Fund Manager Commentary

As of March 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) rose in the first quarter 2024 and have now traded higher in five of the last six quarters.

Taiwan – specifically Taiwan Semiconductor, the Index's largest weight – accounted for the bulk of the Index's return in the first quarter. Its fourth-quarter 2023 earnings report demonstrated high continued demand for high-performance chips.

India was another bright spot during the quarter, with the country reporting its fastest year-over-year GDP growth in six quarters and significantly exceeding consensus estimates.

Conversely, China was the Index's largest country detractor, and the MSCI China Index fell for the fourth consecutive quarter. Mixed economic data suggested that recent stimulus efforts didn't work, and that the official target of "around 5%" growth wouldn't be attainable through organic economic growth. Brazil was the second-largest country detractor from the MSCI EM.

From a sector perspective, Information Technology and Financials contributed most to the Index's rise, while Materials and Consumer Staples were the top detractors.

Portfolio Review

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

Key relative contributors included security selection within Brazil, the semiconductor & semiconductor equipment industry, and currency effect more broadly.

From a country perspective, Brazil and China contributed most to relative results, while India and Argentina detracted most. From a sector perspective, Information Technology and Communication Services were the top relative contributors, while Consumer Staples and Industrials were the top detractors.

Three of the top individual absolute contributors were Taiwan Semiconductor (Information Technology sector; Taiwan), Nu Holdings (Financials sector; Brazil), and ASML Holding (Information Technology sector; Netherlands).

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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.***

Taiwan Semiconductor's (TSMC) strong fourth-quarter 2023 results signaled a rebound in the semiconductor market – led by leading edge chips – and that the business remains a primary beneficiary from artificial intelligence (AI) demand.

Both revenue growth and first-quarter 2024 guidance exceeded consensus expectations. Management soft-guided for 2024 growth to be in the low-to-mid 20% range, versus the 20% growth expected entering the quarter. The business is seeing a strong rebound in semiconductor industry growth, citing healthier inventory levels. Easier year-over-year comparisons should also boost growth. Leading-edge demand remains strong, with TSMC expecting revenue for its 3-nanometer chip to more than triple in 2024.

Management expects AI-related revenue to grow 50% annually, ultimately accounting for 15% to 19% of all revenue by 2027. TSMC's energy efficiency and dependable technology roadmaps have helped it establish relationships with most – if not all – of the current AI innovators. Chip-on-wafer-on-substrate packaging capacity, a bottleneck in the AI chip manufacturing process, will increase twofold in 2024, which should enable more production capability.

We're confident that TSMC will maintain its technology leadership and continue to reap the benefits of growing demand for high-performance computing. Intel, its primary competitor, claims that the next-generation node it is releasing in 2025 will be superior to TSMC's. Even if Intel is able to achieve tech parity, we believe that TSMC's execution track record and focus on fabrication will enable TSMC to maintain its market-share leadership within leading-edge chip manufacturing.

Nu Holdings reported strong quarterly results, with the business reporting growth in its customer base and in monetization of that base via strategic cross-selling, all while controlling costs and mitigating credit risk.

In 2023's fourth quarter, revenue grew 66% and gross profit grew 98% year-over-year. Nu reported 94 million customers (up 36% year-over-year), with roughly 27% of Brazil's adult population using Nu as its primary bank. Return on equity in Brazil surpassed 40%, making it the most profitable large consumer bank in the country. The early delinquency ratio fell for the third consecutive quarter, demonstrating continued asset quality improvement. Deposits in Brazil grew 44% year-over-year, bolstering its funding base.

We don't model significant contributions from Nu's next acts in our model but are encouraged to see accelerating customer and deposit growth in Mexico and traction with payroll loan growth. Success in new geographies and products could result in material upside to our five-year earnings estimates.

ASML Holding's fourth-quarter 2023 results signaled the potential beginning of an upcycle for semiconductor capital expenditures.

The company reported its largest bookings number ever, driven by record memory intake. Book-to-bill, a leading indicator of demand trends that measures the ratio of orders received to orders filled, rebounded from 0.5 times in 2023's third quarter to 1.6 times. ASML reported a record $4.3 billion in memory-related bookings, driven by high bandwidth memory demand for AI purposes and rising manufacturing complexity for the latest dynamic random-access memory iteration.

