Fund Manager Commentary

As of September 30, 2024

Fund Highlights

- Employs a process that is focused on long-only, bottom-up value management
- Uses traditional methods of stock selection - research and analysis - to identify securities believed to be undervalued, and searches for companies that have price-to-earnings and price-to-book ratios below the market and that have above-average dividend yields
- Process seeks to identify the reasons for a temporary undervaluation of a company's shares and believes that value can be added through individual stock selection
- Fundamentals of companies are analyzed one at a time rather than on broader market themes
- Utilizes risk management techniques in an effort to keep the Fund's portfolio from becoming overexposed to particular market segments

Market Recap

The third quarter was full of market-moving headlines, with all of them worthy of being the lead in their own right. Starting with equities, major U.S. indices were higher, much higher in fact, following a very busy third quarter. Along with many other equity indices, the S&P 500 hit an all-time high. Unlike the prior quarter during which a narrow group of stocks spurred the rise, the S&P 500 Equal-Weighted Index outperformed the S&P 500 Index in the third quarter. Value and small caps did as well, measured by the Russell 1000 Value Index and the Russell 2000 Index, respectively, and Value outperformed Growth, the first quarter to do so since fourth quarter 2022. The broadening of markets that investors have been awaiting appears to have arrived, an event perhaps anticipated nearly as much as the U.S. Federal Reserve's (Fed) first rate cut. Breadth was widely positive across sectors also as leadership reversed; eight of 11 sectors outperformed the S&P 500 Index.

One of the longest pauses for the Fed in recent memory (roughly 14 months) came to an end, an event that competed for top billing among those market-moving headlines. The first rate cut by the Fed – even more anticipated than broadening markets – arrived and exceeded expectations. While consensus was looking for a 25 basis point (bps) cut, Fed Chairman Jerome Powell opted for going big instead, – a 50bps cut – reinforcing the old market adage of "stairs up and the elevator down." The yield curve, having been inverted for more than two years, steepened based on the Fed's forecasted dot plot which showed 200bps of additional cuts through 2024 and 2025. Fears of recession were stirred up with the triggering of the Sahm rule in July. For those readers not already inundated with references and prophesying about it, the rule was created by former Fed economist Claudia Sahm in 2019 and states that a recession has already begun when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months. Cooling consumer price index data in both June and July supported the Fed's greater confidence in moving to address the larger emerging problem of employment weakness rather than fighting inflation.

The U.S. equity market continued its push higher in the third quarter. Unlike the first half of the year, value stocks outperformed growth stocks as the market broadened out from the previously narrow leadership of the Magnificent 7 and artificial intelligence (AI)-related stocks.

Portfolio Review

The Touchstone Value Fund (Class A Shares, Load Waived) underperformed its benchmark, the Russell 1000® Value Index, for the quarter ended September 30, 2024.

The primary relative contributor to performance was stock selection. Positive stock selection within the Industrials, Materials, and Consumer Staples sectors were the primary drivers of relative performance. Stock selection within the Communication Services, Health Care, and Consumer Discretionary sectors detracted from relative performance. Sector allocation impacts were moderately negative but outweighed by positive stock selection. The overweight to the Energy sector was a drag on performance as oil prices fell on fears of a supply and demand imbalance, while an overweight to the Consumer Discretionary sector moderately boosted relative performance. Below is a discussion on key drivers of performance for the third quarter.

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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.***

Within the Fund's Industrials allocation, Stanley Black & Decker, Inc. positively contributed to relative performance during the quarter after reporting results that exceeded market expectations. The lower range of earnings per share guidance was revised upwards due to higher margins, but inventory remains elevated as the company focuses more on margin recovery. The company will benefit from lower rates, as more than a third of its revenue is generated from commercial and residential construction. Days Inventory Outstanding is expected to remain elevated over the next few years, which could pose a problem if we enter a recession. In such a scenario, the company would have to reduce production while carrying higher leverage and inventory. The stock remains on a path towards achieving a more normalized level of earnings. with a 3.1% dividend yield.

The Fund's Materials sector included CRH plc, which positively contributed to relative performance during the third quarter. The large producer of many building materials for the construction industry, such as aggregates and cement, delivered positive quarterly results that beat consensus while the company raised guidance. Overall, demand remains robust on infrastructure project growth while the residential housing market may begin to normalize in conjunction with falling rates. Even with weather disruptions, the company performed better than peers leading the stock higher. The company trades at 15.8x forward earnings with a dividend yield of 2.3%.

Within the Utilities sector allocation, Entergy Corporation positively contributed to relative performance in the third quarter. The integrated utility company outperformed after it increased its earnings guidance outlook for the next five years due to strong demand from industrial and datacenter customers. Entergy has one of the best electric demand growth outlooks among its peers, and this demand growth should help increase the investments in rate base assets and drive earnings. Entergy's stock trades at a below market 17x forward price-to-earnings P/E multiple with attractive investment prospects and has a 3.4% dividend yield.

