Performance Commentary as of 6/30/2020

Total Return

The ALPS Smith Total Return Bond Fund Class I marked a positive return of 568 bps in the second quarter while outperforming the Bloomberg Barclays U.S. Aggregate Index by 278 bps. The Fund is outperforming the index by 124 bps since the inception of the Fund on June 29, 2018. The outperformance during the quarter was attributed to our overweight in duration as well as the significant snap-back in risk asset valuations given the massive fiscal and monetary stimulus announced and implemented during this period. The overall performance since inception was achieved by focusing on active portfolio positioning, duration management, security selection, and bottom-up fundamental credit analysis. Coordinated global Central Bank stimulus and Quantitative Easing operations as well as large Fiscal stimulus, which led to a rapid recovery for risk assets across the spectrum.

Short Duration

The ALPS Smith Short Duration Bond Fund Class I marked a positive 469 bps in the second quarter, outperforming the Bloomberg Barclays 1-3-Year U.S. Government/Credit Index by 352 bps. The Fund is outperforming the Index by 108 bps since the inception of the Fund on June 29, 2018. As a continuing theme, the Fund’s overallocation to corporate and securitized assets allowed the Fund to out-yield the index. The extreme rally and flattening in the front-end of the U.S. Treasury curve depressed overall yields available to investors especially once credit spreads began to recover. In this environment, the Fund maintained its focus on capital preservation. Despite being overweight credit on a percentage basis vs. the benchmark, the Fund maintained a large position in longer duration U.S. Treasuries as a barbell.

2Q Commentary

As a reminder, at the end of the first quarter, the Federal Reserve cut The Fed Funds Rates to a range of 0.00%-0.25% over two emergency meetings, restarted Quantitative Easing (QE) and brought $2.3 trillion of loans to the markets through an alphabet soup of programs implemented to calm the market, assist households, aid small and mid-sized businesses as well as state and local governments during the coronavirus pandemic. Federal Reserve Chairman Powell clearly stated that the Fed will do everything in their power to support those that are most vulnerable. Congress passed three phases of emergency stimulus, pumping over $2 trillion into the economy. The largest economic relief package in the history of the U.S. will support direct payments to Americans, provide additional support for social safety programs, targeted industry relief, provide spending for additional medical support and expand loans to small businesses.

We have framed this period as the “Great Reset” and believe the market is unfolding in 5 phases. The first phase was the period prior to the heightened volatility of March. The second phase was the reopening of the Investment Grade Credit markets. We diagnosed phase three as the reopening of the High Yield market. Phase four is where we currently sit, it is a period that will reflect the domestic and global economy – how we reopen and recover. Phase five will be a long and drawn-out period that will deal with the social issues and world order that follows. For the end of the second quarter and the second half of the year, we believe we are in Phase four of the recovery.

After the swift economic shutdown in March and April, the second quarter started to feel much more optimistic as the virus curve was flattening, cities reopened in May, and job numbers started to improve. The optimism in combination with fiscal and monetary support was reflected in risk assets as well as a steepening of the yield curve. Throughout the second quarter, U.S. Treasury interest rates saw the 2-yr yield collapse to 14 bps, pegged to the Fed Funds Rate. While the 30-yr broke out of a two-month range and reached a yield of 1.66% in June. The Fed’s programs also stabilized credit markets: stemming outflows from fixed income Exchange-traded Funds (ETFs) as the Primary and Secondary facilities established by the Fed were targeted to maintain liquidity and availability of credit to domestic issuers. Additionally, the Fed intervened in the securitized markets with direct QE purchases of Agency guaranteed Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS) as well as bringing the Term Asset-Backed Securities Loan (TALF) program back to life to spur investment in high-quality traditional segments of the Asset-Backed Security (ABS) market.

