H1 2022 Market Review and Outlook

July 25, 2022

Investment Team

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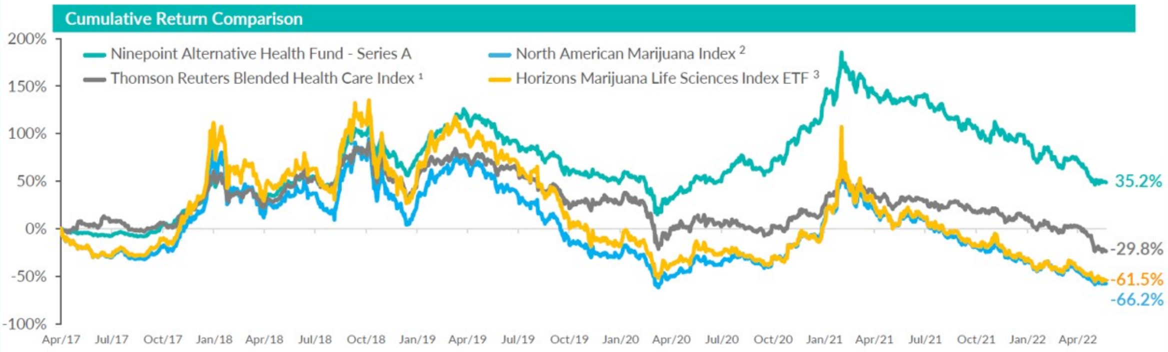
Ninepoint Alternative Health Fund - Compounded Returns[1] as of June 30, 2022 (Series A) | Inception Date - March 26, 2017

	MTD	YTD	1YR	3YR	5YR	INCEPTION (ANNUALIZED)
FUND	-9.1%	-31.9%	-43.4%	-11.1%	7.8%	5.9%
TR CAN/US HEALTH CARE BLENDED INDEX	-8.1%	-37.2%	-46.1%	-24.6%	-8.6%	-6.6%

1 All All returns and fund details are a) based on Series A units; b) net of fees; c) annualized if period is greater than one year; d) as at June 30, 2022. 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.

Ninepoint Alternative Health Fund

Cumulative Returns (As at June 30, 2022)



Inception date: March 26, 2017. Chart shows period between April 11, 2017 and June 30, 2022

Period between April 11, 2017 and June 30, 2022	Annualized Return	Annualized Std Dev	Downside Deviation	Sharpe Ratio	Sortino Ratio	Max Drawdown
Ninepoint Alternative Health Fund – Series A	6.1%	27.8%	16.4%	0.20	0.37	-47.6%
Thomson Reuters Blended Health Care Index[1]	-6.7%	36.6%	22.2%	-0.20	-0.30	-58.7%
Horizons Marijuana Life Sciences Index ETF	-17.1%	60.6%	34.2%	-0.29	-0.50	-82.4%
North American Marijuana Index[2]	-19.2	55.1%	32.7%	-0.36	-0.59	-80.3%

Performance and fund statistics are based on daily observations.
Effective April 23, 2018, Ninepoint Partners became the Manager of Ninepoint Alternative Health Fund (formerly UIT Alternative Health Fund)

1. 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.
2. For illustrative purposes only. North American Marijuana Index is computed by Ninepoint Partners LP based on publicly available index information.
3. HMMJ (Horizons Marijuana Life Sciences Index ETF) is computed by Ninepoint Partners LP based on publicly available index information.

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Transcript

Charles Taerk: My name is Charles Taerk and along with Doug Waterson, we are the Portfolio Management Team for the Ninepoint Alternative Health Fund, Canada's first cannabis-focused mutual fund that offers an opportunity to invest in the entire health and wellness space, including healthcare, pharma, nutraceuticals as well as the cannabis sector. With an ability to be active moving amongst the various sub-sectors within our overall health and wellness space, the fund has been able to outperform all ETFs that it compares to in addition to our own benchmark, with outperformance by a wide margin since inception five years ago, as well as outperformance in this current period.

We want to discuss fund performance and market expectations for the balance of 2022. As we've reached the midpoint of the year, an important aspect of our fund that I want to feature today relates to the benefits of our healthcare allocation. Another important component of future growth is our cannabis focus and I'm going to go over US federal regulatory and state-level changes taking place in the US market as we feel that that is so important to the future growth of the fund.

