



Ninepoint Alternative Health Fund

January 2021 Commentary

The Fund started the year off well with a monthly return of over 11% in January on the positive momentum that continues to provide a tailwind for the cannabis sector. The announcement of a Democrat sweep in the Georgia Senate Run-off races provided the Democrats with control of all three branches of the US government.

Since the U.S. election, the focus in the media has been on federal changes in legislation, yet that will likely take time and we expect to see waves of both excitement and delay as Washington tackles the vaccine rollout and a significant stimulus vote in Congress. What is ongoing, significant and immediately impactful on the US cannabis market are the changes at the State level. We have stated for some time now that immediate growth, the real ground game is being won at the state level. In our commentary this month, we will highlight state level changes that will continue to increase the TAM (total addressable market) in the U.S.

There was also an exciting start to February for one of the Fund's top ten holdings, with the takeout of **GW Pharmaceuticals PLC (GWPH)**, a crossover cannabis-pharma company. **Jazz Pharmaceuticals (JAZZ)** announced the acquisition of **GWPH** for \$7.2 billion, or \$220/share, a 50% premium on the trading value of GWPH the day the deal was announced. **GWPH** rose to prominence over the last two years with its lead product Epidiolex, the first cannabis plant derived medication approved by the FDA, approved in 2018. **GWPH** was able to develop its drug with accurate dosing that sets it apart from all other cannabinoid products offered within state legal medical markets, it is the only cannabis drug approved throughout the entire US available by prescription within US health insurance. The drug controls seizures in certain types of epilepsy patients. The transaction puts companies together that could develop a complete suite of cannabinoid medications that deal with sleep disorders and chronic pain reducing the demand for harsh addictive opioid medications. The combined company will be a leader in neuroscience with a global commercial and operational footprint well positioned to maximize the value of its diversified portfolio.

Investment Team



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Source: Refinitiv

We believe this acquisition will increase attention on the medical side of the cannabis story – an aspect that has been somewhat forgotten with the attention being focused on adult use legalization. Despite investor focus, the Fund has continued to invest in medically focused names as we believe there continues to be good opportunities in the space. In addition to **GWPH**, other medically focused names in the Fund include **Columbia Care (CCHW)** and **IM Cannabis (IMCC)**.

In response to the change of control in the Senate, what continues to transpire is a series of daily re-ratings of US MSO's (multi-state operators) based on the prospects of federal legislation that should enhance the ability of incumbent cannabis companies to grow market share and the TAM (total addressable market) in the US. There is significant discussion as to what form legislation takes, however at this time, it is our belief that regardless of what laws are created, we see a more friendly U.S. federal government as it relates to the cannabis industry.

As part of that increased federal friendliness, we note a series of overnight financings during the month from leading names in the Fund. What is noteworthy about these financings is both their size and the types of investors that for the first time began investing in the sector. All the noted companies above had offerings where **long only US mutual funds** lead the capital raises. This is another milestone event for the US cannabis industry as US investment funds have been limited to investing in the Canadian LPs listed on NASDAQ and NYSE due to federal illegality of US cannabis. The signal from Washington is a more friendly regulatory environment that is leading US institutions to change their views on investment.

Curaleaf (CURA) issued ~19 million shares at ~C\$16.70 per share, for gross proceeds of ~C\$317 million. With its balance sheet already flush from the recent sale of Maryland (MD) assets CURA now has US\$400 million in cash giving CURA flexibility to better navigate the fast-moving industry that could see as many as five of CURA's markets legalize or begin adult-use sales in the next 12

months. Those states include (Arizona, New Jersey, New York, Pennsylvania and Connecticut).

TerrAscend Corp. (TER) issued ~18 million shares at C\$12.35, completing an oversubscribed C\$224 million Non-Brokered Private Placement with 80% of the capital emanating from four large U.S. institutional investors including Wasatch Global Investors.

Cresco Labs (CL) also announced an Overnight Offering with 100% of the capital issued going to a few large US institutions that are new investors to the space. ATB Capital Markets was the sole Canadian underwriter while Alliance Global Partners acted as the sole U.S. sub-agent and financial advisor to the Company in connection with the Offering in the United States.

