

Fund Manager Commentary

As of June 30, 2025

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 uncertainty that began unsettling investors in the first quarter extended into the second quarter. Escalating tariff policy peaked with the announcement of reciprocal tariffs for all trading partners on April 2 (nicknamed Liberation Day) before a reprieve was announced just a week later. While this delay provided markets relief and lowered the odds of an immediate shock to growth, it did little to clarify the outlook for consumers and business trying to plan spending, capital expenditure, or hiring.

Despite a notable softening in sentiment, hard economic data has held up so far. Retail sales have continued to grow, despite some volatility tied to tariff front-running. The labor market remains largely balanced with the U.S. adding jobs and consumers experiencing real wage growth. However, we've also seen a rising personal savings rate as consumers brace for potential policy shocks. Meanwhile, housing remains a persistent drag due to extremely challenging affordability as mortgage rates and home prices stay high.

Looking ahead, growth expectations for 2025 and 2026 are lower than they began the year due to elevated uncertainty. If uncertainty persists, we expect that to manifest in weaker hard economic data. However, the U.S. economy is likely to experience a marginal boost to activity as Congress passed the reconciliation package: One Big, Beautiful Bill. In the short term, the bill supports growth through individual tax cuts as well as encouraging capex through accelerated depreciation.

Markets took a volatile path through the quarter but ended the second quarter appearing cautiously optimistic. The S&P 500 briefly entered bear market territory from its mid-February highs but ended the quarter at an all-time high. Credit spreads experienced a similar move, widening initially before tightening meaningfully through the rest of the quarter, ending well tight of

historical averages. Despite growing U.S. fiscal concerns, the 10-year Treasury ending the quarter at 4.23% after briefly touching 4.60%, largely unchanged from the prior quarter.

Portfolio Review

The Touchstone Ultra Short Duration Fixed 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, 2025.

The U.S. Federal Reserve (Fed) held interest rates steady this quarter, but the 1-to-3-year part of the yield curve saw significant volatility. The 3-month T-Bill ended the second quarter at 4.30%, unchanged from the first quarter, while the 2-year Treasury ended ~20 basis points (bps) lower at 3.72%. Most maturities 1-year and longer traded in a wider 40-50 basis point range, however and ended the second quarter toward the lower end of the range. 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 NAV was little changed in the second quarter as short duration credit spreads retraced the widening seen in April, ending near first quarter levels, and lower interest rates provided only small tailwinds. It was largely a quarter where investors earned their yield. Despite lower rates and tighter spreads, income generated by the portfolio remains significant as compared to cash instruments and should continue to provide a buffer going forward.

The performance within the major sectors (asset-backed securities (ABS), collateralized loan obligations (CLO), commercial mortgage-backed securities (CMBS), residential mortgage-backed

(continued)

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securities (RMBS), and Corporate Bonds) was uniform with all returning between 1.3% to 1.4% in the second quarter. The relative value landscape is flat in short duration assets.

Dispersion in the peer group was contained during the quarter. The difference between the 25 and the 75 percentile returning funds was only ~19 bps, the tightest range in several quarters. This was not surprising given the modest rate changes 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.

Notable sector exposure changes were an increase in ABS and in CMBS vs decreases in Corporates, RMBS, and Cash. CLOs held steady. ABS remains attractive due to solid structure and attractive spreads (north of +100) for less than 1-year average lives. Short, seasoned fixed rate conduit CMBS and floating rate deals off well-performing properties was also added at spreads in the 100-150 context. Spread widening in Corporates was short-lived in April and remains an underweight. RMBS remains difficult to source in the ultra-short duration space due to limited supply of less than 1.5-year duration paper with good convexity.

We managed significant inflows during the quarter with little change to overall risk positioning. The Fund's portfolio credit quality was unchanged.

