Ninepoint Alternative Health Fund

February 2019 Commentary

Topics Covered:

- Pension Fund Investment in the Cannabis Sector
- CBD Transactions & Other Cannabis Business Announcements:
- US Listings News: CannTrust & Village Farms
- Legislation & Regulatory Updates
- Options Strategy Update
- Quarterly Financial Results

Investment Team

Charles Taerk,
President & Chief Executive Officer, Faircourt Asset Management - Sub-Advisor

Douglas Waterson, CPA, CA, CFA
Chief Financial Officer & Portfolio Manager, Faircourt Asset Managment - Sub-Advisor

The North American cannabis sector continues to perform with solid returns year to date. Increasingly we get asked about pull backs, sustainability of the names we focus on and how we position the portfolio given the early stage nature of the industry and the volatility we have witnessed since inception of the Fund over the last two years. A key element in how we build our portfolio involves the decision making around how much we want to pay for future earnings. With the growth that investors anticipate from the global expansion in the sector, it is understandable that some investors will want to invest in and will decide to buy when valuations might be stretched. One of the benefits of active management is being able to use our investment strategy to find entry points that can be advantageous for investors.

It is often observed that in high growth sectors, investors are more willing to pay higher valuation multiples for anticipated growth in earnings. The average public market multiple based on a company's enterprise value to its forecast earnings is 20-25 times earnings. The average valuation multiple based on 2020 earnings for those public companies focused in the cannabis sector is 28 times. There are different sub groups though within the overall sector that offer interesting investment opportunities. The valuation of those companies with Canadian based operations is 36 times earnings as at February month end; the valuation of those companies with Canadian based operations with listings in the US, (NYSE or NASDAQ) is 56 times; while the valuation of those companies with US focused operations listed on the CSE is 18 times earnings. The multiple or valuation discount related to US focused operations vs Canadian operations is approximately 48%. Looking at the Fund, the average earnings multiple of the Top Ten is 22 times, offering the Fund significant upside below the average earnings multiple for the sector.

Pension Funds investing in the Cannabis Sector:

We have stated this before but its important to reiterate not all companies are created equal. Our goal is to find those companies that have compelling business prospects, sound management teams in addition to compelling valuation metrics. At this time, our orientation is more focused on US operating opportunities as the regulatory environment continues to support U.S. Multi-State Operators (MSO's) and select companies in both the cannabis and hemp industries. We continue to invest in those Canadian based companies that we see continued growth in top line as well as bottom line financial results at more reasonable valuations.

Recently, it was noted that select large pension funds have begun to invest in Canadian based US listed cannabis companies. As mentioned above, although they offer enhanced liquidity, the valuations of that select group are among the highest priced companies based on forecast earnings multiples in the sector. Pension funds given their size the largest most liquid names. However, even with this limitation, we believe pension fund investment is an important step forward in further legitimizing the global cannabis sector as a sector in which to invest. It is also noteworthy as the more large long only traditional institutions stay focused on large names it offers great opportunities for an agile actively managed Fund that does the due diligence required to understand key metrics, find solid management teams with operations that have near term profitability and significant growth prospects.

CBD Transactions & Other Cannabis Business Announcements:

We continue to see significant upside as global markets recognize the value and versatility of cannabidiol (CBD), derived from both cannabis as well as hemp plants. With the recent passage of the Farm Bill in the US, hemp derived CBD is becoming a central driver of the nutraceutical market and several transactions occurred during the month focused in the global hemp and CBD markets. **Tilray (TLRY:NASDAQ)** closed its acquisition of Manitoba Harvest a hemp food company owned by **Compass Diversified Holdings** (**NYSE: CODI**) Manitoba Harvest is the world's largest hemp food company. Under the terms of the Agreement, TLRY will acquire Manitoba Harvest, for an aggregate purchase price of up to C$419 million, based on performance earn outs. Founded in 1998, Manitoba Harvest is the world's largest hemp food manufacturer and a leader in the natural foods industry. It produces, manufactures, markets and distributes a broad-based portfolio of hemp-based consumer products, which are sold in over 16,000 stores at major retailers across the U.S. and Canada. This is a significant transaction in the nascent CBD market as TLRY has acquired a well-known hemp brand to assist it as it grows its US CBD operations.

