Touchstone Sands Capital Emerging Markets Growth Fund

Sub-Advised by: Sands Capital Management, LLC

Emerging Markets – Large-Cap Growth 3Q/2022

Fund Manager Commentary

As of September 30, 2022

Fund Highlights

- Seeks to identify leading growth businesses that meet the following criteria:
  - Sustainable, above-average earnings growth
  - Leadership position in a promising business space
  - Significant competitive advantages / distinctive business franchise
  - Clear mission and value-added focus
  - Financial strength
  - Rational valuation relative to the market and business prospects
- Concentrated, conviction-weighted portfolio typically holds 30-50 companies within global emerging markets
- Country and sector exposures are primarily a byproduct of individual stock selection

Market Recap

Emerging market (EM) equities, as measured by the MSCI Emerging Markets Index (MSCI EM), fell 11.6% in the third quarter. That is the fifth consecutive quarterly decline - the second by more than double digits - setting a pace for the second-worst calendar year in 20 years. 80% of index constituents fell during the quarter, and the median constituent is now 35% lower than its 52-week high. EM growth stocks (as measured by the MSCI Emerging Markets Growth Index) underperformed EM value stocks (as measured by the MSCI Emerging Markets Value Index) for the third consecutive quarter, but the quarterly decline was by the narrowest margin over the year-to-date period.

China was the primary detractor from the index's results, accounting for more than 65% of the MSCI EM's decline. The MSCI China Index sold off by over 20% in the third quarter, after rising 22% from mid-May to late June. The reversal can be attributed to several factors, including continued economic pressure (stemming from persistent COVID-19 outbreaks and property sector woes) and intensifying geopolitical tensions. U.S. Speaker Pelosi's historic visit to Taiwan in August rattled investors, and President Biden's executive order to launch a National Biotechnology and Biomanufacturing Initiative signaled his continued intent to distance the U.S. from China in technologically sensitive areas.

In total, 18 of the index's 24 country constituents traded lower, with nine falling by more than 10%. All sector constituents fell, with Information Technology and Consumer Discretionary detracting most from the MSCI EM's return. Finally, the U.S. dollar's rise continued, which added additional pressure to ex-U.S. equity prices. The U.S. Dollar Index posted its best quarterly gain since 2015, as U.S. Federal Reserve Board (Fed) Chair Powell signaled his commitment to reducing inflation via tighter monetary policy. The index is on pace for its highest calendar-year return in its 35-year history.

The few bright spots included India and select commodity-producing countries, including Brazil and Indonesia. These were the three largest country contributors.

Portfolio Review

The Touchstone Sands Capital Emerging Markets Growth Fund (Class A Shares Load-Waived) outperformed its benchmark, the MSCI Emerging Markets Index, for the quarter ended September 30, 2022.

(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.***

The Fund's outperformance was largely attributable to its overweight to India and Latin America, as well as security selection within those geographies. Currency effect was also a tailwind. The largest country relative detractors were Saudi Arabia and Hong Kong. From a sector perspective, Consumer Discretionary and Financials contributed most to relative results, while Communication Services and Real Estate were the top detractors.

The top five absolute individual contributors to investment results were Bajaj Finance Ltd., MercadoLibre Inc., Titan Co. Ltd., Apollo Hospitals Enterprise Ltd. and Bank Central Asia TBK PT.

MercadoLibre remains one of our highest-conviction emerging market businesses at Sands Capital. The business is Brazil's ecommerce leader at an estimated 34% market share, and its share gains have continued despite a challenging macro and competitive environment.

Second quarter 2022 results were ahead of consensus expectations, with revenue growing 53% year-over-year and operating margins of 9.6%. Fintech was the biggest positive surprise of the quarter, with outsized revenue and margin expansion from its credit segment. While the segment's growth will likely moderate as MercadoLibre slows originations to improve asset quality, we think this is a prudent move by management that will structurally improve the business over the long term.

