

Fund Manager Commentary

As of March 31, 2024

Fund Highlights

- Dividend-focused strategy invests primarily in U.S. large capitalization companies that:
 - Historically paid consistent, growing dividends
 - Have sustainable competitive advantages, which have the potential to support reliable, growing dividends with reasonable valuations
- Seeks to invest in businesses that trade at reasonable valuations compared to their intrinsic value
- Focuses on businesses that are believed to have a sustainable competitive advantage or a high barrier to entry in place

Market Recap

The debate among investors at the start of this year was how long the economy could sustain above trend growth and whether inflation would continue to decelerate. In response to the strong showing for the first quarter, doubts about the economy's resilience have waned. However, progress on the inflation front stalled in the first three months, which has raised questions about whether it will be ongoing or temporary.

As a result, there was a significant reversal in bond yields: Ten-year treasury yields increased by about 40 basis points in the quarter to close at 4.2%. Yields have since increased above 4.5% in response to a strong jobs report for March and CPI inflation that reached 3.5%. This mainly reflects a reappraisal by bond investors about the prospects for monetary policy easing this year: They now anticipate the funds rate will end the year around 5.0% versus 4.0% previously.

Equity investors were unfazed by this development, as the stock market continued to set record highs during the first quarter. The S&P 500 Index posted a 10.6% return and ended the quarter up by 27% from its lows in late October. The Technology sector continued to lead the way powered by advances in artificial intelligence (AI) related stocks, although there was also a broadening in the market with the S&P 500 equal weight also returning 7.9% during the quarter.

Portfolio Review

The Touchstone Dividend Select ETF (NAV) underperformed its benchmark, the Russell 1000 Value Index, for the quarter ended March 31, 2024.

Security selection and sector allocation were both negative contributors to relative performance during the period. The

dividend orientation of the Fund was a modest negative factor for the quarter as dividend paying stocks underperformed non-dividend paying stocks.

Selection within Consumer Discretionary, Financials, and Industrials were the primary drivers of negative security selection during the quarter. Selection within Information Technology was the largest contributor to security selection.

An overweight to Information Technology and underweight to Financials were both detractors to sector allocation.

The largest individual contributors to relative performance were overweight positions in Caterpillar (Industrials sector), Broadcom (Information Technology sector), Valero (Energy sector), and KLA Corp (Information Technology sector), and an underweight to Boeing (Industrial sector).

Caterpillar was a top contributor to relative performance as the stock trended higher throughout the quarter. The company posted a strong earnings beat during the quarter, despite weakness in China, spurring a wave of analyst upgrades.

Broadcom continued to move higher during the quarter by 19.2% following a return of 104% for 2023 and its best calendar year return on record. Despite falling by 7% following its quarterly earnings release, the stock continued its move higher driven by investor enthusiasm around AI.

KLA Corp experienced a similar quarter, with the stock falling 6.6% following earnings before returning 20.4% during the quarter. KLA is also expected to be an AI beneficiary as new AI capabilities drive upgrade cycles in smartphones and PCs, resulting in increased demand for the process control equipment sold by KLA.

The largest detractors from performance included overweight exposures to Apple (Information Technology sector), American

(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/dividend-select-etf>.**



Tower Corp (Real Estate sector), Starbucks (Consumer Discretionary sector), and UnitedHealth (Health Care sector), and underweight exposure to Berkshire Hathaway (Financials sector).

Apple was the largest detractor during the quarter following outperformance throughout 2023. Apple underperformed amid increased concerns over slowing smartphone sales.

American Tower Corp fell 9% during the quarter after being a top contributor to performance in the fourth quarter. Despite moving higher following a mixed earnings release, the stock ended the quarter lower following a broad sell-off in REIT valuations as interest rates moved sharply higher throughout the quarter.

Starbucks detracted from relative performance as the stock moved lower throughout the quarter. Softening consumer spending and sluggish growth in international markets weighed on the stock during the period.

Portfolio activity during the quarter was average. The Fund added 2 new positions during the quarter and eliminated one.

Las Vegas Sands (Consumer Discretionary sector) is one of the world's largest casino operators and enjoys a narrow moat through its regulatory barrier where it has only 1 of 6 casino licenses in Macau and 1 of 2 in Singapore. Gaming revenue has yet to rebound to pre-COVID levels in Macau, but we anticipate recovery in the coming years which should support the stock and also result in continued dividend increases.

