Alternative Health Fund

Year End Summary & 2020 Outlook

Investment Team

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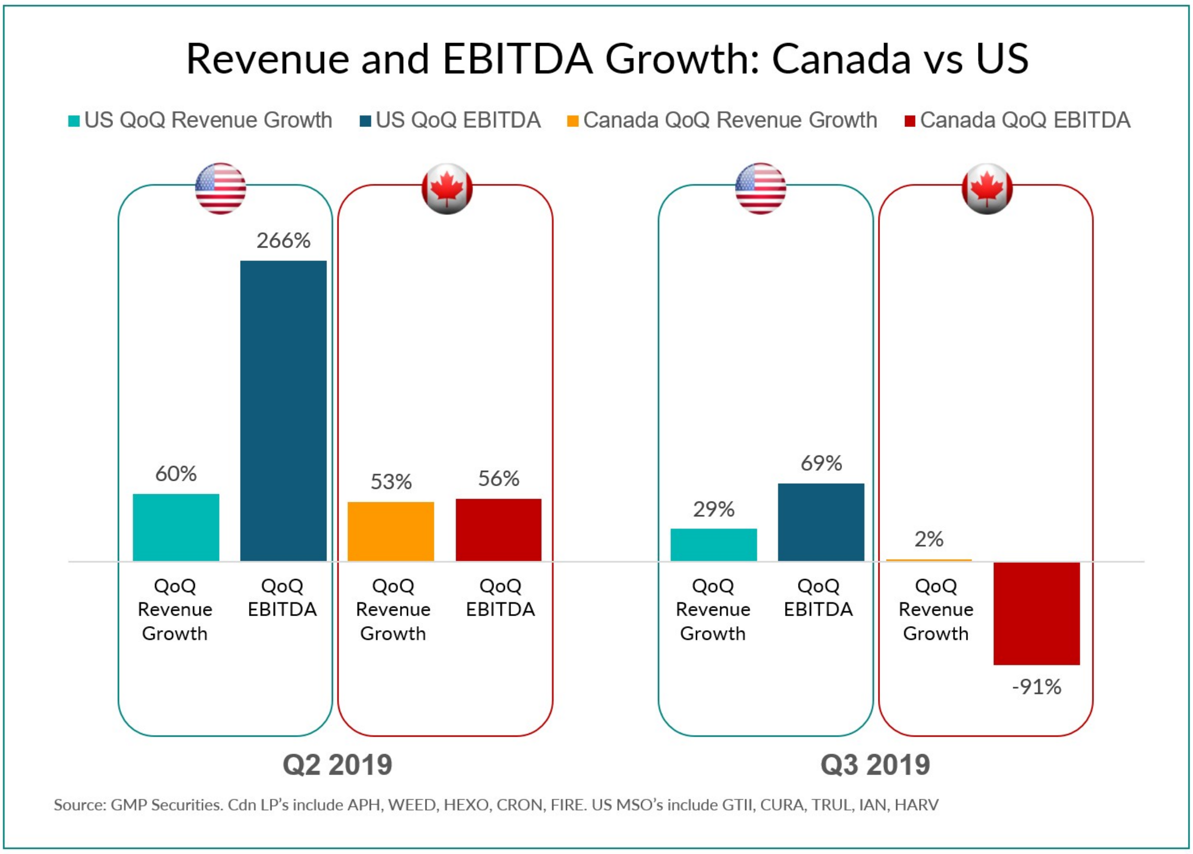
2019 was the first full year for Canadian Licensed Producers (LP's) to offer adult use recreational cannabis in Canada. The year also offered significant expansion of state by state operations from US Multi-State Operators (MSO's). Despite the excitement and anticipation of what was expected to be a transformational year, 2019 was a challenging period for the cannabis sector as regulatory delays and supply chain issues hampered sales. As a result, many public companies witnessed equity value drops of over 70%. The promise of significant quarter over quarter revenue growth in Canada did not materialize for many of the leading LP's, and the ability to generate positive cash flow or EBITDA has become a focus of investor concern. Key impediments facing Cdn LP's include previous overbuilding of capacity; lack of coordination among Provinces under the Federal Cannabis Act; and most importantly a lack of storefronts in Canada's most populous provinces.

