Ninepoint Alternative Health Fund

July 2022 Commentary

Investment Team

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Summary

The long-awaited tabling of Senate Majority Leader Chuck Schumer's **Cannabis Administration and Opportunity Act (CAOA)** was introduced in Congress July 21st. Despite our view that CAOA does not have the votes to pass, CAOA does create discussion and negotiation that leads to what we see as a more workable solution; **SAFE Banking**. As the economy shows signs of slowing, an important aspect of the Ninepoint Alternative Health Fund continues to be the **allocation to US healthcare** and in this month's commentary we provide further evidence supporting our investments in the leading global healthcare and pharmaceutical companies We also review the **US Federal regulatory** and state level changes taking place in the cannabis space, which continues to provide exceptional long-term growth at a discounted valuation. In addition, we look at the growing importance of technology and patient access to health services through telemedicine and the implications of the recent acquisition of One Medical (ONEM) by Amazon (AMZN). Finally, we go through top names in the Fund that released quarterly results during this period including GTI, JNJ, PFE, PG, UNH.

July Update

Around the globe, we see central banks raising interest rates to deal with the highest readings of inflation in over 40 years while we see consumers tightening up as the cost of filling up their cars; food purchases and other basic needs continue to rise. While the FED rate increases have slowed parts of the economy and resulted in equity market weakness, the labour market has been resilient so far. With market uncertainty and a volatile bond market, year to date returns for most sectors have been muted. Year to date, the SP500 is down 11.32% (in CAD) while the US Cannabis index, is down 54.79% in CAD. During this challenging time, the US healthcare index is off only 5.34%

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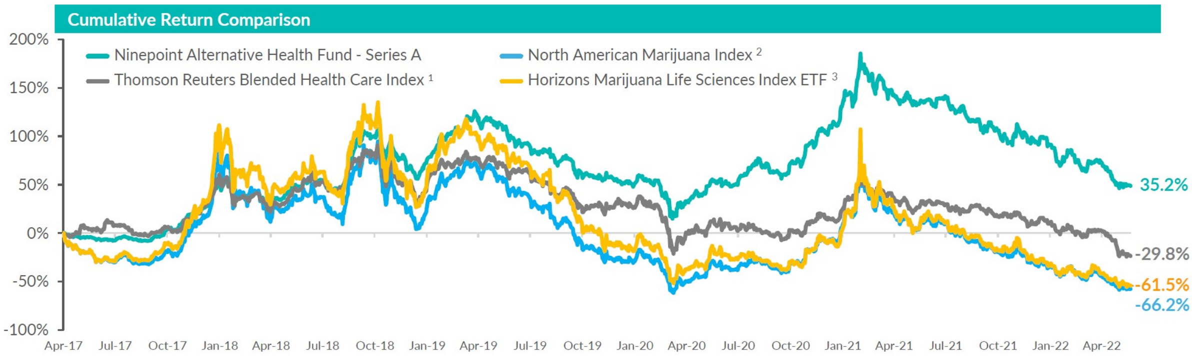
Cumulative Returns (As at June 30, 2022)



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.

The Benefits of Investing in Healthcare

US Healthcare is standing up much better than the broader market. We continue to allocate selective capital to healthcare while keeping our powder dry for opportunities of mispricing across different subsectors within our mandate. We continue to see opportunities for growth in healthcare with several factors contributing to our view. The pandemic suppressed access to medical care over the last two years resulting in delayed or cancelled patient visits and surgical procedures and we have seen increased patient visits and demand for surgical procedures since the beginning of February. Also benefiting healthcare is a strong correlation between recessionary fears and demand for health services as US employees look at the potential of losing insurance pushing demand forward having elective surgeries before health insurance is lost. There is also pressure being exerted by the potential redeterminations in the US (reduction of coverage) of Medicaid benefits when the COVID public health emergency funding ends. Originally that was to end mid-April, but has been extended once again. These factors are all pushing people to elective visits which is translating to higher demand for surgical equipment and medical devices.

Two of the Funds largest holdings are JNJ and UNH and its important to look at the rationale for their positions in the Fund. UNH is a large provider of medical and dental insurance solutions to both corporations and individuals. In addition, it continues to add services to its list of offerings including telehealth, pharmacy as well as data analytics to healthcare providers. JNJ is diversified with various lines of business in addition to owning health brands that regardless of the economics of the time, are in demand; Johnson's Baby, Neutrogena, Tylenol, Band-Aid, Listerine to name a few. The consistent level of demand, and diversified product ranges for both companies leads to these companies being "safe havens" during a recessionary period.

