Ninepoint Alternative Health Fund

January 2020 Commentary

Following a challenging 2019, January witnessed increased traction in select cannabis companies driven by positive news flow from north and south of the border that reminded investors of the long term growth opportunity of the cannabis industry. A second theme that continues to develop is the further entrenchment of the "haves" and "have nots"; those companies that have to date shown they can execute their business plans and attract growth capital, and those that are increasingly having difficulty attracting debt and/or equity in these tighter capital markets. With careful selection of positions, and weighting the portfolio towards stronger names, we believe 2020 will provide solid performance in the fund despite ongoing turbulence in the sector caused by cash shortages.

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In Canada, Cannabis 2.0 products were launched in early January offering a glimpse of the next stage of the cannabis industry where smoking becomes less and less of the market and new product formats (edibles, beverages, vapes) attract more customers. Along with these innovations, come potentially higher margins for successful producers. Many of the heavily anticipated products were out of stock within days of hitting the shelves, demonstrating the strong demand for these products. While these early sales show that there is certainly demand, there is also execution risk.. The key question is which companies are going to be able to successfully roll out a national line of SKU's to various provinces and dispensaries? At the same time, producers are still dealing with limited physical retail locations in larger provinces, a situation that in our opinion will mute near term growth. Similarly, the overly restrictive packaging requirements for edibles, which limit dosage to 10mg per pack, make this format a more expensive choice for cannabis consumers.

In the US, the January opening of the Illinois recreational market saw significant demand through the month. Although stock outs were evident early in the month, the state is working with multi-state operators (MSO's) and single state operators to increase capacity in order to satisfy demand. We continue to believe that 2020 will be a strong year for the US cannabis industry for several reasons. Its an election year and it is likely that we see additional states transition from a medical only stance to recreational legalization. Announcements have already been made in several states including New York and New Jersey (discussed in more detail below) to legislate more recreational opportunities that will grow the market size of the legal cannabis industry in the United States.

For the month, the Fund generated a return of 0.38%, essentially in line with the Marijuana ETF (HMMJ) that generated a return of 0.82%. Overall the sector was flat, however there was a wide range of performance amongst individual names in the sector. The Fund benefited from US positions in **Curaleaf (CURA)** and **Innovative Industrial Properties Inc (IIPR)**. CURA was up over 17% in January driven by increased investor confidence as it continues to build out its national footprint in the US, closing a syndicated $300 million USD Senior Secured loan facility. CURA is also executing on its M&A strategy, moving its Select and Grassroots (GR) transactions to their long awaited finish line. GR is licensed in both Michigan and Illinois, new adult use legalized states, the GR presence is enhancing CURA's Midwest business.

IIPR had a solid month up 17.9%. **IIPR** provides real estate capital for the medical-use cannabis industry in the U.S. entering into sale and leaseback agreements with companies. IIPR acquires freestanding industrial and retail properties from state-licensed medical-use cannabis operators, with agreements typically representing non-dilutive capital solutions where MSO's access capital from the sale of properties to **IIPR** to create the scale in cultivation capacity necessary to meet their growth plans. Industry leaders such as **Green Thumb Industries (GTII)**, **Cresco Labs (CL)** and **Trulieve Cannabis (TRUL)** use **IIPR** as a source of non dilutive capital to address expansion needs without having to issue shares or draw on loan facilities. Owning **IIPR** is a good example of maintaining exposure in the cannabis sector with lower volatility. We continue to hold IIPR.

The Fund also benefitted from our position in **Organigram (OGI)** that was up 12% for the month based on solid quarterly results released mid-month, returning the company to a stronger cash flow position with the lowest cost/gram of any publicly traded indoor producer in the country(see below).

One company that is underweight in our Fund is Canopy Growth (WEED) that was up 12% for the month, on increased investor appetite, however the company does have some challenges ahead. Early in the month, management announced an indefinite delay in the launch of Canopy's beverage line while the new CEO has not yet publicly detailed how the company will reach a path to profitability. Given Canopy's significant Constellation Brands ownership levels, the delay in the launch of beverages is particularly disappointing. Other names not in the portfolio that continued to struggle in the month included Hexo Corp (HEXO), down 22% in part due to cash needs and resulting successive financings, and MedMen (MMEN) down -16% for the month as ballooning operating expenses continue to hamper financial performance.

