Ticker: REIT

ALPS Active REIT ETF

Commentary | September 30, 2024

Performance as of 9/30/2024

	Cumulative				Annualized		
Total Returns	**1 M**	**3 M**	**YTD**	**SI[1]**	**1 Y**	**3 Y**	**SI[1]**
NAV (Net Asset Value)	2.49%	15.44%	13.90%	35.35%	32.25%	5.30%	8.79%
Market Price	2.49%	15.38%	13.98%	35.44%	32.28%	5.32%	8.81%
S&P US REIT Index - TR	2.64%	16.09%	15.69%	34.89%	34.24%	5.04%	8.68%

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

Real Estate Investment Trust (REIT) share prices enjoyed a strong recovery in the third quarter as the S&P US REIT Index (the "Index") was up 16.09% for the quarter, outpacing most other sectors of the market. The catalyst for superior performance was a combination of overly discounted valuations, investor rotation out of large-cap technology stocks into more value-oriented areas including REITs, and the beginning of monetary easing and a decline in short-term interest rates. After a 22-month period of declining share prices, the listed REIT market bottomed in October of 2023 and is now up more than 30%. It is our view that we are in the early stages of a recovering growth cycle for property investment, earnings and valuations, which will be led by publicly traded real estate securities.

The ALPS Active REIT ETF (Ticker: REIT; the "Fund") returns also recovered nicely, up 15.44% in the quarter, slightly lagging the Index in the quarter. The largest contributors to the Fund's total returns were holdings in the healthcare, storage and industrial property sectors. Key positive contributors to excess returns in the quarter included stock selection in the lodging and office sectors. Within the broader lodging category, the Fund was underweight the lagging hotel sub-sector and overweight the outperforming gaming sub-sector. The largest detractors of relative returns were the Fund's overweight position in single-family rentals and an underweight position in specialty REITs, specifically focused on technology and data storage.

Earnings growth has been one of the primary drivers of investment performance for the REIT universe this year as sectors and individual companies with high actual and expected growth rates have generated strong total returns. The best examples of this include the senior housing sector and the technology and data storage business implemented by Iron Mountain (IRM, 2.08% weight*). Iron Mountain continues to produce strong growth in earnings and cash flow, which has produced year-to-date returns in excess of 70%. The strong operating fundamentals of the senior housing sector have caused health care to be the best performing property sector for the first nine months of the year, up 36%.

Contrary to the continued wave of negative news stories regarding the office sector, the sector outperformed the benchmark in the third quarter, with select Sunbelt and New York focused office companies delivering some of the best year-to-date returns. While some companies, markets and assets in the office sector are troubled, the best positioned companies with strong balance sheets are enjoying a recovery. Given the discounted valuation per square foot of these companies, there is the potential for significant returns in the office sector, although it is not without risk.

The underperforming property sectors for the year have generally been those experiencing a deceleration in earnings growth. The industrial and single-family rental sectors have been two of the weakest performing sectors for the year, as both have seen weakening growth in earnings and net operating income from previously high levels. Despite the recent slowdown, these sectors should benefit from favorable, long-term secular fundamentals and do well over the long term. The hotel and cold storage sectors have also suffered from weakening demand and operating results but may be poised for a recovery as both are trading at discounted valuations that could provide the potential for favorable returns should business recover.

* *Weight in Ticker: REIT as of 9/30/2024*

Given the significant increase in REIT share prices in the quarter, the sector is now trading at a modest premium to net asset value (NAV), with some sectors and companies at premiums and some at discounts. This is a much healthier place for listed REITs to operate and excel. Many companies in the senior housing, data center and net lease sectors are operating at low leverage levels with strong balance sheets. In conjunction with stock prices at premiums to net asset value and the availability of attractively priced unsecured debt, the favorable cost of capital and solid fundamentals enables these companies to generate high growth in earnings and net asset value through both internal and external means.

The majority of companies in the office, hotel, cold storage and single-family rental sectors are trading at discounts to net asset value and likely need an operating recovery or some catalyst to increase their valuations, to generate attractive returns. The Fund is currently balanced with a combination of holdings in sectors with favorable fundamentals, strong outlooks and NAV premiums, and those in sectors trading at discounts to NAV that we believe are positioned for a recovery or turnaround.

REITs outperformed the broader equity market in the third quarter by more than ten percentage points, with the S&P US REIT Index returning 16.09%, compared to 5.89% for the S&P 500 Index. We believe a reversion to the mean opportunity is playing out in the market and there is still significant ground for REITs to make up relative to equities. We also believe listed REITs are shifting from defense to offense as we start a new real estate cycle. We would also note that historically, REIT bull markets have lasted nearly seven years on average.

In our opinion, REITs remain well positioned since bottoming and repricing in October 2023. Lower interest rates and a rate-cutting cycle create a favorable backdrop for property, while property fundamentals are expected to improve due to declining levels of new construction. Meanwhile, public companies possess a cost of capital advantage over private entities that could fuel transaction activity, resulting in higher earnings growth.

Top 10 Holdings

Equinix Inc	8.76%
Prologis Inc	5.97%
Public Storage	5.15%
VICI Properties Inc	4.94%
Welltower Inc	4.66%
Healthpeak Properties Inc	4.19%
First Industrial Realty Trust Inc	4.16%
Simon Property Group Inc	4.15%
Extra Space Storage Inc	4.11%
Realty Income Corp	4.00%

As of 9/30/2024, 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.

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.

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.

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.

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.

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

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