MercadoLibre's core ecommerce operation remains healthy, which we attribute to its logistics-based competitive moat, consumer experience, and diversified category mix. The company's 19% year-over-year gross merchandise volume (GMV) growth in Brazil outpaced the broader industry. In addition to strong growth, ecommerce operating margins expanded on the back of lower shipping/fulfillment costs and growing contribution from advertising revenue. Over the next five years, we expect MercadoLibre to grow GMV at more than 20% annually while also delivering margin improvement.

Titan and Apollo Hospitals are two of the four-largest Indian holdings in the portfolio. The MSCI India Index outperformed the MSCI EM by over 17% in the third quarter, which we attribute to factors such as softer commodity prices (India is a large energy importer) and more attractive economic growth prospects relative to other large emerging market countries.

Titan reported strong quarterly results, benefiting from economic normalization and the unleashing of pent-up demand. Jewelry sales rose 174% year-over-year on top of 67% growth in the year-ago quarter, with Titan capturing a 46% share of new buyers. Titan's value proposition of trust, design scale, localized store selection, and strong digital presence is resonating with consumers, in our view, and we expect the company to raise its share of the overall Indian jewelry market from 6% today to 15% over the long term.

Apollo Hospitals reported mixed results, but we remain confident in its runway for continued long-term growth. Hospital revenue slowed to 3% year-over-year due to lower-than-expected occupancy, and pharmacy revenue fell by 2% versus a tough comparable year-ago quarter. Positively, Apollo is seeing strong operational metrics at its 24/7 digital health platform, with healthy growth in registered users and online order frequency/volume.

The top five absolute detractors were Tencent Holdings Ltd, Country Garden Services Holdings Co. Ltd., Wuxi Biologics (Cayman) Inc., Alibaba Group Holding Ltd. and AIA Group Ltd.

China was a standout detractor from emerging market equities in the third quarter, and each of the portfolio's top individual detractors were either domiciled in China, or in Hong Kong-based insurer AIA's case, derive a meaningful portion of revenue from the country.

In addition to the market headwinds, Tencent's results were expectedly weak, with the business reporting its first-ever quarterly revenue decline (-3% year-over-year). Advertising (-18%) and fintech (up 2%) revenue were both affected by the recent COVID-19 outbreaks and lockdowns. Cloud revenue decreased slightly year-over-year due to the discontinuation of unprofitable projects, and online gaming fell 1% year-over-year given the lack of new titles. Some of these headwinds are transitory, in our view, and we expect revenue to accelerate into 2023. Operating margins expanded two percentage points quarter-over-quarter to 18%, but remain four percentage points lower on a year-over-year basis.

We view Tencent as a strategic middle-bucket weight in Emerging Markets Growth. We believe the business is structurally moving up the growth s-curve, but expect improvements in the business to start next year, as it ramps up video monetization and releases major games. Cost control initiatives should also help drive margin recovery as the company reduces unprofitable segments, cuts headcount, and optimizes spending on key strategic areas including video accounts, international games, and enterprise software. While hard to predict with precision, the regulatory pressure on large internet companies is likely improving, as Chinese authorities are voicing more support for healthy and sustainable development of the platform economy.

Shares of Wuxi Biologics fell in September, following President Biden's executive order to launch a National Biotechnology and Biomanufacturing Initiative to boost domestic biomanufacturing capabilities, partly to reduce U.S. reliance on China's biopharmaceutical supply chains.

While this news represents a headline risk that weighs on sentiment, we expect minimal impact on Wuxi's competitive position or long-term earnings power. The executive order does not exclude foreign companies from doing business with U.S. clients and only modestly increases investment in U.S. biomanufacturing capacity (the five-year investment is less than one year of Wuxi's capital expenditure). Despite the rising geopolitical tensions, Wuxi continues to see robust demand from its U.S. clients given its ability to deliver high efficiency, speed, and quality services at attractive prices.

