Touchstone Ultra Short Income ETF

TUSI

Sub-Advised by: Fort Washington Investment Advisors, Inc.

Income - Ultrashort Bond | Actively Managed, Fully Transparent ETF | 2Q/2024

Fund Manager Commentary

As of June 30, 2024

Fund Highlights

- Selects fixed income securities believed to be attractively priced relative to the market or to similar securities
- Conducts disciplined approach focused security selection and research
- Higher credit quality portfolio seeks to avoid higher risk strategies, such as non-dollar currencies invests primarily in investment grade debt securities
- As markets become more intricate, specialization becomes a necessity

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, 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 Ultra Short Income ETF (NAV) outperformed its primary benchmark, the ICE BofA 3-Month U.S. Treasury Bill Index and outperformed its secondary benchmark, the ICE BofA Merrill Lynch 1-Year U.S. Treasury Note Index, for the quarter ended June 30, 2024.

Interest rates were little changed from the first to the second quarter, with most of the interim volatility in the 1-to-3-year part of the yield curve. Maturities 6 months and in remain anchored by the Fed. The bigger challenge for short duration investors was not

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managing rate volatility this quarter, but the decision between investing in fixed versus floating rate assets, as the yield curve inversion helps floaters and cash instruments offer historically attractive yields compared to 1-to-2-year fixed rate bonds. For several quarters now, investors have been faced with the unusual situation where they must give up yield to extend duration on top of exposing themselves to greater price volatility.

The impact of slightly higher interest rates was more than offset by tighter credit spreads in short duration sectors combined with the income provided by historically high yields. Income generated by the Fund's portfolio remains significant and should continue to provide a buffer going forward. Performance was also buoyed by the continued recovery in the CMBS sector.

The performance of the ETF's major sectors were good, as CMBS, Corporates, and ABS outperformed their corresponding ICE BofA 0-2 year indices. CLO's and Non-Agency RMBS were also both accretive to performance.

Dispersion in the peer group was contained during the quarter. The difference between the 25th percentile returning fund and the 75th percentile returning fund was only ~18bps, the tightest range in several quarters. This was not surprising given relatively low interest rate volatility and the ongoing convergence of credit spreads. Empirically the ETF and its peers seemed to be positioned similarly in terms of overall duration and credit risk.

Positioning changes were modest as ABS increased and CMBS increased at the expense of Corporates and RMBS. Credit quality was unchanged at a weighted average rating of AA-.

Duration positioning is near the midpoint of the historical range at 0.67 years (0.1 years longer than the prior quarter). Given the increase in short rates and inversion of the curve, strategies like that of the ETF with short duration and a higher concentration of floating rate securities performed better. Management believes the broader peer group is positioned slightly shorter at about 0.5 years, but given the relatively small changes in rates, the duration difference did not materially impact returns.

The yield curve steepened during the quarter and the overweight to shorter key rate durations likely contributed modestly to the ETF's returns.

Outlook and Conclusion

The macroeconomic environment has held up well despite 525bps 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 CLO – 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. Securitized 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 10th to 50th percentile range. CMBS is more bifurcated with distressed segments like office trading at wider spreads. We are still finding pockets of value in certain ABS, CMBS and CLO assets including auto ABS, tier 2 whole business securitizations, seasoned conduit bonds and short maturity CLO's. Additionally, we still like balancing floating rate securities with 1-to-2-year fixed rate bonds due to the inverted yield curve and high carry, while recognizing the uncertainty around a "higher for longer" outlook.

We expect short-term rates to remain elevated through 2024 and into early 2025. Floating rate exposure will continue to produce relatively high near term income for the Fund's portfolio. With a "soft landing," or "no landing" scenario being most likely, management expects spreads to remain reasonably well-behaved. This eventual bull steepening of the front-end of the yield curve combined with lower spread volatility has the potential to produce additional price upside. The Fund still has significant upside potential in the CMBS holdings with an average dollar price of $97, but likely further down the road when rates eventually decline, providing support to the CRE markets. The quality bias in the Fund (AA- average quality) should help buffer downside in the event inflation remains elevated, or accelerates, and volatility returns to the markets.

The Fund is still able to absorb significant volatility and produce attractive returns. We are looking to gradually extend duration toward the middle of our operating range by opportunistically increasing exposure to the 1-to-2-year part of the curve. We remain wary of over-risking the Fund and look to stay neutral to underweight both interest rate risk and credit risk.

Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio Total	Net
TUSI	08/04/22	89157W301	Cboe BZX	0.61%	0.25%
Total Fund Assets	**$78.3 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 0.25%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

	2Q24	YTD	1 Year	Inception
ETF NAV	1.43%	3.14%	6.71%	5.51%
ETF Market Price	1.46%	3.18%	6.79%	5.57%
Benchmark 1	1.32%	2.63%	5.40%	4.68%
Benchmark 2	1.11%	1.95%	5.02%	3.61%

Yield

	Touchstone Ultra Short Income ETF
30-Day SEC Yield	4.88%
30-Day Unsubsidized SEC Yield	4.62%

*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/ultra-short-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.

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.

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'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 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. 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. Current and future portfolio holdings are subject to change.

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