Fund Manager Commentary

As of December 31, 2024

Fund Highlights

- Invests in securitized fixed income securities including residential mortgage backed securities, commercial mortgage-backed securities, asset backed securities and collateralized loan obligations
- Relative value focus emphasizing moderate to high opportunities within securitized products
- Portfolio may include U.S. Treasury securities, U.S. government agency securities, securities of government-sponsored enterprises, municipalbonds, and cash equivalents including repurchase agreements, commercial paper and variable rate demand notes
- Portfolio invests at least 50% in investment grade debt securities and may invest up to 15% in securities that are not-rated
- Fund may engage in active trading of securities as part of its investment strategy

Market Recap

As 2024 comes to a close, the investment landscape remains shaped 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 Federal Reserve (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. While tariffs are generally considered a one-time price increase rather than inflationary, there is a risk that they could progress into a larger trade war with some of the United States' largest trading partners (China, Mexico, Canada). This possibility has caused investors to increase their short-term inflation outlook while longer-term expectations have remained largely range bound.

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 that should improve bottom lines. In addition, lower levels of regulation should enhance merger and acquisition activity while the possibility of lower corporate tax rates would lift fundamentals for many small/medium size firms. This positive backdrop for the economy is helping support risk assets as evidenced by historically tight credit spread and higher equity prices.

The Fed began cutting policy rates following further disinflation and a cooler labor market. Despite the Fed funds rate being reduced by 100 basis points (bps), longer-term yields moved higher during the fourth quarter as investors expect continued economic strength to result in fewer rate cuts during 2025. The dynamic of higher long-term rates while the Fed is cutting has led to a more traditionally shaped yield curve. The shift in longer rates was the main driver of fixed income returns over the fourth quarter. The 10-year Treasury increased about 80bps and caused a 3% decline in the U.S. Aggregate Index as credit spreads remained near historically tight levels.

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 growth from Europe and China. Additionally, markets will maintain a keen eye on any potential weakness in employment, developments in U.S. fiscal policy, and geopolitical conflicts.

U.S. Treasury rates ended the quarter mixed versus the end of September. The 2-year to 30-year part of the curve moved out 60-80bps. The very short end less than six months rallied in roughly

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50bps in reaction to the two Fed cuts. 2/10's curve continued to steepen throughout the quarter as well. Spreads tightened on continued demand across for spread product with attractive all-in yields.

Portfolio Review

Management still thinks floating rate securities in the collateralized loan obligations (CLO) space as well as longer fixed rate residential mortgage backed securities (RMBS) offer the best mix as well as individual security opportunities that arise for the reinvestment of income and paydowns. Duration ended the quarter at 2.75 down slightly from the 2.80 at the end of the third quarter.

The Touchstone Securitized Income ETF (NAV) outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2024.

Spreads tightened throughout the quarter on strong demand and all in yield buying. Both new issue and secondary offers were bought up as money flowed into fixed income funds. Performance was highly driven by interest rate performance with U.S. Treasury curve significantly higher for the quarter with 5–10-year treasuries up 80bps. Floating rate assets paired better although the drop in the SOFR index led to less income on the quarter.

CLO were the strongest performer for TSEC during fourth quarter as most of the exposure is in floating rate assets. Commercial mortgage backed securities (CMBS) also performed well for the quarter. Interest-Only (IO) securities and a few beneficial payoffs of distressed securities added to the Fund's portfolio. RMBS was a detractor as well as asset backed securities (ABS) for the quarter. Given the longer duration positioning in these two sectors that is not surprising given the substantial move in interest rates that occurred. Still both sectors outperformed the Bloomberg U.S. Aggregate Index.

Shorter duration positioning was a benefit for the quarter with the portfolio at 2.75 on 12/31 versus the Bloomberg Aggregate Index at slightly over 6 years at the same time.

Among the three largest contributors were a RBSCF 2017-SMV deal that paid off in December from significant discount on refinancing, FRESB IO (due to a higher move in rates with slower prepayments), and a CSMC 2017-TIME – SASB Hotel deal that rallied in value.

Among the largest detractors were a GCMT 2014-GC25 D and CGCMT 2017-P8 D – CMBS conduit BBB that have asset specific situations, HENDR Structured Settlements whose longer duration was affected most by the move in interest rates, and Non-Agency RMBS Jumbo which also were hurt most by the move in interest rates given longer duration.

The largest change in TSEC was a decrease in CMBS from 30% to 24% as there were several securities pay off during the quarter. RMBS went from 19% to 24% given the move in rates, and where spreads are Non-Agency RMBS offers the most value especially at the more senior levels. Cash also increased to 8% of the Fund as we are strategically looking to deploy that opportunistically in the coming year.

Outlook and Conclusion

Fund management believes the U.S. economy is still strong, and the pivot by the Fed should lead to some stability in the very short end. With only 1-2 Fed cuts expected in 2025, the mantra of higher for longer still exists. Inflation may still be sticky in the mid to high 2s given the persistence of shelter inflation. Also, with a new administration taking office could lead to some volatility in the foreseeable future. The job market remains healthy, and the consumer especially in the higher end continues to buoy the economy.

