Touchstone Ultra Short Income ETF

TUSI

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

Income - Ultrashort Bond | Actively Managed, Fully Transparent ETF | 2Q/2023

Fund Manager Commentary

As of June 30, 2023

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 second quarter of 2023 witnessed the U.S. economy's resilience and slow progress in reducing inflation, resulting in strong performance for risk assets, increased expectations of hawkish U.S. Federal Reserve (Fed) policies, and higher interest rates. While economists had predicted a recession, incoming data showed a robust labor market that supported consumer spending. Short-term rates rose more than long-term rates, leading to a more inverted yield curve. The Fed adjusted its expectations due to concerns about persistent high inflation, leading to a "higher for longer" path of Fed policy, with rates expected to remain unchanged until at least mid-2024.

Consensus expectations shifted from recession fears to a soft landing for the U.S. economy, driven by the resilience of the U.S. consumer. Consumer spending, which represents a significant portion of the economy, remained solid despite higher rates and other headwinds, thanks to a healthy labor market, above-average wage gains, and excess savings. However, downside risks remain as the effects of Fed tightening, credit constraints by banks, and depletion of excess savings start to affect the economy.

Business spending, especially in the manufacturing sector, continued to face challenges, with manufacturing surveys indicating near-zero growth or declines in activity. The service sector fared better, but risks aligned with those faced by consumers. Global growth moderated compared to the first quarter, posing potential downside risks. The U.K. and Eurozone economies face challenges due to further rate hikes as inflation remained sticky. China's growth remained uneven and disappointing as it struggled to gain momentum after the COVID pandemic. Inflation from the manufacturing sector normalized as commodities declined, and supply chains stabilized, aiding in reducing overall inflation rates throughout 2023.

U.S. headline inflation fell sharply in the first half of 2023. The Consumer Price Index declined from a peak of nearly 9% in 2022 to slightly above 4% in the most recent data. Core measures, excluding food and energy, adjusted lower but at a slower pace. The Fed's preferred measure, core personal consumption expenditures peaked at 5.4% in 2022 but only declined to 4.6%. Progress in controlling inflation in the goods sector was significant, but the service sector remained sticky. However, service sector inflation is expected to decrease over the next few months, especially in shelter inflation, which is the largest component of services inflation.

The Fed raised rates in May, decided against another hike in June, but strongly indicated further hikes were likely, surprising the markets with the possibility of rates above 5.5% by the end of 2023. Treasury yields increased sharply, reflecting these expectations. Given the market's anticipation of additional Fed hikes, expectations of a soft landing for economic growth, and persistent inflation, the risk for interest rates in the coming months is skewed to the downside. If significant headwinds materialize, rates could decline sharply.

Spreads across short duration structured product sectors and quality ranges are in the 75th – 90th percentile relative to history, while short duration Corporate spreads are ~50th percentile. Compensation for risk is attractive at current levels, but if the economy slows more than expected, credit spreads have room to widen. Conversely, if the economy remains solid and achieves a soft landing, spreads could tighten further. Considering these risks, current valuations and strong carry support a modest overweight to risk in fixed income portfolios.

(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/ultra-short-income-etf.***

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Portfolio Review

The Touchstone Ultra Short Duration Fixed Income ETF outperformed its primary benchmark, the ICE BofA 3-Month U.S. Treasury Bill Index and outperformed its secondary benchmark, the ICE BofA 1-Year U.S. Treasury Note Index, for the quarter ended June 30, 2023.

Interest rates rose sharply across the yield curve with the largest increase occurring in 1 to 3 year maturities. In general, rates moved in a parallel fashion with maturities inside 10 years ranging from 40-80 basis points higher during the quarter. The Treasury curve from 2 years out to 30 years remains historically inverted at -104 basis points while the front end of the Treasury curve, though still inverted at -40 basis points, steepened sharply from its lows in early May as residual fears from the first quarter banking crisis ebbed.

