

ALPS MEDICAL BREAKTHROUGHS ETF MONTHLY INSIGHTS

August 2018

Key Takeaways

- The ALPS Medical Breakthroughs ETF (SBIO) gained 3.15% during the month of August, as the broad biotech indexes continued their upwards swing.
- Cancer names continued to lead the portfolio forward. 34% of cancer names posted double digit returns, with the top contributor, Ligand Pharmaceuticals (LGND), announcing a bid for a micro-cap, developmental stage pharmaceutical company Vernalis PLC (VER LN).
- Company spotlight: Fate Pharmaceuticals (FATE)

Performance Notes

- The ALPS Medical Breakthroughs ETF (SBIO) jumped 3.15% in August, adding to a solid year-to-date (ytd) run. However, amid surges in select large-cap biotechnology names, SBIO trailed the Nasdaq Biotechnology Index last month.
- While SBIO provides exposure to mid- and small-cap biotechnology names, we discuss it in conjunction with large-cap benchmarks because an all-cap biotechnology sleeve is potentially beneficial; a strategy similar to owning both the growth and value factors.

Return Attribution

- SBIO's cancer holdings performed well last month with several of those components delivering double-digit returns. Mid-cap component Ligand Pharmaceuticals Inc. (LGND) soared 18% last month after announcing a bid for rival Vernalis PLC (VER LN). LGND's business model is to partner in drug development with other companies in order to gain royalties on successes. They currently have a plethora of partnerships and the most recent bid was viewed favorably by the market.
- Ligand is one of many partnership-based business models found among SBIO holdings. In fact, 70 of the fund's 111 member firms have some sort of partnership agreement/collaboration with other companies.

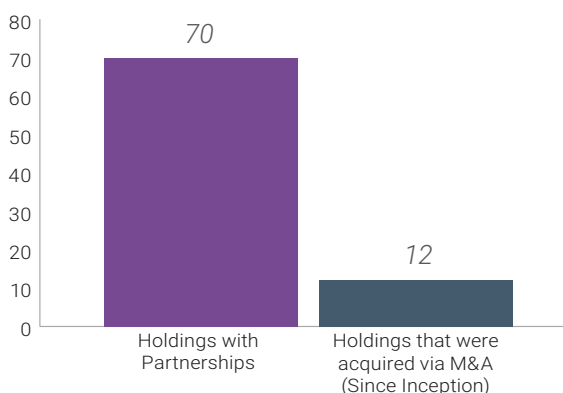
SBIO vs Benchmarks (NAV)

	MTD	YTD	One Year
Poliwogg Medical Breakthroughs Index	3.2%	18.3%	27.3%
Cancer	1.6%	9.2%	14.1%
Rare and Orphan Diseases	1.2%	5.4%	9.2%
Cardiology and Hematology	0.5%	0.6%	-0.2%
Other	-0.1%	3.1%	4.1%
S&P Biotechnology Select Industry Index	5.4%	18.3%	19.7%
Nasdaq Biotechnology Index	4.9%	14.8%	10.6%

Source: Bloomberg, L.P., as of 8/31/2018

Past performance does not guarantee future results.
For standardized performance, please see Page 3.

Partnerships + Mergers and Acquisitions (M&A)



- 70 of 111 holdings have some sort of partnership agreement/collaboration, typically with large cap biotech companies.
- Their average share price increase of SBIO's acquired companies was **+53%** with an M&A deal is announced.

Source: ALPS, Bloomberg, as of 8/31/2018.

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Strategy Breakdown

- SBIO screens for biotech companies with at least one drug or therapy in Phase II or Phase III clinical trials. Additionally, member firms must have 24 months of worth of cash on hand to meet current burn rates. This methodology gives SBIO a basket of securities with enhanced odds of success in the Food & Drug Administration (FDA) approval process as well as a cash buffer to guard against equity dilution.

Valuation Notes

- At the end of the second quarter, the Poliwogg Medical Breakthroughs Index (PMBI) has a weighted average cash burn 34.86 months, or nearly double the 17.58 months found on the the large-cap Nasdaq Biotechnology Index.
- SBIO's holdings have an average market capitalization of \$2.70 billion with more than 60% classified as mid-caps and none classified as large-caps.