Duration positioning remains near the short end of the historical range at 0.5 years (0.1 years shorter than the prior quarter). Given the continued inversion of the curve, strategies like ours with high concentrations of very short duration assets and floating rate securities produced higher yields and generally performed better. We believe the broader peer group is positioned similarly to our Fund at about 0.5 years and saw similar contribution from interest rates. Spread duration has come down in recent quarters to 0.8 years and that, coupled with slightly tighter spreads also produced a small contribution to performance.

Despite half of the duration exposure being in the 2-year and 5-year key rate duration buckets the small rally in rates provided only a modest tailwind for performance. Additionally, the 34% exposure to floating rate securities (and the associated high "base rate") and cash benefitted from the flat to inverted Ultra Short Duration curve (0 to 3 years) that persisted throughout the quarter.

Outlook and Conclusion

Uncertainty around trade policy and slow progress on trade deals are weighing on growth forecasts and fueling short-term inflation concerns, though long-term expectations remain anchored. While service inflation is expected to stay stable, tariff-related volatility creates uncertainty for goods inflation, which is likely to be temporary. Slower growth and cooling inflation support a case for policy easing, but the Fed is proceeding cautiously. Despite weaker sentiment, the labor market remains balanced with low unemployment and solid household net worth, though high mortgage rates and elevated home prices are keeping housing activity subdued. Overall, the growth picture remains modestly positive, but risks remain tilted to the downside.

The portfolio has had a strong quality bias and spreads have returned to tighter-than-average levels, but we believe

fundamentals in each of the ETF'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 but remain sound overall as shown by delinquency trends in both ABS and RMBS. CMBS remains the most challenged sector, but the market is working through problem assets (properties) and there is a clear delineation between winners and losers in the space.

After selling off to median levels (or wider) in April, valuations have returned to the 25-35 percentile in Securitized Products and top decile for Corporate bonds. 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 CLOs. Additionally, we like balancing floating rate securities with 1-to-2-year fixed rate bonds when the 2-year Treasury moves closer to 4%. While the Fed may cut rates in 2025 as the market expects, we remain in the "higher for longer" camp.

Flows in the money market and ultra short duration spaces have been positive in the second quarter - we expect this to continue given the uncertainty in financial markets. Money market assets reached an all-time high of over \$7 trillion. The expectation is that businesses and the consumer will likely pause, and there will be an inflation adjustment that markets will have to digest - this could take most of 2025. Slow growth in the second half of 2025 is likely, but the outlook for 2026 looks more promising. We believe the Fed will be reluctant to cut rates until the inflation picture becomes clearer, but there seems to be an underlying bias toward reducing rates and maintaining a sound employment picture. Given this backdrop, a high quality, high carry ultra short Fund should perform well, particularly for those with an intermediate investment horizon (6 months to 1-year).



Fund Facts

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio	
				Total	Net
TUSI	08/04/22	89157W301	Cboe BZX	0.52%	0.25%
Total Fund Assets		\$172.2 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 04/29/26.

Total Returns

	2Q25	YTD	1 Year	Inception
ETF NAV	1.25%	2.50%	5.83%	5.63%
ETF Market Price	1.25%	2.46%	5.79%	5.65%
Benchmark 1	1.04%	2.07%	4.68%	4.68%
Benchmark 2	0.90%	1.96%	4.76%	4.01%

Benchmark 1 - ICE BofA 3-Month U.S. Treasury Bill Index

Benchmark 2 - ICE BofA 1-Year U.S. Treasury Note Index

Yield

	Touchstone Ultra Short Income ETF
30-Day SEC Yield	4.43%
30-Day Unsubsidized SEC Yield	4.24%

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 ICE BofA 3-Month U.S. Treasury Bill Index is an unmanaged index of Treasury securities maturing in 90 days that assumes reinvestment of all income.

ICE BofA 1-Year U.S. Treasury Note Index is an unmanaged index comprised of a single issue purchased at the beginning of the month and held for a full month. The issue selected at each month-end rebalancing is the outstanding two-year Treasury Note Bill that matures closest to, but, not beyond one year from the rebalancing date.

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'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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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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