The transaction followed TLRY's strategic investment in Authentic Brands Group (ABG), signing a long-term revenue sharing agreement to market and distribute a portfolio of consumer cannabis products within ABG's brand portfolio in jurisdictions where regulations permit. The parties will leverage ABG's portfolio of brands to develop, market and distribute consumer cannabis products across the world, with an immediate focus on opportunities in Canada and the U.S. TLRY will be the preferred supplier of active cannabinoid ingredients for such products. TLRY will initially pay to ABG US$100 million and up to US$250 million in cash and stock, subject to the achievement of certain commercial and/or regulatory milestones while TLRY will have the right to receive up to 49% of the net revenue from cannabis products bearing ABG brands. The ABG portfolio of brands includes Prince (tennis), Tapout (MMA), Spyder(Skiwear), Greg Norman (golf), as well as fashion brands Nine West, Juicy Couture, Jones New York and Aeropostale

US cannabis company **Green Growth Brands Inc.(GGB:CSE)** announced a series of retail distribution agreements to distribute CBD based health and wellness products through a licensing agreement with Authentic Brands Group (ABG) and its Greg Norman golf and leisure brand to develop a line of cannabidiol (CBD) infused personal care products designed for active adult men and women. As part of this arrangement, GGB will be working with TLRY as the preferred supplier of CBD extracts to be infused into these products.

GGB also announced an agreement gaining access for its various CBD branded products to be sold at 108 kiosk locations in U.S. malls owned and operated by the **Simon Property Group, Inc. (NYSE: SPG)**. SPG is a global leader in the ownership of premier shopping, dining and entertainment destinations and is an S&P 100 company with properties across North America, Europe and Asia. This announcement positions GGB well for growth not just in well-established malls in the United States, but positions the company for potential growth in the hemp derived global CBD market.

We believe that the US CBD market is expanding at a significant pace. The USFDA is crafting policies and regulations on minimum quality standards and acceptable marketing practices to prevent false claims in the coming months. Those companies that are able to capture early market share and brand recognition in a variety of CBD product formats including drinks, oils and topical creams will have significant first mover advantage. We point to the Fund's holdings in **Charlotte's Web (CWEB:CSE)**, GGB, **Village Farms (VFF:TSX)** and **Canopy Growth (WEED/CGC)** as those that could gain traction in this sub-sector of the cannabis industry.

Investors also witnessed several transactions to add brand support and well known retail distribution to both the Canadian and US landscape for cannabis products. The Ontario retail landscape witnessed the entrance of a major force in global retail teaming up as WEED/CGC announced a multi-year agreement with **Alimentation Couche-Tard (ATD.B)** to work with a recent Ontario Cannabis Lottery winner as it opens its first cannabis retail location in London, Ontario. WEED/CGC has 15 active retail stores across Canada, including 11 stores under the Tweed banner in Newfoundland & Labrador, Manitoba and Saskatchewan, and 4 stores under the Tokyo Smoke banner in Manitoba. By combining Couche-Tard's network of global convenience store locations to Tweed's growing product line, this initial store location may be a prototype that leads to future international opportunities as ATD operates approximately 16,000 convenience stores worldwide under the Couche-Tard®, Mac's® and Circle K® brands in Canada, the US, Europe, Mexico, Japan, China and Indonesia.