(continued)

We find Wuxi's current valuation compelling for a business positioned to grow revenue and earnings at 40% annually for the next several years. Its project pipeline growth remains strong, with no visible impact to demand and solid margins despite supply chain and inflationary pressures. To address this demand, Wuxi is investing aggressively in facility expansion, with overall manufacturing capacity expected to triple by 2026. We expect sustained strong growth in coming years as Wuxi advances its internal pipeline and increasingly transfers late-stage molecules from customers given what we view as its world-class technology and execution track record.

We sold Country Garden Services during the quarter. Stress in the Chinese property sector threatens the business' fit with our investment case. Country Garden Services and affiliated property developer Country Garden Holdings Co. Ltd. have a common majority shareholder, and it's possible that Country Garden Services' resources could be used to support Country Garden Holdings in the event of a default.

The Fund's regional and sector exposures are largely a byproduct of our bottom-up investment process, and below was the portfolio positioning at the end of the third quarter:

Emerging Asia was the Fund's largest absolute weight and Latin America was its largest relative weight. The strategy had no exposure to Europe, and Asia/Pacific ex-Japan was the largest underweight.

From a country perspective, India was the largest absolute and relative weight. China was the second-largest absolute weight, but also the largest underweight, at 20% versus 31% for the MSCI EM. The Fund has had no exposure to Russia since exiting in February 2022.

From a sector perspective, Financials was the largest absolute weight and Consumer Discretionary was the largest overweight. The Fund had a zero percent weight in Real Estate and Utilities, and Materials was the largest underweight.

Outlook and Conclusion

Volatility remains high. Rather than trying to guess the market's next move in the near-term, we remain focused on corporate fundamentals, which history demonstrates to be the primary driver of long-term returns. We've stress tested and re-evaluated our investment cases given the turbulent economic and market environment, and are confident that the businesses we own remain well positioned to deliver above-average growth over the next five years.

Below are some examples of the secular drivers underpinning the growth of our portfolio businesses:

Aspirational Middle Class

More than 1 billion emerging market consumers are expected to enter the middle class over the next decade. We expect these entrants to climb Maslow's Hierarchy of Needs, driving higher levels of consumption across discretionary and value-added products and services. The shift from fragmented industries to consolidated operators offers powerful opportunities in many emerging economies. Informal "mom and pop" vendors lack the product selection, quality, and shopping experience offered by formal competitors. Potential portfolio beneficiaries include Anta Sports Products Ltd., AIA, Apollo Hospitals, and Titan.

Digital Revolution

Rising internet connectivity and mobile device penetration are spurring broad-based economic activity in emerging markets. Commercial opportunities including ecommerce, mobile gaming, on-demand video, ride-sharing, and social media are being enabled by new cloud, logistics, and enterprise solutions. Approximately a third of the world's adult population remains unbanked, and most live in emerging markets. New technologies are enabling access to basic financial products and services, including asset management, durable-goods financing, and insurance. Potential portfolio beneficiaries include MercadoLibre, Nu Holdings Ltd., Taiwan Semiconductor Manufacturing Co. Ltd., and Tencent.

Structural Improvements

Improvements to both hard and soft infrastructure are enhancing productivity and stimulating demand. The opportunity set for investors is growing, via new investable markets, IPOs, and new business spaces. Pro-growth reform examples include public-sector balance sheet deleveraging in Brazil and governance improvements in India. Potential portfolio beneficiaries include HDFC Bank Ltd., Kanzhun Ltd., Reliance Industries Ltd., and Wuxi Biologics.

We seek to add value over rolling three- and five-year periods by "going where the growth is": seeking to identify those select few businesses that will sustain above-average growth by harnessing innovation and benefiting from secular change. We remain confident that the businesses we own today will help us achieve that goal.

Letter from the Investment Team

Many investors, rattled by rising interest rates, higher inflation, and deepening signs of recession, have punished the stocks of enterprise software companies, pushing valuations to levels not seen since 2017. Despite this short-term pressure on stocks, we believe that the long-term wealth creation opportunity tied to select businesses within the enterprise software space remains strong, buoyed by a massive and immutable move toward cloud computing. In our view, many of our portfolio companies have the products, business models, and fundamentals that will allow them not only to survive but also to thrive as they create the services and systems that are transforming not just the enterprise, but also governments, the economy, and society at large.