The impact of higher interest rates was more than offset by tighter credit spreads in short duration sectors combined with the income provided by relatively high yields. Income generated by the portfolio remains significant and should provide a buffer going forward.

The performance of the Fund's major sectors was good as Non-Agency CMBS and Corporates outperformed their corresponding ICE BofA 0-2 year indices. Asset Backed Securities relative returns detracted slightly. Collateralized Loan Obligations (CLO) were the best performing sub-sector for the Fund.

Dispersion among the peer group was contained despite elevated volatility in rates and spreads. The difference between the 25th percentile-returning fund and the 75th percentile-returning fund was less than 40 basis points. This is surprising and suggests that despite the overweight to structured products, the Fund and its peers seemed to be positioned similarly in terms of overall duration and credit risk.

Positioning changes were modest during the quarter as Corporate exposure increased, while cash, CLOs, and Non-Agency CMBS all fell. Credit quality was unchanged at a weighted average rating of A+ for the Fund.

Duration positioning remains at the short end of the historical range at 0.6 years (0.1 years longer than the prior quarter's end). Given the increase in short rates, strategies like that of the Fund with short duration and a higher concentration of floating rate securities performed better. We believe the broader peer group is positioned similarly to the Fund at about 0.5-0.6 years and received a similar contribution to returns.

The yield curve moved in a parallel fashion during the quarter and the overweight to shorter key rate durations likely contributed modestly to the Fund's returns.

Outlook and Conclusion

Rate volatility has been high since the Fed began raising rates and spiked massively in March to levels not seen since the Great Financial crisis. Given the macro uncertainty, we expect volatility to remain elevated (but not as high as March levels) and spreads to remain wide. Businesses are already feeling the impact of higher rates and bank lending conditions are certain to tighten in the coming quarters, making for a challenging environment for corporate bonds. Consumers, on the other hand, remain in relatively strong position with unemployment low, strong wage growth and historically low debt burdens. The portfolio is positioned well for this environment with relatively low corporate exposure and a high allocation to structured products, much of which is ultimately tied to the performance of the consumer.

The Fund also maintains a significant exposure to CMBS which has been under pressure with rising rates, and challenges in the retail and office segments of the market. While management is not concerned about impairment in this segment of the portfolio, more commercial loans are moving into special servicing which could produce extension risk. We are maintaining our current positions but will look to reduce exposure as prices recover and bonds mature.

CLOs, while secured by high yield bank loans, are one of the highest conviction trades in the portfolio. These securities are floating rate, AAA-rated, with high credit enhancement levels and, perhaps most importantly, very low spread duration. We are monitoring loan performance closely and limit sector exposure to about half of typical sector limits.

While we are concerned about both macro and micro volatility as the Fed grapples with inflation, the evolving bank crisis and an eventual recession, we believe the current market environment characterized by high short-term yields and historically wide credit spreads offers investors a compelling value. With the income component of return now significantly higher, volatility of returns should improve. We will continue to invest in the shorter part of the curve and maintain an up-in-quality bias in this environment. Additionally, most of the portfolio holdings were purchased at a significant discount and will benefit from a "pull to par" as those bonds amortize and mature. Investors who can tolerate a small degree of volatility are likely to be rewarded.

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

Symbol	Inception Date	CUSIP	Exchange	Annual Fund Operating Expense Ratio* Total	Net
TUSI	08/04/22	89157W301	Cboe BZX	0.75%	0.34%
Total Fund Assets	$51.2 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 0.34%. 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	1.52%	2.90%	3.79%
ETF Market Price	1.56%	2.90%	3.82%
Benchmark 1	1.17%	2.25%	3.51%
Benchmark 2	0.42%	1.67%	1.88%

Benchmark 1 - 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.

Benchmark 2 - The 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.

Yield *(As of 06/30/23)*

	Touchstone Ultra Short Income ETF
30-Day SEC Yield	4.97%
30-Day Unsubsidized† SEC Yield	4.59%

*†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.

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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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 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 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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