Touchstone Ultra Short Income ETF

TUSI

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

Income - Ultrashort Bond | Actively Managed, Fully Transparent ETF | As of 03/31/2024

Fund Manager Commentary

As of March 31, 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

At the start of 2024, the Federal Reserve (Fed) seemed pleased with their progress in crafting a soft landing. The unemployment rate had risen from a cycle low of 3.4% while headline inflation moderated into the 3% range from 6.5% at the start of 2023. The market, believing inflation was on its way to the Fed's 2% target, anticipated 6 rate cuts, effectively lowering the Fed Funds rate 1.5% from 5.5% to 4% during 2024.

Fast forward to quarter-end and expectations for rate cuts are fading. The market is now pricing in just 2.5 rate cuts, or about 0.63%. It is clear the Fed would like to cut rates - at the March Federal Open Market Committee meeting, Chairman Powell confirmed the Fed would likely begin cutting rates "at some point this year," but the economy is not cooperating. Job growth continues to be strong, wages are firm, consumers are more confident and spending, and the positive inflation trends appear to have stalled. Treasury rates have adjusted with 2-year notes to 10-year Treasury bonds about 50 basis points (bps) higher since year-end.

Against this backdrop, interest rate volatility has been declining, spurred by a Fed committed to cutting rates in 2024. This lower volatility environment has helped foster a substantive reduction in risk premiums (corporate and securitized bond spreads). The option adjusted spreads on the investment grade corporate bond index have declined since early November. Securitized spreads have also tightened notably, led by commercial mortgage backed securities (CMBS) which is tighter since November and tighter year to date. While corporate spreads are now close to historical tights, securitized spreads are generally trading in the 20-50 percentile relative to history - the tighter side of fair value, but not fully valued like many corporate bonds.

Fundamentals in the securitized sectors have been mixed with CMBS lagging, driven by weak office fundamentals, higher capitalization rates and a generally 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 that 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 Duration Fixed Income ETF (NAV) outperformed its primary benchmark, the ICE BofA 3-Month Treasury Bill Index and outperformed its secondary benchmark, the ICE BofA 1-Year U.S. Treasury Note Index, for the quarter ended March 31, 2024.

During the quarter, interest rates in the 2-year part of the curve increased while rates in the 0-1 year part of the curve were largely unchanged. The ABS sector had substantial exposure to the longer key rate duration buckets which was a minor headwind for performance. However, that was more than offset by spread tightening across all sectors in Q1, continuing the trend that started in late 2023 as interest rate volatility began to decline. The net impact was positive for returns.

CMBS was the best performing sector for the quarter boosted by spread tightening in the conduit sub-sector, there remains recovery value in the CMBS segment of the portfolio. CLOs were the next best performing sub-sector as floating rate securities performed very well in the inverted yield curve environment. RMBS was in

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line with expected income for the sub-sector—spread tightening and higher rates offset one another. ABS and corporate bonds lagged. The ABS sector has been a focal point for a duration extension trade which began late in the quarter and had more significant exposure to longer key rate durations. Corporates lagged as there was no spread tightening to offset higher rates.

Portfolio management's primary portfolio objective during the first quarter was to increase duration moderately into the 0.7-year range -the middle of the fund's historic operating range, while maintaining a quality bias. The challenge was to do this without selling the high-carry, floating rate position (24% of Fund assets) while at the same time positioning the portfolio to benefit from the eventual normalizing (re-steepening) of the front-end of the curve which is notably inverted. The 1.0-to-1.5-year part of the curve was determined to be the optimal area to increase duration. During the quarter, about 18% of the portfolio paid down, or matured, and was reinvested primarily in longer average life ABS and CMBS securities. Corporate bond and RMBS exposure each declined while CMBS and CLO exposure increased. Sector changes were made to get the ETF portfolio closer to the tactical allocations.

The portfolio duration is currently 0.61 years, up from 0.52 years at year-end. Portfolio management is working to increase the portfolio duration closer to the middle of the historical operating range, or about 0.7 years. Given the preference to retain existing floating rate exposure due to attractive carry afforded by the inverted curve, it was necessary to invest portfolio cash flow into the 1.0-to-1.5-year part of the curve. This investment strategy imparts a moderate barbell maturity profile. The impact of this repositioning was negligible during the quarter as much of the repositioning took place in late February and March, after Treasury rates adjusted higher. Although retaining the floating rate exposure has benefitted the portfolio.

Most of the yield curve movement occurred in the 2-year to 10-year part of the Treasury curve where the Fund has limited exposure (a small amount of ABS, Corporate and RMBS exposure in longer key rate duration buckets). This was evident in the ABS and Corporate sector performance which underperformed the expected carry. As referenced earlier, strong spread tightening across the securitized sectors more than offset the move in treasury rates, contributing to notable upside price performance.

Outlook and Conclusion

The macroeconomic environment has held up remarkably well despite 525 basis points of rate hikes in 2022 and 2023. The fundamentals in each of the Fund's broad sectors – ABS, CMBS, RMBS and CLO – remain supportive of valuations. Consumer fundamentals have weakened in the lower income cohorts but remain sound overall as evidenced by delinquency trends in both ABS and RMBS securitizations. CLOs have been tested by rising interest rates as noted earlier, 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. Capitalization rates are still adjusting to the higher interest rate environment and could continue to further stress the commercial real estate (CRE) markets—the higher for longer mentality being embraced by the market will be a test for CRE and CMBS.

Spreads have rallied strongly 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 20 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 reperforming loans, Non-Qualified Mortgage 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.

Given that short-term rates are expected to remain elevated for much of 2024, 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, later in 2024 or early 2025. This 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 spread grind tighter) should help buffer the 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
TUSI	08/04/22	89157W301	Cboe BZX	0.61%	0.25%
Total Fund Assets	**$64.3 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

	1Q24	YTD	1 Year	Inception
ETF NAV	1.69%	1.69%	6.81%	5.47%
ETF Market Price	1.69%	1.69%	6.90%	5.51%
Benchmark 1	1.29%	1.29%	5.24%	4.56%
Benchmark 2	0.83%	0.83%	4.30%	3.47%

Yield

	Touchstone Ultra Short Income ETF
30-Day SEC Yield	4.73%
30-Day Unsubsidized SEC Yield	4.43%

*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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