Touchstone Sands Capital Select Growth Fund

Sub-Advised by: Sands Capital Management, LLC

U.S. Equity – Large-Cap Growth

As of 03/31/2024

Fund Manager Commentary

As of March 31, 2024

Fund Highlights

- Identifies leading companies with dramatic wealth creation potential, focusing on six key investment criteria:
  - Sustainable, above-average earnings growth
  - Leadership position in a promising business space
  - Significant competitive advantages
  - Clear mission and value-added focus
  - Financial strength
  - Rational stock market valuation
- Emphasizes investments in large-cap companies
- Typically holds 25-35 companies

Market Recap

The momentum that built in equity markets in 2023 carried into the new year as growth equities (as measured by Russell 1000® Growth Index) advanced for their fifth consecutive month. The prospect of easing monetary policy, continued enthusiasm surrounding the potential impact of artificial intelligence (AI), and strong profits in key growth sectors and businesses were all supportive of the extended rally in growth equities.

Corporate profits for the Russell 1000 Growth Index advanced 26% year-over-year in the fourth quarter. Persistent demand for the infrastructure required to support AI contributed to earnings growth, punctuated by results from NVIDIA that revealed sales of its Graphical Processing Units (GPU) continue to accelerate. Importantly, the index's largest weights tended to report strong earnings in aggregate that, in most cases, exceeded consensus estimates.

Equities overcame expectations for a more restrictive path of monetary policy. Following the highest monthly increase in the Consumer Price Index since September and much stronger-than-expected employment gains, several U.S. Federal Reserve (Fed) officials commented that greater evidence that inflation is easing will be required before an interest rate cut. As a result, market pricing now implies three rate cuts in 2024, compared to expectations for a more aggressive trajectory of rate cuts entering the year. Despite the likelihood that rates will stay "higher-for-longer," bond market volatility fell to its lowest level in two years, creating a more favorable environment for equities.

Gains in growth equities favored the shares of many high quality businesses with strong share price momentum. Highly profitable, mega-capitalization businesses with strong balance sheets tended to outperform the broad market with the strongest returns seen in businesses exposed to artifical intelligence, especially within the semiconductor industry. Higher volitility market segments, including small capitalization and unprofitable businesses, lagged the broad market. Notably, there was significant dispersion in the returns of the Magnificent Seven businesses, which closely tracked changing expectations for 2024 earnings growth.

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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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Portfolio Review

The Touchstone Sands Capital Select Growth Fund (Class A Shares Load Waived) outperformed its benchmark, the Russell 1000® Growth Index, for the quarter ended March 31, 2024.

Security selection was the primary contributor to results relative to the Index. Selection aided relative performance in six of the strategy's eight sectors with the effect most pronounced in the Communication Services and Consumer Discretionary sectors. Positioning in the index's six largest businesses was a strong contributor to relative returns.

Three of the top individual absolute contributors were NVIDIA (Information Technology sector), Meta Platforms (Communication Services sector), and Nu Holdings (Financials sector).

NVIDIA was the top absolute contributor as it continued to emerge as the primary beneficiary of demand for the infrastructure required to enable generative AI. NVIDIA exceeded consensus' lofty expectations for the quarter, with 265% revenue growth year-over-year (22% sequentially) and 487% earnings growth (28% sequentially). Gross margin and operating margin were 77% and 67%, respectively, improving both year-over-year and quarter-over-quarter.

In March 2024, NVIDIA unveiled its new Blackwell chip architecture. NVIDIA disclosed that technical innovations in both chip architecture and system design enable 30 times better inference and 4 times better training capabilities. With this announcement, NVIDIA is betting on the adoption of much larger and complex models.

We continue to view NVIDIA as one of the most important growth businesses globally, and one that CEO Jensen Huang believes will drive a "new industrial revolution." NVIDIA's revenue guidance for the next quarter implies a $80 billion annual data center run rate, which we think will rise to $100 billion in the following quarter. Longer term, we project over $300 billion in annual data center revenue by 2030, which assumes 50% annualized compute demand growth and a take rate for NVIDIA between 20% and 25%. Data centers' transition to accelerated computing is a key growth driver; historically data centers consisted almost entirely of central processing units (CPUs), which are general purpose. GPUs like NVIDIA's are more suited for large language model training and inference given their parallelized nature and can be used to accelerate other data center workloads. We see a continued shift to GPUs given the limitations of CPU's capabilities, and the Blackwell announcement demonstrates to us the potential for generative AI to be applies to nearly every industry globally. NVIDIA's growth comes at what we view as an attractive valuation, at 35 times next twelve months' price-to-earning as of March 31, 2024.