During 2019 south of the border, leading US MSO's showed an ability, either through organic growth (in the case of **Green Thumb Industries (GTII)** or **Trulieve Company (TRUL)** or through acquisition in the case of **Curaleaf (CURA)** to achieve positive metrics such as; double digit same store sales growth, quarter over quarter revenue growth as well as quarter over quarter positive cash flows from operations. We believe that the operational trends we saw in 2019 will be similar to the trends we will see in 2020. As a result, we continue to favour the US market; it has a larger addressable market (200 million people in 33 legal medical states vs 37 million in Canada), an ability to brand and market a broad variety of products; MSO's can directly own storefronts as well as distribute/wholesale their products to other independent stores, allowing for wider distribution of brands; and with the 2018 Farm Bill, Hemp derived CBD in topical formats continues to be distributed throughout all 50 states.

The chart below illustrates the financial differences we have seen in 2019 between Cdn and US operators in the cannabis space. Despite the strength of US Multi-State Operators (MSO's), the US focused names trade a discount to their Canadian counterparts.



Our active management coupled with our ability to invest in a more diversified portfolio assisted in generating significant outperformance relative to all other cannabis related funds and ETF's. The Fund had slightly negative performance of -5.7% for the year, while the HMMJ had a negative return of -33.82% for 2019. From inception, we designed the fund to provide flexibility especially during difficult markets. We believed from the beginning when we launched the Fund in March of 2017 that there was not enough liquidity in the Canadian cannabis sector to manage a 100% cannabis focussed fund. The last two years of investing in cannabis and the resulting volatility illustrates the need for active management, due diligence and diversification, especially when investing in an early stage sector.

We believe that 2020 offers a great opportunity to invest in select cannabis focussed names. As stated in this 2020 Outlook, we see many catalysts that can serve to expand the US landscape for legal adult usage, while the US will offer more opportunities to access capital for growing MSO's. As these catalysts hit, we believe we will see strong equity response from the leading MSO's. In addition, the long term investment opportunity in the Canadian cannabis sector still exists. But patience is needed. One way to gain an economic interest in certain LP's while managing risk is emphasized in our option writing program. This past year, our option writing program generated a solid $1.8 million in option premium, despite reduced exposure to the high volatility Cdn cannabis sector. We believe that the best way to manage the volatility and risk associated with an investment in this early stage sector is to be in an actively managed fund that provides diversification, risk mitigation strategies, liquidity and the ability to adjust sector allocations.

Canadian Market Expectations in 2020

Companies operating in the Canadian cannabis industry have raised billions of dollars of capital, with the majority of funds directed at building out production capacity, retail operations, and preparing for “Cannabis 2.0”. However, the rollout of recreational cannabis in Canada has been challenging. Lack of retail storefronts has hurt the national rollout and the 1 year delay in the rollout of consumer products has resulted in a strengthened black market.

These issues have conspired against many Canada’s LP’s such that many missed their own financial projections. Many continue to burn through cash, while attempting to scale up operations. The result is that many companies are not able to generate sufficient cash flow in the near term, and many may never turn the corner to positive to cash flow. Given the lackluster equity performance of many companies, investors are increasingly unwilling to support the build out of new operations. As stated earlier, we continue to believe in the long term growth of the cannabis industry. It is still in its initial stages and there will be winners who can take advantage of the opportunities offered to them. Unfortunately we see the likelihood that there will be losers in the sector, meaning public companies running out of cash, and the Cdn industry likely facing bankruptcies in 2020.