There was also a Canadian LP financing announced in January that had a particular US flavor to it. **Village Farms International Inc. (VFF)** announced a Registered Direct Offering for gross proceeds of approximately US\$135 million at a price of US\$12.40 per share. A Registered Direct Offering is an offering of securities in the US that has been registered with the Securities and Exchange Commission (SEC) to pre-identified investors. The offering was undertaken by Alliance Global Partners and Raymond James (USA) Ltd. acting as co-lead placement agents and Roth Capital Partners acting as co-placement agent for the offering. Beacon Securities Limited is acting as the financial advisor for the offering.

What we are seeing is a general understanding and interest on behalf of large US institutions, recognizing the changing regulatory environment and wanting to become investors in this exciting sector. Most state Governors and regulatory bodies are on board; the MSO's are on board, and now with the federal government changing hands it can be described as one cannabis executive stated, a **"coalition of the willing"**. There are some very large allies in this coalition that we see assisting cannabis legislation this year. The allies include social equity policy, drug policy, employment policy, tax policy and consumer choice. For these reasons, we believe that the way forward will enhance the current US market, yet timing is up to Congress. As we have seen with cannabis legislation in the past, there are no significant changes that happen overnight, the history of cannabis policy change has been incremental. As a result, we continue to be excited about State by State changes and continue to caution investors about quick and easy federal policy changes.

We believe that the US cannabis sector is unique in the current investment environment, in that it is one of the few areas that offer an asymmetrical payoff. Other sectors have had significant runs in 2020 due to work from home and e-commerce surges, yet in 2021 as the economy begins to re-open, we see more normalized demand growth for the WFH stocks and e-commerce. With cannabis, growth continues in new state markets and is now enhanced by the change in the regulatory environment at the federal level.

Regulatory

US Federal Cannabis Legislation

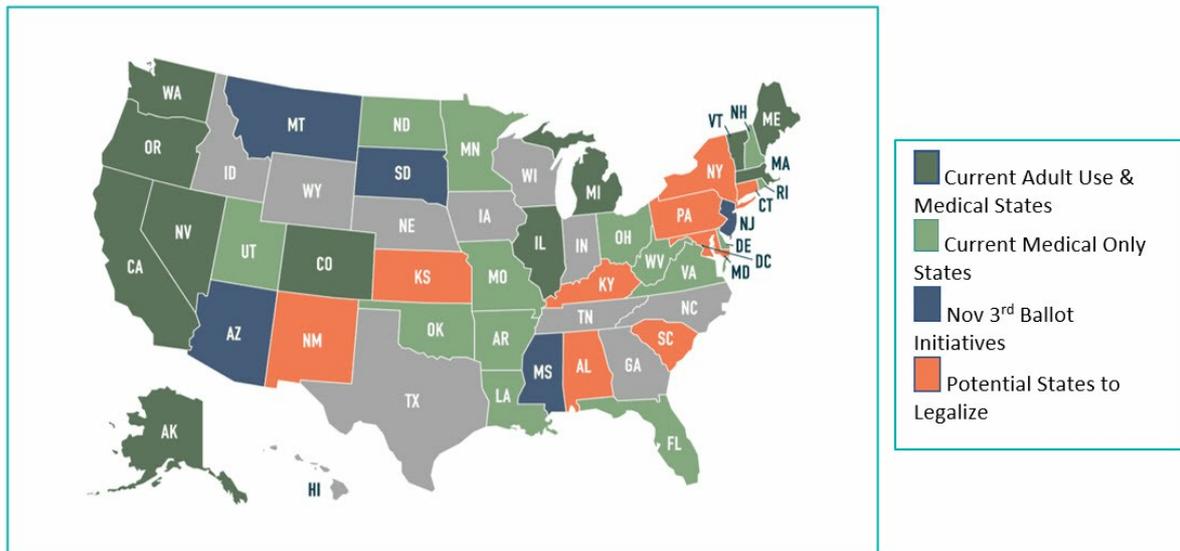
Senate Majority Leader Chuck Schumer (D-NY) announced that there is work being done on federal cannabis reform. He announced that he is working with Senate Finance Committee Chair Ron Wyden (D-OR) and Senator Corey Booker (D-NJ) to draft legislation that involves merging various bills into a federal cannabis reform bill that emphasizes key social equity, consumer choice and employment factors that our team has been focusing on for some time. First, legislative support appears to be in Congress for pro-cannabis reform given the apparent bipartisan effort and current Democrat control of all three houses that increases the probability of success. It is also likely that