(continued)

Price-to-sales multiples, the most commonly used valuation metric in the technology sector, have fallen across the software sector to an average of six times sales from an average of 16 times in late 2021. These multiples were last this low in late 2017 when rates were also rising.

The decline in valuations has been even more severe for the stocks of the fastest-growing software businesses, especially those that remain unprofitable, as they have been hyper-focused on investing in future growth. However, we believe many of these companies, which have opted to forgo profits in the short term to enhance their competitive advantage and build bigger businesses in the long term, may emerge as leaders of this transformation effort, grow exponentially and ultimately have the potential to create wealth for their shareholders.

An Unstoppable Force

A lot has changed in the past decade since Marc Andreesen first penned his famous Wall Street Journal essay entitled “Why Software is Eating the World.” But his core thesis still holds true. At some level every company is becoming a software company. Those that aren’t innovating as part of this trend are at risk of falling behind their peers. This dynamic tends to play out across industries as software-driven features increasingly become the key battleground for competitive differentiation.

Indeed, we have seen consumers gravitate toward the disrupters that are designing and refining the products and services that best meet their needs and constantly changing preferences. Legacy retail banks, like JPMorgan Chase & Co., are spending billions to improve the digital experience for their customers. Similarly, Deere & Co. is investing heavily in artificial intelligence and machine learning to develop its next generation of products. Even the U.S. government is prioritizing software investments to better serve employees and citizens.

Cloud computing has emerged as the ideal environment to build a modern technology stack that allows enterprises to nimbly address the ever-changing needs of their customers. As a result, we have seen migration to cloud infrastructure, which has become one of the most significant secular trends of the past decade.

Enterprises are currently estimated to allocate about 15% of their information technology (IT) budgets to cloud-based technologies. By the end of the decade, we expect cloud’s share to rise to about 45% as companies across all sectors of the economy race to invest in the cloud software that will enable them to unleash the power of their data, better serve customers, and operate more efficiently via increased resource utilization, greater workforce productivity, and new competitive advantages.

The mission-critical nature of cloud computing is one of the driving reasons why chief information officers consistently list cloud migration and digital transformation as two of their top priorities. It is also why we feel that IT budgets focused on digital transformation will be relatively resilient even in more difficult macroeconomic conditions. These are strategic decisions for most companies, meaning they are not investments most can afford to delay.

Most of the current cohort of cloud software businesses we track did not exist as public companies during the last U.S. recession from 2008 to 2009; but a few did, and they illustrate how these companies can do well despite a more difficult macroeconomic environment. One of these companies is now among the largest software-as-a-service (SaaS) customer relationship management vendors with more than $26 billion in sales for fiscal year 2022. The company was much smaller during the Great Financial Crisis with slightly more than $1 billion in sales for fiscal year 2009. Its revenue came primarily from small- and medium-sized businesses, and it concentrated on a single product: sales force automation. Because its customer base was sensitive to macroeconomic conditions, the company experienced elevated customer turnover and a slowdown in new business activity through 2008 and 2009. Revenue growth decelerated from 53% in the quarter ended April 30, 2008, to 21% in the quarter ended October 30, 2009, before accelerating to 31% the following October. While growth slowed on a year-over-year basis, revenue never declined sequentially and quickly re-accelerated as the macroeconomic environment improved. We believe the company’s ability to maintain strong levels of revenue growth despite significant turnover in its customer base helps illustrate the business value it continued to deliver.

Not every software business has or will experience this same result, but we think this is a useful illustration for the often mission-critical nature of software. In contrast to this business during the last recession, many of the software vendors we invest in today have a larger enterprise focus, are multi-product platforms, and are benefiting from even stronger secular trends toward cloud computing, SaaS deployment models, and digital transformation. Cloud software has proven to be a deflationary force often enabling millions of dollars in costs savings by replacing legacy technologies, or even worse, manual processes. This makes it easier for IT leaders to justify these investments in the short term even in more difficult business environments, while they work to prove their value over the longer term.

