REIT

ALPS Active REIT ETF

Commentary | September 30, 2023

Performance as of 9/30/2023

	Cumulative				Annualized	
Total Returns	**1 M**	**3 M**	**YTD**	**SI[1]**	**1 Y**	**SI[1]**
NAV (Net Asset Value)	-6.05%	-6.39%	-2.05%	2.34%	2.57%	0.90%
Market Price	-6.04%	-6.27%	-2.05%	2.39%	2.57%	0.91%
S&P US REIT Index	-6.77%	-7.02%	-1.95%	0.48%	3.21%	0.18%

Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed, may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. For current month-end performance call 1-866-759-5679 or visit www.alpsfunds.com. Performance includes reinvested distributions and capital gains.

Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

[1] *Fund inception date: 2/25/2021*

Total Operating Expenses: ***0.68%***

Q3 Fund Performance Review

On the heels of a favorable second quarter, renewed anxiety over higher long-term interest rates led to a decline in REIT prices in the third quarter. These concerns were exacerbated by geopolitical activity and conflicts in Eastern Europe and the Middle East and concerns over the potential for government monetary and fiscal policy errors which could further damage capital markets and the economy.

For the third quarter, the Fund returned -6.39% outperforming the S&P US REIT Index returns of -7.02%. Year-to-date through the end of the third quarter, the Fund returned -2.05%, roughly in line with the benchmark returns of -1.95%.

While we believe REIT valuations have been discounted to attractive levels, capital markets remain jittery and susceptible to macroeconomic shocks and other exogenous events, as well as investor emotions. In the short run, real estate and REIT valuations remain sensitive to interest rate forecasts, inflation data and periodic views of Federal Reserve Board members. At quarter end, listed REITs were trading at an implied cap rate of 7.7% and an average discount to net asset value of 23%. History suggests that investing at these discounted valuation levels bodes well for future return prospects. Notwithstanding the data and our views, it is likely the markets will remain choppy until there is more clarity on interest rates, inflation rates, the peak and timing of this severe tightening cycle, and the impact on broader economic conditions in the US.

The negative sentiment weighing on REIT valuations and prices continue to be worries about rising interest rates and tightening conditions for real estate financing, deteriorating demand in the office property sector due to work-from-home concerns and declines in rental rate growth across other sectors. While the cost of debt capital has increased for all real estate owners, there are very few companies in the public market that are facing real distress. The public REITs in the Fund employ low leverage, enjoy little near-term refinancing risk and have ample liquidity. Net leverage in the Fund is currently less than 30%, with more than 80% of this debt at fixed rates with limited near-term maturities. If anything, many listed companies have advantages in both cost and access to capital that will enable them to capitalize on the potential distress of others.

As is very well known, the office market remains challenged; however, the sector represents only 6% of the public market and continues to trade at a very large discount to the estimated private market value of their portfolios. At quarter end, the office property sector was trading at an implied cap rate of 9.2% and an average 42% discount to its net asset value. Most companies in the sector are down approximately 70% from their recent peak valuations. While major challenges remain and some office property owners and operators will not make it through this cycle, there is significant negativity priced into the listed office sector and there is certainly the potential for some of these companies to rebound.

The negativity surrounding the office property sector, in many cases, has been unfairly extended to all property types. This is particularly relevant in the public market, which is overweight non-core property types, with a very low office sector weight of 6%. Over the years, the public market has done an excellent job of seeding, growing and cultivating niche real estate businesses into outstanding business models while generating excellent investment returns in the process. Great examples of this have historically included companies in the self-storage, student housing, single family rental and data center property types. This has resulted in the creation of dominant companies in certain sectors where the individual properties are relatively small, operational scale enhances margins, and where size results in a significant cost of capital advantage and improves access to capital. Property fundamentals and the outlook for these sectors are attractive with little of the difficulties and potential distress that is present in the office sector.

Within the residential property sector, the single-family rental subsector has been a big outperformer. It represents a meaningful overweight in the Fund and the 26% discount to net asset value offers an excellent opportunity in a property type where the outlook is favorable. The Fund has been underweight apartment companies with Sunbelt market exposure as there is a significant amount of new supply being delivered in these markets which was not adequately reflected in valuations. Apartment companies with exposure to those markets underperformed and the underweight added value for the Fund. In the healthcare area, senior housing has been recovering nicely while medical office buildings and hospitals have materially lagged. The Fund overweight to senior housing and underweight medical office produced excess returns for the Fund. Lastly, the net lease sector has been a meaningful laggard as its sensitivity to interest rates has hurt its relative performance for the year. The underweight in this sector produced alpha for the Fund.