This intervention from the Federal Reserve helped stabilize fixed income markets globally as investors were able to look beyond contagion and quarantine fears. Risk assets staged a sharp recovery after the plunge in 1Q, and all-in yields moved significantly lower as liquidity flooded the market, and demand for yield rapidly increased. Throughout the quarter, the Funds benefited from a long U.S. Treasury allocation, longer duration positioning, and positive convexity in mortgages via CMOs and overweight positioning in credit.
As we slowly move through phase four – the reopening and recovery – we are unfortunately reminded that we are at the mercy of the virus and vaccine development. Mid-June started to register another wave of COVID-19, initially moving through the United States, followed by global cases spiking once again. Reopening plans have been rolled back; many schools moved back online for the Fall semester and economic data points are stalling out after the initial recovery. We expect a recovery in the third quarter, but the long run will mark lower output, higher deficits, a large Federal Reserve balance sheet, and increasing social division.

**Portfolio Positioning**

In the short-term, we remain nimble regarding the Funds positioning in U.S. Treasuries as very low absolute yield levels, uncertain economic prospects, and the wildcard of the derivative impacts of the Federal Reserve’s new policies and facilities on the market are leading to unprecedented levels of volatility. We are also focused on the shape of the curve as the front-end is extremely flat but concerns about inflation due to Government Debt levels may be gathering and will eventually impact longer duration Treasuries. However, we remain proactive in using the longer duration U.S. Treasury position as shorter-term insurance against our elevated credit weightings.

We have made significant changes to the credit portfolio so far this year. Initially, we focused on removing more economically sensitive credit however with Fiscal and Monetary policy support running at unprecedented levels we have increased our exposure to credit (as the only asset class in fixed income with yield) and have positioned in some select names that would benefit from a faster economic recovery. This has accelerated recently as valuations for both investment grade as well as higher quality high yield credit look attractive.

This increase of our weighting to corporate credit was focused on specific names as we believe there is potential for continued economic volatility. We are targeting investing in companies whose management is focused on managing through downside scenarios and giving themselves optionality and downside protection. We are encouraged by the increase in equity raises we have recently seen as an increased focus on deleveraging as a positive for both debt and equity holders is a hallmark of stories we are attracted to in the current environment.

Short duration high yield continues to be a focus. This area of the market has much less forecasting error embedded in its analysis as it is a liquidity analysis evaluation over a very short period vs longer-term projection on industries, commodity prices, and competitive dynamics facing a sector/company. With the flat Treasury curve, we are not being compensated to extend out the curve and therefore these types of assets result in extremely attractive risk-adjusted return profiles. This has further tailwinds from the pegging of the front-end of the curve on the interest rate side by the Fed Funds rate as well as support from the Fed’s corporate QE program focused on the 5-yr and in area of the curve.

Within the securitized allocation in the Funds, we continue to allocate money to agency-mortgage-backed collateralized mortgage obligations (CMOs) and agency guaranteed CMBS. We find that select CMOs and Agency CMBS provide better convexity, exhibit less change in duration given changes in interest rates and prepayment speeds, and provide higher option-adjusted spreads and yield. Additionally, these securities have much less credit risk than non-guaranteed assets which we believe is a very important risk factor given the potential societal and structural changes in a post-COVID world. In this current climate mortgage prepayment and default assumptions are very uncertain, thus we focus on selecting securities that perform well through a wide band of underlying assumptions rather than a specific directional view.

Sincerely,

R. Gibson Smith  
Portfolio Manager  

Eric C. Bernum, CFA  
Portfolio Manager
ALPS | Smith Short Duration Bond Fund

Top 10 Holdings*  
U.S. Treasury Note 0.125% 04/30/2022  4.71%  
U.S. Treasury Note 0.375% 03/31/2022  4.71%  
U.S. Treasury Note 0.125% 05/31/2022  4.21%  
U.S. Treasury Note 1.125% 02/28/2022  4.19%  
U.S. Treasury Note 0.25% 05/31/2025  3.34%  
U.S. Treasury Note 1.375% 02/15/2023  2.16%  
U.S. Treasury Note 0.125% 06/30/2022  1.91%  
Fannie Mae Pool 2.71% 12/01/2023  1.66%  
U.S. Treasury Note 0.25% 06/15/2023  1.57%  
Upjohn, Inc. 1.125% 06/22/2022  1.39%  

