Ninepoint Alternative Health Fund

June 2020 Commentary

Half Way Results & The Road Ahead

Investment Team

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The Ninepoint Alternative Health Fund posted YTD results at June 30 of -2.43% for the F class while the Horizons ETF (HMMJ) continues to underperform with a YTD result of -17.19%. It is instructive to note that the Fund has outperformed its various benchmarks and the broader S&P 500 that posted a -3.08% to June 30th. Important to the Fund's outperformance is our focus on healthcare and pharmaceuticals where the Refinitiv US Healthcare index generated +1.10% YTD while the Refinitiv Canadian Healthcare Index was -29.58% to June 30th. We continue to see outperformance in our Fund's sector allocation and in the companies we believe have market leadership characteristics.

Current portfolio allocation (as at 06/30) has a Cannabis weight of 45% with 70% of that cannabis weighting in US operations, recognizing the continued growth in sales and operating cash flow from leading multi-state operators (MSO's) throughout the US. The Pharma & Health Technologies allocation is at 22.7%; Other Wellness (includes **UNH, COLD, IIPR**) at 14.62%; while Organics and Nutraceuticals at 3.36%. We maintain a healthy cash position at 13.9% of the Fund.

Healthcare/Pharma provided stability and growth in the first half as new anti-virals, lab testing and vaccines became a large focus instrumental for the re-opening of the global economy. In terms of cannabis, the "Essential Service" designation elevated the industry to a new normal. The designation has enabled these businesses to continue to operate throughout the lockdowns, with enhanced services to meet customer needs whether its click and collect, curbside pick-up or home delivery. These regulatory changes were implemented quickly and resulted in little disruption meeting growing demand. What was believed to be "pantry loading" sales spikes actually showed continued strength through the lockdown and post lockdown. This has increased the legitimacy of the industry in the US, assisting with federal legalization efforts.

During the first half, the Fund benefitted from solid performance in **Jamieson Wellness (JWEL)** +39.31%. Jamieson benefitted from strong demand for its wide range of supplements and nutraceuticals as people focused on health & wellness during the COVID-19 lockdown. The fund also experienced strong returns from the US based Cannabis REIT, **Innovative Industrial Properties (IIPR)** +18.8% YTD. **GW Pharma (GWPH)**, the large UK based biotech company responsible for Epidiolex, the first FDA approved cannabis drug also generated positive returns, 17.4% YTD. **Gilead Sciences (GILD)** with its breakthrough drug in the fight against COVID-19, remdesivir generated +20.7%. Within our cannabis names, standout performance was generated by US MSO's **Trulieve Cannabis (TRUL)** +15.4% and **Green Thumb International (GTII)** +9.12%.

As stated in our earlier reports and webinars, there are several tailwinds for the Fund and we

continue to see those tailwinds and catalysts still in place. First, people are still at home or spending more time at home, where people feel most comfortable enjoying various cannabis products. The lockdown has played into a strength for cannabis. In Canada, a second catalyst is the number of stores opening in Ontario, Canada's largest cannabis market. Currently, Ontario has authorized 100 stores and we see the second half of the year providing a good opportunity for LP's and cannabis brands to build market share. South of the border, we see the potential of further stimulus from Congress this summer, and a component of the "HEROES ACT" with elements of the SAFE Act, that would provide banking access to legal state run cannabis businesses. Having access to FDIC banking, credit card processing and insurance services would be significant steps forward for an industry group that employs a growing amount of Americans, (250,000) while getting no government assistance. Consider how strong the sector can become with better access to financial services and importantly, a larger base of potential investors willing to look at the sector as the federal risks recede. Finally, our focus in healthcare and pharma sees a tailwind as the global economy awaits the delivery of anti-virals, vaccines and other COVID treatments. These are game changers for the re-opening of the global economy and we believe some names hold great promise.

As we write, equity markets have been buoyed by recent strength in employment results. However, we recognize Covid-19 worries are back front and center around the world, and with that the broader market has trended lower of late. As we approach the summer months, it is important to remind investors that the Fund has defensive characteristics to withstand potentially softer equity markets. We believe the fund will benefit from strong fundamental tailwinds from inelastic demand in cannabis while also participating in the innovation from our global pharma/healthcare focus that will be instrumental in the re-opening of the global economy. We continue to believe that the alternative health theme, bolstered by a solid allocation to cannabis will reward investors over the next several years.

