Touchstone Large Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Large-Cap Core

As of 03/31/2024

Fund Manager Commentary

As of March 31, 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. stocks posted solid gains in first quarter 2024 as stable economic growth, decelerating inflation, and some weakening in the labor market suggest a greater chance of a soft landing. If these trends continue, the U.S. Federal Reserve (Fed) may be able to start reducing the funds rate from restrictive territory to neutral later this year.

The breadth of the market widened out a bit, but the larger growth names still performed the best. Returns for equities were strongest for large caps, and Growth outperformed Value across the capitalization spectrum.

The U.S. economy continues to post solid results led by stability in consumer spending. The latest GDPNow estimate assumes roughly 2.8% real growth in the first quarter, which is still arguably higher than the long-term potential of the economy (which we believe is closer to 1.5%-2%).

Inflation remains a bit higher than the Fed's goal of roughly 2%. In the latest month, core Consumer Price Index rose 3.8% year-over-year (y/y), while the Fed's preferred measure of inflation, core Personal Consumption Expenditures, rose a more modest 2.5% y/y. Inflation has been moving in the right direction over the last year, but is proving to be more persistent. The last bit of 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 has been relatively weak, but existing home sales rose by 9.5% in February as consumers have taken advantage of lower mortgage rates. Housing starts and permits also rose in the latest readings. Inventory of existing homes remains low and may not change in the near term, as many homeowners locked in lower interest rates in prior years and are not inclined to refinance a new home at a higher rate. Existing home prices have increased reflecting the limited inventory for sale. The market for new home sales is much looser than the existing home market.

The March jobs report showed stronger than expected job growth, and in addition, the two prior months were revised higher. The Household survey showed that the unemployment rate declined a bit to 3.8% as expected, while the labor force participation rate ticked up slightly to 62.7%. Average hourly earnings rose 4.1% y/y. Immigration is easing some constraints on the labor supply, so it is possible that job growth could remain robust for some time. While this is positive for the economy, it may further delay the rate cuts that the market is expecting.

The Institute for Supply Management Manufacturing Index increased for the first time in 18 months in March to 50.3, above the 48.5 level that consensus was expecting. The Services Index was weaker than expected at 51.4 versus expectations of 52.7, suggesting that the services side of the economy is still robust, but slowing. For both surveys, a reading below 50 suggests economic contraction while any score over 50 suggests expansion.

With regard to 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). As inflation readings moderated over time, the Fed reduced the level of rate increases from 75bps to 25bps. Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening in June of 2022, which continues today.

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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.***

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The Fed continued its tighter monetary policy in 2023 and raised the federal funds rate another four times (25bps each time) early that year. However, since July 2023, there have been no changes to the federal funds rate, which has remained at 5.25% - 5.5%. Looking ahead, we believe the Fed will proceed with caution, attempting to balance the risk of easing policy too early against the risk of maintaining rates in a restrictive position for too long. With slowing inflation, signs of better balance in the labor market, and normalized GDP growth expectations, the Fed will probably start to lower rates later this year in an attempt to find the neutral rate over time. The most recent dot plots from Federal Open Market Committee members imply roughly 75bps of rate cuts in 2024. In recent weeks, investors have decreased their expectations of rate cuts to be more in line with what the Fed suggests.

Portfolio Review

The Touchstone Large Cap Fund (Class A Shares Load Waived) underperformed its benchmark, the Russell 1000® Index, for the quarter ended March 31, 2024.

The best performing sectors for the benchmark were Communication Services and Energy while Real Estate and Utilities were the weakest sectors for the market. Our focus on quality, yield, and value factors presented headwinds in a market favoring momentum, growth, and volatility. A handful of mega-cap stocks continued to skew index results, and the opportunity cost of not owning several holdings was significant.

During the quarter, sector allocation had minimal impact on relative performance while stock selection detracted from relative performance. At the sector level, an underweight position in Real Estate and an overweight position in Financials benefitted relative performance, partially offset by the negative impact of an underweight position in Information Technology and an overweight position in Materials.

