

Fund Manager Commentary

As of June 30, 2024

Fund Highlights

- Utilizes a bottom-up security selection process that screens potential investments against a proprietary quantitative model for return on capital, earnings to value ratio, free cash flow and return on equity
- Looks at a company's corporate governance structure and management incentives to try to ascertain whether or not management's interests are aligned with shareholder interests
- Seeks to identify the sources of a company's competitive advantage as well as what levers management has at its disposal to increase shareholder value
- Seeks to purchase generally profitable, financially stable large-cap companies that consistently generate high returns on unleveraged operating capital, are run by shareholder-oriented management, and are trading at a discount to their private market value

Market Recap

U.S. equities posted mixed results during the second quarter 2024. The broader market, measured by the Russell 3000® Index, rose with gains concentrated in large companies with ties to spending on artificial intelligence (AI). The Russell 2000® Small Cap Index was down for the quarter. Economic data released during the quarter reflected decelerating growth, some weakening in the labor market, and lower inflation, which collectively support the notion of rate cuts beginning in the next few months. Corporate earnings were solid, but there were signs of greater caution from consumers.

Large Cap, Growth and Momentum factors led the market while Value and Yield factors presented headwinds. Quality factors had a mixed showing and Volatility factors had little impact.

The U.S. economy continued to post solid, yet decelerating growth during the second quarter with modest increases in consumer spending, a continued shift toward spending on services, and weakness in housing and manufacturing. Estimates for second quarter 2024 real GDP suggest annualized growth of 1.5%-2.0%, which is in line with reasonable longer-term growth estimates for the U.S. economy.

Inflation moderated a bit but remained higher than the Federal Reserve's (Fed) long-term goal of roughly 2%. Total and core Consumer Price Index posted year-over-year (y/y) gains of 3.3% and 3.4%, respectively in the latest month. The Fed's preferred measure of inflation, core Personal Consumption Expenditure, rose a more modest 2.6% y/y. Additional progress needed to reach the Fed's inflation goal will probably have to come from restrictive monetary policy restraining the growth of aggregate demand, along with better balance in the labor market.

The housing market continued to face challenges as higher interest rates weigh on demand. Both homebuilding activity and pending sales weakened. Existing home sales also declined while prices rose 5.8% y/y in June, reaching an all-time high and reflecting the low supply of existing homes for sale.

The labor market remained strong but showed some signs of weakening. There were 607k net new jobs created during the quarter, representing a four-year low. In addition, the hiring rate, quit rate, and the job openings to unemployed ratio all declined during the quarter. The unemployment rate rose slightly to end the quarter at 4.1%, while the labor force participation rate remained relatively flat at 62.6%. Growth in average hourly wages decelerated to 3.9% y/y.

Results from the two main Institute for Supply Management (ISM) indexes weakened during the quarter. The ISM Manufacturing Index fell to 48.5 in June. The Manufacturing Index has been below 50 for 19 of the last 20 months. Meanwhile, the Services Index declined to 48.8 in June, well below expectations for a reading over 50. This is only the second month that the Services Index was below 50 since the end of 2022. For both surveys, a reading below 50 suggests economic contraction while any score over 50 suggests expansion.

Regarding monetary policy, a strong labor market, combined with higher than desired inflation, resulted in a shift toward tighter monetary policy from the Fed in early 2022. Throughout 2022, the Fed raised the Federal Funds rate 425 basis points (bps).

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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.**

Tighter monetary policy continued in 2023 as the Fed raised the Federal Funds rate another four times (25 bps each time) early in the year. However, since July 2023, there have been no changes to the Federal Funds rate, which remains at 5.25% - 5.5%.

Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening in June of 2022. Recently, the Fed announced plans to slow the pace of Quantitative Tightening in the future.

Portfolio Review

The Touchstone Large Cap Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 1000[®] Index, for the quarter ended June 30, 2024.

The best performing sectors for the Russell 1000 Index were Information Technology and Communication Services, while Materials and Industrials were the weakest sectors. Less exposure than the Index to Growth and Momentum factors, as well as the concentration the Index held in a few companies benefitting from excitement around AI spending, contributed to the underperformance. Seven companies (roughly 28% of the Index) contributed over 100% of the return of the Russell 1000 Index for the quarter.

During the quarter, both sector allocation and stock selection were headwinds to relative performance. At the sector level, an underweight position in Information Technology and an overweight position in Materials had a negative impact on relative performance, partially offset by the positive impact of an underweight position in both Health Care and Real Estate.

Turning to stock selection, the best performing stocks based on relative performance versus the Index during the quarter were: Alphabet Inc. (Communication Services sector), Texas Instruments Inc. (Information Technology sector), Air Products & Chemicals Inc. (Materials sector), Altria Group Inc. (Consumer Staples sector), and FedEx Corp. (Industrials sector).

