Touchstone Sands Capital Emerging Markets Growth Fund

Sub-Advised by: Sands Capital Management, LLC

Emerging Markets – Large-Cap Growth 4Q/2024

Fund Manager Commentary

As of December 31, 2024

Fund Highlights

- Seeks to identify leading growth businesses that meet the following criteria:
  – Sustainable, above-average earnings growth
  – Leadership position in a promising business space
  – Significant competitive advantages / distinctive business franchise
  – Clear mission and value-added focus
  – Financial strength
  – Rational valuation relative to the market and business prospects
- Concentrated, conviction-weighted portfolio typically holds 30-50 companies within global emerging markets
- Country and sector exposures are primarily a byproduct of individual stock selection

Market Recap

Emerging market equities (as measured by the MSCI Emerging Markets Index), (MSCI EM) experienced their largest quarterly decline since 2022's third quarter and underperformed developed market equities (as measured by the MSCI World Index) by the widest quarterly margin since 2021.

Taiwan, and in particular its semiconductor industry, was one of the few bright spots. India and China were the largest detractors from the MSCI EM's return and Brazil was the worst performing country.

Donald Trump's U.S. presidential election victory led to the largest quarterly rally in the U.S. Dollar Index since 2015. The victory also fueled investor concerns about potential tariff changes and geopolitical instability.

In Brazil, concerns about mounting debt intensified after the Brazilian government released a fiscal plan in November, which expanded income tax exemptions for 30 million citizens while implementing only minor spending cuts. To combat the potential for rising inflation, the Central Bank of Brazil responded with a 100 basis point rate hike and signaled additional increases. The Brazilian real also hit a record low against the U.S. dollar.

Overall, Information Technology was the sole sector contributor to the MSCI EM. Consumer Discretionary and Materials were the top detracting sectors.

Portfolio Review

The Touchstone Sands Capital Emerging Markets Growth Fund (Class A Shares, Load Waived) underperformed its benchmark, the MSCI Emerging Markets Index, for the quarter ended December 31, 2024.

The Fund's underperformance was largely driven by underperformance of its positions within the Financials sector. Overall, from a country perspective, Singapore and Korea were the top relative contributors, while Brazil and India were the top detractors. From a sector perspective, Communication Services and Materials contributed most to relative results, while Financials and Consumer Discretionary were the top relative detractors.

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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.***

Five of the top individual absolute contributors were Taiwan Semiconductor Manufacturing Co. Ltd. (Information Technology sector; Taiwan), Sea Ltd. (Communication Services sector; Singapore), Grab Holdings Ltd. (Industrials sector; Singapore), Globant SA (Information Technology sector; Argentina), and Dino Polska SA (Consumer Staples sector, Poland).

Taiwan Semiconductor's (TSMC) third-quarter 2024 results and guidance showcased strong continued demand for artificial intelligence (AI) chips. Revenue increased by 29%, and earnings saw a 54% rise year-over-year. Gross margins were at their highest since 2022, bolstered by price hikes and record utilization at both the 3nm and 5nm nodes. TSMC's full-year revenue outlook was revised upward from 25% to 30% growth. The company also anticipates higher capital expenditure in 2025, a leading indicator for revenue.

Meanwhile, TSMC's competitive position within the leading-edge chip fabrication industry has improved. The company noted that demand for its next generation 2nm (N2) node is considerably higher than for its predecessor, N3. Additionally, TSMC has more capacity for N2 than N3. This situation contrasts with Intel and Samsung, which both recently disclosed struggles in ramping up their leading-edge nodes. Together, Intel and Samsung account for approximately $25 billion of foundry revenue, which could potentially migrate to TSMC over time. Despite the positive momentum, shares remain rationally valued, in our view, at 22x 12-month forward earnings as of December 31, 2024. For context, the PHLX Semiconductor Sector Index and the Russell 1000 Growth Index both ended the year trading at 29x.