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were Progressive (Financials sector), Martin Marietta (Materials sector), Berkshire Hathaway (Financials sector), Fiserv (Financials sector), and O'Reilly (Consumer Discretionary sector).

Progressive was up 31% during the quarter as it continues to report better margins and faster growth compared to the industry. Progressive's policy in force delivered positive growth and it achieved necessary pricing actions with existing customers. Profitability remains better than peers as Progressive has been successful at lowering ad spending while growing its mix of preferred customers. Progressive's underwriting risk segmentation continues to be a competitive advantage as it has delivered industry-leading accident frequency results. We remain confident in Progressive's ability to execute in all environments, competitive advantages, and capital allocation strategy.

Martin Marietta shares reached all-time highs during the quarter as the company executes its value-over-volume strategy, exhibiting strong pricing power and margin expansion. The company continues to increase its leading position in aggregates by adding strategic assets that will be beneficial to overall profitability. Strategic mergers and acquisitions, strong financials, and resilient end market outlooks gives us confidence that the company will benefit from growth in infrastructure and construction spending for many years.

Insurance was once again a bright spot in Berkshire Hathaway's fourth quarter earnings; GEICO showed meaningful margin improvement. The company once again sold some securities in the quarter, resulting in near all-time highs in the balance of cash and short-term investments. Overall, we continue to appreciate Berkshire for their financial strength, investment acumen, and disciplined management.

Fiserv shares outperformed during the quarter supported by strong quarterly results and encouraging guidance for the year. Growth in merchant acceptance has been driven by strength in its Clover platform and e-commerce share gains, while the fintech and payments segments continue to provide stability and recurring revenue. Management laid out an encouraging growth framework for its merchant business focused on adding new clients and increasing penetration of the higher margin value-added services. Fiserv has proven to be a steady compounder that provides a balanced mix of revenue stability and diversified growth. We remain confident in the company's ability to generate durable earnings growth over time through its robust product offerings and disciplined capital allocation.

O'Reilly was a top performer during the quarter due to its continued share gains in the Professional business and margin improvements. The share gains are due to top customer service and best-in-class supply chain, an unmatched data center network, and better product availability. Management expects a normalized year for 2024 with ticket growth up low single-digits due to increased part complexity. O'Reilly has a strong balance sheet and returns significant amounts of cash to shareholders through its buyback program.

The more challenged positions based on relative performance during the quarter were Nestle (Consumer Staples sector), Air Products (Materials sector), Starbucks (consumer Discretionary sector), Albemarle (Materials sector), and BlackRock (Financials sector).

Sentiment across the packaged food space is low as it emerges from two years of unprecedented food price inflation (not seen since the 1970s). High prices pressured volumes and margins industry-wide and caused consumers to trade-down to value and private label. We view Nestle as attractively positioned in categories that have stable, long-term volume tailwinds such as coffee, pet food, and nutritional health. We believe the stock can re-rate as volume-led growth returns, and the company continues to execute against profitability and operational goals.

Air Products' stock weakness continued in the first quarter as slower industrial production in the China and semiconductor markets is weighing on the base business. However, Air Products' take-or-pay contracts provide strong downside risk mitigation in these scenarios; weak end markets materialize as lower earnings per share growth rather than ex-growth. Air Products' multiple compressed significantly in past months to 19.5 times price to earnings which points to investor skepticism in both management's ability to execute competitively in the core business and in the capital allocation strategy focused on clean energy megaprojects.

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We spoke with the CEO this quarter and he is prioritizing the restoration of investor trust while also protecting the company's long-term strategy. We believe the stock is positioned to both re-rate as Air Products delivers consistent execution in the base business, and compound over time as offtake agreements offer tangible return profiles for megaprojects.

