Touchstone Large Cap Fund

Sub-Advised by: The London Company

U.S. Equity – Large-Cap Core

4Q/2023

Fund Manager Commentary

As of December 31, 2023

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 large-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 rallied during the fourth quarter with the major indices posting double-digit returns. Moderating inflation, some weakening in the labor market, and slowing economic growth raised the odds of a soft landing. This led to lower long-term yields and rising expectations for interest rate cuts from the U.S Federal Reserve Board (Fed) later in the year.

While stocks traded higher across the market cap spectrum, shares of smaller companies posted the strongest gains. In terms of factor analysis, companies exposed to higher volatility and growth factors posted the best results, while quality and momentum factors presented headwinds. Value and yield factors had a mixed impact. Stocks posted broad based gains in the fourth quarter, but shares of the Magnificent Seven, a group of seven high-performing U.S. stocks, still modestly outperformed.

U.S. economic activity continued to expand at a solid pace during the fourth quarter. Consumer spending remained the key driver of growth, reflecting rising wages and low unemployment. Housing and auto sales improved as longer-term interest rates declined late in the quarter. Looking ahead, while real GDP growth will likely decelerate from third quarter levels (4.9% annualized), we expect annualized real GDP growth in the 1.5% - 2.0% range over the next few quarters.

Inflation remains a bit higher than the Fed's goal of roughly 2%, but continues to move in the right direction. Broad inflation measures (total and core CPI and Personal Consumption Expenditures) reflect annual increases in the 3.0% - 3.5% range. The last bit of improvement needed to reach the Fed's inflation goal will probably have to come from restrictive monetary policy restraining the growth of aggregate demand along with better balance in the labor market.

While elevated interest rates remain a headwind to the housing market, a recent downturn in rates led to improving housing sales late in the year. 30-year mortgage rates are around 7% today, following a decline of over 100 basis points (bps) in recent weeks. Both housing starts and existing home sales improved. While existing homes sales improved versus the prior month, they remain at low levels reflecting the lack of inventory. Inventory of existing homes may not change in the near term as many homeowners locked in lower interest rates in recent years and are not inclined to refinance a new home at a higher rate.

The labor market remains strong and the U.S. economy added roughly 500,000 net new jobs during the fourth quarter. While unemployment remains low relative to history, there are signs of improvement in some of the supply/demand imbalances in the labor market. For example, the labor force participation rate has improved by roughly 100 bps since December 2020, with much of the improvement in the prime working age group (25-54). Meanwhile, both the quits rate and the wage premium for job switchers have declined back to pre-pandemic ranges. The unemployment rate held relatively steady at 3.7% during the quarter, while the labor force participation rate fell slightly to 62.5%. Average hourly earnings rose 4.1% versus the prior year in the latest month.

Survey results from the broader Institute for Supply Management (ISM) data have sent a consistent message of strength in services and weakness in manufacturing. In the most recent reports, the ISM manufacturing index improved a bit to 47.4, but remained

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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.***

below 50, reflecting the impact of higher interest rates on demand for goods. Meanwhile, the ISM services index declined during the month to 50.6, but remained above 50, posting its twelfth consecutive month in expansion territory. For both surveys, a reading below 50 suggests economic contraction while any score over 50 suggests expansion.

With regard to monetary policy, a strong labor market combined with higher than desired inflation resulted in a shift toward tighter monetary policy from the Fed in early 2022. Throughout 2022, the Fed raised the federal funds rate 425 bps. As inflation readings moderated over time, the Fed reduced the level of rate increases from 75 bps to 25 bps. Separately, the Fed began reducing the size of its balance sheet via Quantitative Tightening (QT) in June of 2022, which continues today.

The Fed continued its tighter monetary policy in 2023 and raised the federal funds rate another four times (25 bps each time) early in the year. However, since July, there have been no changes to the federal funds rate, which has remained at 5.25% - 5.5%. Looking ahead, we believe the Fed will proceed with caution, attempting to balance the risk of easing policy too early against the risk of maintaining rates in a restrictive position for too long. Recently, Federal Open Market Committee (FOMC) members raised their expectations for future U.S. GDP growth to the 1.5% - 2.0% range over the next few years, implying no near term recession. With slowing inflation, signs of better balance in the labor market, and normalized GDP growth expectations, the Fed will likely start to lower rates at some point in 2024 in an attempt to find the neutral rate over time. The most recent dot plots from FOMC members imply roughly 75 bps of rate cuts in 2024. Investors continue to expect a faster pace of rate cuts than members of the FOMC currently suggest. The difference in the pace of rate reductions could lead to volatility in equity prices.

Portfolio Review

The Touchstone Large Cap Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 1000® Index, for the quarter ended December 31, 2023.