Now around the globe, we see central banks finally stepping in to address what they failed to deal with last year which was the onset of inflation. At the same time, we see consumers tightening up as the costs of filling up their cars are rising, food purchases and other basic needs also continue to rise. With that backdrop year to date, the S&P 500 is down 18.5% in Canadian dollar terms, the US MSOS or the US Cannabis Index is down almost 60% in Canadian dollar terms. During this challenging time, the U.S. Health Care Index is only down 7%. It's important for investors to understand healthcare's strength and why the fund should be added to your portfolios.

Periods of economic weakness can create a challenging environment for some sectors while others can appear almost immune to that noise. The healthcare sector offers strength and stability during these times. US healthcare is standing up better than the broader market and as a result, we have allocated increased capital to healthcare while keeping our powder dry for opportunities of mispricing across different sub-sectors within our mandate.

We continue to see great opportunities for growth in healthcare and several factors are contributing to our view. First, the pandemic suppressed access to medical care over the last two years, lockdowns and limitations resulting in delayed or canceled patient visits and surgical procedures. As the pandemic comes to an end, medical consumers are suffering from two years of neglect. Second, there's a significant inflationary pressure and recessionary fear in the eyes of medical consumers, which historically provides a tailwind for healthcare consumption.

There's actually a strong correlation between recessionary fears and demand for health services as US employees look at the potential for losing insurance and decide to have elective surgeries before health insurance runs out. A third related factor is the pressure on patients that are being exerted by the potential redeterminations or reduction of coverage of Medicaid benefits when the COVID emergency health funding ends. Originally, that was going to end in April but has now been extended another 90 days. All these factors are pushing people to elective hospital visits, which is translating to higher demand for patients' surgical equipment and medical devices.

Key fund holdings that we see growth in 2022 include Johnson & Johnson, Baxter International, UnitedHealth Group, and Pfizer. Companies like UnitedHealth Group and Johnson & Johnson are often considered safe havens during recessionary periods. I want to outline some of those reasons here. UNH, UnitedHealth Group, it's a large provider of medical and dental insurance solutions to both corporations and individuals. In addition, it continues to add services to its offerings, including telehealth, pharmacy services, as well as a whole range of data analytics to provide to healthcare institutions.

J&J, Johnson & Johnson diversified across so many business lines. In the case of J&J, they also own brands that regardless of the economics of the time, they are always in demand. Think about Johnson's baby products, Neutrogena, Tylenol, BAND-AID Brand, Listerine, just to name a few. J&J also develops drugs for conditions such as diabetes, prostate cancer, as well as the COVID-19 pandemic. The consistent level of demand and the diversified product ranges for both of these companies leads to a safe haven status that during a recessionary period stands out. We can also look back to other periods when market weakness was pronounced and we see better returns for both of these types of companies.

Now, another top 10 company that has benefited significantly over the last two years is Pfizer. We see continued growth from Pfizer for a number of reasons. 2021 revenue was over $81 billion, double its rate in 2020. In 2021 and 2022 its mRNA vaccine accounts for 70%. Let me say that again, it accounts for 70% of all US and European COVID-19 vaccine rollout. With the development of Paxlovid, it's COVID antiviral treatment, the company expects to generate $50 billion in global revenue from that business unit alone in 2022.

Now, this speaks to continued cash flows for Pfizer, and then being able to use that cash flow and growing war chest to make acquisitions, like we saw in May with its cash deal to buy Biohaven. It was a $12 billion US acquisition. Pfizer paid 11.6 billion with cash. That shows what the strength of its COVID franchise can do for the overall business and for its growth. For that reason, we continue to like Pfizer.

Now, looking at the healthcare space more generally, further supporting our belief in the demand for healthcare services is a US hospital survey completed by Jefferies during the first quarter, and it provides insights into hospital procedure demand and forecasts for the year. The survey includes input from 50 hospitals across 20 different states. 60% of hospitals continue to have procedure backlogs. 80% of respondents indicated that they've seen an increase in procedures since mid-February after the last Omicron outbreak.

With respect to elective surgeries, 64% of respondents said they're running ahead of pre-COVID volume levels. Now, during this recent six-month period, all kinds of companies are trying to keep pace with rising prices, supply chain, the war in Ukraine, and other challenges.

When consumers are under pressure, the first items to be taken off the shopping list are the luxuries, cars, trips, wardrobe upgrades, but people still need to take care of their health. They still want to see their doctor. They still need scans and surgeries, and that has been a part of what we have missed in the last two years. Demand for these services are very resistant, and we believe that despite the broader economic weakness, that healthcare services are going to continue to grow in terms of demand through 2022 and into '23.

