

## Fund Manager Commentary

As of December 31, 2023

### Fund Highlights

- The Fund seeks long-term growth of capital, investing primarily in equity securities of U.S. and non-U.S. companies of any size, but generally focuses on larger, more established companies
- Applies bottom-up security analysis that includes fundamental, sector-based research in seeking to identify businesses that have high or improving returns on capital, barriers to competition and compelling valuations
- Selects investments based on an evaluation of a company's sustainability practices which considers and analyzes the potential Environmental, Social and Governance (ESG) impacts and risks of a company, how well the company manages these impacts and risks, and ascertains the company's willingness and ability to take a leadership position in implementing best practices

### Market Recap

The MSCI All Country World Index recovered swiftly from lows reached after the October 31-November 1 Federal Open Market Committee (FOMC) meeting to finish 11.03% higher for the quarter. There was weakness toward the beginning of the quarter, which we attribute mostly to spiking interest rates as well as the conflict in the Middle East and uncertainty in China. The situation in China continues to remain murky because of the property market. The government has implemented modest stimulus programs, including a \$137 billion sovereign debt package for targeted construction projects in late October. In all, China has been measured in its approach to revitalizing growth but has yet to restore confidence in the market. Global bond yields fell in November aided by the FOMC decision to hold target rates steady and weak economic data points like the U.S. ISM, which suggested the Federal Reserve (Fed) Funds rate, have peaked. The U.S. 10-year treasury yield finished the quarter lower at 3.88% and expectations for a January rate hike swiftly reversed, providing a boost to markets. Declining bond yields positively influenced equity valuations, with growth stocks outperforming value during the period.

The current U.S. unemployment rate remains below 4% but has been gradually moving higher in recent months as companies begin to implement hiring freezes and staff reductions. Despite full employment rates, the University of Michigan Consumer Sentiment Index remains sluggish and credit card net charge off rates suggest deteriorating financial conditions ahead for middle class to sub-prime households. Meanwhile, presentations by financial companies at a recent conference pointed to a steady economy with modestly deteriorating credit conditions. Our estimates suggest that the S&P 500 Index added \$8.2 trillion in market capitalization in 2023, of which 62% was attributable to

the “Magnificent Seven” (Mag 7). The concentration of equity returns was frequently discussed in the media this past year, but dovish Fed policy expectations led to broader groups of industries participating in the recent market rally. Interest rate sensitive industries such as real estate, construction, and regional banks, to name a few, had stellar performances, while the Mag 7 lagged a bit.

### Portfolio Review

The Touchstone Non-U.S. ESG Equity Fund (Class A Shares Load Waived) outperformed its benchmark, the MSCI All Country World Ex.- U.S. Index, for the quarter ended December 31, 2023.

Communication Services was the top contributing sector, driven by performance from Nintendo. Nintendo performed well on steady second fiscal quarter results and an improved operating profit forecast revision. We attribute the revised forecast to a weaker Japanese Yen, software sales momentum (Zelda: Tears of the Kingdom and Super Mario Bros. Wonder), and the successful release of the Mario movie. The Nintendo Switch console is currently in its seventh year and still garnering healthy demand, but investors are anxiously awaiting the release of the next generation console. Rumors suggest that Nintendo has released a software development kit for “Switch 2” as well as leaked (unverified) component schematics of the console by contract manufacturers that seem to suggest a late 2024 release.

Adyen (Financials sector) was the top contributor in the quarter, with strong performance after hosting a Capital Markets Day (CMD) where they reported third quarter operating metrics that alleviated fears of market share loss and weak macro conditions affecting customer acquisition. Third-quarter revenue growth of 26% was favorably viewed after the company reported comparable

*(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](https://TouchstoneInvestments.com/mutual-funds).**



first-half growth of 19%. During the CMD, the company reiterated Adyen's value proposition for merchants. The likelihood of further share loss to PayPal seems to have diminished.

Information Technology was the greatest detracting sector, driven by our underweight in what was the top performing sector for the period.

Rentokil (Industrials sector) was the most significant detracting stock within the overall portfolio during the period. Rentokil was weak after reporting third-quarter sales results that only showed 2.2% organic growth for U.S. Pest, their U.S. division, compared to expectations of 4%, and lagged that of primary competitor Rollins.

The Fund initiated a position in Mitsubishi UFJ (Financials sector), Japan's largest financial institution. We believe Mitsubishi UFJ should benefit from Bank of Japan's policy to raise rates in 2024, which would boost net interest income while Fed policy would improve losses on their bond portfolio. Shares were attractive as the company traded below book with a 3.4% dividend yield and forecasted levels of 7.5% return on equity. We view Mitsubishi UFJ's (MUFG) ESG relevance to be low but consider their overall performance positively. Our initial analysis shows that MUFG intends to grow its sustainable lending portfolio from ¥15 trillion to ¥35 trillion by 2030. Board composition appears independent as the majority are outside directors. However, three directors did receive votes against in 2022. We view this to be an opportunity for engagement with our ESG team.

