

Fund Manager Commentary

As of September 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 U.S. Federal Reserve (Fed) delivered its first rate cut of the year in September. Softening employment reports, including negative revisions, provided evidence of downside risk to the labor market, which prompted the Fed to engage in a 25-basis point “risk management” cut. In addition, the Fed adjusted their expectations for the path of rates, forecasting two more cuts this year and one in 2026, despite slight increases in growth and inflation forecasts. This rate adjustment, and forward guidance, continues to ease financial conditions for the economy despite lingering uncertainty.

Trade policy continues to be a primary source of uncertainty for investors. While the White House has announced a handful of deals and frameworks for deals, there are still a lot of details that remain unknown, especially related to China. In addition to tariff mechanics, questions remain around the legality of certain tariffs that utilized International Emergency Economic Powers Act authority. The U.S. Trade Court ruled these tariffs illegal, but the White House appeal sent the case to the Supreme Court which agreed to hear oral arguments in early November.

While economic growth has slowed since last year, expectations for 2026 have started to improve. Full expensing for manufacturing structures, research and development, and equipment investment was made law by the Big, Beautiful Bill in July which should boost capital expenditure over the coming quarters. Consumer spending remains largely resilient, driven by higher income cohorts. However, weaker jobs data, including revisions, shows that the economy is just marginally adding jobs, presenting an environment that could cause a rise in the unemployment rate.

Despite lingering uncertainty around trade, geopolitics, and monetary policy, credit spreads tightened further and are at levels

tight of historical averages. Due to increasing expectations for rate cuts, and benign long term inflation expectations, longer rates declined, and the 10-year Treasury ended the quarter at 4.15%.

The interest rate landscape for the Ultra Short Duration strategy remains unusual, as Treasury yields remain inverted from 1 month out to the 1-3 year part of the curve. Rather than being compensated for taking additional interest rate risk, investors must weigh the benefit of a higher base rate of shorter duration securities against the elevated reinvestment risk that they pose versus slightly longer tenor bonds. The magnitude of inversion diminished modestly during third quarter, as Treasury rates from 2 to 12 months dropped by 33 to 41 basis points, and the 2-year Treasury dropped by only 11 basis points. Lower rates provided a tailwind to returns for fixed rate exposures, while eroding interest income for floating rate exposures.

Spreads were stable to slightly tighter for Fund assets during third quarter, generally providing a neutral landscape or slight tailwind for returns. The noteworthy exception was the spread of Subprime Auto asset backed securities (ABS) from the lender Tricolor Holdings, which filed for chapter 7 bankruptcy during September amidst allegations of fraud within the company. Tricolor’s outstanding Auto ABS traded down as low as 12 cents on the dollar, pressuring spreads wider for lower-rated (BBB and BB) tranches of other issuers, in sympathy.

Portfolio Review

The Touchstone Ultra Short Duration Fixed Income ETF (NAV) outperformed its primary benchmark, the ICE BofA 3-Month Treasury Bill Index, and outperformed its secondary benchmark, the ICE BofA 1-Year U.S. Treasury Note Index, for the quarter ended September 30, 2025.

(continued)

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



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While interest rates in the front end of the curve have decreased since second quarter, this was not a major driver of the Fund's relative performance versus the ICE BofA 3-Month Treasury Bill Index. Non-benchmark sector exposures across Securitized and Corporate markets unanimously contributed to outperformance over the benchmark, driven by a carry advantage as well as some spread tightening in certain sectors.

Performance of the Fund's major sectors (ABS, collateralized loan obligation (CLO), commercial mortgage backed securities (CMBS), residential mortgage backed securities (RMBS), and Corporate Bonds) ranged between 1.15% and 1.52% for the quarter. CLO returns were at the low end of the range, as declining rates reduced coupons with no offsetting price increase due to their floating rate nature. Corporate Bonds and ABS returned in the low to middle part of the range (carry plus a slight rate/spread tailwind), while CMBS and RMBS returned near the high end of the range, benefiting from a trifecta of strong carry as well as rate and spread tailwinds. All in all, the decline in rates in the front end of the Treasury curve posed a headwind to floating rate exposures, while benefiting fixed rate positions, particularly those with longer key rate duration exposures. Cash Equivalent exposure was a very slight headwind to overall Fund returns, generating positive returns for the quarter but also playing an important role in the Fund's approach to liquidity positioning.