Lower volatility holdings with slower growth expectations, as well as a strong tilt toward quality factors presented headwinds to relative performance. The concentration of the benchmark had little impact on relative performance during the quarter, but the strength in the Magnificent Seven was a significant headwind to relative performance for the year.

During the quarter, sector allocation and stock selection were both headwinds to relative performance. At the sector level, an underweight position in Information Technology and an overweight position in Materials had a negative impact on relative performance, partially offset by the positive impact of an underweight position in Health Care and an overweight position in Financials.

Turning to stock selection, the best performing stocks based on relative performance versus the benchmark during the quarter were Blackrock Inc. (Financials sector), The Charles Schwab Corp. (Financials sector), Martin Marietta Materials Inc. (Materials sector), NewMarket Corp. (Materials sector), and Norfolk Southern Corp. (Industrials sector).

Shares of BlackRock rallied in the fourth quarter after underperforming earlier in the year. BlackRock performance from quarter to quarter is often a function of market performance, which drives the company's assets under management. Risk-on in the equity market is positive for equity assets, and the perception of the end of the rate hiking cycle is likely positive for fixed income. Our conviction in BlackRock remains high based on the company's durable competitive position, under-levered balance sheet, persistently strong profitability, and capital return. We continue to view BlackRock as a well-run company that is likely to outperform the industry over the long term, and we note that management's interests are aligned with shareholders through significant insider ownership.

Schwab posted growth in net assets, with some of the headwinds around the TD integration clearing. Additionally, transactional sweep cash grew month-over-month, the largest buildup since March 2022. We believe Schwab is well positioned to show a sharp rebound in 2024 and 2025 earnings as near-term issues resolve naturally. We continue to like the company's strong competitive position, growth outlook, high incremental margins, and excellent management team.

Shares of Martin Marietta outperformed in the quarter as the company continues to exhibit strong pricing power despite lower aggregate volumes. Management noted their expectations for strong revenue growth next year supported by higher prices and accelerating infrastructure spend, offsetting any temporary weakness in residential and light commercial activity. Martin Marietta also persists in their efforts of being an aggregate-led company by selling off non-strategic assets. Proceeds from said transactions will be used to de-lever the balance. The company's leadership position within aggregates and exposure to key markets give us confidence that it will benefit from growth in construction and infrastructure spending for years to come.

NewMarket continued to outperform during the quarter as the company's profits benefited from lower oil prices. Late in the quarter, the company announced the planned acquisition of American Pacific Corp., a manufacturer of solid rocket propellants and fire suppressants. This acquisition will help diversify the business away from petroleum additives, which is likely in long-term decline. Sentiment in the stock cooled around the time of the acquisition.

Shares of Norfolk Southern rebounded in the quarter after hitting a three-year low in late October. The company reported a strong earnings report and provided more visibility into the Ohio derailment. Commentary on the latest earnings call suggested pricing power remains solid, and will be evident going forward to offset inflationary pressures. Weekly carloads also improved throughout the quarter, which likely sets the stage for positive earnings revisions in the first quarter of 2024.

The more challenged positions based on relative performance during the quarter were Albemarle Corp. (Materials sector), Chevron Corp. (Energy sector), FedEx Corp. (Industrials sector), Old Dominion Freight Line Inc. (Industrials sector), and Berkshire Hathaway Inc. (Financials sector).

Albemarle underperformed as weak lithium prices drove downward revisions to earnings expectations, and sentiment became more

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negative regarding demand for electric vehicles. Commodity prices are inherently uncertain, but we continue to view Albemarle as a winner in this growing industry, and our long-term view of the company is not affected by short-term supply-demand dynamics for the commodity. We also think it is important to note that Albemarle's favorable position on the cost curve means the company can likely maintain healthy profitability even at trough prices. Even with conservative price assumptions, we view Albemarle as attractively valued.

Chevron underperformed during the quarter as oil prices fell, third quarter results missed expectations, and Chevron negatively adjusted 2024-2025 cash flow guidance for its key asset in Kazakhstan. While not the primary driver of underperformance, it is also notable that Chevron announced in October a deal to acquire Hess Corp in a stock-for-stock transaction. Adding Hess' Guyana asset improves the outlook for Chevron production growth, but a stock-for-stock merger and acquisition also disrupts the trajectory of share count reduction. That said, while we generally do not maintain a high degree of exposure to pure commodity businesses, we continue to view Chevron favorably for its conservative balance sheet, focus on returns, and commitment to the dividend.

