

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 mid-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 Expenditures, 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, 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 (25bps 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 Mid Cap Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell MidCap® Index, for the quarter ended June 30, 2024.

The best performing sectors for the Russell Midcap Index were Utilities and Communication Services, while Consumer Staples and Health Care were the weakest sectors for the Index. Less exposure than the Index to Growth and Momentum factors, as well as headwinds from stock selection contributed to the underperformance.

During the quarter, both stock selection and sector allocation detracted from relative performance. At the sector level, an overweight position in Consumer Staples and an underweight position in Utilities hurt relative performance, partially offset by the positive impact of an underweight position in Health Care and an overweight position in the Consumer Discretionary sector.

Turning to stock selection, the best performing stocks based on relative performance versus the Index during the quarter were: Amphenol Corp. (Information Technology sector), Churchill Downs Inc. (Consumer Discretionary sector), AerCap Holdings NV (Industrials sector), Lennox International Inc. (Industrials sector), and M&T Bank Corp. (Financials sector).

Amphenol shares rallied after the company reported a strong quarter and laid out a compelling case for its AI opportunities. The book-to-build ratio improved sequentially and sales from its diversified end markets have held up. Amphenol continues to take share via new content wins. In addition, the company continues to consolidate its fragmented market. Amphenol is one of the few companies to have a long-term track record of successfully integrating acquisitions. As the leader in the connector industry, the company generates operating margins in the 20% range with high returns on capital.

Churchill Downs outperformed in the quarter as recent results exceeded expectations, and the 150th Kentucky Derby delivered growth above expectations as well. Additionally, in our view, the value creation from recent acquisitions is becoming clearer to the market. We continue to view Churchill as a high-quality business run by a management team with a track record of astute capital allocation and a strong pipeline of opportunities for continued growth.

AerCap continues to benefit from tight supply/demand conditions in the commercial aircraft market. However, we would note this is not unique to AerCap – companies with exposure to commercial aircraft supply chains/life cycle are generally outperforming. As a result, the company has been selling their older aircrafts at nice

gains on book, only to turn around and use those proceeds to buy shares at below book value. Our conviction on AerCap is founded on their market strength and the stellar management team.

Lennox International outperformed as management continues to execute well and exceed expectations, specifically on the commercial HVAC side of the business. We continue to have a favorable view of the HVAC industry broadly, and in our view, the relatively new management at Lennox International has earned credibility through excellent execution to date. We continue to see opportunities for improvement as Lennox International implements improvements on residential HVAC distribution and ramps production at its new commercial HVAC manufacturing facility in Mexico. Additionally, the recently announced joint venture with Samsung has potential to improve Lennox International's positioning in the ductless category, in which Lennox International has historically been under-exposed.

M&T Bank shares outperformed during the quarter after management made positive comments about the bank's commercial real estate exposure. In addition, stress test results for the bank overall were generally positive.

The more challenged positions based on relative performance during the quarter were: Bruker Corp. (Health Care sector), Pool Corp. (Consumer Discretionary sector), Lamb Weston Holdings Inc. (Consumer Staples sector), Dollar Tree Inc. (Consumer Staples sector), and NewMarket Corp. (Materials sector).

Shares of Bruker declined after the company reported weaker than expected revenue growth in its latest quarter. Additionally, the company announced the issuance of six million shares of equity to help fund recent merger and acquisition. We believe the company has been rightfully aggressive in seizing the opportunity to pick up some distressed assets for cheap, ones that will help further progress their Project Accelerate objectives. We continue to like the company's long-term growth prospects as they pivot toward high-end proteomics/genomics/single cell research.

POOL reported a weaker than expected quarter reflecting lower gross margins due to a mix shift in its business. Moreover, later in the quarter, the company updated guidance for worsening industry-wide demand for new pool construction and pool renovation. As a result, the stock performed poorly. We believe these are near-term headwinds, though we do not think that new pool construction activity will revert to pandemic highs. In the meantime, weak demand should put more stress on subscale peers, which should allow POOL to gain share, as they have historically done during challenging conditions.

