growth over the next year.

Salesforce is seeing elongating sales cycles and smaller deal sizes as customers remain cautious in spending. These dynamics resulted in reported weak quarterly performance and lower than expected guidance for the next quarter. Although the stock declined as a result of these factors, we think growth will return to higher levels and see the shares as undervalued.

Monster Beverage's (MNST) underperformance in the second quarter was driven by recent Monster and overall energy drink category sales weakness within U.S. scanner data tracked channels. Sales growth in U.S. convenience stores, accounting for ~63% of Monster's U.S. sales, is largely attributable to reduced consumer spending by lower-income consumers, to which MNST over-indexes and in part resulting from recently rising gas prices in

(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://www.TouchstoneInvestments.com/mutual-funds).**



certain parts of the U.S. Even though MNST's pricing has not been significant relative to other categories in Consumer Staples, it was an important driver of revenue growth in its portfolio beginning in the summer of '22 carrying into September '23. This tailwind slowing was the start of the normalization of growth rates within MNST's U.S. portfolio. MNST anticipates implementing a ~5% U.S. price increase on the Monster brand family towards the end of this year.

Investments made in international companies, which comprised 2.3% of assets in the Fund at the end of the period, outperformed the benchmark.

During the quarter, the Fund added Diageo (Consumer Staples sector) and Nvidia to the portfolio, while Cencora (Health Care sector) and Hilton Worldwide (Consumer Discretionary sector) were sold from the portfolio.

Nvidia is a high barrier business and we bought it in the franchise value layer. Nvidia dominates the market for Graphical Processing Units (GPUs). Originally intended for use in playing video games, GPUs are now widely used for professional visualization and AI applications. As the market share leader in GPUs, these newer markets provide Nvidia with massive secular tailwinds that should enable the company to grow revenues at high rates over the next decade. Nvidia market share in accelerators for training AI applications is estimated at about 95%. The company is also estimated to have about 80% share of dedicated GPUs for gaming on PCs. The high market shares give Nvidia economies of scale in product development. Additionally, the company's CUDA software, which is used to program Nvidia's chips, create switching costs for existing applications. We expect Nvidia to maintain its dominant share in semiconductors used for AI applications, and we see upside in the stock as demand for such applications should grow at high rates over time. However, recent large imbalances in supply and demand for Nvidia's GPUs create the likelihood of over-ordering by customers, with a possible correction in order patterns in the future. Therefore, we limited our initial position size, despite attractive upside in the stock.

Diageo is the largest global alcohol spirits company with over 200 brands in 180 countries. Top brands within several categories include Whiskey: Johnnie Walker and Crown Royal; Vodka: Smirnoff and Ketel One; Gin: Tanqueray & Gordon's; Rum: Captain Morgan; Tequila: Don Julio, DeLeon and Casamigos; Liqueur: Baileys and Beer: Guinness. Longer-term, we believe the spirits industry is secularly attractive within Consumer Staples and will continue to take share from both beer and wine as it has over the past decade plus. The largest moats for Diageo are within the alcohol spirit categories (primarily whiskey and tequila) where the product is aged over a number of years. It is more difficult for new entrants to get in as they would have to experience high storage costs for many years as the whiskey/tequila ages. Also, as the #1 player in global spirits, Diageo is a top-tier vendor for most on-premise customers with well-known brands in multiple categories and price points. As a result, Diageo has strong barriers to entry driven by both customer stickiness combined with economies of scale (in distribution/marketing/manufacturing) as Diageo is ~40% larger than the #2 competitor Pernod Ricard. We bought Diageo within the Franchise Value layer. Diageo should be able to deliver stable returns on capital over time, which implies more than +50%

upside to \$220 on our initial purchase, as its barriers to entry should support stable & high returns on capital over time (vs. declining returns on capital priced in).

We sold our stake in Cencora due to what we saw as a full valuation, and in order to fund investment in a more compelling opportunity. We sold Hilton based on expensive valuation, with very little upside reflecting increasing returns on capital for the next 20 years with no down cycle.