industry leaders and other stakeholders have been able to provide input so that politicians can understand the needs of cannabis operators while also taking into consideration unintended consequences, such as overregulation. If that is in fact taking place, this can provide a favorable regulatory environment for MSO's while addressing social justice requirements. The next meaningful step in the Senate with respect to cannabis legislation will be to gauge support from the GOP as at least 10 votes from across the aisle will be required to bring any legislation to a positive outcome. We are hopeful that a bi-partisan effort will be put together, what we cannot count on is the exact timing of such legislation as a priority for the current Administration is the ongoing COVID-19 stimulus talks that continues to attract the most attention in Washington.

State Level Updates

As mentioned above, along with the negotiations and announcements taking place at the federal level, we continue to be focused on state level changes that are providing significant upside opportunities for US Multi-State Operators (US MSO's). The chart below offers a good illustration of State by State changes in cannabis legislation.

Changing Legalization Landscape



Source: MJ Biz, State Gov Websites

Arizona

AZ, (population 7.3 million) - Ballot Initiative in November allowed adult use cannabis legislation to move forward in this very strong medical only state. AZ has moved quickly since the November federal election, being the fastest state launch to date, coming just 80 days from the election and 54 days since the election was formally certified. The AZ Dept. of Health has already certified 80 of the existing 130 medical dispensaries in AZ to start offering adult use services on day one, including all 15 HARV dispensaries.

We believe investors will take this news positively for incumbent medical licensees as it signals earlier than anticipated sales, while also limiting adult-use dispensary licenses to the expanded competition. Current medical sales for AZ are approx. \$90 million per month and are expected to reach \$300/month in the first year of the adult use market. The Fund has exposure to AZ through investments in **Harvest Health & Recreation (HARV)** with 15 dispensaries; **Curaleaf (CURA)** with

8 dispensaries; **Columbia Care (CCHW)** with 2 dispensaries and **Cresco Labs (CL)** with 1 dispensary.

New York

NY, (population 19.45 million) Gov. Cuomo (Dem) is expected to release his budget proposal that contains detailed legislative language with respect to cannabis legalization. As part of the proposed bill, it would create an Office of Cannabis Management to regulate the program, as well as establish policies with respect to social and economic equity benefits in communities that have been most harmed by cannabis prohibition. This is Gov. Cuomo's 3rd attempt to legalize adult-use cannabis. The governor is calling for three types of taxes on recreational cannabis products: one based on THC content to be applied at the wholesale level, a 10.25% surcharge at the point of purchase by consumers and applicable state and local sales taxes. Various State Democrats were expecting more work outlined with respect to social equity provisions and so a competing legalization bill was introduced by State Senator Liz Krueger, and Senate Democrats as they have a supermajority so they can theoretically override a governor's veto, if necessary. Lawmakers have also pre-filed a series of bills that would expand the medical cannabis program. The medical program in NY is quite limited currently with on 10 medical licensees each holding 4 dispensary licenses. Those MSO's that have licenses in NY include **CCHW, CURA, CL**.

Pennsylvania

PA, (population 12.8 million) already one of the fastest growing medical markets is seeing pressure to move forward with adult use legislation. Gov. Wolf (Dem) included adult-use legalization as a priority for 2021 in an agenda released at January month end. Gov. Wolf had called on the Republican-controlled state legislature last fall to bring legislation forward, but it has not introduced formal legislation to date. One legislator introduced a bill calling for a state-run store model last year, but it went nowhere. Gov. Wolf highlighted recreational marijuana in his budget proposal on Feb 2nd stating the urgency to enact legislation given adult-use legalization in neighboring New Jersey and the legalization effort underway in New York. Gov. Wolf was quoted as saying "Now as our neighbors move toward legalizing recreational marijuana, we cannot afford to be left behind," There are over 100 dispensaries operating (out of 198 licensed), with annualized sales of over \$1B from medical cannabis. Many companies have interests in PA. We believe **Terrascend (TER)** is the largest wholesaler with a 20-25% share of the market. **GTII, CURA** and **HARV** also have significant operations in the state.