During the quarter, the Fund exited the positions in Kubota Corp. (Industrials sector), Intact Financial (Financials sector), and Airports of Thailand (Industrials sector) to seek other more compelling opportunities.

### Outlook and Conclusion

We maintain a view of moderating growth going into 2024. Global economies and corporate profits have remained resilient while having endured the regional banking crisis, debt ceiling, insolvent Chinese property companies, two geo-political conflicts, and high interest rates, to name several. The effects of these events will take time to manifest themselves in slowing down the global economies in the quarters ahead. Utilizing the S&P 500 Index as a proxy for the equity markets, the index is currently trading at 20x forward earnings on 2024 earnings growth expectations of 11%. This estimate appears ambitious given a decelerating revenue outlook and is likely to be revised lower, making current valuations modestly unattractive depending on the market. We see pockets of opportunities outside the U.S. and in quality industries with low cash flow volatility. We continue to be disciplined with valuation and seek out investment opportunities in businesses that exhibit resiliency through varying macro environments.



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

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio	
				Total	Net
A Shares	12/19/97	TEQAX	89154X302	1.18%	1.18%
C Shares	10/04/03	TEQCX	89154X401	2.29%	1.99%
Y Shares	11/10/04	TIQIX	89154X633	0.95%	0.92%
Inst Shares	05/04/15	TROCX	89154Q513	1.01%	0.91%
<b>Total Fund Assets</b>	<b>\$587.0 Million</b>				

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 1.17% for Class A Shares, 1.95% for Class C Shares, 0.90% for Class Y Shares and 0.89% for Class Inst Shares. These expense limitations will remain in effect until at least 07/29/24. Share class availability differs by firm.

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

	4Q23	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	12.84%	23.44%	23.44%	4.66%	9.72%	7.62%	7.90%
C Shares	12.62%	22.45%	22.45%	3.78%	8.82%	6.93%	7.50%
Y Shares	12.97%	23.79%	23.79%	4.91%	9.99%	7.89%	8.10%
Inst Shares	12.97%	23.78%	23.78%	4.89%	9.98%	7.91%	8.11%
Benchmark	9.75%	15.62%	15.62%	1.55%	7.08%	3.83%	—
Including Max Sales Charge							
A Shares	7.21%	17.26%	17.26%	2.88%	8.60%	6.98%	7.66%
C Shares	11.62%	21.45%	21.45%	3.78%	8.82%	6.93%	7.50%

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- MSCI All Country World Ex-U.S. Index

The MSCI All Country World Ex-U.S. Index is an unmanaged, capitalization-weighted index composed of companies representative of both developed and emerging markets excluding the United States.

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.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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](https://www.touchstoneinvestments.com/mutual-funds).** From time to time, the investment adviser may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Performance by share class will differ due to differences in class expenses. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.

**The performance presented for Class C and Y shares combines the performance since inception of an older class of shares (A shares) from the Fund's inception 12/19/97 with the performance since the inception date of each share class. The performance for Institutional Class shares combines the performance of Class A shares from 12/19/97 to 11/9/04 with the performance of Class Y shares since its inception 11/10/04 until the inception date of the Institutional Class shares.**

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

	(% of Portfolio)		(% of Portfolio)
1 Sony Group Corp.	4.3	6 Schneider Electric SE	3.6
2 Air Liquide SA	3.9	7 Tokyo Electron Ltd.	3.5
3 Taiwan Semiconductor Mfg. Co. Ltd.	3.8	8 Shell Plc	3.5
4 ICICI Bank Ltd.	3.8	9 Hitachi, Ltd.	3.5
5 Swedbank AB	3.6	10 Nintendo Co., Ltd.	3.4

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](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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**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 small- and mid-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. 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, emerging and frontier markets securities, and 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 risks associated with investing in foreign markets are magnified in emerging markets, and in frontier markets due to their smaller and less developed economies. 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 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 Fund invests in convertible securities which are subject to the risks of both debt securities and equity securities. The Fund's investments in other investment companies will be subject to substantially the same risks as those associated with the direct ownership of the securities comprising the portfolios of such investment companies, and the value of the Fund's investment will fluctuate in response to the performance of such portfolios. In addition, if the Fund acquires shares of investment companies, shareholders of the Fund will bear their proportionate share of the fees and expenses of the Fund and, indirectly, the fees and expenses of the investment companies or ETFs. Current and future portfolio holdings are subject to change.



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