

BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY

www.barrons.com

JUNE 20, 2016

A plus-three-handicap golfer in his college days, Jamie Wilhelm is a scratch player in the market with his Touchstone Focused fund.



Jonathan Robert Willis for Barron's

Talking With **Jamie Wilhelm**

Portfolio Manager, Touchstone Focused Fund

Deconstructing Buffett

by Sarah Max

Jamie Wilhelm has had two real passions in his life, golf and investing, and coincidentally, both brought him to the Cincinnati area. Thirty years ago, he came to town for a national junior golf tournament, in which he finished 41st out of thousands of players. Decades later, in 2002, he returned to the city to join Fort Washington Investment Advisors as a senior analyst.

His golf game isn't what it used to be. "I play twice a year at most," says Wilhelm, 45, who at one point had a plus three handicap. As an investor, however, he's a scratch player. His \$1.4 billion Touchstone Focused fund (ticker: TFOAX) has delivered a 13.67% average annual return, versus 12.15% for the Russell 3000, since he and his team took over as subadvisors in April 2012. Touchstone

Investments and Fort Washington are both part of Western & Southern Financial Group.

Wilhelm and his team of four analysts aim to find businesses that have a significant and sustainable competitive advantage, and they buy when a stock is trading below their estimate of a company's intrinsic value. This is a style of value investing that "takes advantage of the one thing that won't go away over time, and that is irrational human behavior," says Wilhelm, whose all-cap fund aims to hold 25 to 40 stocks. "Every business we buy is priced for a very low return on capital."

Some of Wilhelm's best investments have been those rated Sell by multiple analysts. Yet if the business model is sound and barriers to entry are high, he says, the company should earn more than its cost of capital over time. That was the case with Mondelez International (MDLZ), which the fund bought in late 2012, shortly after it was spun off from what is now Kraft Heinz (KHC). "We had owned Kraft and knew the business extremely well," he says of Mondelez, which owns Cadbury, Oreo, and other big brands. "They had disappointing earnings and got cheap, and we bought a big position quickly."

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Touchstone Focused Fund

	Total Returns*		
	1-YR	3-YR	5-YR
TFOAX	-0.8%	10.7%	13.5%
Russell 3000	-0.1	10.3	12.3
Top 10 Holdings / Ticker	Net % of Assets**		
Berkshire Hathaway / BRK.B	6.1%		
Bank of New York Mellon / BK	4.2		
Mondelez International /MDLZ	4.1		
Amazon.com / AMZN	4.0		
Sysco / SYY	3.7		
Novartis AG / NVS	3.7		
General Electric / GE	3.6		
Apple / AAPL	2.9		
Oracle / ORCL	2.9		
Cisco Systems / CSCO	2.8		
Total	38.0		

*Annualized. Returns as of 6/15/2016, holdings as of 5/31/16
Sources: Morningstar and company reports

Since then, the stock has risen 66%.

General Electric (GE) is another textbook example of how Wilhelm and his team think about value. They initiated their investment in late 2014 when the stock was trading in the low- to mid-\$20s, where it had been languishing since 2012. “Even people internally were saying that the stock hadn’t moved in years, and ‘Why do you think it’s going to move now?’” Wilhelm says. “Many had given up on it.”

For the Touchstone Focused team, it was an opportunity to buy shares at a price marginally above what the services part of the business alone was worth; that segment is growing and offers a relatively stable source of revenue. “The market has

since woken up,” says Wilhelm, noting that Nelson Peltz’s Trian fund took a big stake in GE late last year.

Years of competitive golf taught Wilhelm how to make decisions under pressure and manage his emotions, key skills for his style of investing. Although golf was his focus growing up in North Carolina, his grandfather helped spark his interest in the market. While at Wingate University on a golf scholarship, the future money manager participated in a national stock-picking challenge, and during his junior year called the local Smith Barney office and offered to work free over the summer. He was eventually hired. “When I started at Smith Barney, my job was to make 300 calls a day to people I didn’t know,” says Wilhelm. “I’m not shy.”

Later, his interest in value investing prompted Wilhelm to reach out to Bruce Greenwald, co-director of the Heilbrunn Center for Graham & Dodd Investing at Columbia University. “I offered to buy him dinner the next time I was in New York,” says Wilhelm. The two clicked, he says, and now see each other regularly.

“I’m a huge believer in trying to study the best,” says Wilhelm, who also “reverse-engineered” Warren Buffett’s publicly traded investment moves going back to the early 1970s to find commonalities in valuation at the time Buffett invested.

Indeed, Berkshire Hathaway (BRK.B) is his fund’s largest investment.