ASML continues to operate as a chokepoint in one of the world's largest secular trends, in our view. We expect high double-digit annualized earnings growth over the next five years. We could see significant upside to our estimates, driven by both logic and memory demand, if large language models are integrated closer to their end users. Several companies highlighted the need for more local computing power in personal computers and smartphones, which could result in a generative AI upgrade cycle within consumer electronics. This would require significantly more chips, and in turn, equipment to manufacture those chips.

Three of the top individual absolute detractors were HDFC Bank (Financials sector; India), AIA (Financials sector; China), and Jubilant Foodworks (Consumer Discretionary sector; India).HDFC Bank shares traded lower after the business reported quarterly results. The business was adversely affected by an unusually tight liquidity environment, complicating the path toward gradual normalization of loan growth and margins following the 2023 merger with Housing Development Finance.

The key metric we're watching is deposit mobilization, which has historically been a key strength for HDFC Bank given its transaction banking platform. Going forward, HDFC Bank needs to increase the pace of deposit mobilization to replace the borrowings it inherited from Housing Development Finance, to support the growth of the much larger combined entity, and to normalize its credit-to-deposit ratio. This task becomes more difficult when system-wide liquidity is constrained, as experienced in recent quarters.

On a positive note, in early April, the business provided an update demonstrating strong deposit growth in the quarter ending March 31, 2024. These results should allay investor concerns about HDFC Bank's deposit-gathering capabilities and reinforced our positive view about HDFC Bank's execution ability. The results also suggested that recent system-wide liquidity challenges are more of a transient issue, though it may take a few more quarters to normalize.

Taking a longer-term view, we believe that the near-term headwinds are overly discounting the long-term benefits from the recent merger of HDFC Bank and Housing Development Finance. These include a stronger, more diversified, and less risky lending business; operational and cross-sell synergies; and an enhanced competitive moat from scale and scope. The business remains among our highest-conviction emerging-market financials businesses.

AIA shares fell in the first quarter. Poor global investor sentiment for Chinese stocks continued to pressure AIA's stock, which we view as increasingly dislocated from fundamentals.

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The business' fourth-quarter results were strong, with value of new business growth and margins topping consensus expectations. Growth in Hong Kong and mainland China – key drivers of our investment case – were up 82% and 20% year-over-year, respectively, driven by accelerating agency recruitment, rising agency productivity, and growing bancassurance partnership contribution.

Management didn't commit to extending its stock buyback program that will expire in 2024's fourth quarter, which was one negative from the quarter. That said, management did mention its ongoing review of the capital structure, including optimization of investment in new business and shareholder returns. While we are cautiously optimistic that the company could extend the program later this year, we agree with management that capital return consideration should be balanced with new business investments, which AIA's CFO disclosed as generating internal rates of return in excess of 20% and with short payback periods.

AIA remains one of our highest-conviction businesses with operations in China. We expect it to continue to benefit from the secular tailwind of life insurance adoption across Emerging Asia. Meanwhile, the stock ended the quarter trading well below its ten-year average price-to-book and price-to-earnings ratios, offering what we view as an attractive risk/reward profile.

Jubilant Foodworks reported disappointing quarterly results, with its seventh consecutive quarter of decelerating revenue growth. Overall sales rose a mere 3% (like-for-like sales declined 3%) and earnings fell 31% year-over-year. Delivery's 6% like-for-like growth was offset by a 6% decline in dine-in. Gross margins rose both year-over-year and sequentially due to cost controls and moderating cheese prices, but EBITDA margin fell due to high fixed costs and negative operating leverage.

We are closely monitoring the business and industry, and balancing what we view as near-term weakness with a still-attractive long-term growth opportunity. The business isn't immune to consumption slowdowns or competition, which is expanding its reach via aggregators. Meanwhile, the stock remains expensive relative to its history, on a next twelve months' price-to-earnings basis. That said, Jubilant estimates that pizza is a $1 billion market in India, with Domino's commanding 70% share. Roughly two-thirds of India's overall food services industry remains informal, suggesting plenty of room for growth; we estimate Jubilant can add 200 stores per year for the next five or more years.

In the first quarter we purchased HDFC Life Insurance and Bank Rakyat (both Financials sector; India and Indonesia respectively). We exited ICICI Prudential Life Insurance (Financials sector; India) and Wuxi Biologics (Health Care sector; China).