The Fund's Real Estate sector includes Public Storage, which positively contributed to relative performance in the third quarter as the Real Estate sector outperformed in conjunction with the Fed cutting rates. With the prospect of future Fed rate cuts and slower economic data released during the third quarter, the 10-year U.S. Treasury yield declined to nearly 3.6%, leading to strong performance in long duration assets specifically REITs. As discussed in prior quarters, Public Storage is one of the highest quality REITs and has one of the strongest balance sheets in the sector. Furthermore, the company is benefitting from a strong pricing environment as rental rates are growing double digits. The company pays an attractive dividend of 3.3%.

Lithia Motors, Inc. (Consumer Discretionary sector) positively contributed to relative performance in the third quarter from better-than-expected efficiency gains on selling, general and administrative expenses, particularly in a period disrupted by a software hack at key vendor CDK. Dealer operating profit per unit is normalizing lower, but unit volume growth as well as finance & insurance profit streams should drive earnings growth beginning in 2025. The earnings and free cash flow generation remains undervalued given the stock trading around 10x 2024 estimated earnings, which are at depressed levels.

Qualcomm Incorporated (Information Technology sector) detracted from relative performance during the quarter as the company underperformed along with the broader technology sector. The company beat consensus expectations on revenue and earnings led by the chipset business with a slight beat in handsets segment and larger beat in the automotive segment. However, guidance was lower than expected, which put pressure on the stock. Overall, the company still trades at an attractive 15.2x forward earnings with a dividend yield of 1.9%.

Within the Health Care sector allocation, there were two notable detractors – Elevance Health, Inc. and Merck & Co., Inc. Elevance Health, Inc. detracted from relative performance during the quarter as market concerns surrounding Medicaid profitability started to rise. With federal subsidies for Medicaid tied to redetermination suspension coming to an end, the Medicaid membership is changing by nearly 20% in a short 12-15-month period. This magnitude of change is unprecedented and poses challenges in modeling the risk pool. This is a cause for concern in the short term, but it does not change Elevance's long-term prospects. The management team believes it has sufficient strength in its commercial business to offset the Medicaid risks, but a brief hiccup cannot be ruled out. Under the current leadership, Elevance has made significant strides in improving profitability, and the company believes it has more room to continue. The company currently trades at 12.8x forward earnings. Merck & Co., Inc. detracted from relative performance during the quarter as it came under pressure due to unexpected volatility in China demand for its Gardasil vaccine. Previously, the product delivered significant uninterrupted growth for several years. Merck ascribed the volatility to developments on China's domestic policy fluctuations, which management believes is temporary. Overall, we view there is a lot more room for global distribution of this Human papillomavirus vaccine to grow, and Merck can return this franchise back to growth even without significant improvement in Chinese demand. However, it will take time for this Gardasil noise to settle down. Merck's Keytruda remains the top global oncology franchise, with many years of protection ahead of it, including with the help from a subcutaneous version coming to market in late 2025 or early 2026. It forms a solid base for valuation. Further, some potentially transformational assets in Merck's pipeline keep us interested in owning the stock. The stock currently trades at 12.2x forward earnings with a dividend yield of 2.7%.

Alphabet Inc. (Communication Services sector) detracted from relative performance during the quarter as the mega-cap technology companies benefitting from the AI frenzy underperformed the market. The company delivered mixed results as Search and Cloud beat expectations, while YouTube missed. Revenue growth accelerated from the same period last year, but higher capital expenditures from the buildout of AI infrastructure mixed with YouTube underperformance weighed on shares of the company. The company still trades at a below market forward earnings multiple while it paid its first dividend this year.

Outlook and Conclusion

Looking forward, clarity is emerging for investors on several fronts even as new concerns may be rising. With its recent cut of 50bps, the Fed has signaled its shift in focus to its other mandate—maximum employment—from stable prices, as inflation pressures

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have moderated. Time will tell whether the disinflation assumption being made will hold given the convergence of trends such as deglobalization and deficit spending. The narrative of a soft landing, often discussed but rarely seen, still reigns supreme in investors' expectations. Given how few soft landings have occurred, this provides little context in terms of a historical corollary for the future path of potential Fed rate cuts. After more than a decade of zero interest rate policy, investors are now contemplating whether the return to cutting rates will take the Fed back to such depths.

There is no clear catalyst in the current environment to point to that could drive a meaningful acceleration in overall GDP, but there are several industries closer to trough than peak. In fact, many of those industries may well lie on the value side of the market. AI could be a force multiplier, but the adoption curve appears steeper at present than either personal computers or the internet. But suffice it to say, the beneficiaries will be far greater than the handful of AI behemoths currently in an arms race for superiority, complete with the exorbitant price tag and margin degradation that comes with such a race. Perhaps best seen in the earnings growth estimates for the Russell 1000 Value, which are expected to accelerate meaningfully in 2024 and 2025 and now stand roughly in-line with the S&P 500. Valuations remain highly compelling on a relative basis as well, serving as support for a continuation of the rally that began unfolding in the third quarter.