Sea reported another strong quarter, with all business segments generating profits with healthy topline growth. Shopee Brazil achieved positive EBITDA faster than expected—it took Shopee Brazil less than five years versus 7.5 years for Shopee Asia, and overall free cash flow generation hit an all-time high of $1 billion during the third quarter. Sea's blockbuster game FreeFire saw a surprising revival, reporting a 25% year-over-year increase in daily active users. The game was ranked by Sensor Tower as the most downloaded mobile game globally for the fourth consecutive quarter, and management meaningfully upgraded its full-year bookings growth guidance.

Despite the strong recent results, we continue to view Sea as having a favorable setup, owing to: 1) seemingly conservative sell-side expectations for 2025, 2) more diversified growth drivers and use cases within the digital financial services (DFS) business, and 3) growing interest by other institutional investors in Sea, and in particular the growth opportunity for DFS.

Grab's third-quarter results increased our confidence in the business' ability to balance growth and profitability. The company outperformed expectations across key areas, including food delivery and mobility, and raised its guidance for 2024 revenue and adjusted EBITDA. Highlights from the results include:

Food Delivery: Gross merchandise value (GMV) increased by 12% year-over-year, with margins improving to 1.8% of GMV, driven by reduced incentives and higher ad penetration.

Mobility: GMV grew 20% year-over-year, supported by increasing demand for premium rides, which also expanded margins to 8.8%.

Revised Guidance: Grab raised 2024 revenue growth expectations to 17% to 18% (from 14% to 17%) and adjusted EBITDA to $308 million to $313 million (from $250 million to $270 million).

Management is strategically reinvesting margin gains to broaden the product offering and enhance affordability, which it views as essential for expanding its total addressable market and strengthening competitive positioning. The results affirm Grab's ability to achieve growth without compromising profitability, thanks to operational efficiencies, reduced customer incentives, and higher-margin revenue streams like advertising and premium rides. Looking ahead, Grab sees substantial growth opportunities through:

User Base Expansion: Monthly transacting users represent only 5% of the Southeast Asia population, highlighting significant untapped potential.

New Segments: In mobility, the company is targeting premium rides, healthcare arrangements, and family services. For food delivery, Grab is exploring offline dining and discounted meal markets.

AI Applications: Innovations like its AI-copywriting tool, which enhances user engagement and significantly reduces content creation time, demonstrate Grab's focus on leveraging technology for efficiency and growth. We believe these initiatives, coupled with strong execution, position Grab to sustain growth and profitability improvements in the coming years.

The top individual absolute detractors included Nu Holdings Ltd. (Financials sector; Brazil), MercadoLibre Inc. (Consumer Discretionary sector; Argentina), Britannia Industries Ltd. (Consumer Staples sector; India), Anta Sports Products Ltd. (Consumer Discretionary sector; China), and AIA Group Ltd. (Financials sector; Hong Kong).

Nu Holdings shares fell in the fourth quarter along with the broader drop in Brazilian equities. Nu is vulnerable, in our view, to downward revisions to earnings estimates in the near term if Brazil's economy deteriorates, due to either higher credit losses or slower credit origination. In addition, the market and we continue to debate whether Nu's recently reported slowdown in credit card growth was attributable to product saturation or cautious credit management.

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Despite the near-term concerns, Nu continues to be a strong fit with our criteria. Earnings growth within its core market of Brazil is predicated on its ability to expand upon its existing customer relationships, rather than customer acquisition. Nubank now has over 100 million customers in Brazil and is the primary banking relationship for nearly a third of all Brazilian adults. Within this significant footprint, market shares in credit cards (16%), personal loans (9%), and secured loans (approximately 1%) suggest significant room for growth.

Meanwhile, in 2024's third quarter Nu achieved 30% return on equity, a record high, even when accounting for its loss-making newer markets such as Colombia and Mexico. Nubank remained the most profitable large consumer bank in Brazil. Nu ended 2024 trading at 18x forward earnings, its lowest valuation as a public company.

Britannia reported soft results as India consumption slowed. The combination of weak demand and rising raw material inflation hit Britannia's top and bottom lines, respectively. Strategic price increases are underway to help combat the gross margin pressure. These results were announced when Britannia's stock traded near all-time highs, based on 12-month forward earnings, resulting in the stock's retreat.