Alphabet was a top performer this quarter as it reported strong search revenue, tighter cost controls, and momentum in Cloud. Both direct and brand search ads were better than expected and the strength in YouTube monetization continues. Expense controls have translated to 700 bps of margin improvement. Management is removing layers to improve efficiency, which should drive margins higher. Alphabet also provided details on paths to monetize AI for advertisers. Alphabet initiated a dividend during the quarter to return additional cash to shareholders. It has a solid balance sheet, significant market share, and generates strong returns.

Texas Instruments rallied in the second quarter despite declining revenue in its latest update. The company is beginning to see some encouraging signs of destocking nearing an end and some sub-segments of the market are experiencing improving demand. The company continued to spend on capital expenditures and should begin to see positive benefits to cash flow next year from the CHIPS Act.

We added to our position in Air Products twice this year and the stock subsequently outperformed during the second quarter. Air Products continually posts results for its base business comparable to that of its closest industrial gas peers, and margins have

recovered back towards industry-leading levels. We believe the offtake announcement in June between APD and TotalEnergies for 30% of NEOM's green hydrogen output is a good first step towards alleviating investor concerns about the return profile for clean energy megaprojects.

Shares of Altria outperformed, despite the elevated pace of cigarette volume declines. A positive development this year has been Altria beginning to monetize its stake in ABI, using proceeds to repurchase stock. We expect Altria to continue selling down the stake over time. Altria has also made regulatory progress on smoke free products, getting FDA authorization for its menthol flavored NJOY e-vapor products and filing Premarket Tobacco Product Authorization Applications for its new on!Plus nicotine pouches. Also on the regulatory front, we are starting to see more progress on enforcement against unregulated e-vapor products. We remain confident of the downside risk mitigation characteristics of the tobacco category, and we continue to view Altria's approximate 8.5% dividend yield as attractive.

FedEx shares rallied late in the second quarter after announcing a large share buyback program and a 10% increase in its dividend. They also announced that they are considering options for FedEx Freight, valued up to \$32 billion.

The more challenged positions based on relative performance during the quarter were: NewMarket Corp. (Materials sector), Norfolk Southern Corp. (Industrials sector), Old Dominion Freight Line Inc. (Industrials sector), Martin Marietta Materials Inc. (Materials sector), and Albemarle Corporation (Materials sector).

Shares of NewMarket underperformed after reporting declining revenue in its latest quarter reflecting lower selling prices. The company also added debt after acquiring AMPAC.

Norfolk Southern pre-announced weaker results in early April. Revenue declined in its latest quarter driven by lower fuel surcharges, an unfavorable product mix, and lower intermodal ancillary fees. Costs continued to rise. Activist involvement may lead to lower costs in the future. We added to the position during second quarter 2024.

Old Dominion reported solid results in its latest quarter but is still feeling the negative impact of the freight recession. The company continues to invest in the business by adding capacity, while focusing on superior service. We trimmed the position in early second quarter 2024 due to valuation concerns.

Shares of Martin Marietta fell from all-time highs during the quarter as the company continues to optimize its portfolio despite declining revenue. The company's deployment of its value-over-volume strategy continues to bear fruit, resulting in higher earnings guidance. A resilient end market, strong margins and returns, as well as a solid track record with strategic mergers and acquisition, gives us confidence that the company will benefit from growth in infrastructure and construction spending for years to come.

Shares of Albemarle underperformed as lithium prices remained weak. The stock hit our soft stop-loss, and we elected to sell the position due to increasing concern about the long-term supply outlook.

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In April, we trimmed the positions in both Martin Marietta and Old Dominion Freight following recent strength in the shares. There is no change to our long-term thesis for either company. With the proceeds from the trims, we added to existing positions in Air Products and Norfolk Southern. Following the adds, both positions will be roughly 4% of the portfolio. Despite recent weakness in the shares of both companies, we believe the competitive advantages are intact and valuation is attractive.

In early June, we reduced the portfolio's cash position and added to both Norfolk Southern and Nestle (Consumer Staples sector). We remain confident in the outlook for both companies and note that each trades at an attractive valuation. Recent insider purchases at both companies gave us greater conviction in the timing of the additions.

In June, we sold the remaining position in Albemarle after the stock triggered our soft stop loss review. Upon review, we are concerned that weaker demand in the U.S. for electric vehicles coupled with greater than expected supply of lithium reaching the market may lead to declining lithium prices. This could lead to lower cash flow generation in the years ahead. Given all of the excess supply being found, it was difficult to get comfortable underwriting a recovery in lithium prices. Should prices stay lower for longer, we believe it is difficult to justify the downside risk mitigation case for the stock.

