

# ALPS | CORECOMMODITY MANAGEMENT COMPLETECOMMODITIES® STRATEGY FUND

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## THE USE OF EQUITIES IN A COMMODITY PORTFOLIO

### Background

CoreCommodity Management's senior personnel have been among the pioneers and innovators in the field of commodity investing over the past several decades. Their achievements include the design and launch of two definitive benchmarks of the asset class, the Bloomberg Commodity Index ("BCOM") in 1997, and the Thomson Reuters/CoreCommodity CRB Index in 2005. In 2010, the firm began to integrate natural resource equities into actively-managed commodity portfolios. CoreCommodity's innovative approach is designed to bolster inflation sensitivity, improve total return, and preserve the risk profile of a diversified commodity allocation.

Since their inception in 2010 the integrated commodity futures and natural resource equity strategies ("Strategies") have demonstrated significant annualized excess return over the benchmark BCOM TR Index on comparable market volatility. The Strategies also realized a higher correlation and beta to inflation/unexpected inflation than the BCOM while maintaining a beta of approximately 1 to the BCOM commodity futures-only benchmark.

CoreCommodity managed \$5.5 billion in liquid real asset strategies including commodity futures and equities of natural resource producing companies as of year-end 2016.

### Why Include Natural Resource Equities?

Owning a futures contract is not the same as owning the commodity – the futures contract is a derivative. Owning a security of a commodity producer is not the same as owning the commodity either. The security is a claim on the profitability of a company's commodity production. These two different vehicles can be highly complementary in delivering investable exposure to commodity prices.

- **Access to more commodities**

The universe of liquid commodity futures is limited. Why invest in commodities but arbitrarily exclude coal, fertilizers, iron ore, lithium, poultry, seeds, steel, uranium and a number of other important real assets? The inclusion of equities of commodity producers in a real asset portfolio can provide investors with exposure to economically significant as well as inflation-sensitive commodities where no liquid futures contracts exist.

- **Correlation and Beta to Inflation and Unexpected Inflation**

Along with commodity futures, equities of commodity producing companies historically provide meaningfully higher inflation protection than other asset classes traditionally used to hedge inflation such as real estate, master limited partnerships ("MLPs"), emerging market debt, infrastructure, and Treasury Inflation Protection Securities ("TIPS").

- **Increased Positive Expected Return**

Commodity futures returns have not kept up with commodity prices over time due to the negative roll yield (contango) associated with owning futures. Since the inception of the Strategies, the BCOM and S&P GSCI each averaged a negative roll yield of approximately (-5%) per year. During that same period, the equities of commodity producers included in the portfolio provided a positive dividend yield between 2% and 3%.

- **Lower Volatility**

The introduction of natural resource equities into a commodity futures portfolio may also reduce the volatility of the overall allocation by providing a more diversified real asset exposure. Additionally, equities of commodity producers do not represent exposure at a single point in time but rather continuous short, medium, and long-term access to the underlying commodity. As such, equities of commodity producers may provide a cost-effective and liquid way by which to obtain deferred commodity exposure, which traditionally is less volatile.

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### *Our Principles for using Natural Resource Equities as Commodity and Liquid Real Asset exposure:*

- **“Pure-play” Commodity Producers**

When using equities to get exposure to underlying commodities, we believe the investment is optimized when the company actually produces those commodities. We focus on upstream “pure-play” commodity producers that own in-the-ground reserves and earn their revenue from the extraction of those commodities. Many natural resource equity benchmarks and managers include MLPs, refiners, utilities, paper producers, specialty chemicals, and others as core holdings that are not engaged in the business of commodity production. In our view, these industries can weaken the correlation to the underlying commodities, potentially diminishing their utility as an inflation-protecting and portfolio diversifying asset.

- **Diversified holdings**

Historically, one criticism of using natural resource equities is that investors are not just buying commodity exposure, but also a management team, a balance sheet, and a hedging program. This is all true and can impact the returns of traditional concentrated benchmarks and stock pickers. However, we opt for a diversified portfolio of approximately 300 names, specifically risk-managed in an attempt to reduce single company idiosyncratic risk and provide more representative exposure to the underlying commodities.