Now, let's turn to one of the other significant weights in the portfolio, looking at our cannabis weighting. We continue to see US cannabis and the US cannabis market outperforming the Canadian cannabis market in addition to seeing European cannabis beginning to take shape after many years of false starts. The fundamental strength of the US multi-state operators is underestimated by the broader market, and really, it's about awaiting US federal cannabis reform. The companies though continue to generate strong cash flows as new markets open up, and we continue to be bullish on the long-term prospects for this market.

From the standpoint of market growth in the US, the Northeast states represent a significant catalyst over the next 18 to 24 months, New Jersey with its 9 million people population finally allowed first sales of recreational cannabis in mid-April. This is a limited license state with few operators ready to go. This means that those with a competitive first mover advantage will be able to generate early revenues and higher margins in a supply-constrained state.

The operators that we include in our portfolio that have leveraged to New Jersey includes TerrAscend, Columbia Care, Green Thumb Industries, and Verano Holdings. Important for investors to consider is the potential of this market when using the growth rates of other mature cannabis markets, looking at those consumption patterns to get an estimate of future market demand. When we use states like Colorado, Washington, and California, although current medical market numbers are very low because of their previous restrictiveness, revenue generation in 2021 was around $250 million, but the rec market estimate is to generate close to $2 billion annually within the next five years.

There's significant growth in New Jersey, but that's not the only implication of the rec status change out of that state. With New Jersey sales, there is significant pressure on neighbouring states also to turn into rec markets. You have to look no further than its neighbour to the north, New York. You also look to its west with Pennsylvania. Then, you have other states in the region, Connecticut, Maryland, Virginia, and Rhode Island, all considering recreational legislation or transition over the next 18 months. These are the dominoes that continue to grow the addressable market for the US. We continue to focus on those companies that have leverage to this growth and these catalysts.

Now looking at the prospects for US federal legislation, we want to review the current discussions in Washington involving the SAFE Act, that bill that aims to provide federal banking, access to cannabis companies. There is political urgency on the part of Democrats to finally get something done, which is really to fulfill a 2020 campaign promise that President Biden is yet to step up to. There's broad support for safe banking that reduces the risk of robberies and violent dispensary break-ins that have been taking place over the last two years.

The challenge is that Democrats really represent two distinct groups, those that want social equity reform and expungement before banking reform, and those that see the incremental momentum that would be created for broader reform if safe banking were passed on its own. Our view is that these bills and negotiations, in general, are leading to more discussion and ultimate movement at the federal level. Investors need patience along with an understanding that the leading US operators are continuing to generate stronger cash flows have the opportunity for significant growth with new markets opening, yet they're trading like value stocks.

What's interesting to note that in July, when we're recording this video, we have seen significant price moves in many US cannabis names as Congress gets ready for Senate hearings on cannabis legislation. At this point, the moves are based on rumours that legislative action is going to finally take place. These moves remind investors that with their growth, potential, and deeply discounted valuations, these stocks are like tightly coiled springs, ready to jump on even marginally good news.

Now, I'd like to turn briefly to the European cannabis market and legislative progress taking place there. Long-term viewers of our commentaries will appreciate that it's been a long time since we've spoken positively about prospects in Europe. Early on, there was significant hype, but sales numbers never really materialized. After many years of waiting, countries within the EU are now showing signs of progress. The most important of which is Germany. With a population of 83 million people, the current coalition government has in recent months reiterated its vow to legalize recreational use.

For Germany, it would represent significant economic benefits with an estimated annual revenue target of around $4.5 to $5 billion per year through additional taxes, as well as cost savings from no longer prosecuting those who consume illegally. Overall, we continue to see long-term growth in the cannabis market, focused on the United States, as well as Europe.

Now, finally, to touch a moment on our options strategy. Since inception of the Option Writing Program in September 2018, the Fund has generated significant income from options premium of approximately $4.2 million. We will continue to utilize our 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. Our current interpretation of cross-asset volatility indicators and daily trading volume metrics indicate to us that for the time being, we need to be selective, especially on decelerating volume. We will continue to be macro-aware showing discipline in our approach.

We have covered a lot in this presentation. If you would like to drill down on any of these topics or the leading names in our fund, we would be happy to talk to you. Please reach out to your Ninepoint sales representative to set up a call with either Doug or myself. Thanks very much for listening, and have a great day.

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