Virginia

VA, (population 8.6 million) Bills to legalize marijuana in Virginia advanced out of two different committees in early February, the final step before full floor action. The state Senate Finance and Appropriations Committee and State House Appropriations Committee both passed reform legislation ahead of a mid-session deadline. The bills have been reviewed by panels since Gov. Ralph Northam (D) unveiled legalization plans in January. In this limited license medical only state, CCHW operates 7 dispensaries.

West Virginia

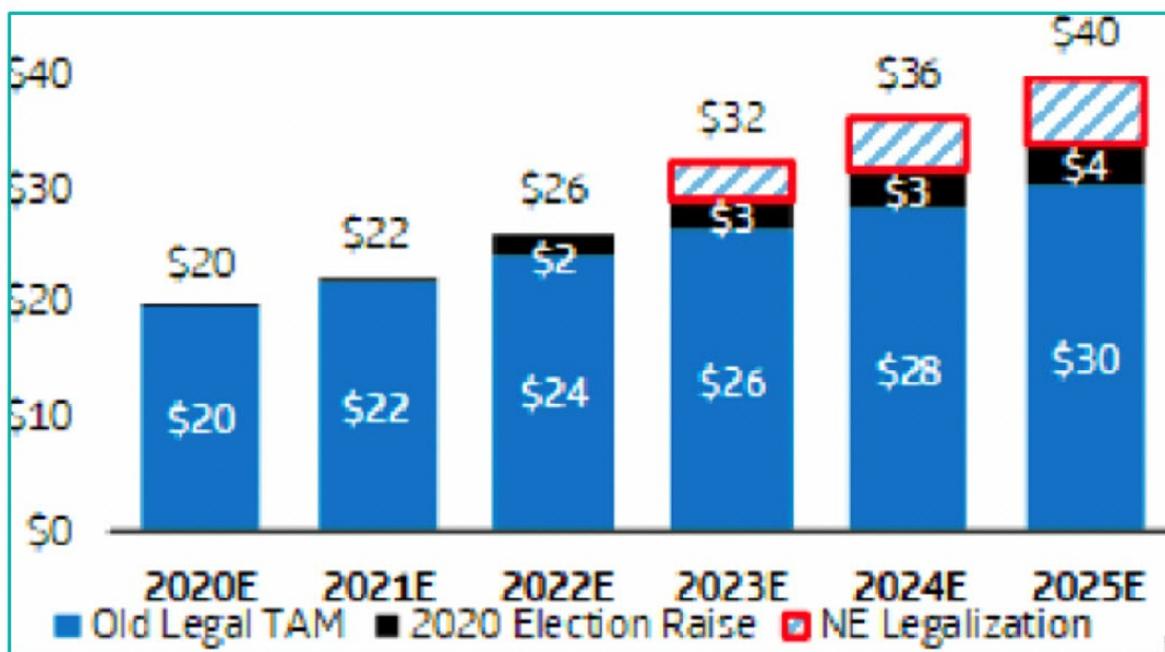
Regulators issued 100 dispensary licenses to applicants early in February, many were granted multiple locations but are headquartered out of state. Included in the successful applicants were CCHW, who received five dispensary permits (to accompany its cultivation/production licenses), and

TRUL who received seven dispensary licenses after accounting for three successful applications by its Solveno business (and to accompany its sole processing operation).

