Touchstone Small Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Small-Cap Core

3Q/2024

Fund Manager Commentary

As of September 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 small-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 traded higher during the quarter ended September 30, 2024, with most of the major indices posting mid-single digit gains. The broader market, measured by the Russell 3000 Index, rose with small cap companies leading the way. The U.S. Federal Reserve (Fed) shifted to less restrictive monetary policy during the quarter and rate sensitive sectors rallied. There was a noticeable shift in market dynamics with leadership broadening to a wider range of sectors.

Yield and most of the Value factors posted the strongest returns while most of the Growth, Volatility, and Momentum factors presented headwinds. Quality factors had a mixed impact.

Economic data released during the quarter reflected stable growth. Consumer spending remained solid, driven by low unemployment, rising wages, and the wealth effect. However, the household savings rate continued to decline, and there was a noticeable increase in delinquency rates for credit cards and auto loans. While the latest estimate from GDPNow assumes some deceleration in the third quarter, the data still suggests solid growth with expectations of 2.5% real GDP growth (annualized).

Inflation continued to moderate during the quarter with both Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) results just above the Fed's long-term goal of roughly 2%. In September, total and core CPI posted year-over-year (y/y) gains of 2.9% and 3.2%, respectively. The three-month annualized rate of change was 2.1%. The Fed's preferred measure of inflation, core PCE, rose 2.7% y/y.

The U.S. housing market remained sluggish with declining existing home sales, but some improvement in homebuilding activity. Low levels of existing home inventory limited sales, while declining mortgage rates (30-year rate is now roughly 6%) boosted demand. Prices for existing homes rose 3.1% y/y in September, a deceleration vs. prior months.

The labor market remained strong, with some cracks beginning to form. The U.S. economy added over 500k net new jobs during the quarter, a deceleration from prior quarters, but still a respectable result. The U3 unemployment rate remained steady at 4.1% to end the quarter. The labor force participation rate also held steady, at 62.7%. Growth in average hourly wages rose 4.0% vs. the prior year. Importantly, while the labor market remains relatively strong, there are signs of weakening due to restrictive monetary policy over the last couple of years.

Results from the two main Institute for Supply Management (ISM) indexes paint a mixed picture. The ISM Manufacturing Index remained at 47.2 in September, suggesting contraction. The Manufacturing Index has been below 50 for 22 of the last 23 months. Meanwhile, the Services Index rose to 54.9, indicating expansion for the 49th time in 52 months. For both surveys, a reading below 50 suggests economic contraction while any score over 50 suggests expansion.

With regard to monetary policy, following two years of tightening from the Fed, policy shifted to a less restrictive stance during September. The combination of decelerating inflation (getting close to the Fed's 2% target), some weakening in the labor market (rising unemployment, slower wage growth, lower quits rate), along with stable economic growth (roughly 2% annualized real GDP growth), enabled the Fed to reduce the fed funds rate by 50 basis points (bps) to a range of 4.75 - 5.0%, in search of the neutral rate. While the neutral rate is not observable, we believe

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something in the 3.00 - 3.50% range is a reasonable estimate. We note that the Fed is very data dependent and expectations for changes in the fed funds rate can shift quickly. Currently, the futures market is pricing in a fed funds rate of close to 4.0% by the end of 2024 and 3.0% by the end of 2025.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 2000® Index, for the quarter ended September 30, 2024.

The best performing sectors for the Russell 2000 Index were Communication Services and Real Estate, while Energy and Information Technology lagged the broader market. After several years of strong relative performance, the Fund lagged its respective benchmark this quarter. Our exposure to companies with stronger balance sheets became a headwind to relative performance. Separately, some individual holdings faced near term headwinds. We maintain our conviction in those companies and believe they will rebound over time.

During the quarter, sector allocation had a positive impact on relative performance offset by stock selection. At the sector level, an underweight position in Energy and an overweight position in Real Estate had a positive impact on relative performance, partially offset by the negative impact of an overweight position in Information Technology and an underweight position in Financials.

Turning to stock selection, the best performing stocks based on relative performance vs. the benchmark during the quarter were Revolve Group Inc. (Consumer Discretionary sector), ACI Worldwide Inc. and ePlus Inc. (both Information Technology sector), Essential Properties Realty Trust (Real Estate sector), and Moelis & Co. (Financials sector).