Despite this challenging backdrop, opportunities still exist in the Canadian market. We believe that this kind of environment favours low cost producers with established distribution agreements. Without additional capital flowing into the sector, low cost producers are in a position to take market share from less efficient LP’s. We also favour those LP’s that are focused on extraction services, offering white label solutions to both other LP’s and consumer packaged goods (CPG) companies that want to add cannabis and hemp products to their line up of existing well known brands.

In the first year since legalization, Statistics Canada has reported that Canadians spent approximately $908 million on non-medical, legal cannabis.
(Source: StatsCan)

Despite the low number of physical storefronts, Ontario accounted for the most sales of any province at $217 million, followed by Alberta at $196 million and Quebec at $195 million. What is interesting is that with a population of over 14.5 million, Ontario is more than 3 times the population of Alberta at 4.4 million, yet only generates 10-15% more in cannabis sales. The reason falls squarely on store count. Alberta has been the most efficient Province at implementing legal cannabis store front licenses, while Ontario has been one of the most disappointing. Alberta holds the top rank among Provinces with the most storefronts open or licensed with a total of 384.
(Source: AGLC)

Ontario has 24 store fronts operating with a total of 75 licensed to date. It is worth noting that sales have shown to ramp with physical store fronts. The Stats Can report notes that as the number of stores increased in 2019, the proportion of online sales declined from 43.4% in October 2018 to 5.9% in September 2019. More stores leads to more education, more understanding and less stigma. With the recent announcements from Ontario to begin issuing licenses under a more open system beginning in April, we anticipate close to 150 stores should be operating in Ontario by YE’20.

Current Provincial Dispensary Listings & Mature Market Estimates

Province	Population	Current Number of Lic. Dispensaries	Current Dispensaries Per Capita	Mature Market # of Dispensaries*
Ontario	14,566,547	75	1:194,220.63	1,457
Quebec	8,484,965	33	1:257,120.15	848
British Columbia	5,971,336	191	1: 31,263.54	597
Alberta	4,371,316	384	1: 11,383.64	437
Manitoba	1,369,465	29	1:47,222.93	137
Saskatchewan	1,174,462	40	1:29,361.55	117

*Referencing more mature REC markets in the US, a fully developed market is approx 10,000 people/store.

Source: StatsCan, viiiCapital, Stifel

Above, we provide both the current and mature market dispensary counts for the largest provinces. We have used a mature market estimate based on Rec markets in the US. As can be seen, the number of dispensaries needed to service various markets is insufficient in certain markets. Another way to analyze effective dispensary coverage is to estimate the number of dispensaries based on the number of points of sale with respect to liquor/alcohol distribution. There are approximately 5,500 people per liquor point of sale in Canada, that implies ~6,800 liquor points of sale. With a current dispensary count at just over 750, we estimate that without a buildout of storefronts, domestic consumption patterns will be constrained relative to the growth seen in the US. What is also important to consider is that with the most populous provinces, they are well below the number of dispensaries that can effectively service their markets.

Rec 2.0 products will provide a partial solution for growth in the Canadian Rec. Market

As Canada launches Rec 2.0 products, we believe that derivative products (extracts, beverages, edibles, etc) will unlock significant growth and value in the Canadian market. However, investors need to be realistic on an appropriate timeframe upon which to see the financial effects on the roll-out and implementation. Despite a number of LPs announcing plans to launch a range of product types including vapes, beverages, chocolates and gummies, we do not expect to see meaningful sales of derivative products until the summer of 2020. As we saw this past year, LPs will need to work with Provincial supply managers, while attempting to manufacture derivatives at scale for the first time. In addition, consumers will need to be educated about these new products. We expect the growing pains experienced in the first year of the adult Rec market will be seen again in 2020.

Supply and demand using mathematical models does not equate to supply and demand of products that people actually want. We saw that this year with products being sent back to LP's, we also saw it with bulk discounts offered to dispensaries and Provincial warehouses. We believe that the consumer decision making process will migrate from one that has been based on THC potency to one that is based on a number of different factors that include; potency, terpene profile, strain, form factor, packaging, size and brand. Those that can deliver the products consumers want at an acceptable price point will have an opportunity to build their brands and market share.