Despite the near-term weakness which could persist over the coming months we remain confident about the company's long-term prospect of consistent biscuit share gain and transition into a "total food company." Britannia's competitive positioning should continue to strengthen via distribution exponential and expansion and product innovation which, alongside persistent cost saving initiatives, we expect will enable the company to generate mid-teens earnings growth over the next five years.

MercadoLibre shares were also hit by weakness in Brazilian equities. While itis domiciled in Argentina, the business derives the bulk of its revenue from Brazil. Beyond the market headwinds, investors became concerned about reports that MercadoLibre is accelerating credit origination during a period of macro uncertainty. We appreciate the investor skepticism given the upfront costs (provisions and fintech investment) and path to profitability. However, in MercadoLibre's case, we are constructive about this decision given management's historical conservatism, stable non-performing loans and roll rates, improving margins on a product-by-product basis, and large data advantage and growing experience in lending that should continue to optimize its risk models.

In the fourth quarter the Fund completed the purchases of Al Rajhi Bank (Financials sector; Saudi Arabia), BYD Co. Ltd. (Consumer Discretionary sector; China), Full Truck Alliance Co. Ltd. (Industrials sector; China), and H World Group Ltd. (Consumer Discretionary sector; China). It completed the exit of Lam Research Corp. (Information Technology sector; U.S.).

Al Rajhi Bank is the world's largest Islamic bank and Saudi Arabia's largest retail bank, by market share. We view Al Rajhi as a best-in-class emerging markets banking franchise operating in a supportive environment for above-average credit growth over the next decade.

Saudi Arabia remains in the early days of diversifying and liberalizing its economy and society. Key goals of the government's Vision 2030 initiative include cultivating a consumer-driven economy, raising labor force participation, raising homeownership rates, increasing credit access for small and medium enterprises, and stimulating the domestic private corporate sector. These goals support growth in incomes, consumption, and credit demand.

As the country's leading retail bank, Al Rajhi is well-positioned to benefit from this change, in our view. Beyond the durable growth potential in mortgages, consumer credit, and small and medium enterprise financing, Al Rajhi's business model and customer base result in structurally low funding costs, high net interest margins, and high asset quality.

BYD is the world's largest manufacturer of new energy vehicles (NEVs) by volume. BYD, which stands for "Build Your Dreams," was founded as a rechargeable battery maker. It has since become the world's largest producer of NEVs, a category that includes battery electric and plug-in hybrid electric vehicles.

BYD is the clearest beneficiary of the shift from internal combustion engines to NEVs in China, in our view. NEVs surpassed 50% of all monthly new car sales in China for the first time in July 2024, and we expect NEV penetration to reach 80% by 2030. We believe this growth will underpin BYD's market share gains, and we estimate that the company will grow its share of China's overall market from 15% in 2024 to 25% by the end of the decade.

The company's vertical integration, cost leadership, localization strategy, and NEV product portfolio breadth position it well, in our view, to succeed outside of China as well. We expect volumes outside of China to grow from approximately 400,000 units in 2024 to 2 million by 2030, implying nearly 10% market share of global auto sales.

Full Truck Alliance (FTA) is China's leading digital freight platform, by market share. The business connects millions of truckers and shippers within the vast, highly fragmented, and nonstandardized truckload industry.

Benefits tend to disproportionately accrue to the leader within two-sided marketplaces. FTA has emerged as the leader within an industry with over 3,000 competing platforms, with 50% of all heavy-duty truckers in China regularly using its platform. FTA's reach provides price transparency, assurances, and matching efficiencies for both truckers and shippers, solving key pain points such as low asset utilization, delays, and payment insecurities in the spot market. Over the long run, FTA's earnings growth is underpinned by: 1) greater online penetration and evolving user behavior and, 2) higher monetization via FTA's high-margin trucker commission model.