We have discussed previously that cannabis is a cross-over issue, favored by Democrats and some Republicans. There are four red states (traditionally electing Republican Senators and Governors) that are all considering first time medical cannabis laws. **Alabama, Kansas, Kentucky** and **South Carolina** could legalize medical marijuana through their legislatures this year, and, if successful, they could generate hundreds of millions of dollars in cannabis revenues and taxes for each state. Legalization seems more likely in the various south-eastern states after **Mississippi** voters passed their November Ballot Initiatives on Nov 3rd. When you consider that Kentucky borders adult use state **Illinois** and **Virginia** that is putting forth adult use legislation, it is no wonder Kentucky is feeling the pressure. In the mid-west, Kansas is surrounded by mature adult use state **Colorado**, as well as medical states in **Oklahoma** and **Missouri**.

Given the positive changes state by state for both medical and adult use cannabis in the US, we continue to focus on the growing TAM (total addressable market) within which incumbent MSO's have the opportunity to grow. When we consider changes in state by state adult use legalization, the U.S. TAM can double the current revenue of \$20 billion US to \$40 billion US over the next five years. When we add additional adult use states along with further inroads in medical markets, we continue to see a significant growth opportunity for US cannabis, regardless of what happens at the federal level.

Increased Total Addressable Market (TAM)



Source: Cowen & Co.

Adult Use Cannabis State Revenues

The goals for state level legal adult use cannabis are to generate taxes through higher sales and to divert sales from the illegal market. Higher regulated sales will result in good paying jobs and higher tax revenue at the state and local level. We look to mature state markets to see why Governors see the need to enact legislation.

The **Colorado** Dept. of Revenue reported that cannabis sales in the state passed \$2 billion in sales from January – November 2020. The **California** Department of Tax and Fee Administration has shown that the state is on track to bring in a billion dollars in cannabis tax revenue in 2020. So far, a total of \$778.4 million was generated from marijuana taxes in the first three quarters of the year, including \$306.8 million in the third quarter. The **Oregon** Liquor Control Commission (OLCC) recently released data noting that total cannabis sales in the state increased from \$795 million in 2019 to \$1.1 billion in 2020, a new record-breaking year for the state. **Washington** State is another mature cannabis market for cannabis sales. Based on statistics provided by Washington State University, the report states that the cannabis industry was responsible for \$1.85 billion of gross state product in 2020 and employs over 18,700 people. **Michigan** officials reported that in 2020 combined cannabis sales were \$984.6 million, with adult-use leading with sales of \$510.7 million, while medical sales contributed \$474 million. Marijuana Business Factbook projects that recreational marijuana sales in Michigan will surpass \$2 billion by 2024. Another relative newcomer is **Illinois**. January legal market sales totaled \$121 million, flat from December 2020 levels, yet up 94% since January 2020. The annualized run rate is steady at just under \$1.5B. Geographically, the MoM increase came entirely from increased sales to out-of-state residents (up 7% MoM and now 28% of total sales) while sales to IL residents were flat in dollar terms.

US Healthcare Reform

The new Administration is making vaccine rollout more of a concerted federal effort, 100 million doses in President Biden's first 100 days. Overall, we see President Biden wanting bipartisan support for his healthcare initiatives. Our belief is that given Biden's experience as Vice President for President Obama, where he witnessed the dramatic flip in the House two years into President Obama's mandate because of that administration's focus on Obamacare (The Affordable Care Act) as its top priority, we anticipate President Biden will suggest less aggressive changes. Let's not forget that the US economy is at a very uncertain stage so President Biden's #1 focus will be on economic recovery as well by trying to allocate more funding to the industries being impacted the most by the pandemic (vacation, travel, restaurants).

Our opinion is that the 60 votes needed in the Senate to pass legislation may not be successful with respect to drug pricing provisions under budget reconciliation. However, a COVID-19 relief bill is possible under budget reconciliation however reconciliation is a relatively slow process, which may result in the stimulus coming after the peak of COVID-19 when the economy has already recovered.

Company Announcements

Johnson & Johnson (JNJ) presented its positive, Phase 3 clinical trial data for its COVID-19 vaccine. The data underscores solid efficacy and safety and is the first single dose vaccine that can be stored in moderate temperatures, making this vaccine's global rollout logistically much less complicated than the existing mRNA based vaccines that require specialized refrigeration.