Excess returns from sector and subsector allocations for the year have been partially offset by mixed performance results from stock selection, as a handful of larger positions in the Fund underperformed. These individual securities all fall into the category of "value" names where we believe valuations are overly discounted and their ultimate recovery should result in outperformance and alpha generation for the Fund. The timing of relative valuation recovery is always difficult to precisely call, but we remain confident in these positions.

We see compelling opportunities that are normally not available in a few particular sectors. Industrial property with its strong secular tailwinds, solid occupancies and positive leasing spreads of 50%, is trading at a 15% discount to net asset value. The apartment sector is trading at an implied cap rate of 6.5% and a 25% discount to net asset value. The single-family rental sector is trading at an unwarranted 26% net asset value discount, and self-storage and cell towers are trading at 25% discounts to net asset value. And finally, the out of favor sectors of hotels and malls are trading at high implied cap rates, 10.7% and 8.5%, respectively. It is hard to imagine future returns that are not attractive when starting at these levels. Inflection points are always difficult to predict but it seems to us that REITs are in the process of forming a bottom and on the path to recovery.

Top 10 Holdings

Equinix Inc.	7.16%
Simon Property Group Inc.	6.39%
Prologis Inc.	5.33%
Healthpeak Properties Inc.	5.08%
AvalonBay Communities Inc.	5.08%
Invitation Homes Inc.	4.88%
Digital Realty Trust Inc.	4.66%
Rexford Industrial Realty Inc.	4.55%
Realty Income Corp.	4.52%
VICI Properties Inc.	4.28%

As of 9/30/2023, subject to change

Important Disclosures & Definitions

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. This material must be preceded or accompanied by the prospectus. Read the prospectus carefully before investing.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemable.

Performance data quoted represents past performance. Past performance is no guarantee of future results; current performance may be higher or lower than performance quoted.

All investments are subject to risks, including the loss of money and the possible loss of the entire principal amount invested. Additional information regarding the risks of this investment is available in the prospectus.

Effective 8/22/2023, the Fund will no longer operate as a semi-transparent actively-managed ETF and will instead operate as a traditional, fully transparent activelymanaged ETF in reliance on Rule 6c-11 under the Investment Company Act of 1940.

Diversification does not eliminate the risk of experiencing investment losses.

Ownership of real estate is subject to fluctuations in the value of underlying properties, the impact of economic conditions on real estate values, the strength of specific industries renting properties and defaults by borrowers or tenants. Real estate is a cyclical business, highly sensitive to general and local economic conditions and developments, and characterized by intense competition and periodic overbuilding. Credit and interest rate risk may affect real estate companies' ability to borrow or lend money.

The Fund will primarily invest in publicly traded common equity securities of US REITs. The Fund may also invest a portion of its assets in publicly traded common equity of US real estate operating companies (not structured as REITs), publicly traded preferred equity of US REITs and real estate operating companies, and cash and cash equivalents.

Alpha: a measure of performance on a risk-adjusted basis; often considered the active return on an investment, the ratio gauges the performance of an investment against a market index used as a benchmark.

Implied Cap Rate: calculated by dividing the (NOI) net operating income by the quantity of a REIT's equity market capitalization and the full amount of outstanding debt.

Real Estate Investment Trust (REIT): companies that own or finance income-producing real estate across a range of property sectors. Listed REITs have characteristics of both the income potential of bonds and growth potential of stocks.

S&P US REIT Index: defines and measures the investable universe of publicly traded real estate investment trusts (REITs) domiciled in the United States.

One may not invest directly in an index.

ALPS Advisors, Inc. is the investment adviser to the Fund and GSI Capital Advisors, LLC is the investment sub-adviser to the Fund. ALPS Advisors, Inc. and ALPS Portfolio Solutions Distributor, Inc., affiliated entities, are unaffiliated with GSI Capital Advisors, LLC.

ALPS Portfolio Solutions Distributor, Inc. is the distributor for the Fund.

Not FDIC Insured • No Bank Guarantee • May Lose Value

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