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H World is China's largest hotel group by market share. The business commands 5% room share in a fragmented market dominated by independent hotels. H World primarily focuses on limited-service hotels, which offer basic amenities and services at lower prices. We believe H World will benefit from the continued formalization of China's hotel market, with consistency and quality supporting growth for chains. Key differentiating factors for H World include compelling products (especially the HanTing and Ji Hotel), the H Rewards loyalty program, differentiated technology capabilities (e.g., proprietary operating information technology system, smart robots, artificial intelligence assistants), and a diverse brand portfolio across pricing tiers. We expect these factors position H World to disproportionately benefit from rising brand penetration and industry consolidation.

In addition to top-line growth supported by industry expansion and consolidation, we expect margin expansion as H World's business mix evolves the higher-margin manchised and franchised hotel format, in which H World receives royalties and management fees without incurring initial investment and ongoing operating costs.

We exited Lam Research on valuation concerns. The stock's 12-month forward earnings multiple more than doubled from its 2022 low to the end of 2024's third quarter. This valuation reflected lofty expectations for artificial intelligence (AI) - driven dynamic random access memory (DRAM) demand and NAND flash memory capital expenditure. While both DRAM and NAND stand to benefit from AI use cases, we believe this is likely to be overwhelmed by a muted recovery in consumer categories and potential deterioration in Chinese semiconductor capital expenditure. The latter concern became more acute following ASML Holding's third-quarter 2024 earnings results, in which the business guided for its China revenue to fall by nearly 50% in 2025.

Looking past the valuation concerns, we maintain conviction in Lam's long-term earnings power, given its leadership position in etch and deposition wafer fabrication equipment and the longer-term demand and technology trends. DRAM and NAND growth can inflect with improvements and scaling in AI (e.g., more memory use in inferencing, new packaging technology to improve input and output between memory and logic chips) and etch and deposition will become more important with new gate-all-around transistor architecture. We also expect the business to be a primary beneficiary of the next PC and smartphone replacement cycle, though we have little visibility into the cycle's timing.

Overall portfolio positioning was largely unchanged. The largest absolute country exposures were to India and China, which together accounted for approximately 46% of the portfolio. The largest overweight was to Argentina (8% versus 0% for the MSCI EM), and the largest underweight was to Taiwan (10% versus 20%). The portfolio had holdings across 16 countries, versus 24 for the benchmark.

From a sector perspective, Financials and Consumer Discretionary were the largest absolute exposures, together accounting for approximately 44% of the portfolio. Consumer Discretionary was the largest overweight at 19% versus 13% for the benchmark. Materials was the largest underweight (0.7% versus 6% for the benchmark) and the portfolio had no exposure to Real Estate or Utilities.

Outlook and Conclusion

We continue to believe that selectivity and a focus on long-term business fundamentals will be key for emerging market equity investors.

Over the past decade, the MSCI EM Index has lagged the returns of developed-market indices, including the Russell 1000 Index and the MSCI EAFE Index. This has occurred even despite faster economic growth among the MSCI EM's largest country constituents. This underperformance, coupled with a seeming lack of diversification benefit amid periods of broader equity market stress, has caused some to question the benefit of emerging market equity exposure.

We continue to find businesses that meet our criteria in emerging markets. Below are some of the key considerations for investors, in our view:

- The index's results obscure the attractive investment results from a select group of businesses over the period.
- Emerging markets can have market structures that uniquely enable local monopolies to exist, while dissuading competition.
- Emerging market equities can provide access to differentiated growth drivers, given differing levels of development relative to developed markets.
- Meaningful emerging market growth opportunities might not be captured in the MSCI EM.
- ESG improvement and engagement impact could be greater in emerging markets than in developed markets.

Emerging markets had an admirable 2024, rising 7.5%. This contrasts with their 10-year annualized return of merely 3.6%. However, emerging markets continued to lag developed markets, with the MSCI EM underperforming the MSCI World Index for the fourth consecutive year and for the sixth out of the last seven years. We appreciate that investors may continue to question "why bother" with emerging market equities given this prolonged period of underperformance.