The results support our positive investment thesis on the stock as it demonstrates the company's ability to innovate to address critical needs. The real strength of the drug is the 85% protection against severe COVID-19 disease across all the virus variants including the newest South African strain. In addition, JNJ has 100% protection against COVID-19 related hospitalization and death. There was equal efficacy across all ages studied including older adults, older than 60 and 65 as well as all the other subgroups of race, ethnicity and comorbidities. The vaccine was well tolerated by all participants. JNJ is also studying a two-dose regimen.

The Phase 3 data show that JNJ's vaccine is 72% effective overall in the U.S. and 66% effective overall at preventing moderate to severe COVID-19, 28 days after vaccination. Although the overall effective rate is lower than Street's expectation of at least 80%, we would caution against comparing the results of JNJ's vaccine to those of PFE. This is because JNJ's vaccine was tested in a population experiencing recent COVID-19 mutations and changing standards of care. It is not clear what the outcome for the PFE vaccine would have been in light of this recent change in the virus. JNJ expects to file for U.S. EUA (Emergency Use Authorization) in early February and to have the product available to ship, following authorization.

Cresco Labs (CL), one of the Fund's top ten holdings announced the acquisition of **Florida** based Bluma Wellness (BWEL) in an all-stock transaction valuing BWEL at \$213 million US. This is CL's entry into **Florida (population 21.7 million)**, a significant medical market. The FL medical market is one of the most attractive state medical markets, with 450,000 registered patients in the program and a requirement for cannabis companies to be vertically integrated which benefits operators' margins. BWEL is 1 of 22 companies licensed and 1 of just 14 that has operating dispensaries. BWEL's **One Plant** dispensary network operates 7 locations, with 8 additional locations planned to open in the near term. The company also has a delivery fleet that generates 15% of sales; 15 vehicles offering statewide delivery within 24-48 hours. The company also has ~54,000 sq ft of cultivation, with additional expansion plans for incremental capacity, an edibles kitchen and processing capabilities. We see the acquisition as being accretive for CL as it will provide a new vibrant, limited license market for CL's branded products, while also adding to its multi-state dispensary network.

Aurora Cannabis (ACB) is highlighted here as it is a Canadian LP that attracts a lot of attention from many investors yet does not appear in our portfolio. The stock has seen strong gains since early November, stronger than all the US MSO's during this same period. What many investors are missing however is that the company continues to announce right sizing efforts to reach positive cash flow. In January, **ACB** announced further layoffs after choosing an outsourced sales team to represent its brands across Canada. The layoffs to the sales team come weeks after ACB cut 200 positions in its cultivation area, idling the Medicine Hat Aurora Sky facility and reducing production at Edmonton's Aurora Sun facility to 25% capacity. We must remember that it isn't just the shutting down of cultivation as much as it is the writing off of hundreds of millions of dollars in capital expenditures that were made over the last four years in the hopes of building the biggest cannabis operator in Canada. ACB is not alone in Canada, as right-sizing continues to be a key focus for various large Canadian LP's as previous over-building has not come to fruition.

Financials

Aphria (APHA) reported FQ2/21 results that were a slight headline beat driven largely by shipments to Germany and its Israeli partner in the period, while growth in its Canadian adult-use market was modest at +2.1% QoQ. During the period, **APHA** noted offsetting factors in its adult-use business line, with a slight 0.8% dip in volumes sold (to 16,651 kgs) counteracted by a 3.4% increase in average gross selling price to C\$4.29. Overall Adj. gross margin was down to ~27.3% from ~29.7% in FQ1 as a result of inventory write-downs and liquidations. Cannabis adj. gross margin was 46% down from 50% in the previous quarter. Operating expenses increased substantially to \$82.7 MM from \$54.5 MM from the prior quarter, while adjusting for transaction costs, Operating expenses rose 11% sequentially. Further caution on the name and the Canadian sector overall was seen with results from Hyfire, the database from Fire & Flower that tracks cannabis sales in Canada, noting a 16% drop in retail sales during the month of January. We remain selective in our approach to

Canadian cannabis companies.