Revolve's stock appreciated over 50% this quarter after reporting resilient quarterly earnings. Revolve returned to positive sales growth for the first time since 2022, in what is still a challenged consumer market. Margins continued to benefit from efforts to make Revolve's operations structurally more profitable. The company is staying abreast of industry developments and thoughtfully chasing reinvestment opportunities with an eye to the long-term. Our conversation with management in August confirmed this thesis.

ACI Worldwide continues to report fundamentally better results that leave us increasingly convicted in management's ability to achieve a sustainably higher rate of organic growth. A strong first and second quarter also helps to alleviate expectations in a seasonally back-half weighted business. ACI Worldwide generated more cash in the first six months of 2024 than in all of 2023, and cash is being returned to shareholders in the form of a buyback. Leverage is at its lowest point in 10 years.

ePlus reported solid quarterly results against tough comparisons and maintained guidance for the year. The company is delivering on the growth of its services businesses, which is positive for margin and stability. ePlus has an under-levered balance sheet and attractive opportunities to deploy cash into accretive tuck-ins or share repurchase.

Essential Properties Realty Trust, along with other REITs benefited as the Fed reduced short-term interest rates. The company continues to execute well. We are pleased with the way Essential Properties has managed the balance sheet while growing the real estate portfolio and avoiding significant credit losses. We remain confident in Essential Properties to deliver downside risk mitigation and an attractive total return over the long term.

Moelis outperformed during the quarter as the pace of mergers and acquisitions (M&A), led by some very large deals, appears to be recovering in the midst of a more favorable rate backdrop. About 75 - 80% of the company's business is tied to M&A advisory, so swings in deal flow tend to have outsized impacts on Moelis. We own Moelis due to its capital-light business model that produces high returns, strong execution, flawless balance sheet, and shareholder focus.

The more challenged positions based on relative performance during the quarter were White Mountains Insurance Group (Financials sector), Vontier Corp. (Information Technology sector), Certara Inc. (Health Care sector), Qualys Inc. and DoubleVerify Holdings Inc. (both Information Technology sector).

Shares of White Mountains underperformed the market during the quarter. The company generates much of its income from property and casualty insurance, and the stock tends to track growth in book value over time. Separately, the company has a good track record of creating value via capital allocation (buying and selling businesses) decisions, so transactions like the sale of NSM Insurance Group and also movements in its underlying investments (e.g. MAX) can meaningfully impact shares. We remain confident in management's ability to deliver outsized growth in book value per share over time through prudent capital allocation.

Vontier shares declined after the company reported weaker than expected quarterly results, reflecting a slowdown in demand across its portfolio. Short-term projects were delayed (particularly in convenience store retrofits), while macroeconomic pressures affected discretionary spending in the Repair Solutions segment. Near-term headwinds may persist as customers delay purchasing decisions due to ongoing economic uncertainty. Despite a weaker operating environment, Vontier continues to advance its portfolio transformation and improve operational efficiencies. We remain confident that Vontier's resilient franchises are well positioned to serve its broad customer base and capture growth opportunities in the evolving mobility market.

Certara's stock declined reflecting weakness in its end markets due to soft biotech funding and widespread cost-cutting across large biopharma. Certara's software business is resilient, but the services business has been weaker than expected. We still hold conviction in our long-term thesis on Certara but appreciate that a near-term catalyst will rely on improvements in end market health. Certara owns unique software assets in an underpenetrated industry with plenty of whitespace for future growth. We are encouraged to see the company investing through the cycle to come out the other side with a larger salesforce, more cohesive software platform, and new cross-selling opportunities. These actions should further solidify its already leading and protected positioning in bio simulation.

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Qualys experienced a challenging quarter, which reflected continued deceleration of billings growth, consistent with peers. The demand environment for cybersecurity products is weak, with customers scrutinizing spending to a greater degree and budgets remaining tight. Client retention remains solid, and the company is working to improve its go-to-market strategy for new clients. We maintain high conviction in the stock reflecting the strong product strategy, competitive moat, and potential to improve their go-to-market execution, all of which are intact despite the macro issues.

