Touchstone Dividend Select ETF

DVND

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

U.S. Equity – Large-Cap Value | Actively Managed, Fully Transparent ETF | 2Q/2023

Fund Manager Commentary

As of June 30, 2023

Fund Highlights

- Dividend-focused strategy invests primarily in U.S. large capitalization companies that:
  - Historically paid consistent, growing dividends
  - Have sustainable competitive advantages, which have the potential to support reliable, growing dividends with reasonable valuations
- Seeks to invest in businesses that trade at reasonable valuations compared to their intrinsic value
- Focuses on businesses that are believed to have a sustainable competitive advantage or a high barrier to entry in place

Market Recap

After a volatile end to the first quarter, the second quarter of 2023 was marked by continued resilience of the U.S. economy and slow progress on reducing inflation, resulting in strong performance for risk assets, further hawkish U.S. Federal Reserve (Fed) policy expectations, and higher interest rates. Recession has been widely expected by economists in 2023, but incoming data has remained sturdy as the labor market continues to support consumer spending. Interest rates rose in the quarter, with short-term interest rates rising more than long-term rates. Across many parts of the Treasury yield curve, the inversion of short to long-term rates is approaching the most negative of 2023. The rise in short-term rates was driven by a re-pricing of Fed expectations, as the Fed remained concerned that inflation remains too high and not improving quickly enough to halt rate increases. Markets now price a "higher for longer" path of Fed policy, whereby the Fed takes rates to a restrictive level and remain unchanged into at least mid-2024.

Consensus expectations for the U.S. economy have shifted from fears over recession to mostly achieving a soft landing, with the economy skirting a worse outcome in spite of the aggressive Fed tightening cycle. The main driver of this shift in expectation is the continued resilience of the U.S. consumer. Consumer spending, representing approximately 70% of the economy, has provided a solid foundation. In most recent data, consumer spending rose at the quickest pace in several quarters. Driven by a healthy labor market, above-average wage gains, and excess savings, consumers have defied the drag from higher interest rates and other headwinds.

Business spending, especially in the manufacturing sector, remains challenged. Manufacturing surveys have been solidly in contractionary territory for the past several months, indicating near-zero growth or outright declines in activity. The service sector has fared better relatively when compared to manufacturing, but risks are to the downside alongside the headwinds faced by consumers. Global growth has moderated from the first quarter, providing another potential downside risk. The U.K. and Eurozone economies will be challenged by further rate hikes as inflation remains sticky. Growth in China has remained uneven and somewhat disappointing as it struggles to gain momentum post-COVID. Once a source of significant upward price pressures, inflation from the manufacturing sector has mostly normalized. Commodity prices have declined, and supply chains have healed. For the U.S. economy, declining goods inflation has helped to reduce overall inflation rates throughout 2023.

Inflation, especially headline, has fallen sharply in the first half of 2023. For example, the annual rate of inflation measured by consumer price index has fallen from nearly a 9% peak in 2022 to just above 4% in the most recent data. Core measures, which exclude food and energy, have also adjusted lower, but at a much slower pace. The Fed's preferred measure of inflation, Core personal consumption expenditure, peaked at 5.4% in 2022, but has only declined to 4.6%. Within the data, there has been significant progress on inflation in the goods sector, but the service sector has remained sticky. Looking forward, however, service sector inflation is likely to fall sharply over the next several months and help move core measures of inflation lower. Shelter inflation, the largest component of services inflation, has begun to decelerate and real-time rental data indicates that improvement will continue toward more normal levels. As inflation moves lower, this will have broad implications for Fed policy and interest rates.

The Fed raised interest rates in May as the banking concerns of the first quarter receded, inflation declined at a slower pace, and economic data outperformed expectations. In June, the Fed decided to forgo another hike, but strongly indicated that further hikes are likely. In a surprise to markets, the Fed indicated they

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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/dividend-select-etf.***

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may raise rates above 5.5% by the end of 2023. Treasury yields increased sharply and now reflect more hikes and reduced chances of cuts in the future.

Equities generated positive returns during the second quarter with the S&P 500 returning 8.7%. The S&P 500 performance was driven by the outperformance of mega-cap technology names, as large-cap growth stocks returned 12.8% compared to only 4.1% for value. Through the first 6 months of the year, the S&P 500 returned 16.9%, with only seven stocks responsible for 75% of the return. Breadth within the market has deteriorated and is at historically poor levels following the outperformance of a select few names. Dividend stocks underperformed as a result of the narrow breadth and growth-oriented style leadership.

Portfolio Review

The Touchstone Dividend Select ETF outperformed its benchmark, the Russell 1000® Value Index, for the quarter ended June 30, 2023.

The Fund's relative performance was primarily driven by both positive security selection and sector allocation despite dividend paying stocks broadly underperforming during the quarter.

Non-dividend paying stocks within the Russell 1000 Value Index significantly outperformed dividend-paying stocks. This detracted from relative performance for the quarter.