Lamb Weston underperformed the broader market during the quarter due to headwinds from its recent enterprise resource planning rollout, and a reduction in near term guidance. Investors have overcapacity concerns as volumes at quick service restaurants have slowed. Price elasticity has remained low given the stability in fry attachment rates. Despite the short-term issues, we believe that this is one of the more attractive consumer staple companies with a clean balance sheet and industry-leading growth. We remain attracted to Lamb Weston's market share, pricing power, and industry tailwinds.

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Dollar Tree continues to face pressures from industry-wide issues such as weakness in the discretionary category and the ongoing battle with shrink. Despite these challenges, the Dollar Tree banner continued to gain market share. The management team is prudently allocating capital toward optimizing both footprint and store productivity. We believe these investments and operational initiatives will support higher returns going forward. In addition, we feel positively toward the company's announcement in June to explore strategic alternatives for the Family Dollar banner, which has been the largest culprit of value destruction in recent years.

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

In April, we trimmed a number of holdings including Old Dominion Freight Line Inc. (Industrials sector), Copart Inc. (Industrials sector), NewMarket Corp. (Materials sector) and Vulcan Materials Co. (Materials sector). Each holding was trimmed roughly 50 bps reflecting recent strength in the stocks. There is no change to our long-term thesis with each company. With the proceeds from the trims, we initiated a position in Tempur Sealy International Inc. (Consumer Discretionary sector), the leader in the mattress industry. Mattress volume has stabilized in recent months. Stable volume, along with pricing gains, have led to higher revenue for Tempur Sealy. In 2023, the company announced plans to acquire Mattress Firm, which has the potential to be materially accretive and strengthen the company's overall competitive position. Valuation remains attractive and robust free cash flow generation, strong brand equity, and solid management execution support our investment thesis.

In May, we added to our existing position in Tempur Sealy, reflecting our confidence in the long-term outlook for the business and our desire to reduce cash in the portfolio.

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 Mid Cap Fund generate much higher returns on capital, with stronger 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	05/14/07	TMAPX	89155H629	1.24%	1.23%
C Shares	05/14/07	TM CJX	89155H611	1.95%	1.95%
Y Shares	01/02/03	TMCPX	89155H793	0.95%	0.95%
Z Shares	04/24/06	TMCTX	89155H785	1.27%	1.23%
INST Shares	01/27/12	TMPIX	89155T649	0.89%	0.89%
R6 Shares	02/22/21	TMPRX	89155T490	0.84%	0.81%

Total Fund Assets \$5.5 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 1.21% for Class A Shares, 1.96% for Class C Shares, 0.96% for Class Y Shares, 1.21% for Class Z Shares, 0.89% for Class INST Shares and 0.79% 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	-6.20%	2.64%	11.74%	4.99%	9.56%	9.82%	10.76%
C Shares	-6.36%	2.28%	10.93%	4.24%	8.77%	9.17%	10.33%
Y Shares	-6.15%	2.76%	12.04%	5.27%	9.86%	10.10%	11.01%
Z Shares	-6.21%	2.62%	11.72%	4.98%	9.55%	9.81%	10.72%
INST Shares	-6.12%	2.81%	12.10%	5.35%	9.94%	10.18%	11.06%
R6 Shares	-6.11%	2.83%	12.18%	5.42%	9.96%	10.15%	11.03%
Benchmark	-3.35%	4.96%	12.88%	2.37%	9.46%	9.04%	10.93%
Including Max Sales Charge							
A Shares	-10.90%	-2.49%	6.15%	3.21%	8.44%	9.17%	10.45%
C Shares	-7.30%	1.28%	9.93%	4.24%	8.77%	9.17%	10.33%

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 Midcap® Index

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The performance presented for Class A, C, Z, INST and R6 Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 01/02/03, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund

	(% of Portfolio)		(% of Portfolio)		
1	Entegris Inc.	5.6	6	Otis Worldwide Corp.	3.7
2	AerCap Holdings NV	4.2	7	Amphenol Corp.	3.6
3	Churchill Downs Inc.	4.0	8	Lennox International, Inc.	3.5
4	Armstrong World Industries Inc.	3.8	9	Copart, Inc.	3.4
5	Fidelity National Information	3.7	10	STERIS PLC	3.3

Source: BNY Mellon Asset Servicing

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® 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 mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. 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. A fund that focuses its investments in the securities of a particular market sector is subject to the risk that adverse circumstances will have a greater impact on the fund than a fund that does not focus its investments in a particular sector. 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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