As the adage goes, bull markets rarely die of old age, and this current bull run would still be considered in its infancy in both duration and magnitude. In the absence of a recession, the still-strong real GDP outlook combined with declining inflation, tight labor markets, and continued outsized deficit fiscal spending bodes well for consumers and corporations. Earnings growth and valuations still look quite attractive for value as well.

The recent outlook for lower interest rates is welcome news to Washington. The unprecedented upheaval ahead of the elections in November is worthy of its own long form discussion. Regardless of who wins, the likelihood for fiscal restraint appears zero, though there will clearly be different winners and losers based on the outcome. The fervor for massive rate cuts – six future cuts without significant economic weakness or the usual calamity created by hiking rates – seems starkly at odds with the expectation of more than 10% growth in earnings for the S&P 500 in 2025. Active managers, best able to navigate these shifting crosscurrents and react to developments on the regulatory or policy front in real-time, are likely to be the beneficiaries.

Amid this dynamic backdrop, the importance of identifying and investing in individual stocks cannot be overstated. Economist Robert Mundell taught that one can control monetary policy, fiscal policy, or the value of the currency, but one cannot control all three at the same time. The prior decade's policies have created concentrations in the equity market unlike anything seen in modern history. The unwinding will most certainly take more time, but this quarter highlighted the importance of the reversal underway. Given the ability to react proactively to dynamic conditions, active managers have the ability to drive differentiated results and may well be better suited to navigate these changes in a post-quantitative easing world. With more than 40 years of experience in value investing, we have seen similar periods in the markets. The consistent adherence to our value discipline served us well during those periods and we continue to maintain that discipline today. That same multi-decade experience continues to strengthen our resolve that the secular value cycle underway will persist with our high active share portfolios well-positioned to benefit Fund investors.

Fund Facts

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio Total	Net
A Shares	07/31/03	**TVLAX**	89154X468	1.13%	1.08%
C Shares	04/12/12	**TVLCX**	89154X450	2.16%	1.78%
Y Shares	09/10/98	**TVLYX**	89154X443	0.88%	0.83%
INST Shares	12/20/06	**TVLIX**	89154X435	0.81%	0.68%
R6 Shares	10/28/21	**TVLRX**	89154M876	0.79%	0.63%
Total Fund Assets	**$587.9 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 1.08% for Class A Shares, 1.78% for Class C Shares, 0.83% for Class Y Shares, 0.68% for Class INST Shares and 0.63% for Class R6 Shares. These expense limitations will remain in effect until at least 10/29/25.

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	9.38%	18.35%	29.26%	11.07%	11.66%	9.67%	8.98%
C Shares	9.20%	17.74%	28.41%	10.26%	10.82%	9.02%	8.37%
Y Shares	9.48%	18.55%	29.63%	11.34%	11.94%	9.96%	9.26%
INST Shares	9.47%	18.66%	29.84%	11.49%	12.09%	10.11%	9.35%
R6 Shares	9.48%	18.80%	29.88%	11.58%	12.08%	10.03%	9.28%
Benchmark	9.43%	16.68%	27.76%	9.03%	10.69%	9.23%	8.25%
Including Max Sales Charge							
A Shares	3.88%	12.46%	22.82%	9.18%	10.51%	9.02%	8.73%
C Shares	8.20%	16.74%	27.41%	10.26%	10.82%	9.02%	8.37%

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® Value Index

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The performance presented for Class A, C, INST and R6 Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 09/10/98, with the performance since the inception date of each share class.

Top 10 Equity Holdings of Fund

		(% of Portfolio)
1	Air Products & Chemicals, Inc.	3.5
2	Entergy Corp	3.4
3	Fidelity National Information	3.4
4	Philip Morris International Inc.	3.0
5	Bank of America Corp.	3.0
6	Vertiv Holdings Co.	2.9
7	Qualcomm, Inc.	2.8
8	Carnival Corp.	2.8
9	Enbridge, Inc.	2.8
10	Elevance Health Inc.	2.7

Source: BNY Mellon Asset Servicing

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.

Touchstone Funds are distributed by **Touchstone Securities, Inc.**
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Not FDIC Insured | No Bank Guarantee | May Lose Value

The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected 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.

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 mid-cap companies which may be subject to more erratic market movements than stocks of larger, more established companies. The Fund invests in value stocks which may not appreciate in value as anticipated or may experience a decline in value. 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 invests in foreign securities, including 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 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. 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. Current and future portfolio holdings are subject to change. 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.

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