- **Geographic exposure**

Corn, oil, aluminum, gold — these are global markets. Commodities are produced and consumed by companies and individuals all across the world. In our view, representative exposure should include international companies from both developed and emerging markets. Typically, over 50% of the exposure included in the Strategies' equity portfolios is in companies domiciled outside the United States.

- **All-cap approach**

The historic approach to investing in natural resource equities is typically market-cap weighted. This typically means concentrated exposure to a limited number of mega-cap names that 1) are probably held elsewhere in a client's large cap portfolio; and 2) typically have the highest broad market equity relationship and least inflation sensitivity among natural resource companies. By pursuing a portfolio of commodity producers including large, mid and small market capitalization companies, correlation to broad equity markets may be limited, inflation sensitivity may be bolstered, and potentially duplicative exposure reduced, thus ideally enhancing diversification benefits. This is a key consideration for CoreCommodity in maintaining the diversified and inflation sensitive risk profile of a commodity portfolio. As a result, the Strategies typically have minimal overlap with the weightings of the S&P 500.

### *Conclusion*

Since 2010, CoreCommodity has used the equities of commodity producers within actively managed commodity futures portfolios. Our differentiated approach focuses on constructing a real asset portfolio which attempts to demonstrate the characteristics of commodities. The tactical integration of commodity producers may serve to enhance the inflation-hedging properties and increase risk adjusted returns, while retaining the diversified risk-profile of the commodity allocation.

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## Important Disclosures & Definitions

**Investors should consider investment objectives, risks, charges and expenses carefully before investing, including "Additional Risks" as described in the prospectus. To obtain a prospectus, which contains this and other information, call 1.866.759.5679 or visit [www.alpsfunds.com](http://www.alpsfunds.com). Read the prospectus carefully before investing.**

Performance >>

ALPS Advisors, Inc. and CoreCommodity Management, LLC are registered with the CFTC as the Commodity Pool Operator and respectively as the Commodity Trading Adviser and both are NFA members.

The Fund's investments may subject the Fund to significantly greater volatility than investments in traditional securities and involve substantial risks, including risk of a significant portion on their principal value.

The commodities markets and the prices of various commodities may fluctuate widely based on a variety of factors. Because the Fund's performance is linked to the performance of highly volatile commodities, investors should consider purchasing shares of the Fund only as part of an overall diversified portfolio and should be willing to assume the risks of potentially significant fluctuations in the value of the Fund. The Fund invests in commodity futures related investments, which are derivative instruments that allow access to a diversified portfolio of commodities without committing substantial amounts of capital. Additional risks of Commodity Futures Related Investments include liquidity risk and counterparty credit risk. Counterparty Risk is the risk that a party to a transaction will fail to fulfill its obligations. The term is often applied specifically to swap agreements in which no clearinghouse guarantees the performance of the contract. Liquidity Risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

Another principal risk of investing in the Fund is equity risk, which is the risk that the value of the securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate or factors relating to specific companies in which the Fund invests. The Fund's investments in non-U.S. issuers may be even more volatile and may present more risks than investments in U.S. issuers. Equity investments in commodity-related companies may not move in the same direction and to the same extent as the underlying commodities.

Beta: measure of the volatility of a security or a portfolio in comparison to the market as a whole.

Formerly known as Dow Jones-UBS Commodity Index Total Return (DJUBSTR), the Bloomberg Commodity Total Return (BCOMTR) index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Formerly known as Dow Jones-UBS Commodity Spot Index (DJUBSSP), the Bloomberg Commodity Spot Index (BCOMSP) index measures the price movements of commodities included in the Bloomberg CI and select subindexes. It does not account for the effects of rolling futures contracts or the costs associated with holding physical commodities and is quoted in USD.

Thomson Reuters / CoreCommodity CRB Index and the Bloomberg Commodity Index are unmanaged indexes used as a measurement of change in commodity market conditions based on the performance of a basket of different commodities. An investor cannot invest directly in an index.

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