Meta Platforms shares rallied after fourth quarter business results exceeded expectations with clear signs the business is seeing returns from its recent investments in AI. The fourth quarter results revealed 25% year-over-year revenue growth. This translated into 73% earnings per share growth in 2023 as operating leverage benefitted the business in its "year of efficiency." Sales, earnings, and management guidance for first quarter revenue exceeded consensus estimates. Improving engagement and monetization per user contributed to results, indicating that Meta is seeing attractive returns from its recent AI-focused capital expenditures, in our view.

Looking forward, we believe the business' leadership position in the deployment of AI for content recommendation and in the performance measurement and targeting of advertising positions it to benefit from an accelerating pace of content creation enabled by AI. We expect this to drive a virtuous cycle of higher engagement and advertising demand which, coupled with a renewed focus on identifying cost efficiencies, will result in sustainable above-average earnings growth, in our view.

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.

Three of the top individual absolute detractors were Snowflake and Atlassian (both Information Technology sector), and 10x Genomics (Health Care sector).

Snowflake shares retreated following the release of fourth quarter business results. The primary catalysts for the decline were the announcement that CEO Frank Slootman will retire effective immediately, and an initial guide for fiscal year 2025 revenue that came in well below expectations.

Management guided to 22% revenue growth for fiscal year 2025. This fell well below expectations for 31% growth and would represent an 11-percentage point deceleration from the fourth quarter exit rate. This guidance appeared to conflict with stronger-than-expected bookings and easing optimization headwinds. Management noted guidance was an attempt to bake in conservatism that reflects the challenging macro-environment of the past six quarters and performance improvements at cloud hyperscalers that will weigh on revenue.

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The other major news was the retirement of Frank Slootman and promotion of Sridhar Ramaswamy as his replacement. Mr. Slootman served as CEO since 2019 and was an integral part of helping productize Snowflake's technology and build its go-to-market engine. Mr. Ramaswamy joined the firm nine months ago following the acquisition of Neeva – an AI search business he co-founded in 2019. Prior to Neeva, Mr. Ramaswamy spent 15 years at Google in leadership roles. With a strong background in AI, we speculate Snowflake's board may have wanted more of a technologist to guide the company through its next wave of growth. Mr. Slootman will remain Chairman of the Board.

Our immediate research will evaluate the cause of lower-than-expected guidance and possible execution risks that may come with the transition in CEO. With easing optimization headwinds and strong bookings suggesting growth should not slow to the degree the guidance suggests in 2025, we will seek to better understand if the guidance is due to other factors, like increasing competition. As it relates to the CEO transition, we're encouraged by Mr. Ramaswamy's product background and experience running large businesses yet will focus our efforts on evaluating his ability to execute.

Atlassian shares retreated following its earnings announcement for the quarter ending December 31, 2023. In our view, the market's fixation on cloud revenue (as opposed to subscription revenue) is creating short-term volatility, while overall results were encouraging and broadly in-line with expectations. Subscription revenue (cloud and data center combined) exceeded consensus expectations, growing 31% year-over-year with an increased focus on efficiencies leading to 400 basis points expansion in operating margin. However, shares were pressured by cloud revenue falling in the mid-point of guidance (as opposed to coming in above) and a reduction in the high-end of guidance for 2024 cloud revenue.

In our view, the market reaction was nearsighted. As long-term shareholders, we should be indifferent to whether server revenue migrates to cloud or data center in the short-term. Over the next three years and beyond, we believe data center customers will continue to migrate to the cloud at a two-to-four times uplift in pricing on average. In our view, this could provide $1.5 to $4 billion in incremental revenue over our five-year horizon.

In the coming quarters, we see several tailwinds for the business emerging, including a slowdown in layoffs and eventual resumed headcount growth across the customer base, improving conversions from the free tier, continued pricing power enabled partly by AI capabilities, and more cloud migrations driving further revenue uplift from existing customers. Combining these dynamics with slowing growth in operating expenses, we anticipate over the next five years the business can achieve our 25% to 30% long-term free cash flow growth estimate with margins that we expect to approach 35%.

10x Genomics shares traded lower due to weakness in its single-cell business that contributed to the firing of its Chief Commercial Officer (CCO). We acknowledge a likely slower growth trajectory for its single cell-business yet see the potential for a new commercial strategy to reinvigorate that business. More importantly, we project inflecting demand for its spatial analysis tools will offset weakness in its single-cell business and contribute to sustainable above-average earnings growth.

The firing of 10x Genomics' CCO follows stagnant growth in the business' single-cell product (roughly 70% of revenues) over the past two years. This is partly due, in our view, to a genomics industry that has suffered from a slow re-ramp of projects following COVID induced shutdowns, supply chain issues and rising input costs creating obstacles to finishing experiments, labor shortages, and the trickle-down effect of bio-pharmaceutical funding delays. We view the business' strategy to maintain high prices as another impediment to unlocking the elasticity of demand that would come from lower prices.