Johnson & Johnson (JNJ) announced 4Q/20 sales and EPS that beat market expectations and provided a positive outlook for 2021 with positive trends across its diversified business model. **JNJ** reported 4Q/20 revenue of \$22.5 billion handily beating consensus estimates of \$21.7 billion and adjusted diluted EPS of \$1.86, \$0.04 above consensus. For 2021, sales guidance is \$90-\$91.5 billion (consensus \$88 billion) with EPS guidance of \$9.40-\$9.60 (guidance of \$8.96). **JNJ's** 2021 guidance is ahead of consensus with a belief that operational sales growth will reach 8.8% and while EPS growth will hit 16.4%. Given the re-opening of the economy and a post COVID-19 resurgence in demand for various consumer related products, we see the potential for earnings multiple expansion to 17x-20x, from 14x currently, driven by above-market growth.

Options Strategy

With the above average volatility in the cannabis and health sectors, we are able to generate significant option premium, while lowering the overall volatility of the Fund relative to its underlying benchmark. Where we believe we are being well compensated through the premium income earned, we are writing cash secured puts on specific names we would like to own to increase our exposure to such names in the Fund. We also write covered calls on names we feel have richer 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 three strategies are neutral to slightly bullish strategies that allow us to generate option premium or enter and exit positions at more attractive prices during periods of elevated volatility. Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of approximately \$3.57 million. We will continue to utilize our option program to look for attractive opportunities given the above average volatility in the sector as we strongly believe that option writing can continue to add incremental value going forward.

During January, we used our option strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately \$219,000 in options income. We continue to write covered calls on names we feel are range bound near term and from which we could receive above average premiums. Examples of such trades include **Grocery Outlet (GO)**, a play on food distribution and consumer consumption. We also 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 **Jamieson Wellness (JWEL)**, **SunOpta (STKL)**, **GoodRx Holdings (GDRX)**, **Johnson & Johnson (JNJ)**, and **UNH Healthcare (UNH)**.

A strategy we like to implement when a company has upside potential but we are cautious about committing capital to, is a call spread. We implemented call spreads on **Canopy Growth (CGC/WEED)** in February of 2020 as the company had been hurt due to operational challenges and management missteps. A call spread on CGC offered us a levered return to the upside while our downside is limited to the net premium paid. Investing with limited downside while offering upside we consider to be a very good form of risk management on a company that is not an immediate core holding.

On February 5th, 2020 we implemented the first leg of our bullish call spread on **CGC/WEED** with the stock trading at USD\$21.75, with an expiry date of January 15th, 2021 at the volatility level of 67% and with a strike price of USD\$25.00. We chose to look out for 1 year as we felt that may give

CGC/WEED adequate time to address its operational challenges and factor in any political shift in the US that would be bullish overall for cannabis. In the event this trade worked against us our downside would be limited to the premium paid. For the better part of 2020 CGC continued to underperform and it wasn't until after the November elections where the political climate changed did CGC begin to appreciate in value, along with our levered long call position. On November 23rd, 2020 with CGC trading at USD\$24.87 and with our long call position at the money and time value now on our side and volatility in the name at heightened levels we sold upside calls converting our long call position into a bullish call spread with volatility level of 76% with strike price USD\$32.50. Our net cost to establish this position was USD\$2.34 and our break even was USD\$27.34. By selling the out-of-the-money call we reduced the cost of establishing the initial bullish position. Momentum in the space continued and on January 15th we closed out our positions maxing out our returns 3.2x our initial investment.

Going forward, we will continue using our options strategy, including spread trades where we consider appropriate, to enhance risk adjusted returns.

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

Charles Taerk & Douglas Waterson

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Faircourt Asset Management
Sub-Advisor to the Ninepoint Alternative Health Fund

Ninepoint Alternative Health Fund - Compounded Returns¹ as of January 31, 2021 (Series F NPP5421)

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED)
FUND	11.09%	11.09%	37.34%	42.11%	54.06%	18.07%	30.77%
INDEX	21.38%	21.38%	40.49%	28.96%	7.05%	-1.24%	7.84%

Statistical Analysis

	FUND	INDEX
Cumulative Returns	155.08%	30.77%
Standard Deviation	30.03%	34.30%
Sharpe Ratio	0.99	0.20

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, 2021. 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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