Bank Rakyat is Indonesia's oldest bank and the country's largest microfinance lender, by market share. Indonesia's largely informal economy is fueled by micro loans, or small loans that facilitate the working capital needs of small enterprises and low-income individuals. Bank Rakyat has commanded over 50% market share in microlending over the past decade and now has a near-monopolistic position following the acquisitions of Pegadaian and Permodalan Nasional Madani in 2021.

Microfinance remains the most profitable lending product in Indonesia and accounts for the bulk of Bank Rakyat's interest income and operating profit. In addition to high yields, Bank Rakyat's microfinance business benefits from cheap funding via the bank's large deposit base and relatively low loan losses across economic cycles.

Bank Rakyat is a former fund holding that we are reembracing. We sold the business in 2018 on concerns that government-subsidized lending (Kredit Usaha Rakyat, or KUR) was cannibalizing more profitable commercial micro lending. We no longer have those concerns, as we believe the KUR program has reached saturation among Bank Rakyat's customer base, as shown by its gradual decline as a percentage of the company's overall micro loan book since 2021.

We view Bank Rakyat as a complement to Bank Central Asia, an Indonesian bank already held in the Fund. Bank Rakyat is more of a yield-driven lending business, while Bank Central Asia's competitive advantage resides in its transaction banking leadership. The customer bases also differ, with Bank Rakyat primarily serving rural and less-affluent urban customers, while Bank Central Asia focuses on the urban middle class and commercial enterprises.

Underpinning both businesses is what we view as an attractive macroeconomic backdrop. Indonesia is well positioned for mid-single-digit real gross domestic product growth over the next decade, supported by a stable policy environment, improving economic management, lower external financing vulnerabilities, and growing regional geopolitical influence.

HDFC Life Insurance is one of India's largest life insurance providers. It is the country's market-share leader for protection products, which include term life and credit-linked life insurance.

We expect durable demand for life insurance in India over the next decade, driven by rising incomes, urbanization, and financial inclusion and awareness. Less than 15% of the Indian population is covered by life insurance policies, and one of the Vision 2047 project's goals is to insure every Indian by 2047. We expect private-sector insurers to capture much of this growth; the state-owned Life Insurance Company of India has ceded over 30% of market share since the industry was privatized in 2000.

Within this growing industry, we believe that distribution capabilities will be the most critical determinant of market leadership, given the lack of differentiation in insurance policy terms and leading private-sector insurers' brand equity. The 2023 merger of parent company HDFC Bank and Housing Development Finance – which premerger were the country's largest private-sector bank and mortgage lender by market share, respectively – provides HDFC Life Insurance with a formidable distribution footprint.

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We funded our purchase of HDFC Life Insurance with our exit from ICICI Prudential Life Insurance (IPRU).

Our initial investment case hinged on IPRU's ability to deliver premium growth and margin expansion in part by leveraging its partnership with ICICI Bank, its parent company. However, ICICI Bank limited the distribution of long-term savings products at its bank branches. For context, such products account for nearly 75% of IPRU's annualized premium equivalent. The lack of support from ICICI Bank led IPRU to rely more heavily on independent distribution channels, in which it faces more price competition and, in turn, lower margins. This makes IPRU a weaker fit with our criteria.

In addition to the distribution challenges, IPRU's CEO and CFO both left the company in 2023, driving further uncertainty about IPRU's strategic direction and the quality of the new leadership team.

We exited Wuxi Biologics, due to increased geopolitical and regulatory challenges, which undermine our conviction in the company's ability to meet our above-average growth and financial strength criteria.

U.S. lawmakers introduced bills in February seeking to curtail the role of Chinese "biotechnology companies of concern" in the U.S. biopharmaceutical supply chain, specifically naming Wuxi Biologics and its sister company Wuxi Apptec. From a national security perspective, the U.S. Congress is primarily concerned about any transfer of genomic data to Chinese companies, which may ultimately be shared with an adversarial government.

For context, Wuxi Biologics derived nearly half of its revenue from U.S. based projects in 2023's first half. While geopolitical risks have risen for many Chinese companies in recent years, we believed that biotech would be an exception, given the industry's vital role in delivering life-saving treatments for human diseases globally. Moreover, given that China produces and exports approximately 40% of the world's active pharmaceutical ingredients, any regulation in biomedicine would be highly disruptive to a mission-critical industry. However, U.S. policymakers appear to increasingly view the biotech industry from the lens of national security (namely, personal data) and supply chain security (namely, overdependence on an adversarial nation).

