

Fund Manager Commentary

As of March 31, 2025

Fund Highlights

- Invests in equities believed to be developing solutions for net-zero emissions and companies that can benefit from positive changes in climate transition processes.
- Seeks companies that may benefit from climate transition impacts; solution providers; transition leaders and adaptation opportunities.
- Expands beyond solution providers inclusive of transition and adaptation companies accessing a wide opportunity set for potential outperformance.

Market Recap

The first quarter of 2025 began like a roller coaster, with numerous developments unfolding. These included a reversal of the prolonged U.S. growth and tech trade, and a value recovery led by Europe and emerging markets. Additionally, interest rates displayed divergent trends, with rates declining in the U.S. and rising in the eurozone. Even the typically sluggish European region has provided reasons to invest in its future. These changes have led to rapidly evolving shifts in trends, favoring value-oriented trades. The level of uncertainty was most acute in March, due to U.S. led trade tensions.

Key events during the quarter occurred in Europe and the U.S. Germany made a historic move by shifting away from its conservative and debt-averse fiscal policy to support increased defense spending and a special fund for infrastructure. In parallel, the EU announced the ReArm Europe plan, which could mobilize close to EUR 800 billion for defense spending. In the U.S., the Trump administration remained fully committed to its aggressive trade proposals, with potential widespread reciprocal tariffs to be announced in early April.

The equity market was therefore caught in significant crosscurrents. In the U.S., investors worried about the negative implications of higher tariffs for the domestic consumer, growth, inflation, and the reaction function of monetary policy. On the European side, however, the mood was somewhat more constructive as cyclical equities benefited from the positive perspective of fiscal loosening.

Portfolio Review

The Touchstone Climate Transition ETF (NAV) underperformed its benchmark, the MSCI World Index, for the quarter ended March 31, 2025.

The Fund's underperformance was driven mainly by allocation effect, most notably the Fund's underweight in Financials and overweight in Consumer Discretionary sectors. From a security selection standpoint, Wheaton Precious Metals Corp. (Materials, Canadian supplier of transition metals) showed up again among the top performers, followed by BYD Co. Ltd. (Consumer Discretionary, Hong Kong, China), which officially became the world's largest EV producer by sales. We also saw Pan American Silver Corp. (Materials, Canada) delivering a solid positive return. On the negative side, the key headwind was the unwinding dynamic of the artificial intelligence (AI) ecosystem. Investors became more cautious following the DeepSeek announcement that the buildout of infrastructure might have become excessive. ASM International NV (Information Technology, Netherlands) was a material detractor over the period, which we view as disconnected from the earnings profile and profitability prospect of that company. Further detractors were Be Semiconductor (Information Technology, Netherlands) and First Solar (Information Technology, United States).

Over the first quarter, the Fund's portfolio took advantage of market weakness to increase exposure to businesses with long term resilient growth profiles where the market has near term concerns. This included for example Ashtead Group plc (Industrials, UK), where the concerns on the nearer term growth outlook for construction muddies the longer term structural case for equipment rental to gain share as a more efficient way of providing building equipment. We also added to BE Semiconductor Industries where the market concerns on the nearer term growth rates for AI capital expenditure overlook what we view as a broader uptake of their hybrid bonding products. From a resilient cash flows perspective, we added Linde plc (United States, Materials sector) which gave us an opportunity following a rare pullback for this industrial gas business and we also saw very select

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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>.**



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opportunities in deeper value names in the auto space with Aptiv plc (Consumer Discretionary, Ireland) entering into the portfolio. To fund these changes, we took profits in some of the cloud hyperscaler complex as well as industrial European names where performance had been very strong. Furthermore, some of our assets with more defensive cash flows where valuations had become less attractive were reduced such as Republic Services Inc. and Verisk Analytics Inc. (both Industrials, United States).

Outlook and Conclusion

In 2024, as the inflation battle seemed over, countries began to move towards more accommodative monetary policies, with rate cuts across key economies, with the exception of Japan. The narrative of a soft landing started to take shape, potentially favoring a broadening of the equity market performance into 2025, after having been concentrated in a narrow set of stocks since 2023.

Many of our themes were left behind and encountered cyclical headwinds, such as clean energy-related themes, which saw a decline of over 20% for two years in a row. Despite these cyclical headwinds, we believe that the structural trends we focus on are firmly established. Looking ahead into 2025, we identify several attractive opportunities that are unduly overlooked and could regain investors' attention.

Overall, the Fund's portfolio adheres to the principles of strong quality growth while maintaining disciplined valuation. With our dedicated sustainability research team encompassing system changes across sectors, we are confident that the Fund strategy is well-positioned to capture investment opportunities arising from a society transitioning to net zero, becoming more nature-positive and socially equitable. This provides investors with a diverse range of growth opportunities.



Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio	
				Total	Net
HEAT	04/28/23	89157W509	Cboe BZX	2.13%	0.69%
Total Fund Assets		\$11.2 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 0.69%. These expense limitations will remain in effect until at least 04/29/26.

Total Returns

	1Q25	YTD	1 Year	Inception
ETF NAV	-2.24%	-2.24%	-2.61%	0.55%
ETF Market Price	-2.42%	-2.42%	-2.49%	0.64%
Benchmark	-1.79%	-1.79%	7.04%	15.38%

Benchmark - 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.

Top 10 Holdings of Fund

	(% of Portfolio)		(% of Portfolio)
1 Taiwan Semiconductor Mfg. Co. Ltd.	2.6	6 Amazon.com Inc.	2.2
2 National Grid PLC	2.4	7 Copart Inc.	2.2
3 Yadea Group Holdings Ltd.	2.3	8 O'Reilly Automotive Inc.	2.2
4 NVIDIA Corp.	2.3	9 NextEra Energy, Inc.	2.2
5 BYD Co. Ltd.	2.3	10 Contemporary Amperex Technology Co. Ltd.	2.2

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 or call Touchstone at 833.368.7383. Please read the prospectus and/or summary prospectus carefully before investing.

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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 depository 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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