

Fund Manager Commentary

As of June 30, 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

The U.S. economy started the year on a strong note, with the Federal Open Market Committee revising its 2024 growth projection upwards amid robust data. While disinflation progress was less than expected, the central bank maintained a less hawkish stance. In the second quarter, stronger U.S. economic data, including a drop in the unemployment rate, drove a significant increase in Treasury yields, stoking concerns about resilience in inflation. Europe also showed signs of recovery, while China experienced a manufacturing resurgence. The Federal Reserve (Fed) signaled a “higher for longer” rate stance, in contrast with expectations for more gradual easing in Europe following the European Central Bank’s recent rate cut. Additionally, new U.S.-China trade tensions emerged, clouding the outlook while the more recent snap French elections created near term volatility in its domestic market and for sovereign credit spreads. Overall, the macro backdrop featured a resilient U.S. economy, a gradual European recovery, and a mixed picture in China, accompanied by sticky inflation and diverging central bank policies across the Atlantic. On the corporate front, resilient economic activity fed through into resilient corporate earnings.

As of the end of June, quarter-to-date, the equity market, as measured by the MSCI World Index, has recorded a small increase. The leading force behind this growth has been U.S. equities, while European equities have remained relatively flat. On the other hand, Japanese equities lagged behind with a negative returns. During this period, the Information Technology and Communication Services sectors showed the strongest performance, while Materials and Real Estate sectors lagged both having negative returns. In terms of investment styles, Growth was the strongest, closely followed by Quality, while Value was the weakest.

Portfolio Review

The Touchstone Climate Transition ETF (NAV) underperformed its benchmark, the MSCI World Index, for the quarter ended June 30, 2024.

Relative performance during the quarter was mainly driven by a negative selection effect, primarily within the Information Technology sector due to our overexposure to cleantech, and the Industrials sector due to our exposure to solar panels. Our underweight in Financials proved beneficial to the strategy; however, this benefit was more than offset by our overweight positions in two sectors, Materials, and Industrials, which performed poorly during the period.

Among our top relative performance contributors were Taiwan Semiconductor Manufacturing Co. (Information Technology; Taiwan), ASM International (Information Technology; Netherlands) and MasTec Inc. (Industrials; U.S.). Taiwan Semiconductor maintained its leadership position in the Artificial Intelligence (AI) rollout, earning recognition from key customers and experiencing growth for next generation pipeline. ASM International benefitted from the market’s focus on the power needs to fuel AI and to keep this under control increasing semiconductor efficiency is of the utmost importance. MasTec outperformed following a tricky period of execution around an acquisition. We believe Mastec has started to win back market faith in its extensive growth opportunity of renewable deployments.

On the negative side, Xinyi Solar (Information Technology; China), Trex Company (Industrials; U.S.) and Yadea (Consumer Discretionary; China) were material detractors to the Fund’s relative performance. Xinyi underperformed due to ongoing concern about how the U.S. will try to diminish the role of Chinese suppliers in the solar supply chain. Trex, following a

(continued)

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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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strong run, was hampered by emerging concerns of consumer weakness in the remodel market. Yadea faced challenges due to policy announcements and apprehensions about near-term destocking at low margins, negatively affecting its performance.

During the quarter, the Fund's key portfolio change was to shift our materials exposure from lithium exposed names to silver and aluminum where we have greater conviction in the supply demand dynamics. We also sold MSCI Inc. (Financials; U.S.) to buy Verisk Analytics Inc. (Industrials; U.S.) which we believe has a more assured growth profile for the next few years, better levered to the climate opportunity. Finally, we reduced some of our clean technology exposure for example in Shoals where we are concerned by the ongoing legal case, preferring to concentrate our exposure in Enphase Energy Inc. (Information Technology; U.S.) and Array Technologies Inc. (Industrials; U.S.) where we have greater conviction.

Outlook and Conclusion

The current macro environment bears similarities to the economic landscape of the late 1990s, which was characterized by a "soft landing" - a period where interest rates were raised by the Fed, but inflation was tamed, and growth remained resilient, leading to strong performance in the equity markets.

In the late 1990s, the Fed implemented a series of interest rate hikes to cool an overheating economy and keep inflation in check. However, despite these rate increases, the broader economy and corporate earnings continued to grow at a healthy pace. This translated into robust returns for listed equities during that period.

We are witnessing an analogous scenario unfolding today. The Fed has been aggressively raising interest rates to tame the highest inflation levels in decades. Yet, despite these rate hikes, our bottom-up analysis suggests that corporate earnings expectations are accelerating, with consensus estimates pointing to growth of 8 percent in 2024 and 10 percent in 2025, after being flat in 2023.

Interestingly, investors have remained overly focused on the potential recessionary risks associated with the Fed's rate hike campaign. This has led to a significant market concentration, with the top 10 stocks (all of which are U.S.-based) now accounting for a staggering 25 percent of the MSCI World Index. Entire segments of the equity markets, such as small caps, mid caps, European equities, and non-AI related themes, have been largely abandoned by investors. However, as investors gain increased confidence in a soft landing scenario, we expect a broadening of equity market performance. These "left behind" segments, which our portfolio is heavily exposed to, are poised to catch up and deliver strong returns. Much like the late 1990s, we believe the current macro environment could translate into resilient and growing corporate earnings, ultimately driving a more broad-based equity market rally.

In conclusion, the similarities between the current macro landscape and the late 1990s economic soft landing suggest that investors may be overly pessimistic about the potential for a successful landing this time around. As corporate earnings accelerate and investors regain confidence in a softer economic outcome, we

believe the equity market is set to experience a potential meaningful rotation towards the overlooked segments that have been unjustly punished.

Reading through our outlook for 2024, much remains the same. To investors' frustration, 2024 has continued the trend of 2023 of strong concentration in equity market performance. The ongoing equity rally remains primarily concentrated on a few technology-related companies that are perceived as defensive in the context of recession concerns stoked by "higher for longer" rates. It is worth noticing that recession is still not around the corner. Economic growth remains resilient in the U.S. and benefits from positive base effect in Europe. This is feeding into companies' earnings resilience. Many of our themes are being left behind and some are encountering cyclical headwinds, such as those related to clean energy, which saw a decline of nearly 20 percent. Despite these cyclical headwinds, we believe that the structural trends we focus on are firmly established. Looking ahead into 2024, we identify several attractive opportunities that are unduly overlooked and could regain investor attention. We view the portfolio is well positioned for a market rotation. Overall, our portfolio adheres to the principles of strong quality growth while maintaining disciplined valuation. We are confident that the Fund is well-positioned to navigate broad environmental challenges, not just in the Energy sector but also in Agriculture and Material Use economies as well as capturing other beneficiaries of a society transitioning to Net Zero. 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	1.77%	0.69%
Total Fund Assets	\$11.3 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 04/29/25.

Total Returns

	2Q24	YTD	1 Year	Inception
ETF NAV	-2.41%	0.40%	-4.92%	1.09%
ETF Market Price	-2.48%	0.12%	-5.42%	1.05%
Benchmark	2.63%	11.75%	20.19%	22.01%

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 NVIDIA Corp.	4.2	6 Wheaton Precious Metals Corp	2.2
2 NextEra Energy, Inc.	3.5	7 SSE Plc	2.2
3 Taiwan Semiconductor Mfg. Co. Ltd.	3.2	8 United Rentals Inc.	2.2
4 Alphabet Inc. Class A	2.5	9 National Grid PLC	2.1
5 Amazon.com Inc.	2.3	10 BYD Co. Ltd.	2.1

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 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.