Characteristics against Biotech Indexes

Index Characteristics	SBIO	S&P Biotechnology Select Industry Index	Nasdaq Biotechnology Index
Number of Constituents	93	115	193
Market Capitalization (\$ Millions)	\$ 161,580	\$ 921,009	\$ 980,406
Weighted Average Market Cap	\$ 2,838	\$ 11,979	\$ 41,120
Price/Sales	8.2x	11.13x	6.52x
Cash burn (months)	36	33	17.07

Source: Bloomberg, L.P., as of 8/31/2018

Company Snapshot

Company: Fate Therapeutics, Inc. (FATE)

Shares of Fate Therapeutics, Inc. (FATE) climbed 44.34% last month even after the company reported a wider-than-expected second-quarter loss.

Fate "is a clinical-stage biopharmaceutical company dedicated to the development of next-generation cellular immunotherapies for cancer and immune disorders," according to the company.

For the second quarter, Fate lost 28 cents a share on revenue of \$1.03 million. Analysts expected a loss of 23 cents a share. Fate rallied after the report, likely due to some encouraging commentary regarding clinical trials.

"Our submission to the FDA of an IND application for FT500, a universal, off-the-shelf NK cell cancer immunotherapy derived from a master iPSC line, is a significant milestone for the Company and the field of cell therapy," Fate CEO Scott Wolchko.¹

The company is also accelerating enrollment in its Phase 2 PROTECT study of ProTmune. There were 14 patients in that study in the second quarter, a number that is expected to swell to 60. Fate also discussed its Phase 1 DIMENSION study.

"The DIMENSION study is assessing the safety and efficacy of NK100 when administered as a monotherapy and in combination with trastuzumab or cetuximab, two FDA-approved monoclonal antibodies that are widely used today to treat various solid tumor malignancies," according to the company. "Three Phase 1 clinical trials of NK100 are currently being conducted in subjects with advanced liquid and solid tumors, and the Company plans to present additional clinical data for NK100 in the second half of 2018."

In September, Fate Therapeutics is participating in two investor conferences – the Wells Fargo Healthcare Conference in Boston and Morgan Stanley's annual Global Healthcare Conference in New York.

Last month, Citigroup initiated coverage of Fate Therapeutics with a Buy rating and a \$20 price target, implying significant upside from the \$12 area at which the shares finished August.

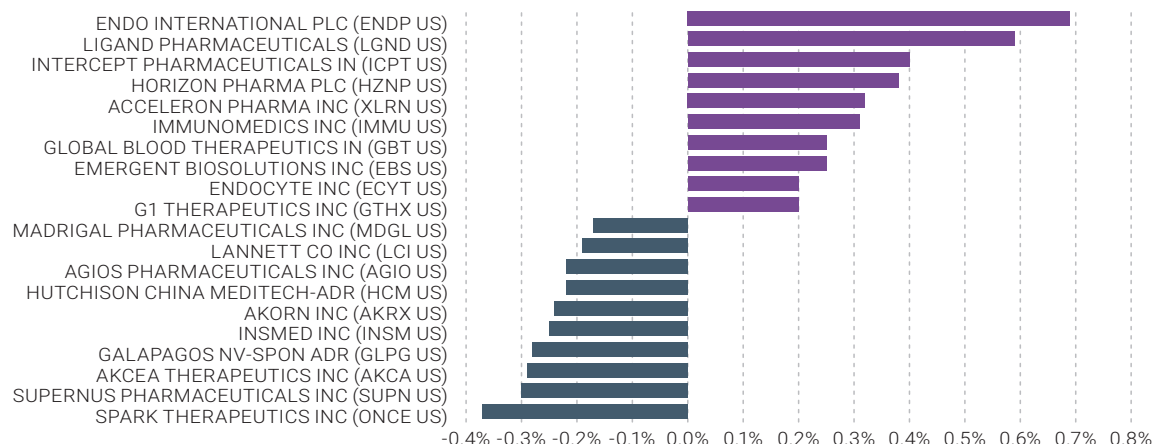
¹ Source: Fate Therapeutics statement Aug. 6, 2018 <https://finance.yahoo.com/news/fate-therapeutics-reports-second-quarter-200100667.html>

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Top/Bottom 20 Contributions or Detractors to Return



Source: ALPS, Bloomberg, as of 8/31/2018.