When it comes to finding bargains for their portfolio, Wilhelm and his team use specialized screens to help identify discounted companies. For example, one screen looks at companies selling near

replacement value. Each analyst, including Wilhelm, has an area of coverage and works with a partner analyst who offers a second opinion on every idea. When analysts uncover stocks meeting their guidelines, they e-mail their partners.

Wilhelm was named head of equities for Fort Washington earlier this year. He and his team manage \$3 billion, including his fund. Wilhelm has veto power but says he rarely has to use it. “I’ve worked on teams where the analyst could use the valuation method that gave them the outcome they wanted,” he says. “Our process is extremely defined.”

While the fund’s composition reflects the team’s bottom-up approach, Wilhelm aims for diversification across most sectors and limits single-industry exposure to no more than 25% of fund assets. Wilhelm sells holdings when they become fully valued, or if “a company does something stupid and we can’t understand why,” he says.

The fund bought Comcast (CMCSA) early this year when concerns about millennial “cord cutters” drove prices down to about \$50 a share. “Again, it reflected that returns on capital were going to decline to the cost of capital over a reasonably short period of time,” he says. “We asked, what is the likelihood of that happening, and what is the barrier to entry?”

They determined Comcast’s economies of scale in distribution and customer stickiness made such a scenario unlikely. Even if competition from the likes of Amazon.com (AMZN) and Netflix (NFLX) translates into weak growth for cable-TV subscriptions, Comcast has pricing power on the broadband used to deliver digital media of any kind. ■

Touchstone Focused Fund

Funds Facts (As of 03/31/16)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	09/30/03	TFOAX	89154X245	1.37%	1.21%
C Shares	04/12/12	TFFCX	89154X237	2.09%	1.96%
Y Shares	02/12/99	TFFYX	89154X229	0.97%	0.96%
INST Shares	12/20/06	TFFIX	89154X211	0.88%	0.84%
Total Fund Assets	\$1.4 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 annual fund operating expenses (excluding Acquired Fund Fees and Expenses "AFFE", if any) to 1.20% for Class A Shares, 1.95% for Class C Shares, 0.95% for Class Y Shares and 0.83% for Class INST Shares. These expense limitations will remain in effect until at least 07/29/16.

Annualized Total Returns** (As of 03/31/16)

Class	1Q16	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Including Max Sales Charge							
A Shares	-4.83%	-4.83%	-4.37%	9.31%	10.71%	7.52%	9.10%
C Shares	-0.18%	-0.18%	-0.25%	10.67%	11.60%	7.56%	8.78%
Excluding Max Sales Charge							
A Shares	0.99%	0.99%	1.47%	11.49%	12.03%	8.16%	9.48%
C Shares	0.82%	0.82%	0.73%	10.67%	11.60%	7.56%	8.78%
Y Shares	1.06%	1.06%	1.75%	11.78%	12.31%	8.44%	9.75%
INST Shares	1.11%	1.11%	1.89%	11.94%	12.47%	8.62%	9.86%
Benchmark [^]	0.97%	0.97%	-0.34%	11.15%	11.01%	6.90%	5.51%

[^]The Russell 3000[®] Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. Max 5.75% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

****The performance presented for Class A, C, and INST Shares combines the performance of an older class of shares (Y Shares) from the Fund's inception, 02/12/99, with the performance since the inception date of each share class.**

As of March 31, 2016, Mondelez International Inc. made up 3.52%, General Electric Co. made up 3.65%, Berkshire Hathaway Inc. made up 5.65%, Comcast Corp. made up 1.93%, Amazon.com Inc. made up 3.15% and The Kraft Heinz Co. and Netflix Inc. made up 0.00% of the Touchstone Focused Fund.

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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. The fixed dividend may be less attractive in a rising interest rate market. The Fund invests in foreign securities, including depositary receipts, such as ADRs, GDRs and EDRs, which carry the associated risks of economic and political instability, market liquidity, currency volatility and differences in accounting standards. The Fund invests in emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries. The Fund may experience higher portfolio turnover which may lead to increased fund expenses, lower investment returns and higher short-term capital gains taxable to shareholders. The Fund may focus its investments in specific sectors and therefore be susceptible to positive or negative developments in the sector which may increase the Fund's volatility and magnify its effects on total return. 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. Current and future portfolio holdings are subject to risk. The advisor engages the sub-advisor to manage the Fund's portfolio; the sub-advisor's judgment may impact the Fund's performance.

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/pricing-performance.** From time to time, the investment advisor may waive some fees and/or reimburse expenses, which if not waived or reimbursed, may lower performance. Performance by share class will differ due to differences in sales charges and class expenses. Calendar year returns of the Fund and the Benchmark do not include the effects of the applicable sales charge which would lower returns. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.

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TSF-2264-1606