Ninepoint-UIT Alternative Health Fund

August 2018 Commentary

The first days of the month were witness to a flurry of activity from entities interested in establishing retail locations in the ever changing recreational landscape for marijuana in Ontario. The Ontario government led by Premier Ford mused that it didn't want to be operating stores and that the Province could be better served with private retail, similar to what is being established in Alberta and BC. That excitement was temporarily halted as the province announced its strategy to allow private retail; the change in distribution would require that physical stores would be delayed in their roll out until the Spring of 2019.

Investment Team

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Ontario's Minster of Finance, Vic Fedeli, and Attorney General, Caroline Mulroney, announced that the province will adopt a private cannabis retail system as soon as practicable. The Ontario Cannabis Corporation (OCS) starting October 17, 2018, will sell recreational cannabis products through its online platform. The province will begin consultation with stakeholders before drafting legislation for the private retail model estimated to be launch by April 1, 2019. Under the proposed framework the OCS will remain the wholesaler to private retailers.

We anticipate store openings after Q1 19 and there is still a question as to whether the Ontario government will provide municipalities the right to opt out. The delay in physical stores in Ontario has negative near-term implications for cannabis retail sales in Canada given the size and significance of the population relative to the size of the overall country. We believe physical retail stores are important to capture a meaningful share of the illicit market from a service and convenience standpoint. However, longer term, private retail could be more effective than a government monopoly to capture black market share, and could result in more locations, more convenience and better access to regulated supply and recognized brands.

We witnessed some weakness in the sector as short-term estimates on revenues and earnings were adjusted and moved out 12 months. Selling pressure ensued during the first two weeks of the month. We took the opportunity to add to certain positions during this weakness. Our fund continues to focus on those cannabis LP's that have both a global and domestic medical business in addition to a burgeoning domestic recreational market opportunity. We combine that focus with a portfolio allocation that includes many aspects of the alternative health market including nutraceuticals, traditional pharma, health and wellness.

On August 20th, The Ontario Cannabis Store, the province's sole legal online retailer for recreational cannabis, announced that it has entered into supply agreements with 26 licensed producers to ensure that a safe, diverse and high-quality supply of cannabis is ready and available upon

legalization this fall.

Similar to BC and Alberta in that there was a large list of LP's that secured supply agreements, noteworthy were the absence of Ontario based LPs that did not get supply contracts including The Green Organic Dutchman (TSX:TGOD).

On August 15th, the global cannabis industry landscape changed dramatically when Constellation Brands (NYSE:STZ) re-upped their ~9% stake in Canopy Growth (TSX:WEED) to a 38% stake for CAD$5 billion. The premium to the previous closing price was~50% (CAD $48.60 vs. last trade of $32.15 prior trading day). This should be taken as a huge vote of confidence in Canopy as it focusses on the global beverage sector and gives Canopy an enormous war chest to pursue M&A, international build-outs, and fund research. Readers will recall that Constellation's original investment in Canopy was $250 million for 9.9% back in November. As part of its investment, Constellation is receiving 139.7M new warrants which are exercisable over the next 3 years. Of those, 88.5M are exercisable at a price per share of C$50.40, a 43.0% premium to Canopy's VWAP (as at the date of the announcement), with 51.3M exercisable at the VWAP at the time of exercise. If Constellation were to exercise all existing and new warrants, its ownership would exceed 50%. Other global beverage companies that are analyzing Constellation's strategic investment in Canopy include Heineken, Brown Forman, Diageo.

A couple of weeks prior to the Constellation-Canopy announcement, Molson Coors (NYSE:TAP) announced the formation of a JV deal with Hydropothecary (TSX: HEXO). The stock rallied and then corrected right back to where it was pre-announcement. For Canadian Licensed Producers, those groups that have the scale to work with a global player include Aphria (TSX:APH), Aurora (TSX:ACB), Canntrust (TSX:TRST), Cronos (TSX:CRON), Organigram (CVE:OGI) and Tilray (NASD:TLRY). All of the LPs noted are building large scale production to be able to do a deal with an international beverage company.

Constellation's move re-emphasized the growth of the global cannabis market and the opportunities that exist in other industry segments as cannabis and its extracts become a disruptor in everything from beverages to pharmaceuticals to topical creams and cosmetics.

On August 7th, GW Pharmaceuticals (NASD:GWPH), the company behind FDA approved cannabis medication Epidiolex, announced its Q318 Financial Results. Revenue for the nine months ended 30 June 2018 reached £10.7 million ($14.2 million) compared to £6.1 million ($7.9 million) for the nine months ended 30 June 2017. Losses for the nine months ended 30 June 2018 were £136.7 million ($180.2 million) compared to £90.3 million for the nine months ended 30 June 2017. The company has a strong cash position at 30 June 2018 of £334.0 million ($440.2 million) compared to £241.2 million the year earlier.