2020 Set to be a Transformative Year in Cannabis

We believe that there are numerous positive catalysts underway that provides a solid thesis for renewed investment into the sector. First, there are more legal dispensaries being licensed in Canada and as charts below show, more storefronts leads to higher sales per purchase and higher per capita consumption vs than online. Second, with more product formats, we will see the Cdn market develop with higher margins available for producers. In the US, we see more States tabling legislation for adult use recreational markets, while we also see other States adding medical legalization. Changes in the US will lead to more customers in more markets with larger opportunities for multi-state operators MSO's. As a result, we see continued growth in the North American cannabis sector, regardless of any national legislation enacted during a US election year. Overall, with equity values having corrected to the degree seen in the latter part of 2019, we anticipate strong returns in 2020.

Topics Covered

1. **Regulatory Updates**
2. **Company Announcements**
3. **Quarterly Financial Results**
4. **Options Strategy**

1. Regulatory Updates

US States: Legalization Updates

New York: Gov. Andrew Cuomo included cannabis legalization in his budget proposal Jan 21, which puts a short time frame to legalization, no later than March 31.Recall Gov. Cuomo put a similar plan together last year, but ultimately dropped it as it became clear that lawmakers could not come to an agreement on the finer points of legalization ahead of legislative deadlines. This year Governor Cuomo is proposing a comprehensive regulatory approach to legalize cannabis. We believe the main beneficiaries from the possible adult-use legalization in NY would include **CURA, Green Thumb Industries (GTII), Cresco Labs CL, Ianthus IAN, Vireo VREO, MMEN, CCHW, and Acerage Holdings (ACRG)**.

Connecticut leadership has stated that they are revisiting legalizing recreational cannabis because we see that most of our neighboring states have already done it or want to do it this year. Gov. Ned Lamont (D) is pushing the legislature to pursue the policy change directly in the coming three-month session, and he's stressing the importance of regulating cannabis to disrupt the illicit market.

In **New Hampshire**, a House committee approved a bill that would legalize marijuana for adult use in the state. While the legislation doesn't provide for retail sales, it would allow possession for those 21 and older and grow up to six plants. The model would be similar to neighboring Vermont's non-commercial cannabis system.

Missouri regulators released the results of the state medical dispensary licensing round, approving 192 license applications. **Harvest Health & Recreation (HARV)** was awarded three dispensary licenses and **GR (CURA)** was awarded six licenses. In terms of infused product manufacturing **HARV, CCHW** and **GR (CURA)** all received manufacturing licenses. Dispensaries are expected to open by early summer.

The State of Utah Department of Health announced its first 14 medical cannabis pharmacies on January 3rd, 2020 with **CWHW** and **CURA** receiving licenses.

A **New Mexico** Senate committee approved a bill on Tuesday that would legalize marijuana for adult use. With a little more than three weeks left in the state's short 2020 legislative session, lawmakers are making clear their intent to advance the legalization proposal in a timely fashion. The governor included legalization in her formal 2020 legislative agenda and discussed the importance of establishing a well-regulated and equitable cannabis market in her State of the State address this month.

Illinois Adult Use: Month 1

Illinois' recreational program began with 37 stores operated by several MSO and incumbent operators open for business early in the morning of January 1st. By all accounts, strong customer traffic was recorded and given the number of out of state plates that were seen in parking lots, ~10%–30% of retail sales are being derived from residents of neighbouring states. As stores open closer to state borders, this could provide a significant boost to the Illinois market.

Given regulations require retailers to source at least 60% of their products from the wholesale market, we believe that operators with a strong wholesale platform could reap disproportional benefits from wholesale business. Companies that are well positioned include **GTII, GR (CURA)** and