Fundamentals in each of TSEC's broad sectors – ABS, CMBS, RMBS, and CLOs – remain supportive of valuations even with spreads at historical tights. Consumer fundamentals have exhibited pockets of weakness, particularly in the lower-income cohorts, however, the broad consumer data remains strong, and lenders have responded appropriately where default performance exceeded expectations. Securitization protections are largely well-structured to withstand the degree of weakness being exhibited. Housing fundamentals remain supportive of RMBS subsectors broadly, where the primary concern remains around housing turnover and timing/certainty of cashflow projections. CLO default rates have stabilized at a reasonable level, as leveraged loan borrowers have begun to benefit from lower rates in the front end of the curve as their floating rate debt service obligation declines. CMBS has improved over the past year and the lending market has dramatically picked up. However, there are still problem assets that will need to be worked out. Spreads have tightened in across the asset class.

Spreads during the quarter remained tight throughout with no weaknesses in any sector. We continue to find value in longer RMBS senior bonds given more in rates and where historical spreads are. Carry trade for CLO with resetting historical spread tights is something we are looking at as a distinct possibility. CMBS is still a core holding but given the bifurcated nature of that market we are being very asset specific.

TSEC's investment strategy emphasizes income as the primary source of return (rather than being dependent on timing rate or price movements) and believes the strong yield in the portfolio should continue to produce an attractive level of income for investors while providing substantial cushion against adverse rate or spread movements. Our expectations remain for a strong economy, however, given our favorable fundamental view across most subsectors, we would view spread volatility as an opportunity to add risk across most sectors. With the reduction in expected Fed cuts for 2025, the year has started with higher rates further out the curve, which has presented opportunities to add to our duration. While attractive idiosyncratic opportunistic pockets of value remain available from time to time, TSEC has otherwise generally benefited from a higher-quality bias as securitized spreads have broadly compressed. Management believes the strategy is well-positioned to generate attractive income going forward, while also appropriately managing downside risk in the event of unexpected volatility in the near-term.

Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio Total	Net
TSEC	07/17/23	89157W707	NYSE Arca	1.23%	0.40%
Total Fund Assets	$108.8 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 0.39%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

	4Q24	YTD	Inception
ETF NAV	0.17%	7.33%	8.81%
ETF Market Price	-0.48%	7.65%	8.99%
Benchmark	-3.06%	1.25%	2.94%

Yield

	Touchstone Securitized Income ETF
30-Day SEC Yield	4.70%
30-Day Unsubsidized SEC Yield	4.37%

*Unsubsidized is calculated without expense waivers. **The 30-Day SEC Yield** is calculated by dividing the net investment income per share (as defined by industry regulations) earned by a fund over a 30-day period by the maximum public offering price. This number is then annualized. **The 30-Day SEC Yield** reflects the rate at which a fund is earning income on its current portfolio of securities and does not necessarily reflect income actually earned and distributed by a fund and, therefore, may not be correlated with a fund's past distributions actually paid to shareholders.*

Top 10 Holdings of Fund

		(% of Portfolio)
1	DREYFUS GOV CASH	7.97
2	HONK 2024-1A A2 6.372 10/20/2054	2.80
3	PLNT 2024-1A A2II 6.237 6/5/2054	2.71
4	JPMMT 2019-9 B4 FRN 5/25/2050	2.17
5	CSMC 2020-NET B 2.8159 8/15/2037	2.16
6	GALXY 2016-22A BRRR FRN 4/16/2034	2.07
7	BXHPP 2021-FILM A FRN 8/15/2036	2.02
8	CHASE 2024-RPL4 A1B FRN 12/25/2064	1.90
9	ANTR 2021-1A A1 FRN 7/25/2033	1.84
10	PROSE 2019-1A A2 4.475 7/30/2049	1.74

Source: BNY Mellon Asset Servicing

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/securitized-income-etf. *From time to time, the investment adviser may waive some fees and/or reimburse expenses, which if not waived or reimbursed, will lower performance. Returns assume reinvestment of all distributions. Returns are not annualized for periods less than one year.*

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.

A Word About Risk

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 invests in investment grade debt securities which may be downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to below investment grade status. The Fund invests in non-investment grade debt securities which are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and has had more frequent and larger price changes than other debt securities. The Fund invests in U.S. government securities which are neither issued nor guaranteed by the U.S. Treasury and are not guaranteed against price movements due to changing interest rates.

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 invests in foreign securities 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 invests in municipal securities which may be affected by uncertainties in the municipal market related to legislation or litigation involving the taxation of municipal securities or the rights of municipal security holders in the event of bankruptcy and may not be able to meet their obligations. 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. The Fund invests in repurchase agreements which are considered loans by the Fund and may suffer a loss of principal and interest in the event of counterparty defaults. The Fund invests in Collateralized Loan Obligations (CLOs) that have risks that largely depend on the type of underlying collateral and risks may include illiquidity, limited active market, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the potential for a decline in the quality of the collateral, and can bear the risk of default by the loans. 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 or call Touchstone at 833.368.7383. Please read the prospectus and/or summary prospectus carefully before investing.