US Senate Debates Cannabis Legislation

The long-awaited tabling of Senate Majority Leader Chuck Schumer's **Cannabis Administration and Opportunity Act (CAOA)** was introduced in Congress July 21st. As a brief history, a draft version of CAOA was introduced in July 2021 co-drafted with Senators Booker (New Jersey) and Wyden (Oregon). We have stated in previous commentaries that CAOA does not have the votes to pass. It doesn't have 10 Republicans that would support aspects of de-scheduling or social equity and expungement. Regardless of Republican support, Schumer doesn't have the 50 Democrat votes necessary either. Democratic Sen. Jon Tester from Montana does not support federal decriminalization. Other Democrats are against legalization or are undecided, including Sens. Jeanne Shaheen (D-N.H.), Joe Manchin (D-W.Va.), and Bob Casey (D-Pa.). Schumer would need all 50 Democrats, plus 10 Republicans to pass any bill in the Senate.

Despite our view that **CAOA** does not have a realistic chance of being passed, CAOA does create discussion and negotiation that leads to what we see as a more workable solution; SAFE Banking. To date, Sen. Schumer has been blocking moderate cannabis reform bills to reach the floor of the Senate instead pushing his legislative agenda to be seen to be doing something when he knows he doesn't have the votes. We remind investors that **SAFE Banking** is drafted to enact laws that provide federal banking services to cannabis companies, reducing the risk of violent burglaries and theft from these largely cash dispensary businesses. It is for this reason that we think there is an opportunity for both parties to recognize that a $25-30 billion industry has no access to banking or deposit taking and people are dying because of inaction. This is an important distinction as some Republican Senators that are not "pro-cannabis" are more supportive of legislation such as SAFE that is framed as a public safety issue. So **SAFE** can happen, with some of the additional items like expungement can be dealt with within an Executive Order from the White House.

Adding to the current political climate, there is growing political urgency on the part of Democrats to finally get something done, fulfilling a 2020 campaign promise that President Biden is yet to step up to. President Biden is mired in record low approval ratings below 40% as Americans feel the pinch from higher gas prices and more general inflation. Democrats in Congress continue to be concerned about losing the House and potentially the Senate in the mid-term elections. And there is broad support for SAFE Banking, to reduce the risk of robberies and violent dispensary break ins. 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. As always, the key is finding the balance where the legislation is narrow enough to engender Republican support while being broad enough not to lose Democratic support.

What is interesting to note is that during July we have seen significant price moves in many US

MSO names as Congress gets ready for Senate hearings on cannabis legislation. And at this point, the moves are based on rumors that legislative action is finally being taken. These sharp 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. Investors should consider this time as an opportunity to get into this market at these levels.

Corporate Announcements: Acquisitions

Amazon (AMZN) announced a deal to acquire One Medical (ONEM) for $18 per share in cash or US$3.9 billion, marking AMZN's third expansion into health care services. It is also one of it's biggest acquisitions, after its $13.7 billion deal to buy Whole Foods in 2017 and its $8.5 billion purchase of Hollywood studio MGM. ONEM is a $200/yr membership-based service that offers virtual care as well as in-person visits. It also works with more than 8,000 companies to provide health benefits to employees. Currently ONEM has 767,000 members and 188 medical offices in 25 state markets generating Q1-22 revenues of $254 million.

The pandemic period brought demand for telemedicine forward and as health care costs continue to rise, employers and insurers are attempting to connect people to regular care in order to prevent expensive hospital stays or keep chronic conditions like diabetes from leading to bigger problems. For AMZN, the acquisition deepens its health care service offerings building on its online pharmacy PillPack which it acquired in 2019 in addition to its Amazon Care telemedicine program that it launched last year. The deal is subject to regulatory approval. On completion, Amazon said ONEM's CEO Amir Dan Rubin will remain in his position.

Financial Results

US Cannabis

Green Thumb Industries (GTI) kicked off the US cannabis sector's earnings with a solid Q2-22. Revenue was in line with expectations at $254.3m with strong retail sales ($179 million) in GTI's 56 store network. EBITDA was stronger than anticipated at $78.7m, 31% margin vs consensus at $72.4m. Importantly, GTI was able to bring EBITDA margins back above 30% following the previous quarter's unusually weak sub-30% level. A key accomplishment in this inflationary period was the company's ability to reign in costs bringing SG&A expenses meaningfully lower than in Q1. The results illustrate the diversified multi-state footprint that GTI has established, in addition to being focused on strong execution. As we continue to remind investors, leading MSO's such as GTI continue to provide double digit revenue growth YoY while maintaining strong EBITDA margins, while the total addressable market continues to grow. It is for these reasons we believe that we maintain our position, anticipating significant long-term growth and profitability.

Healthcare

Healthcare is a service that consumers can't do without, even in a recessionary period. Equities have had a challenging YTD period but healthcare has stood up far better. During the month several companies released quarterly results.