We continue to monitor the ability of 10x Genomics to reestablish growth in its single-cell business yet are encouraged by our growth expectations for its spatial analysis tools. Spatial analysis of genomics data has the potential to result in greater scientific discovery, drug development, and diagnostic applications and our channel checks indicate demand for these tools is underappreciated. Incorporating these insights, we project 10x Genomics' spatial analysis tools will grow at a 45% annual rate over our five-year horizon, offsetting the slower growth trajectory of single-cell and becoming the largest growth driver for the business by 2027.

In the first quarter, we purchased ASML Holding (Information Technology sector) and sold Match Group (Communication Services sector).

ASML Holding is the world's largest vendor of semiconductor production equipment by revenue. It is a global market-leading supplier of lithography equipment, which uses concentrated light to imprint circuit patterns onto silicon wafers. Extreme ultraviolet (EUV) lithography systems – a critical manufacturing component for the world's most advanced, or leading-edge, microchips – are ASML's primary product by revenue and what we expect to be its biggest growth driver. EUV systems print the most intricate layers on microchips using a wavelength of just 13.5 nanometers, and ASML is the world's sole provider of this technology. We expect unit and pricing growth of ASML's EUV systems to be driven by the increased manufacturing complexity of semiconductors, given the growing computing power demanded by data centers, connected devices, personal computers, and other use cases. We view ASML as a toll taker on an open-ended growth opportunity, as the proliferation of AI drives demand for chips that require ASML's exclusive technology.

We sold Match Group, due to a deteriorating fit with our first (sustainable above-average earnings growth) and fourth (clear mission and value-added focus) investment criteria.

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Match Group was purchased in 2018, based on our investment thesis that it would grow its user base and increasingly monetize those users. From our estimates as of March 2024, this opportunity remains significant, as 25% of global singles regularly use its family of apps, yet less than 5% of those singles are paying users. While Match Group executed on our investment thesis for years following our investment, more recently, progress has stalled.

From 2020 through today, Tinder – Match Group's highest revenue-generating affiliate – has had five CEOs. In our view, the business initially displayed impressive resilience in growing through the turnover in management. However, over time, these transitions appeared to have resulted in development delays, stagnation in the product, and, ultimately, a deterioration in usage. While there is a plan to return Tinder to growth, we don't see one "silver bullet" and lack conviction that growth will return in a reasonable time frame. There are other businesses for which we have higher conviction in their long-term prospects. As a result, we chose to sell Match Group.

Our sector exposures are largely a byproduct of our bottom-up investment process, and below was the portfolio positioning at the end of the first quarter:

The Information Technology sector represents nearly half of the portfolio—the largest absolute sector weight and a modest benchmark-relative overweight. The portfolio holds 10% to 14% weights in the Communication Services, Consumer Discretionary, Financials, and Health Care sectors and has no exposure in the Consumer Staples, Energy, Materials, and Utilities sectors.

Outlook and Conclusion

Since early 2023, the Fund has increased exposure to businesses we view as well positioned to benefit from the adoption of generative AI. We believe AI is a true paradigm shift—the first major one since the changes set in motion by the adoption of software-as-a-service, cloud computing, and smartphones. When a shift begins, we have found that phase one of value creation tends to be in hardware and infrastructure. Without this foundational layer, nothing else can be built. In this paradigm shift, significant computing power is needed, which is driving demand for GPUs. As such, the Fund is positioned with exposure to the primary provider of GPUs and capital equipment and consumable providers in the semiconductor value chain. Moreover, we expect our holdings in cloud infrastructure providers to benefit as AI accelerates the shift to cloud computing and have positioned the portfolio based on this view.

We view AI as one of several secular themes supporting the growth of portfolio holdings, as detailed below:

Emerging Internet Leaders

Digitalization of the economy continues, and the next generation of internet businesses is disrupting the status quo by reducing transactional frictions, increasing transparency, and eliminating inefficiencies. These companies are focusing on large verticals and building industry-specific solutions that result in a better customer experience while reinforcing their competitive moats. Portfolio beneficiaries include CoStar Group, DoorDash, Meta Platforms, and Uber.

The Future of Computing

Demand for computing power is accelerating far faster than most appreciate, in our view with new use cases created by AI and machine learning, Internet-of-things, and the metaverse. This demand will require new and more efficient ways to access, store, manipulate, and process data.

Enabling technologies are becoming increasingly complex and require higher manufacturing intensity. This is resulting in pricing power for select businesses positioned at key chokepoints in the semiconductor value chain. Portfolio beneficiaries include Amazon, ASML Holding, Microsoft, and NVIDIA.