As the quarter ended, the Fund had an overweight in the Communication Services, Financials, and Health Care sectors, and an underweight in the Information Technology, Consumer Discretionary, Consumer Staples, Energy, Real Estate, and Industrials sectors. The weight in the Materials sector was roughly in line with that of the Index. The Fund held no positions in the Utilities sector.

Outlook and Conclusion

The U.S. equity market logged a significant rally in the second quarter, resulting in a strong gain for the first half of 2024. Despite a slow start to the second quarter with rate cuts in question amidst higher-than-expected inflation readings, the outlook improved in May and June. Economic growth remains robust with consumer spending supported by strength in the labor market. With the disinflation trend and economic growth continuing in the second quarter, the S&P 500 Index reached 31 all-time highs during the period.

The market performance reflects investor optimism that the Federal Reserve will be able to control inflation without inducing a recession. In our view, the debate on soft landing versus hard landing will continue until we have landed. History includes many periods where talk of a soft landing occurs just before recession strikes. Therefore, we keep an open mind and watch employment, housing, manufacturing, and market breadth data among others to continually re-underwrite our view. 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 businesses with pricing power. One hundred percent of the portfolio excluding cash remains invested in companies that have moderate to high barriers to entry in our view. Periods like the first half of 2024, where momentum is the dominant factor, are often challenging on a relative basis for the value-oriented Fund. We believe disciplined execution of our process will benefit the portfolio and investors over the long term.



Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	01/12/34	SENCX	89154Q299	1.03%	1.02%
C Shares	05/04/98	SCSCX	89154Q281	1.85%	1.81%
Y Shares	05/04/07	SICWX	89154Q265	0.82%	0.74%
INST Shares	12/23/14	SCRLX	89154Q273	0.76%	0.71%
R6 Shares	10/28/21	TSRLX	89154M884	1.20%	0.67%
Total Fund Assets	\$3.3 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 1.00% for Class A Shares, 1.79% for Class C Shares, 0.72% for Class Y Shares, 0.69% for Class INST Shares and 0.65% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/24.

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	3.01%	11.36%	17.79%	7.08%	14.55%	12.55%	10.99%
C Shares	2.79%	10.91%	16.84%	6.22%	13.64%	11.84%	10.19%
Y Shares	3.08%	11.51%	18.11%	7.37%	14.86%	12.86%	11.05%
INST Shares	3.07%	11.52%	18.13%	7.39%	14.89%	12.90%	11.02%
R6 Shares	3.10%	11.55%	18.18%	7.40%	14.76%	12.66%	11.00%
Benchmark	4.28%	15.29%	24.56%	10.01%	15.05%	12.86%	—
Including Max Sales Charge							
A Shares	-2.13%	5.79%	11.89%	5.26%	13.38%	11.98%	10.92%
C Shares	1.79%	9.91%	15.84%	6.22%	13.64%	11.84%	10.19%

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 - S&P 500® Index

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The performance presented for Class C, Y, INST and R6 Shares combines the performance of an older class of shares (A Shares) from the Fund's inception, 01/12/34, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund

	(% of Portfolio)		(% of Portfolio)		
1	Microsoft Corp.	10.4	6	Berkshire Hathaway Inc. Class B	3.6
2	Apple, Inc.	7.8	7	UnitedHealth Group Inc.	2.8
3	Alphabet Inc.	6.6	8	NVIDIA Corp.	2.6
4	Meta Platforms, Inc.	6.0	9	HCA Healthcare Inc.	2.4
5	Amazon.com Inc.	5.7	10	Bank of America Corp.	2.4

Source: BNY Mellon Asset Servicing

The S&P 500® Index is a group of 500 widely held stocks and is commonly regarded to be representative of the large capitalization stock 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 large-cap companies which may be unable to respond quickly to new competitive challenges. 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 specific sectors and therefore is subject to the risk that adverse circumstances will have greater impact on the fund than on the fund that does not do so. 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. 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. Current and future portfolio holdings are subject to change. 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.

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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