UnitedHealth Group (UNH) released Q2-22 financial results that outperformed estimates. Revenues were $80 billion in the quarter, up 13% YoY with double digit growth at Optum, a division leader, UNH's pharmacy benefits manager and health care provider. Management noted that despite a rise in new COVID variant cases, the company is seeing patients making their way through hospitals for care not related to COVID. Earnings from Ops were $7.1 bill 19% YoY. EPS of $5.34 and Adj EPS of $5.57.

Johnson & Johnson (JNJ) reported a Q2-22 sales and earnings per share beat, despite inflationary headwinds, which in our opinion illustrates the underlying strength of its diversified healthcare offerings. Sales were up 3.0% to $24B while the company maintained 2022 full-year guidance despite a strengthening U.S. dollar negatively impacting results on an FX basis. During the quarter pharmaceutical sales grew 12.4%, driven by DARZALEX, STELARA, ERLEADA, TREMFYA while sales of its Janssen COVID-19 Vaccine witnessed over $500 million in international sales. The medical device segment saw sales growth of 3.4%, driven primarily by surgical vision products,

Pfizer Inc (PFE) announced strong Q2 results with revenue growth YoY of 47% to $27.7 billion compared to Q2-21 while net income reached $9.9 billion, a 78% increase over the same period during 2021. Pfizer's Covid vaccine brought in $8.8 billion in revenue for the second quarter, while sales of Paxlovid totaled $8.1 billion. Bottom line results in Q2 were also strong as adjusted EPS was $2.04 per share, vs estimates of $1.78. These results were encouraging for investors at a time when many companies are adjusting guidance due to recessionary fears and inflationary pressures PFE maintained its overall 2022 sales guidance despite unfavorable impacts from FX, and noted its leading Covid-19 vaccine would generate revenues of $32 billion while expecting $22 billion for its oral antiviral Paxlovid. In fact, PFE provided guidance above analyst estimates for its four leading pharmaceutical products; Comirnaty, Paxlovid, Prevnar, Eliquis. Procter & Gamble (PG) reported Q4-22 sales of $19.5 billion, an increase of 3% YoY with growth was driven by an 8% increase in pricing, partially offset by a decrease in volume.

PG whose leading products include Pampers, Pantene and Tide saw higher pricing during the quarter offset by a reduction in sales volume. PG health care segment saw organic growth of 9% while the baby and family care segment saw organic sales increase 7% in Q4 YoY. For its upcoming fiscal '23 year, PG sees flat net sales as it noted headwinds that could reduce sales of $3.3 billion due to foreign exchange rates, higher commodity costs and higher freight costs. The company expects sales for the year to be flat to up 2% from 2022 while organic sales, which strips out the impact of foreign exchange rates, is expected to be up 5%. We believe that even in a period with rising costs consumers "needs" must be met and they will gravitate to brands such as Pampers, Gillette and Oral-B.

Since inception of the option writing program in September 2018, the Fund has generated significant income from options premium of approximately $4.29 million. We will continue to utilize our options 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.

Cross asset volatility, collectively, currencies, fixed income, high yield, and treasuries have been misbehaving since November 2021. Equity volatility continues to spike although being in the mid / late twenties makes it vulnerable for higher spikes. Risk happens slowly and then all at once. However, every spike in equity volatility (VIX) and the related spikes in volatility of volatility (VVIX) has been an opportunity to monitor correlations within health care/cannabis. Our current interpretation of cross asset volatility indicators and daily trading volume metrics indicate to us, for the time being, we will be selective traders of our preferred option trades, especially on decelerating volume. We need to see lower levels of trending volatility and accelerating volume signaling to us a healthier investing environment. We will continue to be macro aware, showing discipline, and focusing on investible volatility. Volatility spikes are trending and as such we have been quite selective on our trades, tilted more towards large cap, lower beta health care to execute on, for now. During the month we used our options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately $12,000 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 AstraZeneca PLC (AZN) and Pfizer (PFE). 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 Procter & Gamble (PG).

Charles Taerk & Douglas Waterson
The Portfolio Team
Faircourt Asset Management
Sub-Advisor to the Ninepoint Alternative Health Fund

Ninepoint Alternative Health Fund - Compounded Returns[1] as of July 31, 2022 (Series F NPP5421) | Inception Date - August 8, 2017

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED)
FUND	-2.5%	-29.8%	-10.6%	-19.8%	-37.9%	-8.1%	8.9%
TR CAN/US HEALTH CARE BLENDED INDEX	-3.5%	-39.5%	-26.6%	-34.3%	-45.5%	-23.2%	-8.3%

Statistical Analysis

	FUND	TR CAN/US HEALTH CARE BLENDED INDEX
Cumulative Returns	53.1%	-35.0%
Standard Deviation	28.3%	31.0%
Sharpe Ratio	0.3	-0.3

[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 July 31, 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.

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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