Companies to watch in the Canadian cannabis market in 2020

Two companies that may be poised for success in 2020 are **Village Farms International (VFF)** and **Medipharm (LABS)**. VFF, though its Pure Sunfarms JV is a low cost producer of cannabis that has achieved significant market penetration and is poised to improve on this in 2020 with additional capacity and supply agreements with various Provinces. Through VFF, PSF is leveraging more than 30 years of fresh produce cultivation experience from VFF with millions of square-feet of greenhouse space to propel PSF. Currently PSF produces ~75,000 kg per year and has become the lowest cost greenhouse grower in Canada, with all-in production costs in its most recent quarter of US$0.48/g (CA$0.63/g). In its first month of sales to the Ontario Cannabis Store and Ontario based dispensaries, PSF had the top selling REC brand on both a volume and dollar basis in October. In addition, VFF's JV partner is struggling to raise sufficient cash to fund its portion of the JV which may allow VFF to obtain higher levels of ownership in the JV.

With the constrained capital environment and the launch of cannabis 2.0 products, we believe LABS is poised for significant growth in 2020. We believe the company is well positioned to provide distillate and isolate as the market for edibles, topicals, beverages and vapes expands both in Canada and abroad. Financial results have been strong with Q3 revenues of $43.4 million, gross margin of 34% adj. EBITDA of $10.1 million, and net income of $5.4 million. The company has eight long term white label contracts to work with LP's and CPG companies entering the cannabis 2.0 market. With greater demand for extraction, tighter capital markets hampering additional competitors from entering the market, and successful international expansion in its Australian operations, all of these factors should drive positive results for LABS in the coming year.

US Market Expectations

Large US MSO acquisition closings will be a catalyst for the sector, as these long awaited transactions will remove uncertainty from a regulatory perspective as well as reduce risks in financial models related to pro-forma results. Six transactions have received HSR approval which serves as sufficient evidence that the HSR process is not the major roadblock to growth for MSO's. A key hurdle in closing transactions is obtaining approvals for license transfers at the state and local level. Several transactions, including **CURA/Select, Cresco Labs (CL)/ Origin House (OH) and Harvest Health & Recreation (HARV)**/CannaPharmacy have already announced amended terms and consideration. We view these amended terms as positive for protecting shareholder value ahead of closing. As these transactions get the necessary state and local approvals, we believe investors will once again embrace the growth of the US market.

The SAFE ACT

We believe that if the SAFE Act is passed by the Senate in 2020, this will act as a significant catalyst as barriers to capital will be reduced and growth capital will be accessed from a number of different sources. Of course FDIC institutions will become free from reprisal of dealing with what has been deemed to be federally illegal businesses. This removes a major hurdle for these businesses to deal with. Next is the more open landscape that MSO's will have when dealing with landlords, REITS, and with Insurance companies, all currently significant challenges to daily business operations.

We do not believe that the SAFE Act's delay relates to less political will behind the bill. It is however, subject to political opportunism, with each side (Republicans and Democrats) seeking to maximize perceived political benefits for their side. Republicans generally favour a narrower, more defined bill while the Democratic side has sought to include social justice provisions. As a result, while there is bipartisan support for the intent of the bill, the details are still being actively debated. We see the SAFE Act as a bill that gets full political coverage in this election year, the Republicans who control the Senate intend to use its passage to strengthen certain Senate races for their party members.

States legalizing Recreational Use

Another catalyst in the upcoming year will be the number of additional states that currently are medical only filing to become recreational adult usage cannabis states. Early 2020 predictions are for continued growth in the US market, with States such as Michigan and Illinois already having announced they are becoming recreational states, no longer simply medical states. In the case of Illinois, many leading MSO's with home bases in that state had stores that opened on time January 1st, and as legislation allowed, incumbents were allowed to open months before new entrants are allowed to apply.