* Source: Bloomberg, 6/30/20, subject to change

ALPS | Smith Total Return Bond Fund

Top 10 Holdings*  
U.S. Treasury Bond 1.25% 05/15/2050  4.59%  
U.S. Treasury Bond 1.125% 05/15/2040  3.39%  
U.S. Treasury Bond 0.625% 05/15/2030  3.18%  
U.S. Treasury Note 0.25% 05/31/2025  1.63%  
U.S. Treasury Bond 2% 02/15/2050  1.63%  
Microchip Technology, Inc. 3.922% 06/01/2021  1.23%  
CIT Group, Inc. 1D US SOFR + 3.827% 06/19/2024  1.06%  
Fannie Mae-Aces 3.552% 02/25/2043  1.00%  
Raymond James Financial, Inc. 4.65% 04/01/2030  0.98%  
CoStar Group, Inc. 2.8% 07/15/2030  0.93%  

Performance data quoted represent 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 the most current month-end performance data please call 866.759.5679. Performance includes reinvested distributions and capital gains.

Maximum Offering Price (MOP) for Class A shares includes the Fund’s maximum sales charge of 5.50%.
Contingent Deferred Sales Charge (CDSC) performance for Class C shares includes a 1% CDSC on C shares redeemed within 12 months of purchase. Performance shown at Net Asset Value (NAV) does not include these sales charges and would have been lower had it been taken into account.

*ALPS Advisors, Inc. (the “Adviser”) and Smith Capital Investors, LLC (the “Sub-Adviser”) have agreed contractually to limit the amount of the Fund’s total annual expenses, exclusive of Distribution and Service (12b-1) Fees, Shareholder Service Fees, Acquired Fund Fees and Expenses, brokerage expenses, interest expenses, taxes and extraordinary expenses, to 0.67% of the Fund’s average daily net assets. This agreement (the “Expense Agreement”) is in effect through February 28, 2020.
Important Disclosures & Definitions:
An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information, call 1.866.759.5679 or visit www.alpsfunds.com. Please read the prospectus carefully before investing.

An investment in the Funds involves risk, including loss of principle.

Please note that the Funds are new and have limited operating history.

Fixed Income Securities Risk. A rise in interest rates typically causes bond prices to fall. The longer the duration of the bonds held by a fund, the more sensitive it will likely be to interest rate fluctuations. Duration measures the weighted average term to maturity of a bond's expected cash flows. Duration also represents the approximate percentage change that the price of a bond would experience for a 1% change in yield. For example: the price of a bond with a duration of 5 years would change approximately 5% for a 1% change in yield. The price of a bond with a duration of 10 years would be expected to decline by approximately 10% if its yield was to rise by +1%. Bond yields tend to fluctuate in response to changes in market levels of interest rates. Generally, if interest rates rise, a bond’s yield will also rise in response; the duration of the bond will determine how much the price of the bond will change in response to the change in yield.

The Fund's investments in fixed-income securities and positions in fixed-income derivatives may decline in value because of changes in interest rates. As nominal interest rates rise, the value of fixed-income securities and any long positions in fixed-income derivatives held by the Fund are likely to decrease, whereas the value of its short positions in fixed-income derivatives is likely to increase.

Market Risk. Overall securities market risks may affect the value of individual instruments in which the Fund invests. Factors such as domestic and foreign economic growth and market conditions, interest rate levels, and political events affect the securities and derivatives markets. When the value of the Fund’s investments goes down, your investment in the Fund decreases in value and you could lose money.

Bloomberg Barclays 1-3 -Year U.S. Government/Credit Index: includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued.

Bloomberg Barclays US Aggregate Bond Index: a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

One may not invest directly in an index.

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