

Fund Manager Commentary

As of June 30, 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, municipal bonds, 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

The economy has continued to grow at a robust pace this year, driven by the consumer. Healthy job and wage gains coupled with significant increases in net worth have propelled recent spending, as excess savings from pandemic era programs are now largely exhausted. While a balanced labor market should support economic growth, some indicators are beginning to exhibit mixed signals, such as elevated jobless claims and a shortening workweek. While this slowing should put downward pressure on inflation, it could also lead to a larger decline in consumption.

Amid these mixed signals and expectations for disinflation, investors have maintained focus on the Federal Reserve (Fed) and expectations for rate cuts. Forecasts for the path of the federal funds rate have experienced volatility this year which is likely to continue as new economic data is released. Inflation came into the year near the Fed's 2% target on a 6-month rolling basis but upside surprises for the first few months of 2024 sparked concerns around elevated inflation. While inflation worries are still present, recent data has renewed faith that inflation will move lower, and the larger trend remains intact. The Fed's preferred gauge of inflation, core Personal Consumption Expenditure Price Index, is at a yearly rate of 2.6%, down from 4.7% last May. While further progression should increase the Fed's confidence to cut, they have emphasized the desire to move slowly and stay data dependent.

Nevertheless, the market is anticipating 50 basis points (bps) of cuts in the second half of the year with consensus forecasts pointing toward continued growth, leading to a 'soft landing'. As a result, risk assets moved higher while interest rates appear to have stabilized following recent inflation reports. The 10-year Treasury initially rose 50bps in the second quarter due to inflation fears, but subsequently reversed that move and found an anchor around

4.3%, which is just above where it began the quarter. Corporate bond spreads widened modestly but remained near historically tight levels. Securitized spreads have also tightened notably this year, led by commercial mortgage backed securities (CMBS). While corporate spreads are now close to historical tights, securitized spreads are generally trading in the 20th-50th percentile relative to history - the tighter side of fair value, but not fully valued like many corporate bonds. The Bloomberg U.S. Aggregate Index was up for the quarter, holding in positive territory due to carry.

Fundamentals in securitized sectors have been mixed with CMBS lagging, driven by weak office fundamentals, higher cap rates and a generally a challenged commercial real estate (CRE) market. Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) fundamentals are on solid footing after a period of normalization - consumer delinquencies were historically low, driven by COVID stimulus, and have been reverting to pre-COVID levels. There are some age and income cohorts which have been more challenged in the post-stimulus economy and that trend bears watching. Collateralized loan obligations (CLO) fundamentals weakened moderately driven by higher interest rates (bank loans, the collateral in a CLO, are floating rate and debt costs have surged alongside short-term rates). Defaults in the loan market are peaking and overall loan performance has held up well.

Portfolio Review

The Touchstone Securitized Income ETF (NAV) outperformed its primary benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended June 30, 2024.

Interest rates in the short to intermediate tenors where the strategy invests were up 10-15 basis points during the quarter, creating a

(continued)

[†]Fort Washington is a member of Western & Southern Financial Group

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>.**



slight performance headwind. Spread tightening across all the Fund's sub-sectors largely neutralized the higher rate environment leaving carry, or quarterly income, as the primary contributor to return.

The performance of the strategy's major sectors was uniform in the second quarter. Segments like CLOs and CMBS Single Asset Single Borrower bonds that are predominately floating rate benefitted from the higher carry offered by SOFR-indexed coupons (as compared to those benchmarked off of lower yielding intermediate Treasuries), and fixed-rate segments like ABS and Non-Agency RMBS saw spread tightening that helped offset their carry disadvantage. All the major sectors had positive returns for the quarter.

CMBS continues to be the asset class with the most risk and opportunity. While CMBS primary market spreads have seen improvement from the recent wide set in late 2023, the recovery in seasoned bonds is nascent and its breadth narrow. Price discovery in the sector is ongoing and performance is reflective with the best and worst performing securities for the quarter coming from the CMBS sector. Other strong performers included a quick service restaurant whole business securitization, an RMBS backed by government-guaranteed reverse mortgages, and an Alliance Bernstein BBB CLO – all up more than 4.5% in the quarter.