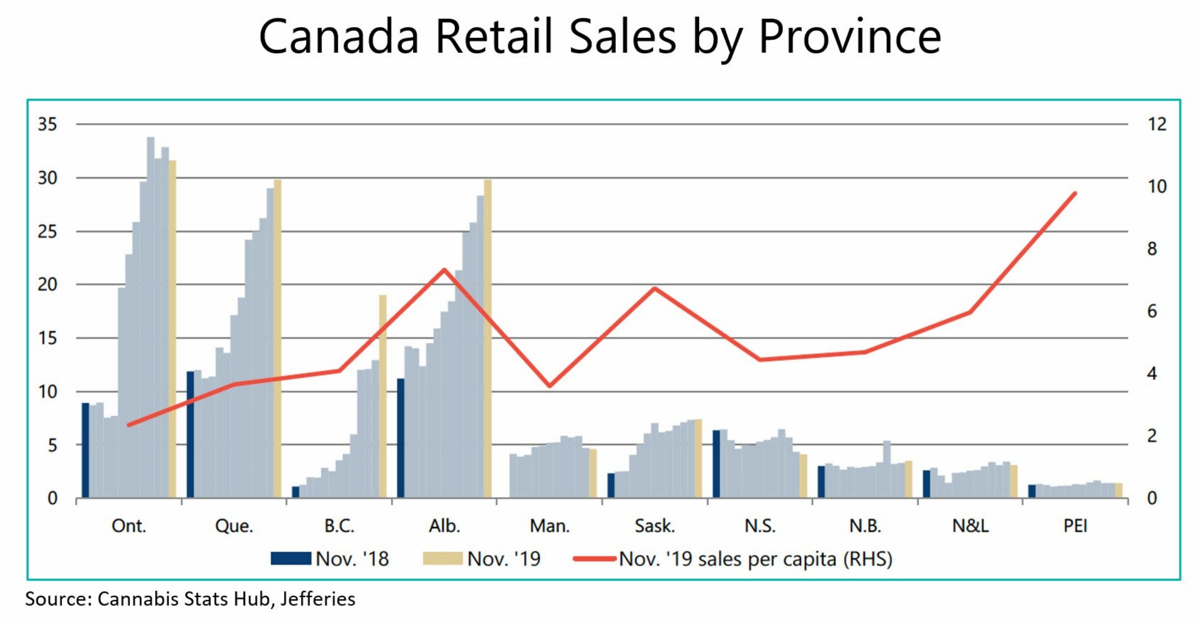
Cresco Labs (CL)

CBD Legislation
Lawmakers in the US Congress have introduced a bill that would include hemp-derived CBD in the definition of “dietary supplement”. This congressional action could supersede FDA guidance that prohibits categorizing CBD as a dietary supplement. Since December 2018 when The 2018 Farm Bill legalized hemp-derived CBD, legislation was not clear in terms of which product formats (ingestibles) would be legally available for distribution within the US. The new Bill, introduced by House Agriculture Committee Chairman Colin Peterson (D-Minn) could pave the way for CBD to be marketed as a dietary supplement instead of a drug, as it is currently described within the Controlled Substances Act. Clear authorization and regulation of CBD products could increase the number of retailers that would feel comfortable selling ingestible products. CBD product regulation has moved slowly by the FDA because it is the active ingredient in a pharmaceutical drug, Epidiolex.

It’s important to note that opening the market up for CBD ingestibles could be significant for producers. Of stores that carry both topicals and ingestibles, topicals represent only 15% of the sales mix. That implies a potential market of $325 million of ingestible sales in **Charlottes Web (CWEB)** existing brick and mortar footprint. This as a positive for all companies in the space but **CWEB** in particular given their industry leading 9,000 store footprint.

Legalizing hemp is a unique bipartisan initiative with Democrats supporting hemp as an environmentally friendly alternative to plastics while Republicans want to limit government control of private businesses, so effective legalization could create a thriving industry.

Canadian Rec Monthly Sales Growth
Canadian adult-use cannabis stores recorded sales of $135.7 million in November, up 5% from the previous month on a total sales basis and up 9% on a sales per day basis. This implies a $1.65B run-rate for the Canadian market. Results were better than expected given that November is typically a seasonally weak month following a historically strong summer, based on mature US market data. Physical stores grew by 8% in November to a total of 717 licensed locations and then a further 7% in December to 768 total locations. The growth in physical stores has a direct correlation on continued sales growth, with stores providing education and comfort to new customers who are interested in new product formats for adult use. The largest gains in November were seen in BC, where sales grew 47% MoM. It’s important to note that from Sept to Oct, BC went from 131 to 165 stores and then added 13 more stores to 178 stores by the end of November. As can be seen in the chart below, increased physical locations have a direct correlation with increased sales. We believe that as more stores open, especially in the more populous Provinces, sales should continue to grow nationwide.