Green Thumb Industries (GTII:CSE), an Illinois based multi-state operator announced transactions that add two states to their national footprint. GTII closed the acquisition of Connecticut based cannabis licensee Advanced Grow Labs, positioning it as the only vertically integrated operator in the state. Although CT is a small state, it is a medical only state with its Governor recently stating his desire to enact adult legalization. GTII also closed the acquisition of "For Success", the Los Angeles-based creator of the lifestyle suite of Beboe branded cannabis products. Beboe products are available in more than 125 retail locations in California and Colorado and via home delivery across California. In early 2019, Barney's New York announced an exclusive partnership with Beboe for a first-of-its-kind luxury cannabis lifestyle and wellness concept shop, "The High End." The shop will debut at Barneys' Beverly Hills flagship in March with plans to expand to additional locations in the near future. With the acquisition by GTII, Beboe products will become available throughout GTII's network of dispensaries and in select locations across many states. To emphasize the acceptance and growth of cannabis products to mainstream consumer buying habits, it is noteworthy that the the co-founders of Beboe are known throughout the fashion world having partnered with luxury brands such as Louis Vuitton, Berluti, Constellation Brands, and Marc Jacobs. Their fashion work is often associated with Johnny Depp, Jennifer Aniston, Robert Downey, Jr., Orlando Bloom. In addition, Beboe co-founder Clement Kwan has a history in executive roles across the fashion industry including Theory, Diesel and Dolce & Gabbana.

Trulieve Cannabis (TRUL:CSE) and **SLANG (SLNG:CSE)** entered an agreement under which TRUL obtains an exclusive license to SLANG's product portfolio – including vape pens, edibles and concentrates. This follows similar product partnerships announced recently by TRUL with Love's Oven, Binkse and Bhang, with TRUL clearly planning in advance of being allowed to sell edible cannabis products in Florida. TRUL continues to lead Florida's market, with 24 of 101 open and operating dispensaries, representing close to 60% of sales volumes.

US Listings Update:

During the month, two Top Ten Fund holdings announced successful dual listing applications. VFF announced that its common shares would commence trading on the Nasdaq Capital Market under the symbol "VFF" while **CannTrust Holdings Inc. (TRST)** common shares would be listed on the New York Stock Exchange ("NYSE") under the ticker symbol "CTST". Both companies had very strong months of trading with VFF up 108% in the month while CTST appreciated over 23%.

We believe VFF, through its 50% in Pure Sun Farms JV, and its 100% owned greenhouse facility in Texas has the potential to be a significant and profitable cultivator in the North American cannabis and hemp sectors. Despite this, the stock trades at 50% discount to its Canadian LP peers. Furthermore, investors should consider the 6 million sq ft of greenhouse VFF owns in Texas as assets that could have significant value given the passage of the Farm Bill and potential hemp cultivation and CBD production being unlocked in the U.S.

By establishing US listings for leading Canadian LP's, VFF and TRST become available for investment in a growing market of investors looking to participate in the global cannabis industry. Highlighting the demand by US investors, dual listed cannabis companies have been warmly received with those companies listed on the NYSE or Nasdaq (including WEED, CRON, TLRY, ACB) trading at material premiums to their Canadian peers listed on the TSX, TSX-v and CSE.

Legislation & Regulatory Updates:

Global regulatory changes continue to support the growth and de-scheduling of medical cannabis. The World Health Organization (WHO) is considering the following recommendations with changes to how cannabis is scheduled, which could have significant implications for the cannabis industry. Changes that WHO is considering involve:

The scheduling of cannabis in the international drug control conventions would be removed from Schedule IV of the 1961 Convention, the category reserved for the most dangerous substances, creating a less restrictive environment.

THC in all forms would be removed from the 1971 Convention and placed with cannabis in Schedule I of the 1961 Convention.

Pure CBD and CBD preparations containing no more than 0.2% THC would not be included in any way in the international drug control conventions.

Pharmaceutical preparations containing delta-9-THC, if they follow certain criteria, would be added to Schedule III of the 1961 Convention.

