

Fund Manager Commentary

As of December 31, 2023

Fund Highlights

- Primarily invests in income producing securities including corporate debt securities, mortgage related securities, asset-backed securities, government securities (both U.S. government securities and foreign sovereign debt), and preferred stocks
- Expanded opportunity set provides the flexibility to react to market dislocations
- Broadly diversified by sector, resulting in multiple sources of return potential and low correlation to traditional asset classes
- Duration management is used as a risk mitigation tool; seeks to avoid taking large duration positions due to the difficulty in predicting interest rates
- Active management and security selection are focused on building a high conviction portfolio

Market Recap

The U.S. economy continues to hold on despite higher interest rates for a longer period. Unemployment remains low at 3.7% with nonfarm payrolls still seeing 175-200k per month increases. The labor market has started to see slower job growth with more balance given increased layoffs. Consumer spending is still supported by lower unemployment and elevated wages. However, we are starting to see more cracks in the lowest income cohorts. Business spending has been on the sluggish side as companies look to reduce costs to preserve margins. Lending on both the business and consumer side remains towards the tighter end but we are seeing some signs of easing as we are possibly at the highest end of Federal Reserve (Fed) Funds rate.

The Fed did not raise rates for the first time over this past quarter. Holding Fed Funds at the 5.25-5.50% level for the quarter as inflation has come down closer to the target 2% level. Data continues to show inflation cooling to where the Fed looks to see long-term inflation and thus paused rate hikes during the quarter. Shelter inflation remains high but is trending towards pre-COVID levels. The Dot Plots from the December meeting have changed from the end of third quarter with on average the Fed seeing the funds rate at 4.25% by the end of 2024. The biggest question will be the timing of those cuts over the course of the year.

Given the change from the Fed and inflation data there was a tail of three months throughout the quarter in interest rates. Over the quarter, interest rates dropped 25-75 basis points (bps) across the curve but not without extreme volatility. The month of October saw rates rise with the 10 year U.S. Treasury over 5 percent. November was a complete about face as rates rallied across the

curve with 6 month to 2 year U.S. Treasury down 20-40bps and longer end U.S. Treasuries down 60bps. December continued to see rates rally with the 2 year to 10-year rates down on average 40bps.

Given the move and stabilization in interest rates both equity and credit spreads rallied. The S&P 500 finished 2023 over 24% and up over 11% for the fourth quarter. Strong rally in agency mortgages started in November and continued along with all structured products. Corporate credit continued its tightening as the fourth quarter proved to be one of the better quarters for risk across all asset classes.

In the securitized segment of the fixed income market for the quarter, it started out as a drag for October with stress across most sectors, but as economic and inflation data changed in early November spreads took a dramatic turn tighter. By the end of the quarter, there was strong demand across all subsectors of the securitized world. Even Commercial Real Estate was seeing interest up and down the capital stack with improving bids and the thought that we have possibly reached a stabilization even though there are still many issues out there.

Portfolio Review

The Touchstone Securitized Income ETF (NAV) underperformed its primary benchmark, the Bloomberg U.S. Aggregate Bond Index, for the quarter ended December 31, 2023.

Interest rates were significantly tighter over quarter with 1-30 year Treasuries 60-75bps lower over the quarter. Lower rates and tighter spreads along with strong carry on floating rate securities led to strong performance. Longer Treasury positions, Residential Mortgage Backed Securities (RMBS), and Asset Backed Securities

(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 TouchstoneInvestments.com/mutual-funds.**



(ABS) were the best performers. Cash was the worst performer followed by Commercial Mortgage Backed Securities (CMBS) and Collateralized Loan Obligations.

The Fund's positioning was fairly stable for the quarter with the exception of adding shorter ABS and AAA CMBS. The CMBS sector weight increased over the quarter.

Outlook and Conclusion

The CMBS sector will be our most watched going forward given the stresses that exist out in the commercial real estate market. Although we do have distressed assets from a pricing perspective in the fund, we still believe in the recovery value of the assets. Additionally, we are looking to selectively add if the opportunity presents itself with the right securities. Also on the RMBS side, we feel there is value given the strengths in the residential housing market there is room for spread to tighten on a strong asset. Looking at interest rates, we are looking to actively manage our duration positioning and our floating rate exposures. Believing the Fed will be higher for longer, we still think the carry trade on floating rate securities will be additive.

Management's expectation is that rates will remain higher for longer and as such believe carry advantage will be an integral part of returns. In addition, the stabilization in CMBS pricing on distressed assets should stabilize in the coming quarters. The higher yield of 8+% plus significant price recovery leads the portfolio to be well positioned for the coming year. Although the threat of recession hangs over the economy there, we believe there is a distinct possibility of a soft landing. Looking at securitized spreads on a historical basis there is still room for significant tightening. We will selectively add to subsectors in the securitized space we believe are the best value-added proposition for the near future.



Fund Facts (As of 12/31/23)

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio	
				Total	Net
TSEC	07/17/23	89157W707	NYSE Arca	1.10%	0.39%
Total Fund Assets	\$24.3 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 10/29/24.

Total Returns (As of 12/31/23)

	4Q23	Inception
ETF NAV	3.68%	5.37%
ETF Market Price	3.35%	5.32%
Benchmark	6.82%	3.04%

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 (As of 12/31/23)

	Touchstone Securitized Income ETF
30-Day SEC Yield	6.17%
30-Day Unsubsidized SEC Yield	5.36%

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.

Touchstone ETFs are distributed by

Forside Fund Services, LLC

A registered broker-dealer and member FINRA

Touchstone is a member of Western & Southern Financial Group



Touchstone Investments®
DISTINCTIVELY ACTIVE®

800.638.8194 • TouchstoneInvestments.com

Not FDIC Insured | No Bank Guarantee | May Lose Value