The Canadian Launch of Beverages, Edibles & Vapes
As we witnessed in Illinois, the demand for new value added products was and continues to be overwhelming. Stores had limited supply of the new product formats. All edible products were sold out within a few days and there was limited availability for vape products. For the Canadian launch, there were ten companies that had products on the shelves, and surprisingly, some companies were absent from the long awaited launch. One notable absence on store shelves was WEED's beverage line.
WEED announced that it does not expect to launch beverages in January as initially expected. The Company did not provide a specific timeline, but stated that it intends to provide an update with the release of its Q3 FY20 financial results (expected on February 14). This brings up a reminder for investors anticipating a jump in stock prices for some of the leading names based on forecast edibles strength. Execution is key, and as we witnessed in the first year of legalization, there are bumps in the road as producers iron out packaging constraints, distribution and logistics. Long term, WEED with its strategic partner, Constellation Brands (STZ) may become the category leader in cannabis beverage, but there are some short term unknowns in this name. Another reason to own an actively managed fund rather than a single position as the sector continues to undergo growing pains.

2. Company Announcements

Organigram (OGI) announced the signing of a National Medical Supply Agreement with Shoppers Drug Mart. Under the terms of the agreement, OGI will provide Shoppers with a range of products including dried flower, oils and other future derivative products as they become available. The agreement is for a three-year term subject to renewal for an additional two years.

MediPharm Labs (LABS) has filed a statement of claim in the Ontario Superior Court of Justice against **Hexo Corp (HEXO)** for payment of outstanding invoices related to a multi-year agreement signed February 11, 2019. The claim is for $9.8 million in outstanding payments pursuant to the private label cannabis oil sale agreement for the period since November 2019. In the claim, **HEXO** has made no complaints about the quality of the product received and states that it tried to negotiate a settlement with LABS prior to the filing. We believe there are 3 main reasons for **HEXO** not making the required payments, none of which are an indication of issues at **Medipharm**. First, there appears to be a cash flow problem on the part of **HEXO**. The company has raised over $100 million in capital over the last 2 months, however it has a significant capital expenditure budget for the next 12 months, in addition to operating costs that have not adjusted to the realities of **HEXO**'s provincial sales contracts. Second, we note that of all producers in Canada, **HEXO** has the largest supply contract with the province of Quebec. The province has announced that edibles will not be sold in the province until further reviews are completed, and since the Fall, the province has also announced a review of vape products. Further, Quebec has reduced the number of cannabis dispensaries that will be licensed this year from 150 down to 100. Finally, **HEXO** has a contractual obligation with **The Valens Company (VLNS)** and given the realities of the Quebec limitations noted above, it will have to right size it's private label agreements. We believe that LABS will prevail in the court challenge.

In more positive news for **LABS**, the company has received an Australian license to import cannabis into the country. The import license has been issued by the Australian Department of Health, Drug Control Section, and will allow for the importation of cannabis, cannabinoids, and cannabis resin from **LABS** facility in Canada, and other global authorized exporters, for finalization into tinctures and other products forms in Australia. This represents a large opportunity for **LABS** as it now integrates export opportunities.

Aphria Inc (APHA) announced that it raised $100 million in convertible debentures, bringing total capital on the Balance Sheet to over $600 million. To be able to raise capital of this amount at this time in a capital constrained market speaks well of the operations at **APHA**. The investor has agreed to purchase 14,044,944 units of **APHA** at a price of C$7.12 per unit. Each unit is comprised of one common share of Aphria and one-half of one common share purchase warrant of Aphria. Each warrant will entitle the investor to acquire one common share at a price of $9.26 for a period of 24 months from the closing date of the offering.

APHA also announced that it has received EU GMP certification at the Company's Aphria One facility in Leamington, Ontario. The certification will allow the Company's Aphria One facility to be a supplier of bulk dried flower for medicinal use worldwide to other EU GMP certified facilities licensed to further process or package bulk dried flower into finished cannabis product for sale in permitted jurisdictions.

Cresco Labs (CL) announced a $100 million senior secured term loan. The senior loan may be for an 18 or 24-month term, at the lender's option. Initially the loan will bear interest at 12.7% per annum for 18-month loans and approximately 13.2% for 24-month loans. There is also the option to increase the amount under the facility to a max of US$200 million. In a tight capital environment, high quality operators with a differentiated business model that are at or near profitability have demonstrated an ability to secure capital at relatively attractive rates. We anticipate that CL will invest the funds heavily into Illinois, where it is a market leader and is ramping up adult-use operations, as well as in California as it integrates the recently closed acquisition of **Origin House (OH)**.

HEXO announced another dilutive capital raise, with what we would view as very negative for shareholders. HEXO raised ~US$20 million three weeks after the last round when it raised capital on Boxing Day. HEXO shares have been under pressure down ~22% for the month. The most recent capital raise was to purchase ~12M common shares at a price of C$2.17. This equated to a 7% discount to the trading price when the offering was announced. As part of the offering **HEXO** will also issue ~6M in warrants at C$3.18.

