

Fund Manager Commentary

As of December 31, 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 December 31, 2024, with most of the major indices posting positive gains. Economic data released during the quarter was mixed. The U.S. Federal Reserve (Fed) shifted to a slightly more hawkish stance in December, reflecting higher-than-desired inflation and better-than-expected GDP growth. The broader market, as measured by the Russell 3000® Index, rose 2.6%. Similar to earlier in the year, larger companies with strong growth profiles led the market. Yield and most of the Value factors posted headwinds, while Growth, Volatility, and Momentum factors generated positive returns.

Portfolio Review

The Touchstone Small Cap Fund (Class A Shares, Load Waived) outperformed its benchmark, the Russell 2000® Index, for the quarter ended December 31, 2024.

Both sector exposure and stock selection had a positive impact on relative performance. The Fund exceeded our 85-90% upside capture expectations during the fourth quarter. Strong performance of select names and underweights to two of the weakest sectors of the benchmark (Energy & Health Care), drove solid relative performance results.

Three of the biggest contributors to performance over the quarter were Revolve Group Inc. (Consumer Discretionary sector), White Mountains Insurance Group (Financials sector), and Gates Industrial Corporation plc (Industrials sector).

Revolve's stock appreciated 35% during the quarter after reporting sequential improvement in sales growth and continued progress on restoring margins. Nearly all key performance indicators are trending in the right direction and management execution has been strong. The company is staying abreast of industry developments and thoughtfully pursuing reinvestment opportunities with an eye to the long-term. Our conversations with management throughout the year confirm this thesis.

White Mountains reported solid quarterly earnings, attributable to growth in their Ark/Outrigger underwriting results, which reported an excellent 77% combined ratio with favorable prior year developments despite a major Atlantic hurricane landfall. As a result, book value per share continued to increase. We remain confident in management's ability to deliver outsized growth in book value per share over time through prudent capital allocation.

Despite a challenging environment across many end markets, Gates Industrial continues to execute effectively on cost management, driving notable profitability improvements. Its diversified portfolio and significant replacement mix provide opportunity for earnings stability and downside risk mitigation, with growth in replacement channels driving overall performance. A strong margin profile and low capital requirements continue to support robust free cash flow generation and high returns on capital. The company is well positioned for above-market growth and margin expansion by leveraging trends like electrification and chain-to-belt retrofitting, alongside ongoing cost improvements and productivity gains, reinforcing our confidence in the investment thesis.

(continued)

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.**



Three of the biggest detractors to the Fund's performance in the quarter were ePlus Inc. (Information Technology sector), Landstar System Inc. (Industrials sector), and Essential Properties Realty Trust, Inc. (Real Estate sector).

ePlus was one of the weaker holdings during the quarter after reporting results below expectations, reflecting weak networking hardware sales, and lowered fiscal year 2025 guidance. Despite the softer hardware demand, 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.

Landstar faced challenges in the fourth quarter due to a continued soft spot freight environment, driven by lingering weakness in the U.S. manufacturing sector. Loose truck capacity also contributed to lower volumes and revenue. Despite challenges, Landstar maintained a strong balance sheet and continued to return capital to shareholders through dividends and share repurchases. We remain attracted to Landstar reflecting its variable cost business model, which we believe can limit downside in the shares.

Shares of Essential Properties Realty lagged in the fourth as REITs underperformed the market. In our view, this underperformance was driven primarily by interest rates as inflation expectations and the 10-year Treasury yield increased. We do not believe underperformance in the quarter was related to company fundamentals. Essential Properties continues to execute well on sourcing deals, managing credit, and maintaining a conservative balance sheet.

In December, we sold the small remaining position in Innovex International, Inc. (Energy sector). The company recently merged with Dril-Quip and was only 0.4% of the portfolio. We are not making a call on the Energy sector or the price of oil but assume meager returns on capital for the company in the years ahead.

With the proceeds from the sale, we added to the existing position in Lancaster Colony Corporation (Consumer Staples sector). We remain confident in our long-term thesis and are encouraged by continued growth with sauces at Chick-fil-A.

Outlook and Conclusion

As we enter 2025, we believe the market faces an inflection point where sustaining momentum becomes increasingly difficult. Across the real economy, demand still seems sluggish and clear late-cycle signals persist. Revenue growth and corporate profits have leaned on inflationary pricing, but margins face growing headwinds as inflationary pricing fades, input costs rise, and demand softens. The Fed cut rates during 2024, but the yields on longer-dated treasuries actually rose as the year ended. Stubbornly high borrowing costs continue to plague rate-sensitive areas of the economy, like housing. Employment and inflation data may be volatile in 2025 and could affect changes in monetary policy and lead to greater volatility across equity markets.

Despite resilient economic data and limited signs of credit risk, we believe vigilance is warranted. Our cautious posture is grounded in valuation risks, market concentration, looming fiscal deficits, and fraying consumer health. We anticipate headwinds in fundamentals in the near term, with the possibility of recession-

driven drawdowns ahead of the next economic expansion. While dividends remain below historical levels, our bias toward dividend growers has continued to reward us. While market speculation can make short-term forecasting difficult, we believe that the best predictors of long-term success are income, and fundamentals.



Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	09/30/09	TSFAX	89155H272	1.66%	1.25%
C Shares	09/30/09	TSFCX	89155H264	3.67%	1.95%
Y Shares	09/30/09	TSFYX	89155H249	1.19%	1.00%
INST Shares	09/30/09	TSFIX	89155H256	1.12%	0.92%
Total Fund Assets	\$276.7 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, 1.94% 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 01/29/26. 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	2.13%	10.75%	10.75%	6.28%	9.60%	6.97%	10.03%
C Shares	1.92%	9.93%	9.93%	5.49%	8.82%	6.34%	9.61%
Y Shares	2.13%	10.98%	10.98%	6.53%	9.87%	7.23%	10.33%
INST Shares	2.22%	11.12%	11.12%	6.63%	9.97%	7.33%	10.42%
Benchmark	0.33%	11.54%	11.54%	1.24%	7.40%	7.82%	10.43%
Including Max Sales Charge							
A Shares	-2.97%	5.21%	5.21%	4.47%	8.48%	6.33%	9.60%
C Shares	0.92%	8.93%	8.93%	5.49%	8.82%	6.34%	9.61%

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)		(% of Portfolio)		
1	White Mountains Insurance Group	5.5	6	Tempur Sealy International, Inc.	4.1
2	ACI Worldwide Inc.	5.0	7	Revolve Group Inc.	4.0
3	Moelis & Co.	4.6	8	Matson Inc.	3.7
4	Armstrong World Industries Inc.	4.5	9	Atlantic Union Bankshares Corp.	3.6
5	Landstar System, Inc.	4.3	10	Essential Properties Realty Trust Inc.	3.6

Source: BNY Mellon Asset Servicing

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.

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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 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](https://www.touchstoneinvestments.com/resources) or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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