Positioning changes during the quarter were modest, most noteworthy being a decrease in ABS by 7%, driven by larger-than-normal paydowns and maturities in the sector outpacing reinvestment opportunities. This was offset by an 8% increase in Corporate Bonds. CLO, CMBS, RMBS, and Cash Equivalents decreased by 4%, offset by 2% increases in each of CMBS and RMBS.

Given the compressed spread landscape, portfolio risk positioning remains at the low end of the historical range, while we continue to take advantage of select wider-trading ideas within Securitized subsectors when possible. At the Fund level, spread duration remains historically low at 0.81 years, while Composite credit remains high at A+.

Duration positioning for the Fund remains near the short end of the historical range at 0.6 years—unchanged from the prior quarter. Given the continued inversion of the curve, strategies like the Fund's, characterized by high concentrations of very short-duration assets and floating-rate securities, produced higher yields and generally performed better. Duration positioning was not a material driver of performance relative to the benchmark, the ICE BofA 3-Month Treasury Bill Index, during third quarter.

Outlook and Conclusion

Uncertainty around trade policy and slow progress on trade deals continue to weigh on growth forecasts and fuel 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, cooling inflation, and softer labor data support a case for policy easing, and the Fed acknowledged this shifting of risks in its remarks around the September rate cut.

Despite recent signs of softening, the nominal unemployment rate remains low, and household net worth remains strong, though high mortgage rates and elevated home prices are keeping housing activity subdued. Overall, the growth picture remains modestly healthy but with risk skewed to the downside.

As mentioned previously, the Fund has maintained a strong quality bias. While spreads have returned to tighter-than-average levels, we believe fundamentals across the Fund's broad sectors (ABS, CMBS, RMBS, CLOs, and Corporate Bonds) remain supportive of valuations. Consumer fundamentals have weakened in the lower-income cohorts due to the impact of inflation but remain sound overall, as evidenced by delinquency trends in ABS and RMBS. CMBS remains the most challenged sector, but the market continues to progress in working through problem assets (properties), and there is a clear delineation between winners and losers in the space.

Spreads across most ultra short duration sectors have tightened to top quartile tight, however, individual subsector and bond idiosyncrasies continue to create individual trade opportunities at more attractive levels from time to time. We continue to capitalize on this, particularly within RMBS, CMBS, and ABS. Corporate Bond and CLO spreads remain at especially tight valuations (top decile), and we maintain a strong quality bias and very low risk positioning within those sectors.

Flows have been positive in third quarter, and we expect this to continue given the Fund's strong, stable performance and its contrast with the high degree of uncertainty in financial markets. Money market assets pushed new highs during third quarter, exceeding \$7.3 trillion, although yields offered have continued to decrease to end the quarter below 4%. As tariff legality and policy execution become clearer heading into year-end, markets will be eager to determine how businesses and consumers react, something that could take us well into early 2026. As of the time of this writing, the government shutdown has delayed key data releases the Fed relies on to inform its decisions, further obfuscating the market's expectations of rate cuts and Fed policy going forward. Amidst this uncertain backdrop, we believe the high-quality, high-carry Fund should perform well, particularly for those with a modest investment time horizon of 6 months or longer.



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		\$231.8 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

	3Q25	YTD	1 Year	3 Year	Inception
ETF NAV	1.33%	3.86%	5.22%	5.89%	5.61%
ETF Market Price	1.41%	3.90%	5.21%	5.89%	5.65%
Benchmark 1	1.08%	3.17%	4.38%	4.77%	4.65%
Benchmark 2	1.14%	3.13%	3.85%	4.46%	4.05%

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	4.54%
30-Day Unsubsidized SEC Yield	4.38%

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/ultra-short-income-etf>.** From time to time, the investment advisor 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 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 an 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 Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors. 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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

