

ALPS | Alerian Energy Infrastructure Portfolio

Commentary | December 2023

Key Takeaways

- In 2023, the ALPS | Alerian Energy Infrastructure Portfolio (ALEFX) gained 13.91% on a total-return basis, outperforming the broader energy sector, which was pressured by weakness in oil and natural gas prices.
- Company-level tailwinds from 2023 are expected to continue into 2024, as ALEFX holdings continue to prioritize free cash flow generation and returning cash to shareholders.
- At the end of December, ALEFX's underlying index, the Alerian Midstream Energy Select Index (AMEI), was trading at a forward EV/EBITDA multiple of 9.28x – a discount to its three-year average ratio of 9.78x.

Performance Notes

Energy infrastructure companies saw gains in the fourth quarter, with ALEFX up 5.49% on a total-return basis as equity markets broadly improved. Notably, ALEFX outperformed the Energy Select Sector Index (IXE), which fell 6.35% on a total-return basis during the quarter. The broader energy sector was pressured as US oil and natural gas prices fell by 21.08% and 14.17%, respectively, in the fourth quarter.

Amid weakness in oil and natural gas prices, energy infrastructure was a bright spot in the energy sector in 2023. ALEFX gained 13.91% on a total-return basis for the year, while IXE ended the year down 0.59% on a total-return basis. Energy infrastructure's defensive qualities, namely fee-based business models that drive more stable cash flows, can be beneficial in periods of commodity price volatility as demonstrated in 2023.

Outlook

Looking ahead to 2024, ALEFX holdings are largely expected to continue generating free cash flow, which has supported dividend growth and opportunistic buybacks. At the end of 2023, 89.52% of ALEFX's underlying index by weighting had grown their dividend within the last year, while 68.30% by weighting had a buyback authorization. A few portfolio companies have already provided financial guidance for 2024. While dividend growth guidance varies, companies are generally expecting mid-single-digit EBITDA growth in 2024 compared to 2023.

From a macro perspective, oil and natural gas price volatility will likely continue in 2024. If so, energy infrastructure's relative insulation from commodity prices could again support performance relative to broader energy. Recall, energy infrastructure has less exposure to commodity prices, because companies are largely providing services for fees.

Despite solid performance in recent years, midstream valuations remain below historical averages. At year-end, AMEI was trading at a forward EV/EBITDA multiple of 9.28x—a discount to its three-year average ratio of 9.78x.

Constituent News

- Enbridge (**ENB, 9.0% Weight***) guided to 4% year-over-year growth in adjusted EBITDA for its base business and announced a 3.1% increase to its annual dividend.
- Kinder Morgan (**KMI, 4.9% Weight***) issued guidance for 2024, including expectations for 5.0% growth in Adjusted EBITDA and a 1.8% increase to its annual dividend.
- Pembina Pipeline Corporation (**PPL CN, 5.1% Weight***) is buying ENB's interest in natural gas and natural gas liquids assets for \$3.1 billion, which will bring PPL's interest in the Alliance Pipeline to 100% and its interest in the Aux Sable fractionation complex to 85.4%.
- Williams Companies (**WMB, 4.9% Weight***) is buying six natural gas storage facilities with 115 billion cubic feet of capacity across Louisiana and Mississippi for \$1.95 billion from Hartree Partners.

About ALEFX's Underlying Index

The Alerian Midstream Energy Select Index (AMEI) is a composite of North American energy infrastructure companies. It includes Master Limited Partnerships (MLPs) and corporations listed in the US and Canada. The index was launched on April 1, 2013.

AMEI is the underlying index for the ALPS | Alerian Energy Infrastructure Portfolio (ALEFX) and the Alerian Energy Infrastructure ETF (ENFR).

* *Weight in ALEFX as of 12/31/2023*

Performance as of 12/31/2023

Total Returns	Cumulative			Annualized				
	1 M	3 M	YTD	1 Y	3 Y	5 Y	10 Y	SI ¹
Class I (NAV)	-0.67%	5.53%	14.25%	14.25%	23.01%	11.05%	3.08%	3.60%
Class III (ALEFX) (NAV)	-0.73%	5.49%	13.91%	13.91%	22.56%	10.67%	2.70%	3.19%
Alerian Midstream Energy Select Index - TR	-0.57%	5.90%	15.79%	15.79%	24.76%	12.71%	4.49%	5.03%

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.

The performance shown does not reflect the impact of costs associated with variable contracts, qualified pension and retirement plans or registered and unregistered separate accounts which, when deducted, will reduce the return figures quoted.

¹ Portfolio inception date: 4/30/2013

Top 10 Holdings

Energy Transfer LP	9.2%	Pembina Pipeline Corp.	5.1%
Enbridge, Inc.	9.0%	TC Energy Corp.	5.0%
Enterprise Products Partners LP	8.4%	Targa Resources Corp.	4.9%
ONEOK, Inc.	5.1%	Kinder Morgan, Inc.	4.9%
Plains GP Holdings LP	5.1%	The Williams Cos., Inc.	4.9%

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. To obtain a prospectus containing this and other information, call 1-866-759-5679 or visit www.alpsfunds.com. Read the prospectus carefully before investing.

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.

Shares of the Portfolio are only offered to participating insurance companies and their separate accounts to fund the benefits of variable annuity contracts and variable life insurance policies. Shares of the Portfolio also may be used as investment vehicles for qualified pension and retirement plans and certain registered and unregistered separate accounts.

Investments in securities of Master Limited Partnerships (MLPs) involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs.

A portion of the benefits you are expected to derive from the Portfolio's investment in MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the Portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment in the Portfolio.

The Portfolio invests primarily in a particular sector and could experience greater volatility than a portfolio investing in a broader range of industries.

The Portfolio may be subject to risks relating to its investment in Canadian securities. Because the Portfolio will invest in securities denominated in foreign currencies and the income received by the Portfolio will generally be in foreign currency, changes in currency exchange rates may negatively impact the Portfolio's return.

Investments in the energy infrastructure sector are subject to: reduced volumes of natural gas or other energy commodities available for transporting, processing or storing; changes in the regulatory environment; extreme weather and; rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities.

Alerian Midstream Energy Select Index: a composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index constituents are engaged in midstream activities involving energy commodities.

Energy Select Sector Index: a modified capitalization-weighted index representing the performance of energy companies that are components of the S&P 500 Index.

Enterprise Multiple (EV/EBITDA): a ratio used to determine the value of a company by considering the company's debt. The enterprise multiple is the enterprise value (EV) (market capitalization + total debt – cash and cash equivalents) divided by EBITDA (earnings before interest, taxes, depreciation and amortization).

One may not invest directly in an index.

ALPS Advisors, Inc., registered investment adviser with the SEC, is the investment adviser to the Portfolio. ALPS Advisors, Inc. and ALPS Portfolio Solutions Distributor, Inc., affiliated entities, are unaffiliated with VettaFi and the Alerian Index Series.

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

Not FDIC Insured • No Bank Guarantee • May Lose Value

ALI000312 5/31/2024