Finding the Needles in the Haystack

Given the scale of this trend, many companies are competing to be at the leading edge of this transformation. As we attempt to find businesses that fit with our criteria in this crowded field, we look for companies operating in attractive sub-segments of the market with strong technological competitive advantages and high rates of adoption. Some of these sub-trends include enterprise automation efforts; new approaches to cybersecurity; the rise of DevOps, which combines software development and IT operations; the proliferation of vertical operating systems; the modernization of employee and customer interactions; and the transformation of data and analytics efforts.

(continued)

After initially screening for companies that fit within the attractive categories we have identified, we apply a general framework that builds on our six criteria for assessing the relative quality of software companies to determine whether we believe the business merits an investment. This framework leverages our collective years of investment experience in the sector, which has helped us gain pattern recognition skills to identify key traits that we believe give a software business a competitive advantage over the long term. Some of the areas we look at are opportunity size, competitive landscape, quality and scale of the ecosystem, ability to upsell the core product, and probability and materiality of a "second act." We believe this overlay is critical to analyzing the sustainability of growth as well as to understanding the unit economics and corresponding long-term margin structure.

The Architects

Snowflake Inc., the cloud-based data analytics company, stands at the vanguard of the larger trends toward digital transformation and cloud computing, while fitting squarely in the data/analytics subcategory we have identified. The company has become a favorite of business analysts and data scientists alike for its technologically differentiated approach to analyzing data in the cloud, which has revolutionized how business analytics is conducted.

This global cloud-native data platform raised the scale analytics can operate on from terabytes to petabytes, a thousandfold increase, and reduced task execution times from days to minutes, meaning that businesses no longer need to wait overnight for key insights, like changing customer behavior. The company made it easy to get started on the platform and has seen rapid adoption over the past several years. JetBlue Airways Corp., for instance, leveraged Snowflake's Data Cloud as a one-stop shop to build a better customer experience and promote competitive fares. Additionally, using Snowflake's data sharing capabilities, JetBlue has been able to pool data with air traffic control and weather centers to create real-time fuel-prediction models for its fleet that have enabled it to generate meaningful improvements in cost efficiencies. Snowflake is one of several cloud data warehouse providers, but it has differentiated itself with easy-to-adopt technology that allows companies to scale their analytics capabilities up and down as necessary. The company has amassed more than 6,800 customers, including 510 of the 2022 Forbes Global 2000 (G2K) as of July 31, 2022, who use the platform to power numerous aspects of their businesses.

Datadog Inc., like Snowflake, is working to derive greater value from data through a unique platform that in Datadog's words helps customers "turn chaos into insights." The company's core product offering allows businesses to monitor their essential infrastructure and application assets so that they are able to quickly identify and remediate issues when they arise.

Monitoring has become exponentially more difficult given the rise in the number of assets and applications that has accompanied the shift to cloud-native architectures. Applications have become a key differentiator for businesses, and they cannot risk losing customers because of a slow-loading checkout page or have employees unable to work because of critical systems failures.

Datadog allows companies of all sizes across numerous industries to ensure that issues like these don't impact their business results. For instance, the London Stock Exchange Group PLC has been able to use Datadog to monitor its website performance and make real-time adjustments to deal with changes in traffic volume.

In the past, a market-moving announcement might have caused the system to crash, but now with the insights provided by Datadog's platforms, the London Stock Exchange Group PLC can scale its website capacity in line with usage, creating a more seamless experience for its customers.