Sysco (Consumer Discretionary sector) was also added to the fund as a higher quality, wide moat staples name with more favorable upside than the rest of the sector. Sysco operates as the #1 market share leader in a fragmented industry and is positioned to continue to increase market share through its cost advantages in both supply purchases and logistics. Sysco is a dividend aristocrat with 54 consecutive annual increases.

Fox Corp (Communication Services sector) was eliminated to fund these purchases. Streaming has disrupted Fox's business model and future profitability will be challenged as a result. Given the secular headwinds and uncertainty, the Fund eliminated the position to fund new purchases with better business prospects and valuations.

There were no material sector changes during the quarter beyond modest differences due to market performance. Information Technology remains the largest sector overweight, while Financials, Energy, and Industrials are the largest underweights.

Outlook and Conclusion

The focus throughout 2024 will continue to be inflation as the market gauges the timing and magnitude of potential Federal Reserve (Fed) rate cuts. Core inflation has fallen well off its 2022 high, but has stalled with recent data reflecting an uptick in inflation. This will likely result in the Fed maintaining a restrictive stance at current levels for much of 2024 until inflation resumes its path towards 2%.

Ongoing strength of the U.S. consumer is still an unknown as excess savings decline, student loan payments resume, and lending standards remain tight. Credit usage has risen and is now in line with the pre-COVID trend while delinquencies on consumer loans are above 2019 levels. The labor market continues to exhibit

strength, as shown by the low unemployment rate, but continuing jobless claims have risen. Additionally, wage growth remains strong but has slowed over the year. This data paints a mixed picture of the consumer and leads us to a higher level of uncertainty than current asset valuations would indicate.

Beyond the consumer, U.S. growth is likely to encounter challenges as businesses invest less in capital expenditures due to profits getting squeezed from higher employment costs. Separately, federal spending is expected to be a slight detractor from GDP in 2024 as the government, similar to consumers, deals with higher borrowing costs. Outside of the U.S. there are also uncertainties such as developments surrounding the Israel/Hamas conflict, Europe teetering on a recession, and China working to contain its real estate crisis. Each of these has the potential to impact the global economy.

Despite these potential challenges, the risk of recession has faded and a soft landing is appearing more likely to occur as the Fed seeks to ease monetary policy at some point in 2024 and the economy has remained resilient thus far.

We are maintaining a cautious stance due to stretched valuations for the market but are selectively finding bottom-up opportunities. We are prioritizing high barrier to entry companies with high returns on capital while seeking to upgrade valuation where possible.

Although risks remain, the economic outlook is improving. As such, we remain constructive on U.S. equities but acknowledge near-term headwinds exist and valuations have become stretched in certain sectors of the market. As investors seek to avoid the risks of inflation, higher interest rates, and recession, dividend strategies are a compelling option. Dividend strategies have the potential to provide both capital appreciation and a growing stream of income while also providing downside risk mitigation through lower volatility during times of distress.



Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio	
				Total	Net
DVND	08/02/22	89157W103	NYSE Arca	1.22%	0.68%
Total Fund Assets	\$32.9 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 0.67%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

	1Q24	YTD	1 Year	Inception
ETF NAV	6.43%	6.43%	19.22%	13.67%
ETF Market Price	6.53%	6.53%	19.38%	13.74%
Benchmark	8.99%	8.99%	20.27%	12.77%

Benchmark - The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

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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.

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.

Top 10 Holdings of Fund

	(% of Portfolio)		(% of Portfolio)	
1	Dreyfus Gov Cash	6.9	6 BlackRock Inc.	2.2
2	Microsoft Corp.	3.9	7 Medtronic Plc	2.2
3	Oracle Corp.	2.4	8 Exxon Mobile Corp.	2.2
4	Goldman Sachs Group Inc.	2.4	9 Caterpillar Inc.	2.2
5	Broadcom Inc.	2.3	10 International Business Machines Co.	2.2

Source: BNY Mellon Asset Servicing

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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 dividend-paying companies. There is no guarantee that the companies in which the Fund invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. Securities that pay dividends may be sensitive to changes in interest rates, and as interest rates rise or fall, the prices of such securities may fall.

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 value stocks which may not appreciate in value as anticipated or may experience a decline in value. Current and future portfolio holdings are subject to change.

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://www.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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