Despite lagging developed markets over the last several years, we continue to have optimism for the emerging markets asset class and especially for the businesses we own. Many of the headwinds facing emerging market equities are unlikely to persist, or be as strong, in the coming years, in our view. Meanwhile, we expect technology, market consolidation, and industry formalization to enable select businesses to better capitalize on emerging markets' attractive structural economic attributes.

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Our criteria continued to lead us to businesses with above-average earnings growth, as indicated by the return decomposition for the Fund versus the MSCI EM. In 2024, earnings growth accounted for the bulk of the Fund's total return. This earnings growth was accompanied in many cases by improving fundamental prospects since 2022's market low. Improvements include waning competitive intensity as higher rates forced rationalization, to operational choices that resulted in higher profitability.

Meanwhile, valuations are generally attractive. At the end of December over 60% of the Fund traded at a lower forward price-to-earnings (P/E) multiple than at the beginning of 2024, despite positive investment results for the Fund. In 2024, the median Emerging Markets Growth holding's forward P/E contracted 9%.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	11/16/18	**TSMGX**	89154Q141	1.57%	1.44%
C Shares	11/16/18	**TEGCX**	89154Q133	2.55%	2.14%
Y Shares	05/09/14	**TSEMX**	89154Q570	1.15%	1.15%
INST Shares	05/09/14	**TSEGX**	89154Q562	1.10%	1.05%
R6 Shares	04/26/21	**TSRMX**	89154M702	1.05%	1.01%
Total Fund Assets	**$2.0 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 1.43% for Class A Shares, 2.13% for Class C Shares, 1.21% for Class Y Shares, 1.04% for Class INST Shares and 1.00% for Class R6 Shares. These expense limitations will remain in effect until at least 09/30/25.

Share class availability differs by firm.

Annualized Total Returns

	4Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	-10.20%	2.32%	2.32%	-9.71%	0.02%	3.38%	3.37%
C Shares	-10.44%	1.50%	1.50%	-10.40%	-0.73%	2.60%	2.60%
Y Shares	-10.21%	2.63%	2.63%	-9.45%	0.34%	3.66%	3.66%
INST Shares	-10.14%	2.76%	2.76%	-9.37%	0.41%	3.75%	3.74%
R6 Shares	-10.14%	2.81%	2.81%	-9.33%	0.43%	3.71%	3.70%
Benchmark	-8.01%	7.50%	7.50%	-1.92%	1.70%	3.64%	3.09%
Including Max Sales Charge							
A Shares	-14.71%	-2.76%	-2.76%	-11.24%	-0.99%	2.85%	2.87%
C Shares	-11.34%	0.50%	0.50%	-10.40%	-0.73%	2.60%	2.60%

Benchmark - MSCI Emerging Markets Index

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The performance presented for Class A and C Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 05/09/14, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	Taiwan Semiconductor Mfg. Co. Ltd.	11.1
2	Mercadolibre Inc.	5.2
3	Tencent Holdings Ltd.	5.1
4	HDFC Bank Ltd.	4.8
5	Bajaj Finance Ltd.	4.7
6	Sea Ltd.	4.5
7	Apollo Hospitals Enterprise Ltd.	3.5
8	Nu Holdings Ltd.	3.5
9	ANTA Sports Products Ltd.	3.4
10	Britannia Industries Ltd.	3.4

Source: BNY Mellon Asset Servicing

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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 stocks of small- and mid-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. 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 may invest in equity-related securities to gain exposure to issuers in certain emerging or frontier market countries. These securities entail both counterparty risk and liquidity risk. The Fund invests in foreign, emerging and frontier markets securities, and 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 risks associated with investing in foreign markets are magnified in emerging markets, and in frontier markets due to their smaller and less developed economies. The Fund invests in growth stocks which may be more volatile than investing in other stocks and may underperform when value investing is in favor. 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 sub-adviser considers ESG factors that it deems relevant or additive along with other material factors. The ESG criteria may cause the Fund to forgo opportunities to buy certain securities and/or gain exposure to certain industries, sectors, regions and countries. The Fund may be required to sell a security when it could be disadvantageous to 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. 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. 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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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