Cloudflare Inc. is enabling the modernization of enterprise networking and security with the shift to the cloud. Cloudflare's global network puts it in a credible position to offer a corporate "network as a service" to enterprise customers, securing and efficiently routing their traffic around the world. This network asset was built to accelerate and secure websites, but it can be extended to managing enterprise traffic, constituting a powerful next act which positions Cloudflare to capture enterprise spending on networking equipment, elements of network security, and even elements of telecommunication spending. The company should also benefit from developers writing applications that run on its edge computing platform, Workers, where latency or data residency requirements preclude running workloads in a more centralized cloud environment. Cloudflare is also helping customers operate more efficiently and solve difficult problems.

It's Not Always About the Profits

One of the benefits of being a concentrated investor with a long time horizon is our ability to dig deeply into businesses whose products and services are potentially misunderstood or underappreciated by the larger market and, as a result, get dumped with the broader market during selloffs. While investors have become increasingly skeptical of unprofitable businesses, we believe that if we only invested in companies with earnings, we could miss out on high-growth software and technology stocks that have the potential to add significant value to our portfolios over the next decade.

We believe it is better to be there than be getting there, meaning that we want to invest in businesses at the early stages of their growth and hold them for the long term. For instance, we expect Snowflake's free cash flow (FCF) margins to be at 17% this year as the company closes its fiscal 2023. That's up from -75% in its 2020 fiscal year.

(continued)

But Snowflake remains unprofitable. As a result, its valuations have come under intense investor scrutiny. Despite having surpassed earnings projections for the past several quarters, its market capitalization, at $50 billion as of October 13, 2022, has fallen about 60% since November 17, 2021.

Snowflake, like many other early-stage tech companies, including Datadog and Cloudflare, must make the choice to pursue profits or growth in the near term. Frank Slootman, Snowflake's chief executive, explained his planned path to profitability in his book Rise of the Data Cloud: "You focus on growth first and foremost, then efficiency, cash flow and unit economics." For many select technology companies, whose high gross margin profiles and strong underlying unit economics are suggestive of a highly efficient business, we believe profitability is a matter of when, not if.

The Path to Profitability

Despite the strong long-term potential for enterprise software to be transformative, the stocks in this sector remain under pressure. The average price of the 162 publicly traded software businesses that we track has fallen 57% from highs in late 2021. And, as referenced above, the declines have been even more extreme for companies that have yet to book profits on a generally accepted accounting principles (GAAP) basis because they have chosen to invest in sales, marketing, research and development efforts to drive a higher growth profile.

As long-term investors, we prefer to look at FCF margins over profits as defined by GAAP in this space. We believe there is a direct link between FCF and a company's theoretical stock price. We also believe that FCF better reflects the actual economic value created by a software business (e.g., it captures benefits, such as strong working capital, that are not represented in GAAP numbers and better reflects in-period new business bookings versus revenue, which is recognized ratably on a lag over time).

On an FCF basis, the average margin of our software holdings is forecast to be 17% in 2022. Many companies included in that average, such as Atlassian Corp., ServiceNow Inc., and Datadog, are expected to generate margins that are well in excess of 20%, while others, such as Cloudflare and Okta Inc., are expected to come in below 5% FCF margins for the year with these companies operating around breakeven.

Ultimately, we believe all these businesses will reach 25% or greater FCF margins over time, including those that will have below 5% margins this year. As these companies scale FCF margins, we expect their GAAP profitability to improve as well.

Another important consideration in modern software businesses is their use of subscription business models that typically have very high renewal rates. That means that once a customer signs up, they often stick around for a long time and can be upsold at a much lower cost on additional products. This trend, which companies measure by looking at their dollar-based net retention rate, makes it easier to justify a high upfront cost of acquiring an incremental customer. Ideally, the unit economics of acquiring customers tends to look better after each year especially if they are regularly adding new products and services.