Past performance does not guarantee future results.

Top 10 Holdings (%)[^]

BIOGEN INC	8.52%
AMGEN INC	8.02%
GILEAD SCIENCES INC	7.94%
CELGENE CORP	7.75%
ILLUMINA INC	6.09%
REGENERON PHARMACEU	4.86%
VERTEX PHARMACEUTICA	4.29%
ALEXION PHARMACEUTICA	3.18%
MYLAN NV	2.44%
BIOMARIN PHARMACEUTIC	2.07%

[^] As of 8/31/2018, Holdings subject to change.

Daily holdings are available on the Alpsfunds.com website.

SBIO Performance as of 6/30/18

Total Returns	1 Month	3 Month	YTD	1 Year	3 Year	Since Inception ¹
ALPS Medical Breakthroughs ETF (Net Asset Value)	-2.67%	8.62%	13.70%	36.47%	2.16%	13.04%
ALPS Medical Breakthroughs ETF (Market Price) ²	-2.98%	7.86%	13.19%	36.03%	2.04%	12.93%
Poliwogg Medical Breakthroughs Total Return Index	-2.63%	8.75%	13.91%	36.96%	2.55%	13.49%
NASDAQ Biotechnology Total Return Index	1.41%	3.08%	3.14%	6.91%	-3.26%	2.77%

Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. Call 1.866.234.5852 or visit www.alpsfunds.com for current month end performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Gross Expense Ratio .50%

¹ Fund inception date of 12/31/14. Total Return for a period less than one year is not annualized.

² 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.

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Important Disclosure & Definitions

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus which contain this and other information call 844.234.5852 or visit www.alpsfunds.com. Read the prospectus carefully before investing.

Shares are not individually redeemable and the owners of shares may purchase or redeem shares from a fund in creation units (blocks of 50,000 shares) only.

This fund may not be suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Fund is considered non-diversified and as a result may experience great volatility than a diversified fund. The Fund's investments are concentrated in the pharmaceuticals and biotechnology industries, and underperformance in these areas will result in underperformance in the Fund. Investments in small and micro capitalization companies are more volatile than companies with larger market capitalizations.

Companies in the pharmaceuticals and biotechnology industry may be subject to extensive litigation based on product liability and similar claims. Legislation introduced or considered by certain governments on such industries or on the healthcare sector cannot be predicted.

Companies in the pharmaceuticals industry are subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting. The profitability of some companies in the pharmaceuticals industry may be dependent on a relatively limited number of products. In addition, their products can become obsolete due to industry innovation, changes in technologies or other market developments. Many new products in the pharmaceuticals industry are subject to government approvals, regulation and reimbursement rates. The process of obtaining government approvals may be long and costly. Many companies in the pharmaceuticals industry are heavily dependent on patents and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies.

The development of new drugs generally has a high failure rate, and such failures may negatively impact the stock price of the company developing the failed drug. Biotechnology companies may have persistent losses during a new product's transition from development to production. In order to fund operations, biotechnology companies may require financing from the capital markets, which may not always be available on satisfactory terms or at all.

Poliwogg Medical Breakthroughs Index: The index consists of small and mid-cap pharmaceutical and biotechnology stocks listed on US stock exchanges that have one or more drugs in either Phase II or Phase III US FDA clinical trials.

The NASDAQ Biotechnology Total Return Index is a modified market capitalization-weighted index designed to measure the performance of all NASDAQ stocks in the biotechnology sector. The index was developed with a base value of 200 as of November 1, 1993. The total return includes the reinvestment of cash dividends.

The S&P Biotechnology Select Industry Total Return Index is comprises stocks in the S&P total market index that are classified in the GICS Biotechnology sub-industry. The total return includes the reinvestment of cash dividends.

One may not invest directly in an index.

ALPS Portfolio Solutions Distributor, Inc. is the distributor for the ALPS Medical Breakthroughs ETF.

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