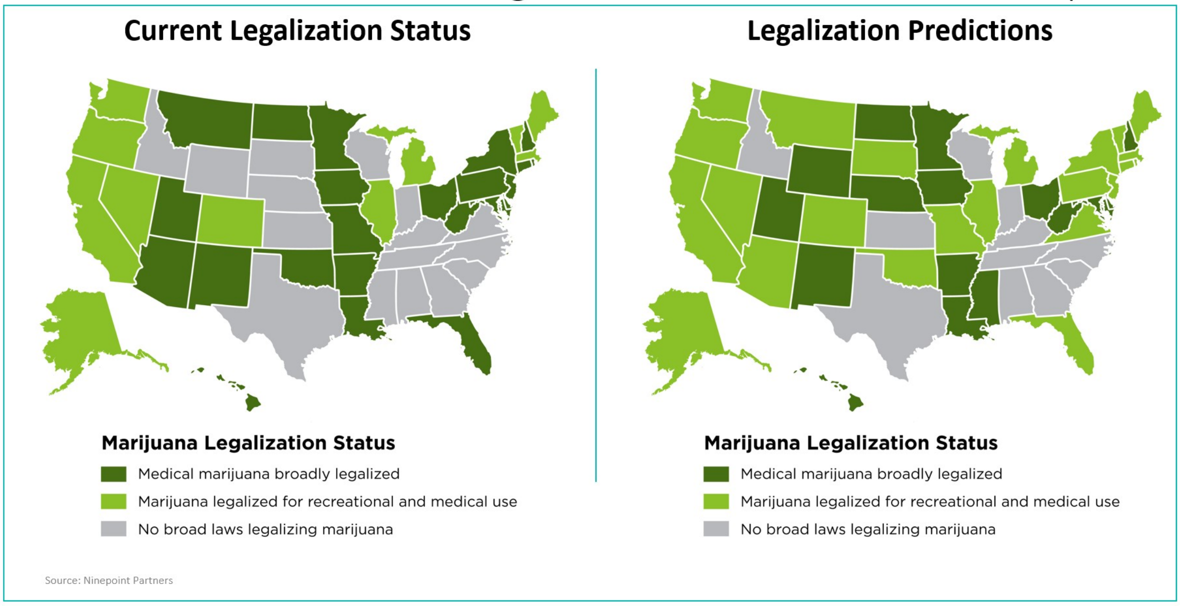
Other states where there is significant support to add recreational adult usage include Arizona, New York, New Jersey, Pennsylvania, Connecticut and Rhode Island and Florida. Ballot initiatives for recreational legalization are expected in states like Arizona, Montana, Missouri, Oklahoma, and South Dakota. New York and New Jersey could vote for recreational use, as long as agreements can be met on taxation, regulation, and social equity referendums that need to be addressed. In the north east, the governors of NY and NJ are in discussions with the governors of CT and RI, given their unique proximity to each other, for a common blueprint of rules and regulations for adult recreational use. In Virginia, with the state government controlled by the Democrats, (the Governor, House and Senate all Democrat controlled), it appears more likely that Virginia sees adult recreational usage becoming legal in the near term.

States Legalizing for Medical Purposes

There are currently 33 States legal for medical use and that number could rise in 2020.
Medical marijuana programs are being discussed in states such as Idaho, Iowa, Mississippi, Nebraska, North Dakota, Arkansas, Missouri, Utah and Wyoming. Regulations need to worked out in each State such as allowable conditions to be treated, licensing of medical practitioners, dispensary permits, tax collection as well as how to determine acceptable treatments for patients. continue to affect the growth of these programs, as do restrictions on certain formats for cannabis medication. As an example, certain states do not allow sales of dried flower for medical treatments.

Below is a comparison of the current legalization chart of US States vs predictions of changes in legalization for Recreational and/or Medical Purposes.