The Upside to the Downside

For instance, Okta, which provides cloud-based identity and access management software that allows enterprises to secure digital interactions, is currently operating with a FCF margin that is less than 5%. At its most recent investor day, it showed how its unit economics improved over time for new customers first added in 2018. In year one, its contribution margins (revenue less cost of sales and sales/marketing expenses) on this group of customers were -56% as the significant upfront expense to acquire a customer over what's often a six-month-plus sales cycle was mismatched with revenue recognition. Contribution margins increased dramatically after the first year, reaching 54% in year two, 65% in year three, and 72% in year four. This happens because the sales and marketing expenses required to acquire customers are front loaded, and in line with the company's ability to upsell those customers on additional services at a much lower cost than that of originally acquiring them.

Creating the Future Takes Time

At Sands Capital, we seek out the visionaries. Creating the future takes time. Imagining cutting-edge technologies and creating new markets is not a highly lucrative phase for any business. However, for businesses capable of getting this right, large flywheels can be created, unlocking the ultimate profits that investors want to see and that we believe will help us generate wealth for our clients.

As we head into the final quarter of 2022, many investors remain unnerved by the macroeconomic backdrop and the volatility created by geopolitical tensions. Indeed, exogenous factors and sentiment can have an outsized and often unpredictable influence on stock price movements. At Sands Capital, we prefer to look past these phases of market panic and focus on the long term. We are business owners, not stock traders, and invest as such, evaluating a businesses' potential long-term growth trajectory. Nothing that we have seen over the past year or the past quarter has changed our view of secular trends, like the shift to cloud computing, that will ultimately help define the companies of the future.

(continued)

Many of our businesses are creating or benefiting from technological advances that enable better, faster, and less expensive access to commerce, financial services, healthcare, and that strengthen the enterprise of the future. We believe these select companies are well positioned to sustain above-average growth by harnessing innovation and benefiting from secular change. These are the businesses that can weather periods of economic decline, geopolitical tension, and global pandemic. They endure, and in doing so, create the future.

Third Quarter 2022—Purchases and Sales Rationale

Purchases

Lam Research Corp. is a leading global provider of semiconductor fabrication equipment. Our research indicates that Lam's equipment has an 80% share of the early stage semiconductor manufacturing process, where transistor structures are etched onto silicon wafers. The equipment largely services memory chips, with a secondary focus on logic chips. We expect continued above-average demand growth for the entire semiconductor industry, and memory and logic chips in particular, as the world becomes more connected and as compute complexity increases. Semiconductor manufacturing capital intensity continues to increase, given higher complexity on a fixed physical space, resulting in higher unit costs for finished silicon wafers. Importantly, we believe Lam is an enabler of future computing power growth. Past drivers of computing progress, such as frequency and power, have reached their limit. Going forward, new improvements, such as 3D structures, parallel computing, and task-specific accelerators will drive growth, and we believe Lam is a key enabler of these technologies.

Prior to purchasing Lam, Taiwan Semiconductor was the sole semiconductor business in the Fund. Beyond Lam's fundamental merits, its initiation also serves as a way for the portfolio to mitigate risk stemming from China/Taiwan/U.S. geopolitical tensions while maintaining its overall semiconductor weight.

Sales

The Fund sold Country Garden Services due to its weakened fit with our investment criterion relating to governance. It and affiliated property developer Country Garden Holdings have a common majority shareholder, and it's possible that Country Garden Services' resources could be used to support Country Garden Holdings in the event of a default.

Regulation aimed at reducing leverage, in addition to slowing consumer demand, is threatening the Chinese property sector, following years of excessive residential construction fueled by borrowing. This has resulted in defaults among leading private-sector developers. Our research leads us to believe that Country Garden Holdings may also be at risk. Recent evidence includes the company's share offering at a steep discount to current market prices, suggesting to us that liquidity is under threat. Additionally, Chinese policymakers have signaled their prioritization of homebuyers, industry stability, and state-owned developers over private developers, which lowers our expectation for stimulus or other support of businesses such as Country Garden Holdings.

Given the rapidly evolving operating environment, inherent challenges of predicting Chinese policy decisions, and the complex and opaque financial structure used by private-sector Chinese developers, we have lost confidence in our ability to accurately assess the financial risk currently faced by Country Garden Holdings and its potential impact on Country Garden Services.

