

## Fund Manager Commentary

As of March 31, 2024

### Fund Highlights

- Invests primarily in issues having a market capitalization above \$5 billion at time of purchase
- Distinctive approach is centered on linking valuations with barriers to entry
- Seeks to invest in businesses that are trading below what is believed to be its estimate of the companies' intrinsic value
- Focuses on businesses that are believed to have a sustainable competitive advantage or a high barrier to entry in place
- Concentrated, high conviction portfolio generally holds 25-45 companies

### Market Recap

In the U.S., data remained supportive in March, concluding first quarter 2024 on a strong note. The Federal Open Market Committee revised its economic projections upwards, acknowledging that growth was substantially stronger than initially anticipated. The projected U.S. growth rate for 2024 was raised to 2.1% (compared to 1.4% in December), while core inflation is now expected to be stickier than initially thought. Interestingly, these improved macro dynamics did not lead to a more hawkish stance from the U.S. Federal Reserve (Fed). In Europe, on the back of a stagnating economy in the last quarter of 2023, economic indicators progressively recovered during first quarter 2024. In March, European Commission surveys revealed generally better-than-expected figures, although not across all sectors of the economy. Industrial confidence displayed a notable uplift, but the service industry survey proved worse than anticipated, while consumer confidence remained flat. Finally, in China, the economic picture seems to be improving while some key areas of weakness remain. Chinese industrial production surpassed expectations and retail sales growth remained steady. However, foreign direct investments into China and Chinese residential property sales remain weak.

During the quarter, U.S. equities were again the top performers, followed by Japanese and European equities. UK equities underperformed on the back of weak economic data. From a sector perspective, all sectors within the MSCI World Index performed positively, except Real Estate. The leading sectors were Communication Services, Information Technology, Financials, and Energy. Conversely, the weakest sectors were Real Estate, Utilities, and Materials.

### Portfolio Review

The Touchstone Climate Transition ETF (NAV) underperformed its benchmark, the MSCI World Index, for the quarter ended March 31, 2024.

Relative performance during the quarter was challenged by our structural overweights to both Utilities and Materials, driven by our climate focus. In addition, our stock selection within these two sectors was unfavorable. Among our top relative performance contributors, TSMC (Information Technology; Taiwan), On Holding (Consumer Discretionary; Switzerland) and Steel Dynamics (Materials; U.S.) performed strongly. On the negative side, Sigma Lithium (Materials; Brazil), RWE (Utilities; Germany) and Signify (Industrials; Netherlands) were material detractors to the Fund's relative performance.

In the first quarter, the Fund's key portfolio change was to increase the weighting of solution providers as we continue to believe we are in the bottoming process for many of the names we follow in the space, with market expectations now very low for that group. Examples include Yadea (Consumer Discretionary; China), a leading producer of electric two-wheelers, which we see as a key technology for decarbonizing transport in Southeast Asia. Elsewhere, we remain focused on transition materials, where we have increased our exposure to silver as an underappreciated beneficiary of the roll-out of solar technology. Wheaton (Materials sector; Canada), a streaming company focused on silver, is very attractive given its somewhat unique high return profile in a sector often plagued by capital intensity.

*(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 <https://www.westernsouthern.com/touchstone/etfs/climate-transition-etf>.**



### Outlook and Conclusion

As the economy shows signs of resilience and even some early signs of a manufacturing recovery (in the U.S.), we expect the steep inversion of the yield curve to normalize, in part through a so-called bear steepening. This move implies that longer-term rates will adjust higher. This phenomenon does not occur very often and is considered “bearish” as it tends to be negative for bond markets, while history shows that it tends to be constructive for equities as it corresponds to a maturing economic cycle. However, we remain cautious on the economic outlook as a marked shift in longer-term rates could eventually be conducive to a more recessionary environment further down the road.

Despite the challenging performance of our key investment themes in 2023, we maintain a positive outlook on their long-term prospects and their potential to generate returns in a higher interest-rate environment. Our portfolio aims to deliver superior growth and higher returns than the index, all while maintaining an attractive valuation. We believe that our diversified exposure to the global power system transition provides robust growth opportunities while mitigating downside volatility.



Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio	
				Total	Net
HEAT	04/28/23	89157W509	Cboe BZX	1.77%	0.69%
<b>Total Fund Assets</b>	<b>\$11.6 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 0.69%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

	1Q24	Inception
ETF NAV	2.88%	3.78%
ETF Market Price	2.67%	3.82%
Benchmark	8.88%	22.95%

Benchmark - The MSCI World Index

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Investing involves risk, principal loss is possible. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. Touchstone ETFs are new and have limited operating history to judge. Shares are bought and sold at market price not net asset value (NAV). Market price returns are based upon the consolidated market price and do not represent the returns you would receive if you traded shares at other times.

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Top 10 Holdings of Fund

	(% of Portfolio)		(% of Portfolio)		
1	NextEra Energy, Inc.	3.1	6	ON Holdings AG	2.5
2	NVIDIA Corp.	3.0	7	Siemens AG	2.5
3	Autodesk, Inc.	2.8	8	Taiwan Semiconductor-SP A	2.5
4	United Rentals Inc.	2.7	9	Trex Company Inc.	2.5
5	PTC Inc.	2.6	10	Mastec Inc.	2.4

Source: BNY Mellon Asset Servicing

Please consider the investment objectives, risks, charges and expenses of the ETF 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://TouchstoneInvestments.com/resources) or call Touchstone at 833.368.7383. Please read the prospectus and/or summary prospectus carefully before investing.

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Touchstone is a member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed market countries.

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

There are risks associated with investing, including possible loss of principal. The Fund invests in equities which are subject to market volatility and loss. The Fund invests in foreign securities, including depositary receipts, such as American Depositary Receipts, Global Depositary Receipts, and European Depositary Receipts, which carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The Fund's climate transition investment criteria may limit the available investments or may cause the Fund to forgo opportunities to buy certain securities, or forgo opportunities to gain exposure to certain industries, sectors, regions and countries, which may cause the Fund to underperform funds that invest in a broader array of investments. In addition, the Fund may be required to sell a security when it might otherwise be disadvantageous for it to do so.

Touchstone exchange-traded funds (ETFs) are actively managed and do not seek to replicate a specific index. ETFs are bought and sold through an exchange at the then current market price, not net asset value (NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV when traded on an exchange. Brokerage commissions will reduce returns. There can be no guarantee that an active market for ETFs will develop or be maintained, or that the ETF's listing will continue or remain unchanged.

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. 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. Financial institutions could suffer losses if interest rates rise or economic conditions deteriorate. The Fund's service providers are susceptible to cyber security risks that could result in losses to a Fund and its shareholders. Cyber security incidents could affect issuers in which a Fund invests, thereby causing the Fund's investments to lose value.

The Fund invests in fixed-income securities which can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. When interest rates rise, the price of debt securities generally falls. Longer term securities are generally more volatile. The Fund invests in mortgage-backed securities and asset-backed securities which are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. 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. Current and future portfolio holdings are subject to change.



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