The company also announced the pricing of Epidiolex at $32,500 per year on average, depending upon the weight of the patient and the dosing. The goal of the company was to keep pricing in line with other branded antiepileptic drugs used to treat similar conditions. Investors have reduced their enthusiasm for GW Pharma since the drug was approved by the FDA in late June. Over the next 90 days, Epidiolex goes through rescheduling expected within 90 days of FDA approval. European approval submissions have also begun with a decision expected in Q1 2019. In addition, the company announced additional clinical trials in involving Autism, and Tourette Syndrome

International markets were also active during the month, with the United Kingdom announcing that medical marijuana will be available by the Autumn after successful vote in Parliament. This abrupt about-face from a policy of seizing medical marijuana at the border emphasizes how quickly international legalization is spreading. Other countries of Europe where medical marijuana is legal include Italy, Poland, and Germany, where medical marijuana is covered by government health insurance.

WEED announced Q119 financial results during the month with revenues of $25.9 million. Total volume sold was 2,695kg which was a 47% year over year increase. What caught our attention was that sales to Germany accounted for 14% of total revenue in the quarter vs just 2% in the same quarter last year. Canadian based revenues were up 43% year over year while the average selling price was $8.94/gram vs $7.96 in Q118 and $8.43 in Q418 showing stronger pricing and demand for Canopy products. Of note was that sales to Germany increased average selling prices with German sales at $13.62/g. At quarter-end, the company held 19,721kg of dried cannabis in inventory with 14,985 litres of oils.

Significant growth was seen in the financial results of TLRY that doubled its revenue in the quarter to $9.7 million (USD), driven by patient demand in Canada as well as sales to other LP's and international sales. The company still had EBITDA losses that increased from the previous quarter, to ($4.7) million as the company continued to build production in addition to costs related to the company's recent IPO. Tilray has international operations in 11 countries on 5 continents. The company announced a significant first in the cannabis sector as it signed a strategic agreement with Sandoz Canada to produce cannabis capsules. This could be seen as a positive both for its pharmaceutical implications as well as for its potential in getting the company cleared from a due diligence perspective. If it can pass with a global pharma company, then a beverage company can piggy back off that work.

Top ten holding TRST announced three and six month financial results ending June 30, 2018. TRST announced record revenues of $9M in Q218, a 99% increase from the same quarter in 2017, while the company earned positive net income for the fifth consecutive quarter. TRST has a strong base of patients that increased to more than 45,000, a 117% increase from the prior year. Leading the Canadian industry TRST also has the highest percentage of revenues from cannabis extracts at 60% of sales.

During the month, the Fund got solid performance from the cannabis sector including WEED, that was +73.78% in August; TRST +52.35%; APH +47.52%; GTII +44.96% and CRZ +34.41%; OGI +32.33% and VFF +32.69%. Contributions were also realized from other sectors within the portfolio as Savaria (SIS) +14.06% and United Natural Foods +10.28%.

We are cognizant that the cannabis sector has seen significant gains in many of the largest and most widely followed names in the industry. Since the middle of August, there is discussion on which LP will be the next company to take on a global strategic partner. We have also seen more attention from investors south of the border becoming more aware of the investment opportunities listed in Canada, for both Canadian and US operating cannabis companies. Our long term view does not change, in that this industry and the cannabis plant has the potential to create major disruption in the beverage, pharmaceutical and wellness categories. We still though anticipate volatility and abrupt changes when short term attitudes change.

That is why we believe in our actively managed approach. Despite the strong performance of the Fund in August, subsequent to month end we have been taking profit in select names in our top ten holdings, allocating to LP's that have not run as the leaders have, in addition to allocating to other alternative health sectors. Within an early stage sector, there are going to be challenges to valuations at times that require adjustment and trading, while also exhibiting volatility. We see the volatility as an opportunity to gain exposure or reduce our holdings in certain names by using a company's volatility to write options.

In order to generate additional returns, reduce risk and re-balance our portfolio weightings, the Fund writes covered call options on securities held in the portfolio and cash secured put options on securities desired to be held in the portfolio. Writing call options tends to decrease the Fund's exposure to the underlying instrument. Writing put options tends to increase the Fund's exposure to the underlying instrument.

The Fund's option strategy was implemented this month as high sustained volatility allowed the Fund to capture rich options premium. The majority of trades thus far have been in cash secured puts as we look for better than market entry points. With volatility in the 90-150 range, the Manager believes that option writing can add incremental value going forward.

We believe that our Fund stands out as we offer an actively managed approach that also offers a wider portfolio allocation than merely focussing only in the domestic recreational cannabis sector. With different segments in the global alternative health market, our strategy also allows the Fund to utilize periodic cash weightings when there are periods of weakness, enabling our team to adjust our positions and wait for better opportunities. In addition, we offer the opportunity to invest in select private companies in the alternative health space that are poised to go public in the near term.

Until next month,

The Alternative Health Fund Team

Compounded Returns[1]

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	23.2	28.1	22.1	31.0	95.1	82.3
INDEX	19.3	22.6	19.0	28.8	72.7	61.3

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2018. The index is 70% Thomson Reuters Canada Health Care Total Return Index and 30% Thomson Reuters United States Healthcare Total Return Index and is computed by Ninepoint Partners LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Cannabis sector risk; Concentration risk; Currency risk; Cybersecurity risk; Derivatives risk; Exchange traded fund risk; Foreign investment risk; Inflation risk; Market risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Specific issuer risk; Sub-adviser risk; Tax

risk.

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