We believe that this is an important development as international drug scheduling largely follows UN recommendations. In our view, these regulatory changes could create a pathway to reconcile legislation for countries to be onside with UN Drug Treaties and lower the burden for future countries looking to legalize cannabis for medical or recreational purposes. The changes would also open up additional opportunities for research and development due to relaxed scheduling. These actions could facilitate exports and imports between countries, which we would consider positive for the entire global industry and support further development by those with first mover advantages including well capitalized Canadian producers.

A number of initiatives are underway in the US which all seek to ease the regulatory risk and burden on cannabis companies. While the timing or ultimate success of any of these initiatives is difficult to assess, we believe the important take-away is that the US is moving towards greater access, and it is a matter of when, not if, cannabis is legalized federally.

In the US Congress, a bipartisan group in the House of Representatives is asking the Trump administration to provide clarity for products infused with cannabis and hemp compound cannabidiol (CBD). Since the signing of the 2018 Farm Bill legalizing hemp within the United States, the US Food & Drug Administration (FDA) has stated that it reserves the right to regulate cannabis-based products for interstate commerce and it would take action against businesses making unsupported claims about CBD's therapeutic potential. State governments want to eliminate confusion around this issue and have asked national law makers for assistance. The FDA has announced public meetings in March to deal with the confusion around hemp derived products.

At the national level three US Senate Bills were introduced to reform national cannabis policy. The Senate bills are attempting to de-schedule cannabis from the Controlled Substances Act (CSA), regulate and tax cannabis sales at the federal level, exempt state-legal cannabis from the CSA and allow cannabis companies to access federally regulated banking services. In addition, the Bills seek to remove legal cannabis companies from being subject to IRS 280(E) tax code provisions, which disallows cannabis businesses from deducting certain expenses for income tax reporting purposes. We understand these three bills to be encompassing of some of the most critical legal issues facing US cannabis operators, and collectively, would effectively legalize cannabis in the US. We note that although positive for the industry, similar bills have been proposed in the past only do be left on the floor of the House, so we await further progress. Finally, as Presidential nominees continue to announce their intentions for the White House, it is important that all 12 official Democratic candidates, as well as a potential Republican hopeful and former Massachusetts governor and Board Member of Acreage Holdings (ACRG:CSE) William F. Weld, support full nationwide legalization. President Trump, has stated that said he supports states' rights to legalize.

Despite approaches to further legalization at the state and national level in the US, provincial governments are challenging the recreational roll out within Canada. The government of Ontario announced that it will continue to have a monopoly on e-commerce when it comes to recreational cannabis products, a decision that is seen to support the black market at the expense of consumers. Recently, the Alcohol Gaming Commission of Ontario (AGCO) stated legal cannabis shops in the province will be prohibited from offering online retail options to consumers. This means that the initial 25 cannabis stores in Ontario won't be able to offer consumers online ordering for store pickup nor will they be able to offer same-day delivery services. This benefits the black market because it eliminates the prospect of private retailers offering same-day delivery purchase options that significantly increase consumer access, which is key to curbing black-market sales.

Options Strategy:

During February, the Fund continued using its option strategy to generate option premium while lowering the overall volatility of the Fund. We are writing cash secured puts on specific names we would like to own to increase our exposure to such names in the Fund, while writing covered calls on names we feel have stretched valuations; and we are writing short straddles (puts and calls written on the same name with similar strike prices) and short strangles (puts and calls written on the same name but with different strike prices) on names we feel will trade range bound. Depending on the strike price chosen, all these strategies are neutral to bullish strategies that allow us to generate option premium or enter and exit positions at more attractive prices during periods of elevated volatility.