A handful of revenue headwinds weighed on Starbuck's results in the quarter. Boycotts due to conflict in the Middle East should be a shorter-term headwind to traffic. The dynamics in the China market may take a bit longer to shake out. Coffee entrants aggressively built up in China in the past few years, and since consumer spending has been slow to rebound there is a level of irrationality starting to creep into the market. That said, as the China consumer gains strength there should be plenty of whitespace for a more rational, tiered market to prosper. The U.S. loyalty base remains strong as ever, cost cutting measures are being pulled forward to counter deleverage from lower revenue, and cash flow is healthy and growing

Albemarle underperformed as lithium prices remain weak, driving soft guidance for 2024. At the same time, the longer-term demand outlook has dimmed as auto original equipment manufactures scale back ambitious electric vehicle plans. Albemarle has responded to price weakness by cutting costs and reducing capital expenditures plans, but near-term cash flow is under pressure. We view lithium price as unsustainably low and likely to revert upward with time. We remain attracted to Albemarle for its low position on the cost curve, and we continue to believe in the long-term growth of lithium demand.

BlackRock underperformed in the first quarter despite strong equity market performance, giving back some of its outperformance in the fourth quarter 2023. We do not see cause for concern on the fundamentals, just a lack of an immediate catalyst to drive continued momentum in the quarter. During the quarter, BlackRock announced a deal to acquire Global Infrastructure Partners, strengthening the alternatives offering. We view BlackRock as a long-term share gainer, and we appreciate the strong balance sheet and steady capital return.

In February, we trimmed the large position in Apple (Information Technology sector) and added to the existing position in Air Products.

We believe the outlook for Apple remains strong with slow growth in iPhone and faster growth in the higher margin services business. R&D will continue to drive new products and the company has over 2 billion installed devices around the world. Near-term earnings expectations appear reasonable, but the stock does trade at a high valuation based on near-term profits.

Shares of Air Products declined in 2023 and have been weak to start 2024. Headwinds from higher costs and the associated impact of cost inflation on expected returns from some of the company's largest projects resulted in a reduction in future earnings estimates. Fundamentally, Air Products is in a strong position to capitalize on the clean energy revolution due to their scale (human and financial resources), experience, technology, and customer relationships. Management has shown they will allocate capital efficiently and effectively by walking away from deals that do not meet return thresholds, while taking advantage of government policies, tax credits, and favorable green bond prices. Even though the company sells commodity gases, the company has a reasonable moat as gases are a small cost to customers, but vital to insure uninterrupted production. This allows Air Products to sign long-term customer contracts with high switching costs to clients. Demand for industrial gases is highly correlated with industrial production. The recent large purchase of Air Products shares by the CEO is a strong sign of conviction.

Outlook and Conclusion

Looking ahead, moderating inflation, signs of softening in the labor market, along with solid consumer spending suggest that the Fed could begin to reduce short-term interest rates later in 2024. We do not expect significant rate cuts from the Fed in the near-term, but we believe they will slowly reduce rates 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 low unemployment, rising wages, and lower inflation. Potential negatives include the impact of restrictive monetary policy over the last two years as well as the drawdown of savings accumulated by consumers during the pandemic. While the odds of a recession in the near term have declined, risks remain. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 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 portfolio 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 portfolio 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	**$291.0 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

	1Q24	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	7.96%	7.96%	20.08%	6.28%	9.74%	8.72%
C Shares	7.76%	7.76%	19.17%	5.51%	8.92%	8.07%
Y Shares	8.01%	8.01%	20.39%	6.56%	10.02%	8.99%
INST Shares	8.07%	8.07%	20.50%	6.66%	10.12%	9.10%
Benchmark	10.30%	10.30%	29.87%	10.45%	14.76%	12.42%
Including Max Sales Charge						
A Shares	2.56%	2.56%	14.08%	4.48%	8.62%	8.06%
C Shares	6.76%	6.76%	18.17%	5.51%	8.92%	8.07%

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)
1	Berkshire Hathaway Inc. Class B	7.0
2	Alphabet Inc.	6.2
3	Martin Marietta Materials, Inc.	5.4
4	Apple, Inc.	5.1
5	The Progressive Corp.	4.7
6	BlackRock Inc.	4.7
7	Visa Inc.	4.2
8	Fiserv Inc.	3.9
9	Home Depot Inc.	3.9
10	NewMarket Corp.	3.9

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.

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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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