

Fund Manager Commentary

As of March 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, 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

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 has been tighter since November and year to date. While corporate spreads are now close to historical tightness, 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.

At the start of 2024, the U.S. Federal Reserve (Fed) seemed pleased with its 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 six 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.

Fundamentals in the 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 March 31, 2024.

Interest rates in the short to intermediate tenors where the Fund invests were up during the quarter, creating a 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.

Given the move higher in interest rates, the Fund's exposure to floaters was the best performing cohort in the portfolio – this segment includes CLOs and single asset single borrower CMBS bonds. Longer duration bonds underperformed, residential mortgage backed securities (RMBS) and Treasuries are the longest duration sub-sectors at 5 years and 13 years, respectively and produced the lowest returns.

(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>.**



CMBS continues to be the asset class with the most risk and opportunity. While CMBS primary market spreads have seen improvement from the recent wides 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.

The primary change in positioning for the strategy during the first quarter was an increased allocation to CMBS to take advantage of the historically wide spreads and lagging recovery. Most of the CMBS allocation increase was in higher quality assets (AAA though single-A rated securities). Other notable trades include a BBB-rated Fannie Mae credit risk transfer security that was sold due to full valuation. And, in the CLO sector, single-A rated CLOs were swapped into AA-rated due to compelling relative valuations, single-A's had become historically rich to AA's.

Total Fund assets increased from \$25mm to \$50mm during the quarter and sector exposures were scaled up very effectively. Management did make a tactical decision late in the quarter to increase option adjusted duration spread (OAD) from the 2-year area to about 2.5 years, this extension trade is underway and OAD was 2.3 years at quarter-end. The overall risk profile of the Fund (measured Duration times Spread) came down somewhat due to the tighter spread environment and the addition of higher quality CMBS.

Outlook and Conclusion

The macroeconomic environment has held up remarkably well despite 525bps 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 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.

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, 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 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 | 1.24% | 0.41% |
| Total Fund Assets | \$50.3 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 0.39%. These expense limitations will remain in effect until at least 04/29/25.

Total Returns

| | 1Q24 | YTD | Inception |
|------------------|--------|--------|-----------|
| ETF NAV | 2.19% | 2.19% | 7.67% |
| ETF Market Price | 2.58% | 2.58% | 8.03% |
| Benchmark | -0.78% | -0.78% | 2.24% |

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 | 6.33% |
| 30-Day Unsubsidized SEC Yield | 5.95% |

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.

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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.

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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