

Fund Manager Commentary

As of December 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

U.S. equities capped the year off higher in the fourth quarter, with the market observing the election outcome and its implications alongside Federal Reserve (Fed) decisions to cut rates 25 basis points in both November and December. Growth stocks significantly outperformed Value as value-oriented stocks declined during the quarter. Within the Russell 1000 Value Index, the best performing benchmark sectors were Financials, Communication Services, and Information Technology. The worst performing sectors for the benchmark were Materials, Health Care, and Real Estate.

Portfolio Review

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

The Fund's positions within Industrials, Real Estate and Communication Services were a negative contributor to relative performance during the period as was the Fund's underweight to Financials. The dividend orientation of the Fund's strategy was a negative for the quarter as dividend paying stocks underperformed non-dividend paying stocks.

Among the largest individual contributors to relative performance included overweight positions in Broadcom (Information Technology sector), Entergy (Utilities sector), Wells Fargo (Financials sector), Visa (Financials sector), and Goldman Sachs (Financials sector).

Broadcom was the largest contributor to outperformance during the period. The company reported better than expected earnings and provided upbeat guidance that sent the stock a record 24%

higher the same day. Broadcom has been a clear beneficiary of the artificial intelligence (AI) boom and provided guidance that it is anticipating material spend in coming years on its AI products.

Entergy added to performance following an earnings beat and guidance raise during the quarter. Specifically, the company increased its capital investment plan that should result in higher long-term earnings growth compared to expectations.

Goldman Sachs added to performance during the quarter following the U.S. election as investors anticipate the company to benefit from the new administration's policies that should support deregulation and increased mergers & acquisitions activity.

The largest detractors from performance included overweight exposures to Stanley Black & Decker (Industrials sector), American Tower Corp (Real Estate sector), CVS (Health Care sector), and International Flavors & Fragrances (Materials sector), and not owning JPMorgan Chase (Financials sector).

Stanley Black & Decker was the largest detractor from relative performance during the quarter. Despite continued strength in the underlying business and improving fundamentals, the stock underperformed following the U.S. election as concerns over increased costs from tariffs worried investors.

American Tower Corp underperformed as interest rates moved materially higher during the quarter, pressuring the stock given the high sensitivity of REITs to interest rates.

JPMorgan was a large detractor during the period as the Fund was underweight compared to the benchmark and the stock outperformed. The stock rose during the period following the U.S. election as the potential for deregulation boosted financial stocks.

The Fund added one new name during the quarter: Micron Technology Inc. (Information Technology sector). Micron is a leading supplier and manufacturer of memory and storage

(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/dividend-select-etf>.**



components. The company maintains high barriers to entry in their memory business (DRAM, over 70% of revenue) based on economies of scale in manufacturing and research & development. The memory industry is an oligopoly protected by high barriers to entry, with the cumulative market share of the top 3 companies exceeding 92% (Micron has ~23% share). Micron has a solid balance sheet with cash exceeding debt along with high single digit returns on invested capital. Although Micron pays a below average dividend yield of 0.5%, they have ample capacity to increase it with a payout averaging only 10% and policy of 50% payout via dividends and share buybacks. Valuation presented an opportunity to add the name as industry overcapacity in both DRAM and NAND has resulted in depressed revenues and margins, but production cuts and significant reductions in capital expenditures across the memory industry should restore supply/demand balance.

Outlook and Conclusion

The current investment landscape is characterized by strong domestic growth, changing policy priorities from the newly elected administration, and evolving investor sentiment. Economic growth exceeded expectations from the beginning of the year, underscored by the resilience of both consumers and businesses. However, policy changes concerning trade and regulation have garnered significant attention, potentially impacting the trajectory of the U.S. economy.

Strong consumer spending has been the largest contributor to growth over the last year. While household savings have declined, higher income earners have propelled the economy following a surge in investment and home prices since the pandemic. Higher wages have also supported the broader labor market. Although job creation has slowed over the last year, it is being offset by a lack of job losses, resulting in a largely balanced labor market.

As the economy continues to expand, inflation remains a focus for many investors due to the implications for Fed policy. While inflation still appears to be on a path of disinflation, recent data has been bumpy. Furthermore, several new tariff proposals from the President have added to uncertainty.

At the same time, other policy proposals may provide tailwinds for economic growth into 2025. Deregulation efforts could provide certain industries, particularly energy and banking, with lower amounts of operational restrictions and increased merger and acquisition activity that could improve bottom lines.

The Fed began cutting policy rates in 2024 following further disinflation and a cooler labor market. Despite the Fed funds rate being reduced by 100 basis points, longer-term yields moved higher during the fourth quarter as investors expect continued economic strength to result in fewer rate cuts during 2025.

While higher rates could put pressure on risk assets, consumer spending and business investment are likely to support current valuations. However, we remain cognizant of downside risks to the current economic trajectory such as the bifurcation between lower income earners relative to higher income households as well as sluggish global growth. Additionally, markets will maintain a keen eye on any potential weakness in employment, developments in U.S. fiscal policy, and geopolitical conflicts.

Although risks remain, the economic outlook is positive. 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. Following the material outperformance of growth-oriented stocks, dividend strategies are a compelling option as earnings begin to converge while the valuation discount remains at historically attractive levels. Dividend strategies have the potential to provide both capital appreciation and a growing stream of income while also providing downside protection 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%	0.50%
Total Fund Assets	\$33.9 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 0.49%. These expense limitations will remain in effect until at least 10/31/25.

Total Returns

	4Q24	YTD	1 Year	Inception
ETF NAV	-3.00%	11.59%	11.59%	11.37%
ETF Market Price	-3.03%	11.58%	11.58%	11.37%
Benchmark	-1.98%	14.37%	14.37%	10.81%

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	4.2	6	Wells Fargo & Co.	2.2
2	Microsoft Corp.	4.0	7	Cisco Systems Inc.	2.1
3	Broadcom Inc.	3.4	8	Home Depot Inc.	2.1
4	Apple, Inc.	2.6	9	Bank of America Corp.	2.1
5	Oracle Corp.	2.2	10	Goldman Sachs Group Inc.	2.0

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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