After a very positive start to the year, shares of FedEx lagged during the quarter after a weak earnings report erased much of the quarter's gains. Fundamentals improved throughout the year as FedEx enacted major cost cuts, but a decline in volumes in the quarter was too much for the new cost structure to overcome. As such, management lowered guidance for the rest of the year. The company also announced another restructuring and cost cutting program during the quarter. Longer term, FedEx has the potential to be a strong player in the transportation industry, but it will have to continue adjusting its fleet and network to an evolving marketplace.

Shares of Old Dominion underperformed in the quarter reflecting a weak freight market. The company's earnings report was positive, though, as declining volumes were somewhat offset by higher yields. The company did not chase share gains following the recent bankruptcy of Yellow Corp. This should be seen as a positive though, as Old Dominion has always chosen to focus on freight and revenue quality. The company remains the best operator in the LTL (Less than Truckload) freight industry.

Shares of Berkshire Hathaway underperformed during the quarter reflecting the rotation away from more stable companies. The company reported solid recent results, highlighted by improving results in property and casualty insurance. The balance sheet is strong with significant levels of cash and short-term securities. Overall, we continue to appreciate Berkshire Hathaway for their financial strength, investment acumen, and disciplined management.

There were no buys or sells in the Fund's portfolio during the quarter.

Outlook and Conclusion

U.S. stocks rallied during the fourth quarter reflecting solid economic data and easing financial conditions. For the year, the major U.S. equity indices posted strong returns led by shares of larger companies. A handful of stocks drove the large cap core and growth indices for most of the year, but the market started to broaden out during the fourth quarter.

Looking ahead, decelerating inflation, some weakening in the labor market, along with solid consumer spending suggest that the Fed could begin to reduce short-term interest rates in 2024. We recognize the challenges in navigating a soft landing, but believe that the odds of a near term recession have declined.

Predicting the future direction of the economy is always challenging. Potential positives include low unemployment, rising wages, and lower inflation. Potential negatives include tighter bank lending standards, the impact of tighter monetary policy over the last two years, as well as the drawdown of savings accumulated by consumers during the pandemic. While the odds of a recession in the near term have declined, risks remain. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 2% - 3% range driven by growth in the labor force and improving productivity.

In terms of the equity market, valuations based on near term earnings are somewhat 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 continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns. The companies in The Touchstone Large Cap Fund generate much higher returns on capital, with lower leverage ratios, at reasonable valuations relative to the broader market.

We believe the quality of the portfolio positions it well for the next few years, even if the market trades modestly higher. The Large Cap Fund may struggle to keep up in an environment of double-digit returns. In an environment of possibly lower expected returns and greater volatility, we believe The Fund offers an attractive option for equity investors. Our goal remains to outperform the broader market over full market cycles with less volatility.

Fund Facts *(As of 12/31/23)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio: Total	Net
A Shares	07/09/14	**TACLX**	89154Q554	1.42%	1.06%
C Shares	07/09/14	**TFCCX**	89154Q547	2.17%	1.81%
Y Shares	07/09/14	**TLCYX**	89154Q521	0.90%	0.81%
INST Shares	07/09/14	**TLCIX**	89154Q539	0.85%	0.71%
Total Fund Assets	**$274.4 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 1.03% for Class A Shares, 1.78% for Class C Shares, 0.78% for Class Y Shares and 0.68% for Class INST Shares. These expense limitations will remain in effect until at least 10/29/24.

Share class availability differs by firm.

Annualized Total Returns *(As of 12/31/23)*

	4Q23	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	7.46%	14.01%	14.01%	6.61%	10.40%	8.08%
C Shares	7.28%	13.14%	13.14%	5.84%	9.58%	7.42%
Y Shares	7.55%	14.32%	14.32%	6.90%	10.69%	8.35%
INST Shares	7.53%	14.37%	14.37%	7.00%	10.80%	8.46%
Benchmark	11.96%	26.53%	26.53%	8.97%	15.52%	11.61%
Including Max Sales Charge						
A Shares	2.08%	8.31%	8.31%	4.81%	9.28%	7.41%
C Shares	6.28%	12.14%	12.14%	5.84%	9.58%	7.42%

Benchmark - Russell 1000® Index

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

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Top 10 Equity Holdings of Fund *(As of 12/31/23)*

		(% of Portfolio)
1	Apple, Inc.	7.4
2	Berkshire Hathaway Inc. Class B	6.5
3	Alphabet Inc.	6.2
4	BlackRock Inc.	4.9
5	Martin Marietta Materials, Inc.	4.7
6	Visa Inc.	4.2
7	The Progressive Corp.	3.9
8	Home Depot Inc.	3.8
9	Charles Schwab Corp.	3.7
10	NewMarket Corp.	3.6

Source: BNY Mellon Asset Servicing

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index.

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 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. 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.

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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