3. Quarterly Financial Results

Organigram (OGI) reported strong fiscal Q1/20 results (ended Nov. 30), beating estimates on virtually all metrics. What was important for **OGI** was that it returned to being EBITDA positive after a Q4 drop into negative territory. Revenues for the quarter reached $25 million vs consensus estimates of $19.6 million. Gross Margin also improved from Q4 results rising to 37% from 5%, with analyst estimates at 33%. Adjusted EBITDA reached approx. $5 million vs consensus of -$1.1 million and Q4 results of -$7.9 million. **OGI** avg selling price reflected pricing pressure that Cdn markets are experiencing decreasing to $4.57/g down from $5.65/q in Q4. Despite retail pricing pressure OGI was able to announce higher EBITDA as its low cultivation costs of $0.61/gram and all in costs of $0.87/gram are lowest for indoor growers, and second only to **Village Farms International (VFF)** for public Licensed Producers (LP's) in Canada.

APHA reported fiscal Q2/20 financial results (ended Nov 30) that were slightly below analyst estimates.
The company had net revenues of $120.6 million, down ~4.3% QoQ and below the consensus of C$129.9 million. The primary reason for decreased revenues related to international distribution, as a result of an unfavourable change in Germany's medical reimbursement and lower seasonality in the segment.

For its Canadian operations, positive results from operations as APHA's net cannabis revenues were up by 9.4% over FQ1/20, totaling $33.7 million. In addition, there was an improvement in gross margins to 25.3%, up from 21.9% in FQ1/20, driven by more efficient greenhouse operations with cash cultivation costs of C$1.11 per gram down from C$1.43 in the prior quarter.

As a result of the slow pace of retail openings in Canada and the delayed introduction of vape products in a few provinces, the company has elected to lower its FY2020 guidance adjusting net revenues down 11% to approx. $575 million and adj. EBITDA of $35 million down. We believe that despite lowering guidance, the combination of recent EU GMP certification at Aphria One; the opening of the 1.3 million sq ft Diamond facility in Leamington; changes to its senior leadership team and the recent capital raise noted above put APHA in a strong position for F2020.

4. Option Strategy

During January the Fund continued using its option strategy to enhance risk adjusted returns. With the above average volatility in the cannabis and health care sectors, we are able to generate significant option premium, while lowering the overall volatility of the Fund relative to its underlying benchmark. Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of over $2.60 million.

During the month we used our option strategy to assist in rebalancing the portfolio in favor of names we prefer while generating an impressive $157,000 in option income. We continue to write cash secured puts out of the money at strike prices that offered opportunities to increase our exposure, at more attractive prices, to names already in the Fund including **GW Pharma (GWPH)**, **LABS**, **APHA**, **United Health (UNH)** and **IIPR**. During the month, we were able to write covered calls and strangles on names we feel are range bound near term and from which we could receive above average premiums. Examples of such trades include **Tilray (TLRY)**, and **OGI**, with covered calls on **OGI** having been especially rewarding.

Our strategy has been able to take advantage of both the recent price movement and elevated volatility to write covered calls on OGI. On January 14th **OGI** released first quarter fiscal year 2020 results which despite ongoing industry challenges the market reacted positively bidding up the shares of OGI +44% that day. While we noted the results were improved we also recognized the continued challenges in the industry and on January 15th we wrote covered calls with a strike yield of 11% for 37 days outstanding or the equivalent of 107% for a year. The breakeven for being assigned would be CAD$4.44 or 9.6% higher than the reference point when the trade was placed or thinking about the trade a different way, downside protection to CAD$3.61 or 10.87% lower than the reference point when the trade was placed. As we write this commentary OGI has pulled back to levels of CAD$3.45, a drop of CAD$0.60 per share. We continue to consider OGI one of the stronger Canadian LP's and expect it will continue to make up a healthy weighting in the portfolio but we will certainly accept writing calls on the name when the market bids the name up +44% in one day.

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	0.38	-1.98	-15.98	0.38	-20.72	22.41
INDEX	-2.32	-0.08	-15.49	-2.32	-24.82	8.16

Statistical Analysis

	FUND	INDEX
Cumulative Returns	65.57%	21.51%
Standard Deviation	29.81	31.38
Sharpe Ratio	0.71	0.22

[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 January 31, 2020. 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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