Life Sciences Innovation

Over the next decade, we view genes and genomics, minimally invasive technologies, consumerization of health care, the humanization of pets, and globalization of innovation as the most important secular trends in life sciences. We focus on investing in businesses that are changing the standard-of-care, providing best-in-class "picks and shovels" to biopharma and life science researchers, and meaningfully improving access and cost in healthcare delivery. Portfolio beneficiaries include Align Technology, Dexcom, Edwards Lifesciences, and Ultragenyx Pharmaceutical.

Shifting IT Spend from Maintenance to Agility

Information Technology spending continues to shift toward innovations that make enterprises more agile and efficient. In the last decade, cloud-based software disrupted legacy, on-premise systems within well-defined market opportunities. The next generation of Software-as-a-Service leaders is enabling new businesses and processes, serving as the enablers of an increasingly digital-first economy. These businesses are often typified by user-driven adoption, consumption-based licensing, and competitive advantages driven by network effects and ecosystem partners. Portfolio beneficiaries include Atlassian, Datadog, ServiceNow, and Snowflake.

The impact of business fundamentals has begun to outweigh the influence of macro factors that weighed heavily on equity markets over the duration of the Fed's rate hiking cycle. Consistent with this dynamic, equities have advanced despite the year-to-date rise in treasury yields and the so called Magnificent Seven have begun to see a significant divergence in returns and fundamentals.

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The impact of improving fundamentals has been evident. Over the course of 2023 through today, earnings growth has been the sole driver of returns. During this period, margin expansion has contributed significantly to earnings as many businesses have restrained spending while seeing revenues stabilize or accelerate due to easing cloud optimization pressures, improving advertising revenues, product expansion, and/or demand for the infrastructure required to support AI.

Looking forward, we're encouraged by both the secular growth drivers and the business specific factors that we expect to influence earnings growth. Businesses in our portfolio remain, in our view, the leaders or emerging leaders in key areas of secular growth that, in some cases, are emerging from cyclical downturns and/or are expected to see accelerating growth due to demand for AI. Meanwhile, in the higher cost of capital environment, we are seeing many of these businesses strengthen their competitive position relative to weaker competitors, while emphasizing operational efficiency.

It's this mix of secular growth tailwinds, a more favorable competitive landscape, and business-specific growth drivers that we believe positions the Fund well to deliver above-average earnings growth.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	11/15/10	**TSNAX**	89155T847	1.20%	1.16%
C Shares	11/15/10	**TSNCX**	89155T839	2.05%	1.77%
Y Shares	08/27/04	**CFSIX**	89155H827	0.92%	0.92%
Z Shares	08/11/00	**PTSGX**	89155H819	1.25%	1.17%
Inst Shares	09/01/20	**CISGX**	89155T524	0.88%	0.81%
R6 Shares	09/01/20	**TSNRX**	89155T516	0.84%	0.75%
Total Fund Assets	**$2.8 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 1.13% for Class A Shares, 1.74% for Class C Shares, 0.90% for Class Y Shares, 1.14% for Class Z Shares, 0.78% for Class Inst Shares and 0.72% 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

	1Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	14.96%	14.96%	48.13%	-2.66%	10.57%	10.75%	6.96%
C Shares	14.76%	14.76%	47.32%	-3.29%	9.81%	10.07%	6.40%
Y Shares	14.97%	14.97%	48.52%	-2.43%	10.85%	11.02%	7.18%
Z Shares	14.95%	14.95%	48.08%	-2.70%	10.54%	10.74%	6.96%
Inst Shares	15.00%	15.00%	48.57%	-2.35%	10.83%	10.88%	7.02%
R6 Shares	15.13%	15.13%	48.84%	-2.27%	10.87%	10.90%	7.03%
Benchmark	11.41%	11.41%	39.00%	12.50%	18.52%	15.98%	7.39%
Including Max Sales Charge							
A Shares	9.23%	9.23%	40.75%	-4.31%	9.45%	10.09%	6.69%
C Shares	13.76%	13.76%	46.32%	-3.29%	9.81%	10.07%	6.40%

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 1000® Growth Index

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The performance presented for Class A, C, Y, INST and R6 Shares combines the performance of an older class of shares (Z Shares) from the Fund's inception, 08/11/00, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	Amazon.com Inc.	8.2
2	Microsoft Corp.	8.0
3	NVIDIA Corp.	7.3
4	Meta Platforms, Inc.	6.8
5	ServiceNow Inc.	5.8
6	Dexcom, Inc.	4.8
7	Visa Inc.	4.4
8	ASML Holding NV	4.3
9	Nu Holdings Ltd.	3.9
10	Block, Inc.	3.4

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund 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. 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. 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 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. 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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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