Shares of DoubleVerify Holdings underperformed during the quarter despite solid operating results including double-digit revenue growth. Company management has outlined the issues at a few specific large customers that are having an idiosyncratic impact on results in 2024. These weaknesses do not stem from DoubleVerify's product or competitive position, but instead relate to internal restructurings/reallocations within the customers themselves. This has affected growth, but DoubleVerify still expects robust double-digit revenue and earnings growth this year. We continue to view DoubleVerify as a good business trading at an attractive price. We are confident underwriting their leading market position and future opportunities for growth. In addition, the newly initiated buyback is well timed and a good use of capital in the current environment.

There were no trades during the quarter, but during September 2024, Dril-Quip completed a merger with Innovex Downhole Solutions. The combined company is now called Innovex International Inc. (Energy sector). Shareholders of Dril-Quip shares now own shares of Innovex International.

Outlook and Conclusion

Looking ahead, consumer spending will remain key to the economic outlook. On the positive side, consumer balance sheets remain in reasonably good shape and unemployment is still low, while wages are rising. On the negative side, the labor market is cooling and will probably weaken further in the months ahead. A shift from more restrictive to neutral monetary policy could limit the damage.

Turning to monetary policy, the Fed reduced short-term interest rates in September, but the fed funds rate remains higher than the neutral rate, while the Fed is still reducing the size of its balance sheet. Therefore, monetary policy remains in restrictive territory. There is typically a lag (up to two years) between monetary policy changes and the impact on the economy. Therefore, the impact of restrictive policy may continue to affect the economy in the months ahead. While we believe that the odds of a near term recession are low, we note the difficulty in navigating a soft landing.

Going forward, the Fed will likely reduce rates another 50bps before the end of the year, and another 100bps in 2025. That should get us close to the neutral rate. If the Fed has to cut rates more dramatically, it probably means that something is wrong.

Importantly, Quality factors have historically posted their best relative returns during periods of decelerating growth (late cycle) and through recessions. Quality factors typically lag in the early days of a recovery and keep pace during the mid cycle years. We may be late in the economic cycle now. If that is correct, it bodes well for the relative performance of Quality factors over the next few years and for our portfolios in particular.

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 believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in Touchstone Small Cap Fund generate sustainably high returns on capital, with low leverage ratios, at reasonable valuations relative to the broader market.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	09/30/09	**TSFAX**	89155H272	1.83%	1.25%
C Shares	09/30/09	**TSFCX**	89155H264	6.49%	2.00%
Y Shares	09/30/09	**TSFYX**	89155H249	1.22%	1.00%
INST Shares	09/30/09	**TSFIX**	89155H256	1.14%	0.92%
Total Fund Assets	**$281.1 Million**				

Expense ratio is annualized. Data as of the current prospectus. Touchstone Advisors has contractually agreed to waive a portion of its fees and/or reimburse certain Fund expenses in order to limit certain annual fund operating expenses (excluding Acquired Fund Fees and Expenses "AFFE," and other expenses, if any) to 1.24% for Class A Shares, 1.99% for Class C Shares, 0.99% for Class Y Shares and 0.91% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/25.

Share class availability differs by firm.

Annualized Total Returns

	3Q24	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	6.75%	8.44%	20.91%	8.59%	10.09%	6.78%	10.05%
C Shares	6.63%	7.86%	20.08%	7.79%	9.31%	6.16%	9.62%
Y Shares	6.87%	8.67%	21.28%	8.87%	10.38%	7.06%	10.36%
INST Shares	6.82%	8.71%	21.29%	8.93%	10.45%	7.14%	10.45%
Benchmark	9.27%	11.17%	26.76%	1.84%	9.39%	8.78%	10.59%
Including Max Sales Charge							
A Shares	1.42%	3.02%	14.83%	6.74%	8.97%	6.15%	9.62%
C Shares	5.63%	6.86%	19.08%	7.79%	9.31%	6.16%	9.62%

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 2000® Index

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Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	ACI Worldwide Inc.	5.0
2	White Mountains Insurance Group	4.9
3	Landstar System, Inc.	4.8
4	Moelis & Co.	4.4
5	Armstrong World Industries Inc.	4.2
6	Tempur Sealy International, Inc.	4.0
7	Essential Properties Realty Trust Inc.	4.0
8	Matson Inc.	4.0
9	Atlantic Union Bankshares Corp.	3.7
10	Murphy USA Inc.	3.4

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe.

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

A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of small-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 or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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