Taking advantage of the continued volatility in the sector, we used our option strategy in February to assist in rebalancing the portfolio in favor of names we prefer while generating option income. We were able to write cash secured puts out of the money at strike prices that offered opportunities to increase our exposure to names already in the Fund including Canopy Growth, Planet Fitness, Savaria, Aphria, and Vocera Communications. We also wrote covered call options out of the money at strike prices that we believe are closer to values that better represent our belief in the companies while still maintaining a cautious but bullish market sentiment. Examples of such trades included Cronos and CannTrust, with covered calls on Cronos having been especially rewarding, up some 98% year to date. We have been able to take advantage of both the price increase and elevated volatility to write weekly covered calls on our position. We continue to write covered strangles on names we feel are range bound and from which we could receive above average premiums.

Quarterly Financial Announcements:

Canopy Growth Corp (WEED: TSX and CGC:NYSE) reported mixed results with revenues higher than expected but EBITDA coming in lower than anticipated. CGC generated Q3FY19 revenues of $97.7million, higher than consensus of estimates of $81 million with the company beating estimates for the first time in the last four quarters. However, expense increases eclipsed sales increases with an EBITDA loss from operations for the quarter at $157 million, a significant loss for the quarter, further delaying CGC's ability to reach cash flow positive results in the near term. As ramp up continues for much of the sector, production costs increased significantly due to low capacity utilization which translated to a gross margin of 22%, the company's lowest gross margin level in three years. CGC disclosed that inventory of finished goods is at $22 million which is a challenge for growth in the coming quarter that we will be watching. There is a potential for some of the established Cdn producers to catch or surpass the company as Canada's domestic sales leader.

Aurora Cannabis (ACB: TSX and NYSE) reported its Q2FY19 results with revenues of $54.2 million, up 83% QoQ however well short of original company estimates of $67 million. ACB pre-announced the quarterly revenue shortfall weeks earlier reducing negative market sentiment mid-month. Operations were also weaker than anticipated as gross margins declined to 52% from 67.8% in the previous quarter, the lowest level in more than two years for the company. Profit margins were impacted by the absorption of the excise tax on medical products, by increased packaging costs in the recreational market and most notably, by increased production costs, which reached $1.95/g, up 32% QoQ. ACB adjusted EBITDA for the quarter came in at -$39.8M vs. consensus estimates for an EBITDA was - $34.7M.

As a positive note, SG&A (Sales, General & Administrative) costs increased only 1.6% QoQ, showing increased cost discipline relative to recent quarters. On the earnings call, management mentioned their goal of maintaining SG&A growth rates below revenue growth rates in coming quarters going along with management's stated goal of an increased production run rate and cost discipline that could drive ACB to positive EBITDA beginning in FQ419.

The Supreme Cannabis Company (FIRE) reported Q2FY19 results (ended Dec. 2018) during the month that were mixed with revenue increases of 50% from the previous quarter, with negative EBITDA of -$4.1 million. Revenues from cannabis into the Canadian REC market were of $7.7m, solid growth given the results included just two months in the REC market, as FIRE mainly began ramping up shipments in November. Production costs came in lower than anticipated resulting in gross margin of 53%, which is the highest level on record for FIRE, suggesting its increased capacity is beginning to generate efficiencies. The challenge for management is similar to that of CGC and ACB with SG&A expenses growing as the REC market opened.

We continue to see unique opportunities for investment in the global cannabis sector as well as the broader alternative health care space, with the rapidly evolving global medical, health and wellness markets continuing to open new markets and new delivery methods offering compelling investment opportunities for growth oriented investors. Our actively managed approach allows the Fund to invest in a broad universe of companies that include both public companies and select private companies that are focused on go public transactions.

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 invest when we see new opportunities arise. Many catalysts are on the horizon and we continue to see solid returns for the alternative health space in the coming months and years.

Charles Taerk & Douglas Waterson
Portfolio Team
Ninepoint Alternative Health Fund

Compounded Returns[1]

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	4.97	25.34	15.20	15.00	50.65	64.86
INDEX	1.50	26.44	10.19	0.50	10.11	23.78

[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 February 28, 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

series F shares of the Fund for the period ended February 28, 2019 is based on the historical annual compounded total return including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections (“information”) contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540