Current Cannabis Legalization vs State Predictions Map



As 2019 ends and 2020 begins, tighter capital markets are favoring established players. The leading MSO's, the incumbent names have an advantage in tight capital markets and we are seeing that as new debt and equity facilities are being announced. **Curaleaf (CURA)** recently announced a debt financing of $275 million USD in financing from a syndicate of lenders to assist in refinancing existing debt while also providing capital for the company's growth. Also announced in December, **Harvest Health & Recreation (HARV)** announced the closing of a tranche of its senior secured notes and units. The first tranche resulted in the private placement of US$73 million in senior secured notes due 2022 as well as 21,000 units comprised of 9.25% senior secured notes and subordinate voting share purchase warrants. This is in addition to HARV's summer announcement of a $225 million USD facility provided by Torian Capital. We have also seen US based REITS become involved in supporting the leading names in the US, with recent announcements of sale leasebacks involving **Trulieve Cannabis (TRUL)** and **CURA**. The amounts being made available and the more reasonable terms of the transactions are providing a reduced cost of capital for those more seasoned players, further driving a wedge between the haves and have nots. We continue to see value in those leading MSO's that continue to build their operational footprints profitably.

Companies to watch in the US cannabis market in 2020

As stated previously, we believe that well capitalized US MSO's will be solid performers in 2020. With its commanding market share in Florida and enviable balance sheet, **TRUL** is set to continue to post industry leading profitability levels while it cautiously expands to additional states. **TRUL** has 44 dispensaries in the state. Florida is the 3rd largest state in the US and its medical cannabis patient count is now almost 294,000, up 81% y/y. **TRUL** continues to dominate sales volumes in this market, with a 51% share of smokable dried flower, and a 47% share of all other cannabis products. As demonstrated in the chart above comparing US and Cdn Revenue and EBITDA growth, TRUL produced the strongest revenue and EBITDA margins amongst US MSO's.

Another US MSO we believe in is **Green Thumb Industries (GTII)**. It's home state is Illinois, the 6th largest state in the US by population with 12.7M people, and the 2nd largest state to have legalized adult-use after California. GTII's 40 stores in 12 different states give it the 2nd largest dispensary footprint amongst MSOs in the US, positioning the company to continue on its plans to distribute brands at scale across multiple states. Financially, GTII is also a leading operating cash flow positive MSO, with strong same store sales growth, double digit quarter over quarter revenue growth, and growing wholesale distribution agreements that allow GTII to build its brand in approximately 700 dispensaries across the 12 states in which it operates.

Portfolio Strategy for 2020

For 2020, our portfolio strategy has not changed. We continue to favour US MSO's and look to select those companies that stand out in terms of growth in revenues and cash flows. We will also focus on those leading brands that are making inroads as new consumers continue to become more comfortable with new product formats, better dosage and effective delivery methods. We will continue to select those Cdn LPs that are gaining market share while lowering costs of operations.

In terms of the non-cannabis portion of the portfolio, select investment in large cap pharma, health and wellness stocks as well as neutraceuticals will continue to add growth while lowering volatility. Standouts in the portfolio from last year that we continue to hold include; Jamieson Wellness **(JWEL)** Merck & Co **(MRK)**, Planet Fitness **(PLNT)**, UnitedHealth Group **(UNH)**.

The Ninepoint Alternative Health Fund, launched in March of 2017 is Canada's first actively managed mutual fund with a focus in the cannabis sector and remains open to new investors, available for purchase on a daily basis. Utilizing our actively managed approach we are able to generate industry leading risk adjusted returns.

Charles Taerk & Douglas Waterson

Portfolio Team
Ninepoint Alternative Health Fund

Compounded Returns[1]

	1MTH	3MTH	6MTH	YTD	1YR	INCEPTION
FUND	-3.2	-3.4	-19.8	-5.7	-5.7	23.1
INDEX	2.9	-0.9	-20.8	-4.1	-4.1	9.5

Statistical Analysis

	FUND	INDEX
Cumulative Returns	64.9%	24.4%
Standard Deviation	30.3	31.8
Sharpe Ratio	0.72	0.26

[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 December 31, 2019. 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 • 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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