We do not believe Wuxi Biologics has access to patient-level genomic data from U.S. clients, nor does it engage in noncommercial activity with the Chinese government. However, given our view that these geopolitical issues are likely to persist, we determined that exiting was the most prudent course of action.

Overall, portfolio positioning was largely unchanged. The largest absolute country exposures were to India and Brazil, which together accounted for approximately 45% of the portfolio. The largest overweight was to India, and the largest underweight was to China. The portfolio had holdings across 14 countries, versus 24 for the Index.

From a sector perspective, Financials and Consumer Discretionary were the largest absolute exposures, together accounting for nearly 50% of the portfolio. Materials was the largest underweight and the portfolio had no exposure to Real Estate or Utilities.

Outlook and Conclusion

Earnings drove the bulk of the returns since the end of 2022, and we're optimistic about a continued earnings-driven recovery. Many of our businesses have seen their fundamental prospects improve, from waning competitive intensity as higher rates forced rationalization, to operational choices resulting in higher profitability. We're optimistic that many of the pandemic's "bullwhip" dynamics that distorted typical supply and demand signals – and drove doubt about many growth businesses' ability to profitably expand – are subsiding. Meanwhile, valuations are generally attractive, given the portfolio's earnings-led rise. Approximately 60% of the portfolio traded at a lower price-to-earnings multiple at the end of March than at the end of 2022.

We continue to seek businesses with high degrees of financial strength, including robust cash balances, strong unit economics, and less debt than the average MSCI EM constituent. While a global recession didn't materialize in 2023, financial strength could become a competitive advantage if the economic environment worsens.

We cannot predict when absolute returns will improve for the asset class. We can, however, envision the secular trends that should have beneficial effects. In our view, some of the most enduring investment opportunities can arise from companies that are well positioned at the intersection of underlying change and/or innovation.

These secular changes include a large, growing middle class of consumers in India in particular, digital transformation and artificial intelligence, reshoring of supply chains, retail formalization and increased banking penetration, electrification of and decarbonization of industries. They can underpin durable, above-average earnings growth potential for a select group of leading businesses that are strong fits with our six investment criteria. While earnings growth may or may not matter for stocks in the near term, it remains the primary determinant of long-term value creation.

Fund Facts

				Annual Fund Operating Expense Ratio	
Class	Inception Date	Symbol	CUSIP	Total	Net
A Shares	11/16/18	**TSMGX**	89154Q141	1.66%	1.61%
C Shares	11/16/18	**TEGCX**	89154Q133	2.57%	2.36%
Y Shares	05/09/14	**TSEMX**	89154Q570	1.30%	1.30%
INST Shares	05/09/14	**TSEGX**	89154Q562	1.24%	1.24%
R6 Shares	04/26/21	**TSRMX**	89154M702	1.19%	1.19%
Total Fund Assets	**$2.2 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 1.60% for Class A Shares, 2.35% for Class C Shares, 1.35% for Class Y Shares, 1.25% for Class INST Shares and 1.19% for Class R6 Shares. These expense limitations will remain in effect until at least 07/29/24.

Share class availability differs by firm.

Annualized Total Returns

	1Q24	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	3.05%	3.05%	7.18%	-12.11%	1.97%	3.71%
C Shares	2.85%	2.85%	6.43%	-12.76%	1.22%	2.94%
Y Shares	3.16%	3.16%	7.57%	-11.82%	2.29%	4.00%
INST Shares	3.21%	3.21%	7.67%	-11.75%	2.37%	4.08%
R6 Shares	3.21%	3.21%	7.66%	-11.73%	2.35%	4.03%
Benchmark	2.37%	2.37%	8.15%	-5.05%	2.22%	2.82%
Including Max Sales Charge						
A Shares	-2.07%	-2.07%	1.79%	-13.60%	0.93%	3.17%
C Shares	1.85%	1.85%	5.43%	-12.76%	1.22%	2.94%

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.	8.0
2	Mercadolibre Inc.	6.5
3	Nu Holdings Ltd.	5.6
4	Bajaj Finance Ltd.	5.2
5	HDFC Bank Ltd.	4.1
6	Titan Co. Ltd.	4.0
7	Britannia Industries Ltd.	3.6
8	ANTA Sports Products Ltd.	3.4
9	ASML Holding NV	3.4
10	Apollo Hospitals Enterprise 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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