As of September 30, 2022, Bajaj Finance Ltd. made up 6.33%, MercadoLibre Inc. made up 6.30%, Titan Co. Ltd. made up 3.31%, Apollo Hospitals Enterprise Ltd. made up 5.34%, Bank Central Asia TBK PT made up 3.34%, Tencent Holdings Ltd. made up 3.99%, Wuxi Biologics (Cayman) Inc. made up 2.29%, Alibaba Group Holding Ltd. made up 2.16%, AIA Group Ltd. made up 3.06%, Anta Sports Products Ltd. made up 3.37%, Nu Holdings Ltd. made up 2.13%, Taiwan Semiconductor Manufacturing Co. Ltd. made up 4.65%, HDFC Bank Ltd. made up 4.32%, Kanzhun Ltd. made up 0.87%, Reliance Industries Ltd. made up 2.41% and JetBlue Airways Corp., Datadog Inc., London Stock Exchange Group PLC, Cloudflare Inc., Atlassian Corp., ServiceNow Inc., Okta Inc., JPMorgan Chase & Co., Deere & Co., Snowflake Inc., Country Garden Holdings Co. Ltd. and Country Garden Services Holdings Co. Ltd. each made up 0.00% of the Touchstone Sands Capital Emerging Markets Growth Fund. Current and future portfolio holdings are subject to change.

Fund Facts *(As of 09/30/22)*

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio* Total	Net
A Shares	11/16/18	**TSMGX**	89154Q141	1.60%	1.60%
C Shares	11/16/18	**TEGCX**	89154Q133	2.46%	2.35%
Y Shares	05/09/14	**TSEMX**	89154Q570	1.29%	1.29%
INST Shares	05/09/14	**TSEGX**	89154Q562	1.20%	1.20%
R6 Shares	04/26/21	**TSRMX**	89154M702	1.17%	1.17%
Total Fund Assets	**$2.3 Billion**				

**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 1.60% for Class A Shares, 2.35% for Class C Shares, 1.35% for Class Y Shares, 1.25% for Class INST Shares and 1.19% for Class R6 Shares. These expense limitations will remain in effect until at least 07/29/23.*

Share class availability differs by firm.

Annualized Total Returns** *(As of 09/30/22)*

	3Q22	YTD	1 Year	3 Year	5 Year	Inception
Excluding Max Sales Charge						
A Shares	-6.74%	-36.42%	-43.98%	-1.29%	-0.14%	2.49%
C Shares	-6.88%	-36.78%	-44.38%	-2.03%	-0.88%	1.73%
Y Shares	-6.70%	-36.33%	-43.84%	-1.01%	0.13%	2.76%
INST Shares	-6.66%	-36.25%	-43.75%	-0.92%	0.23%	2.85%
R6 Shares	-6.66%	-36.25%	-43.74%	-0.95%	0.17%	2.79%
Benchmark^	-11.57%	-27.16%	-28.11%	-2.07%	-1.81%	0.78%
Including Max Sales Charge						
A Shares	-11.43%	-39.60%	-46.78%	-2.97%	-1.17%	1.86%
C Shares	-7.81%	-37.42%	-44.93%	-2.03%	-0.88%	1.73%

^Benchmark - MSCI Emerging Markets Index[1]

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.*** *From time to time, the investment advisor 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 A and C Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 05/09/14, with the performance since the inception date of each share class.***

[1]The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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.

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 may invest in equity-related securities to gain exposure to issuers in certain emerging or frontier market countries. These securities entail both counterparty risk and liquidity risk. 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 Fund invests in growth stocks which may be more volatile than investing in other stocks and may underperform when value investing is in favor. The Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors. 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 sub-advisor 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. 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. 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.

Touchstone Funds are distributed by Touchstone Securities, Inc.*

*A registered broker-dealer and member FINRA and SIPC

Touchstone is a member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

Touchstone Investments®
DISTINCTIVELY ACTIVE®

800.638.8194 • TouchstoneInvestments.com