

REIT

# ALPS Active REIT ETF

Commentary | December 31, 2023

## Performance as of 12/31/2023

Total Returns	Cumulative				Annualized	
	1 M	3 M	YTD	SI <sup>1</sup>	1 Y	SI <sup>1</sup>
NAV (Net Asset Value)	10.12%	16.11%	13.74%	18.83%	13.74%	6.25%
Market Price	10.07%	16.06%	13.69%	18.83%	13.69%	6.25%
S&P US REIT Index	9.85%	16.04%	13.77%	16.60%	13.77%	5.54%

**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](http://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.

<sup>1</sup> Fund inception date: 2/25/2021

Total Operating Expenses: **0.68%**

## Q4 Fund Performance Review

The publicly traded REIT market had a strong fourth quarter, with the S&P US REIT Index up 16.04%. REITs had been challenged for most of the prior two years, trading at significant discounts to net asset value in the face of higher interest rates and uncertainty about the future direction of rates. With signs emerging in the quarter that the interest rate tightening cycle might be ending, interest rate concerns eased, fueling a swift recovery in REIT share prices. REITs ended 2023 on a positive note as the S&P US REIT Index finished the year up 13.77%.

Returns for the ALPS Active REIT ETF (the Fund) were in line with the benchmark, up 16.11% for the quarter and 13.74% for the year, respectively.

The public market outperformed the private market core real estate index (NFI-ODCE Index) by more than 20% in the fourth quarter and the calendar year. The NFI-ODCE Index returns were down 5.0% in the quarter and down 12.7% for the year, net of fees. The appreciation component of the index was down 5.8% in the fourth quarter as private funds continued to write down their property valuations to reflect current market conditions. It is our expectation that public market outperformance will persist as the private market may continue to be negatively impacted by valuation write-downs stemming from real estate capital market conditions, refinancing difficulties, lagging valuation disparities and redemption queues impairing investor liquidity. Current market conditions clarify the importance of the benefits of liquidity and daily price discovery of the public market and the long-term superior relative returns historically enjoyed by public market investors.

As we enter 2024, REITs possess enhanced access to capital and a cost of capital advantage relative to private market peers, which should bode well for short and intermediate term REIT returns. Current financing costs and restricted capital availability favor lower-leverage players, such as most of the listed REIT universe. Most REIT balance sheets carry low leverage at 30% or less and are well-laddered, with only 6% of debt maturing in 2024 and 9% in 2025. REITs have access to unsecured and secured debt, commercial paper, overnight equity and at-the-market offering (ATM) programs providing greater flexibility in their capital structures. The recent decline in debt costs has given REIT unsecured debt an approximately 150 basis point (bps) interest rate advantage over conventional secured debt. In addition, many private real estate owners with maturing conventional debt will be required to invest additional equity to successfully refinance their debt.

In the short run, real estate and REIT valuations are expected to remain sensitive to monetary policy, interest rate forecasts and inflation data. This sensitivity and volatility can move in either direction, as evidenced by the strong positive move in REIT valuations based on more favorable data and monetary policy signaling in the fourth quarter. While the markets may remain choppy until there is more clarity on interest rates, inflation rates and the real estate capital markets, it appears the peak of this severe tightening cycle has been reached. The discussion and focus are now centered on the timing and level of monetary policy easing and where interest rates will stabilize.

While the data and sample size are limited, REITs have historically generated strong absolute and relative performance following the end of central bank tightening cycles. Analyzing prior cycles over the past three decades, listed REITs have averaged 20.9% for the one year following the end of Federal Reserve tightening cycles, outperforming broader market returns of 17.3% (S&P 500 Index) and private real estate returns of 9.5% (NFI-ODCE Index). REITs have also historically performed relatively well coming out of cyclical troughs.

With few exceptions, property fundamentals remain healthy with high and stable occupancies and reasonable growth in net operating income. Most property types are maintaining occupancy rates near their historical highs at approximately 95%. Office is the obvious exception with occupancy rates approaching 80% and declining. Leasing activity is generally solid, although mixed and dependent on property type and location. Data centers are exhibiting the strongest fundamentals with the potential for abnormally high growth driven by demand from artificial intelligence. Growth in industrial demand is modestly decelerating although it is expected to resume after the current delivery of new space is absorbed. The sector also benefits from positive re-leasing spreads of approximately 50%, ensuring near-term growth in net operating income. Retail leasing activity and sales growth have been stronger than expected, in particular for factory outlet space which has performed very well. Apartment fundamentals have been mixed as inflation and the cost of insurance are pressuring margins and certain Sunbelt markets are having difficulty absorbing high levels of new development deliveries. In aggregate, near-term growth in net operating income is expected to be a respectable 4.0% per annum.

All major property sectors delivered positive returns for the year, including the beleaguered office sector. However, understanding the details and nuances within sectors has been critical to investment performance as there was meaningful divergence between property sub-sectors and individual companies. Retail property outperformed the index as the mall sector delivered the best returns in the universe while strip center returns lagged. Within healthcare, senior housing performed well while medical office and hospital focused companies significantly underperformed. Additionally, there was wide dispersion of performance in individual companies in the sector. Within residential, single-family rentals and coastal apartment companies outperformed while Sunbelt apartment companies lagged. Within the poorly performing office sector, the New York focused companies were a surprise, performing very well as they partially recovered from heavily discounted valuation levels.

Looking forward, we believe REITs are well positioned to generate attractive returns. After the significant recovery in share prices in the fourth quarter and the current state of the broader real estate capital markets, the public market companies are advantaged players in the real estate market. We believe these companies are well-managed and well-capitalized; they own and operate high quality assets, and most importantly, have a significant cost of capital advantage. Many of the listed companies are now able to go on offense and capitalize on the weakness of others to generate superior relative performance. After a strong end to 2023, we are looking forward to continued positive momentum in 2024.

## Top 10 Holdings

SIMON PROPERTY GROUP INC	7.53%	EQUINIX INC	5.71%
REXFORD INDUSTRIAL REALTY INC	6.48%	DIGITAL REALTY TRUST INC	5.50%
PUBLIC STORAGE	6.39%	PROLOGIS INC	5.43%
REALTY INCOME CORP	5.81%	VICI PROPERTIES INC	5.35%
AVALONBAY COMMUNITIES INC	5.75%	FIRST INDUSTRIAL REALTY TR	5.07%

*As of 12/31/2023, 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 actively managed 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.

Basis Point (bps): a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE Index): an index of investment returns reporting on both a historical and current basis the results of 38 open-end commingled funds pursuing a core investment strategy. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted. NCREIF (National Council of Real Estate Investment Fiduciaries) will calculate the overall aggregated Index return.

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 500 Index: widely regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

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. and GSI Capital Advisors, LLC, registered investment advisers with the SEC, are the investment adviser and sub-adviser to the Fund, respectively. 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

ARE000289 5/31/2024