Stock performance within Information Technology and Health Care sectors were the primary drivers of positive security selection during the quarter. While stock selection within Communication Services sector represented the largest detractor to performance.

An overweight allocation to the Information Technology sector and underweight to the Utilities and Energy sectors were primary drivers of positive sector allocation. The Information Technology sector outperformed as higher growth stocks outperformed during the quarter coupled with increased investor enthusiasm over the monetization and future business impact in the sector from artificial intelligence.

The largest individual contributors to relative performance were overweight positions in Broadcom (Information Technology sector), Oracle (Information Technology sector), Microsoft (Information Technology sector), KLA Corp (Information Technology sector), and Apple (Information Technology sector).

The top 5 contributors to relative performance were all Information Technology companies. These stocks continued to generate above average earnings growth during the quarter while most companies experience a slowdown in earnings during the period. In addition, share prices for these businesses moved higher as investors embraced artificial intelligence and the potential impact it might have on future revenue growth and profitability.

Broadcom was the largest contributor to outperformance during the quarter, returning 36 % for the period. The company reached a multi-year deal with Apple to continue providing components for the iPhone maker. Broadcom is also expected to be a beneficiary from artificial intelligence (AI) adoption and has increased estimates as a result, further boosting the stock during the period.

Microsoft was a top contributor to performance following better than expected earnings across most of its segments along with positive commentary on the potential impact of artificial intelligence on its cloud business.

Oracle outperformance was primarily due to significant growth in its cloud infrastructure business, which helped the company deliver top and bottom-line quarterly results that exceeded expectations.

The largest detractors from performance were overweight exposures to Valero Energy (Energy sector), Dollar General (Consumer Staples sector), Qualcomm (Information Technology sector), and Starbucks (Consumer Discretionary sector). Underweight exposures to Meta (Communication Services sector) and Berkshire Hathaway (Consumer Staples sector) were also top detractors for the quarter.

An underweight exposure to Meta was the largest detractor of relative performance during the quarter. Meta posted one of the best returns in the equity market during the period of 35%. The name outperformed as the company's applications saw strong user engagement while its focus on efficiency led to improved fundamentals and outlook for the company. Meta does not pay a dividend, resulting in an underweight for the portfolio.

An overweight exposure to Valero detracted from performance as the name fell 15% during the quarter. The company posted an earnings beat during the quarter, but overall weakness in the Energy and Refining sectors weighed on the name as oil prices continued to decline and profitability is expected to fall from record levels seen over the prior year.

Dollar General was one the largest detractors to relative performance as the stock fell 19.5% the day after reporting first quarter earnings. The company missed earnings expectations but also lowered guidance citing significant macro pressures and a weakening consumer.

Qualcomm detracted from performance after the company provided weaker than expected guidance for its smartphone business. Despite posting solid quarterly results, the company guided below consensus for the upcoming quarter and suggested the weakness could continue for several quarters.

Portfolio activity during the quarter was average with turnover of 3%. There were two new positions added and one removed from the portfolio. The Fund initiated a position in Entergy (Utilities sector) and Constellation Brands (Consumer Staples sector) and sold Dominion Energy (Utilities sector).

The Fund swapped positions within the Utilities sector, adding Entergy and selling Dominion. Entergy is a regulated electric utility based along the northwestern Gulf Coast that has transitioned from having a mix of no moat unregulated power plants to 100 % regulated utility. Regulators have remained supportive of future capital programs leading to higher rates but the market has been hesitant to give the company credit. Entergy generates a reasonable dividend yield of 4% through an industry average payout of 60% and potential for upside with future earnings growth.

A change in the political and regulatory support for Dominion has led to a change in the rates that Dominion can charge and as a result impact the forward returns for the business, impairing the

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intrinsic value. Dominion's dividend is also at risk as it currently pays out more than 100% of its earnings. Swapping Entergy for Dominion is an opportunity to buy an undervalued regulated utility in Entergy while avoiding myriad issues within Dominion, which may culminate in some combination of asset sales, earnings reductions, and dividend cuts.

Constellation Brands (Consumer Staples sector) was also added to the portfolio during the quarter. The company is the leading U.S. beer importer with brands such as Corona and Modelo. It has generated high teens returns on capital over the last decade while maintaining the leading market share in both the U.S. imported beer and North America premium beer markets. Its investment grade balance sheet and low payout ratio supports its average dividend yield with capacity to grow at an above average rate. Recent changes to its governance structure and improved product focus should allow for increased returns on capital and a higher valuation for the business.

There were no material sector changes during the quarter beyond modest differences due to market performance. Information Technology remains the largest sector overweight, while Financials, Energy, and Health Care are the largest underweights.

Outlook and Conclusion

The first half of this year was full of surprises. It began with a stronger-than-expected performance for the economy and job market that caused bond yields to surge initially. Yields subsequently fell back in early April when several regional banks encountered problems that caused investors to worry about a possible credit squeeze. By midyear, however, yields had risen again as the economy proved resilient to Fed rate hikes.