The largest changes in positioning for the strategy during the quarter was an increased allocation to AAA/AA-rated Non-Agency RMBS backed by prime jumbo mortgages and a decrease in CLOs. As a result of this shift, the RMBS allocation increased and CLOs fell. CMBS and ABS allocations were largely unchanged. The shifts in CLOs and RMBS were based on relative value – high quality RMBS trading at dollar prices in the \$70-\$85 range are sticking out as one of the cheaper asset classes in securitized products with spreads in the 60-70 percentile historically. Conversely, CLOs have tightened materially and are near historic tights.

Assets under management increased from \$50 million to \$75 million during the quarter and sector exposures were scaled up very effectively. Management has continued to increase Option Adjusted Duration from the 2-year area at the beginning of 2024 to about 2.8 years. The overall risk profile of the strategy (measured by Duration times Spread) came down somewhat due to the tighter spread environment and the addition of higher quality RMBS.

Outlook and Conclusion

The macroeconomic environment has held up well despite 525 basis points of cumulative rate hikes and an outlook for only modest near-term rate cuts. The fundamentals in each of the strategy's broad sectors – ABS, CMBS, RMBS and CLOs – remain supportive of valuations. Consumer fundamentals have weakened in the lower income cohorts due to the impact of inflation and high borrowing costs but remain sound overall as shown by delinquency trends in both ABS and RMBS. CLOs have been tested by rising interest rates, but default trends appear to be stabilizing at relatively low levels. CMBS is the most challenged sector, there will be winners and losers and tens of billions of dollars have been raised to buy dislocated assets. We are beginning to see deployment of this capital, but it remains slow as investors

wait for deeper discounts. Cap rates are still adjusting to the higher interest rate environment and could continue to further stress the CRE markets the “higher for longer” mentality being embraced by the market will be a test for CRE and CMBS.

Spreads have rallied in all credit markets with investment grade and high yield spreads near historical tights. Securitization spreads started the year in fair-value-to-slightly-cheap territory but are now on the tighter side of fair with most spreads in the 10 to 50 percentile range. CMBS is more bifurcated with distressed segments like office trading at wider spreads. We are still finding pockets of value in certain RMBS and ABS sub-sectors including seasoned prime jumbo RMBS and tier 2 whole business securitizations. We are also selectively taking advantage of opportunities in the CMBS space. Additionally, we still like the floating rate trade due to the inverted yield curve and the “higher for longer” outlook.

The ETF is a short duration strategy that generates most of its return through income. Given that short-term rates are expected to remain elevated for much of 2024 and into 2025, the floating rate exposure should continue to produce relatively high income for the portfolio. With a soft landing, or no landing scenario being most likely, management expects spreads to remain reasonably well-behaved and the Fed to eventually lower short-term rates. The eventual bull steepening of the front-end of the yield curve, combined with lower spread volatility has the potential to produce meaningful price upside. The portfolio also has several positions in opportunistic CMBS with significant upside potential, but likely further down the road when rates eventually decline, providing support to the CRE markets. The evolving quality bias in the portfolio (moving into higher quality as spreads grind tighter) should help buffer downside in the event inflation remains elevated, or accelerates, and volatility comes back into the markets.



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	\$74.9 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 0.39%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

	2Q24	YTD	Inception
ETF NAV	1.48%	3.70%	9.26%
ETF Market Price	1.40%	4.01%	9.54%
Benchmark	0.07%	-0.71%	2.30%

Benchmark - Bloomberg U.S. Aggregate Bond Index is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and ten years.

Yield

	Touchstone Securitized Income ETF
30-Day SEC Yield	5.37%
30-Day Unsubsidized SEC Yield	5.05%

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.

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.

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Not FDIC Insured | No Bank Guarantee | May Lose Value