With the proceeds from the sale, we initiated a position in TE Connectivity Ltd. (Information Technology sector). TE Connectivity designs and manufactures connectors and sensors, supplying solutions to the transportation, industrial, and communications industries. Products include antennas, connectors, switches, sensors, wires and cables, and tubing. The company has leading share in the automotive connector market (50% of revenue).

The company's primary competitive advantage is high switching costs reflecting the performance and reliability of its products. The company designs critical systems including electric vehicle management systems, advanced driver assistance systems, avionic systems, and power grids. These components comprise a small percentage of the overall cost of materials for an OEM. Component failure is unacceptable to its customers, so the reliability of any product is extremely important. TE Connectivity spends more on research and development than its competitors, resulting in strong design and engineering capabilities. This contributes to longstanding client relationships and pricing power.

EBIT margins are roughly 17% today, and we believe there is room for improvement over time. The balance sheet is strong with a low level of net debt. Operating cash flow is either reinvested back into the business, used for dividends or share repurchase, and also used for opportunistic acquisitions. The stock trades at a discount to our estimate of intrinsic value and a discount to its peers. Competitors include Amphenol and Molex (private).

Outlook and Conclusion

Looking ahead, consumer spending will remain key to the economic outlook. Low unemployment and rising wages, along with recent increases in household wealth, may continue to drive spending. There are signs of weakness in some of the recent economic data, which is likely the result of tighter monetary policy. A weakening labor market and softer inflation data could lead the Fed to shift to a less restrictive policy and reduce rates before year-end. While any material reduction in interest rates may not begin until 2025, we believe that the Fed will begin to reduce rates soon in an attempt to find the neutral interest rate (the rate that is neither accommodative nor restrictive). We recognize the challenges in navigating a soft landing but believe that the odds of a near term recession are low.

Predicting the future direction of the economy is always challenging. Potential positives include rising wealth (housing and equity markets), low unemployment, higher wages, and expectations for relatively low inflation in the future. Potential negatives include the impact of restrictive monetary policy over the last two years, elevated home prices, as well as rising debt levels. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 1.5%-2% range driven by growth in the labor force and improving productivity.

In terms of the equity market, valuations based on near term earnings are elevated in the context of moderate GDP growth. We believe that equity returns in the near term may be modest, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return from equities.

Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in the Touchstone Large Cap Fund generate much higher returns on capital, with strong balance sheets at reasonable valuations relative to the broader market.

We believe the quality of the Fund positions it well for the next few years, even if the market trades modestly higher. The Fund may struggle to keep up in an environment of double-digit returns. In an environment of possibly lower expected returns and greater volatility, we believe the Fund offers an attractive option for equity investors. Our goal remains to outperform the broader market over full market cycles with less volatility.



Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	07/09/14	TACLX	89154Q554	1.42%	1.06%
C Shares	07/09/14	TFCCX	89154Q547	2.17%	1.81%
Y Shares	07/09/14	TLCYX	89154Q521	0.90%	0.81%
INST Shares	07/09/14	TLCIX	89154Q539	0.85%	0.71%
Total Fund Assets	\$279.9 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 1.03% for Class A Shares, 1.78% for Class C Shares, 0.78% for Class Y Shares and 0.68% for Class INST 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	Inception
Excluding Max Sales Charge						
A Shares	-2.12%	5.67%	9.06%	3.85%	8.85%	8.26%
C Shares	-2.38%	5.19%	8.20%	3.04%	8.03%	7.63%
Y Shares	-2.12%	5.72%	9.28%	4.10%	9.11%	8.53%
INST Shares	-2.07%	5.84%	9.45%	4.20%	9.23%	8.64%
Benchmark	3.57%	14.24%	23.88%	8.74%	14.61%	12.49%
Including Max Sales Charge						
A Shares	-7.00%	0.38%	3.58%	2.09%	7.74%	7.62%
C Shares	-3.36%	4.19%	7.20%	3.04%	8.03%	7.63%

Benchmark - Russell 1000® Index

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

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Top 10 Equity Holdings of Fund

	(% of Portfolio)		(% of Portfolio)		
1	Alphabet Inc.	7.5	6	BlackRock Inc.	4.4
2	Berkshire Hathaway Inc. Class B	6.9	7	Visa Inc.	4.0
3	Apple, Inc.	6.3	8	Norfolk Southern Corp.	3.9
4	The Progressive Corp.	4.8	9	Charles Schwab Corp.	3.7
5	Air Products & Chemicals, Inc.	4.5	10	Fiserv Inc.	3.7

Source: BNY Mellon Asset Servicing

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index.

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 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 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. 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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