Meanwhile, the S&P 500 Index, which had fluctuated in a broad trading range since mid-2022, broke decidedly to the upside in the second quarter, reaching its highest level since April 2022. The index has now entered a new bull phase in which it has advanced by more than 20% from its October low and by 16% this year. The rally has been powered by a narrow group of tech stocks that are perceived to be beneficiaries of the take-off in AI. Excluding these names, the remainder of the index is up by about 6% this year.

The resilience of the U.S. economy thus far is surprising to many considering that most economists have been forecasting a recession for some time now, and the Fed has raised interest rates by 500 basis points with more to come.

One reason is that the economy is inherently more interest-rate resilient than many observers appreciate. The main areas that have shown weakness include the manufacturing sector, where purchasing manager indexes have fallen below the 50% threshold, and residential housing, where higher mortgage rates and home prices have made houses unaffordable for many Americans.

The most important component of spending, however, is personal consumption, which accounts for 70% of overall demand. Apart from autos and other durable goods, most items people consume are not highly sensitive to interest rates. Rather, overall spending mainly depends on personal income growth that is impacted by the strength of the job market and wages.

Another reason for the economy's resilience is that interest rates have not been unduly restrictive. When measured against core inflation, for example, rates are close to zero. Moreover, even if core inflation were to fall to 4% or so later this year, interest rates would not be unusually high in real terms.

The main risk for the stock market is that it would be vulnerable if core inflation stays elevated. That said, the risk of stagflation—in which slow growth is accompanied by high inflation—has lessened as commodity prices have fallen and supply chain bottlenecks linked to the COVID-19 pandemic have eased. Therefore, if a mild recession were to ensue, bond yields would likely decline and offer investors some downside risk mitigation.

One risk that has lessened is the nation's largest banks passed the Fed's stress tests, which confirms the banking system is sound despite runs that led to the failure of Silicon Valley Bank, Signature Bank, and First Republic Bank. The Fed's report, however, did show some weakness among mid-size banks and super-regional banks, which will require ongoing monitoring.

We believe the risk of a recession remains elevated, even as recent economic data has exceeded expectations. The lagged effects of Fed tightening, and more restrictive bank lending standards, are important downside risks over the next several months. Despite more restrictive financial conditions and elevated inflation, the resilience of the labor market has supported consumer spending thus far. If continued, an economic downturn is likely to be relatively shallow compared to past recessions. Financial markets have performed well in recent months, resulting in valuations that are not fully reflecting increased economic risks.

Within equities, we are maintaining a cautious stance but are selectively finding bottom-up opportunities. Valuations have adjusted to more normalized levels and earnings expectations have fallen, but continued slowing in economic growth will weigh on both valuations and earnings. We are prioritizing high barrier to entry companies with high returns on capital within portfolios.

Although risks have risen, the long-term economic outlook is still promising. As such, we remain constructive on U.S. equities but acknowledge near-term headwinds exist and valuations have become stretched in certain sectors of the market. As investors seek to avoid the risks of inflation, higher interest rates, and recession, dividend strategies are a compelling option. Dividend strategies have the potential to provide both capital appreciation and a growing stream of income while also providing downside risk mitigation through lower volatility during times of distress.

Fund Facts *(As of 06/30/23)*

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio* Total	Net
DVND	08/02/22	89157W103	NYSE Arca	1.41%	0.67%
Total Fund Assets	**$28.7 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 0.67%. These expense limitations will remain in effect until at least 04/29/24.

Total Returns *(As of 06/30/23)*

	2Q23	YTD	Inception
ETF NAV	4.68%	6.54%	8.61%
ETF Market Price	4.83%	6.66%	8.73%
Benchmark	4.07%	5.12%	5.67%

Benchmark - The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

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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.

Top 10 Equity Holdings of Fund *(As of 06/30/23)*

		(% of Portfolio)
1	Microsoft Corp.	4.5
2	Dreyfus Gov Cash	4.0
3	Oracle Corp.	3.1
4	Broadcom Inc.	3.0
5	Apple, Inc.	2.8
6	KLA Corp.	2.5
7	Visa Inc.	2.5
8	BlackRock Inc.	2.3
9	Medtronic PLC	2.3
10	Exxon Mobil Corp.	2.3

Source: BNY Mellon Asset Servicing

Not FDIC Insured | No Bank Guarantee | May Lose Value

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A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of large-cap companies which may be unable to respond quickly to new competitive challenges. The Fund invests in dividend-paying companies. There is no guarantee that the companies in which the Fund invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time. Securities that pay dividends may be sensitive to changes in interest rates, and as interest rates rise or fall, the prices of such securities may fall.

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 Funds' 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 value stocks which may not appreciate in value as anticipated or may experience a decline in value. 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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