Topics Covered

1. **Canadian & US Cannabis Market Updates**
2. **Company Announcements & Quarterly Financials**
3. **Options Strategy**

1. Regulatory Market Updates

The US federal election has the potential to be a major catalyst for the sector. Democratic Presidential Nominee Joe Biden has to date been considered neutral with respect to cannabis legalization relative to other more vocal supporters in the Democratic Party. On July 8th, the Biden-Sanders unity platform announced an agenda that includes a pledge for federal legalization of medical cannabis. These are platform recommendations, not Biden's official platform, but still shows the direction the party is taking and could be implemented if the Dem's sweep in November elections. To date, Biden has been lukewarm in his language on cannabis legalization, supporting decriminalization. The influence of the Sanders camp in the party and the Dems desire to unite is what has propelled this policy recommendation. The recommendations comes ahead of the Democratic National Convention which will occur next month. The policy recommendation would make medical cannabis use legal everywhere. This means doctors could prescribe cannabis in all 50 states. Further, the policy recommendation includes a pledge to use administrative action to change the scheduling of cannabis.

Essentially, the Biden-Sanders Unity platform states that regardless of what Congress does or whether Democrats retake the Senate, Biden is pledging to have the classification of cannabis

changed. It does not specify what the new classification would be, though anything removing it from the most severe classification would be positive. Finally, the policy proposal gives each state the right to decide if recreational use should be legal. The biggest surprise is a push for STATES Act over broader legalization like MORE Act. The STATES Act gives States the right to decide on the legality of recreational use, whereas the MORE Act provides widespread changes to cannabis law such as the elimination of cannabis from the Controlled Substances Act; expunging the criminal records of marijuana offenders as well as invest tax dollars into repairing communities where illicit drug activity has taken place.

One policy initiative not discussed in the policy proposal is the SAFE Act that was offered to ensure state-legal cannabis firms access to the federal banking system and to allow financial services to be offered at the federal level, while eliminating prosecution to those companies providing such services. An additional aspect not discussed, and thus not clear is whether these changes could open up U.S. stock listings for U.S. cannabis. We see the changes proposed implying that cannabis would be treated similar to alcohol, and if that is the case, commercial banking and capital markets accessvwould be on the horizon.

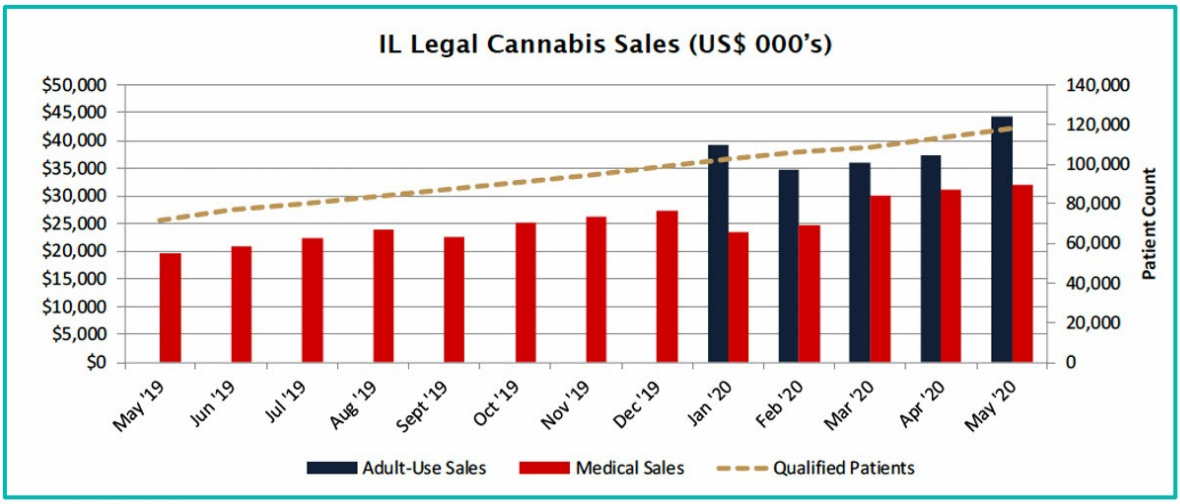
US Market Update

A total of 36 states have legalized the sale of marijuana in recreational or medical forms. Still, the sale of marijuana is illegal at the federal level. As the US Congress continues to debate the extent of stimulus that is appropriate given the loss of jobs and uncertainty caused by the COVID lockdown, there is tabled legislation within the federal stimulus to provide enhanced financial services to legal state-run cannabis business throughout the U.S. The SAFE Banking Act has been incorporated in the Coronavirus stimulus bill by House Democrats in a bill entitled the HEROES Act. If passed, it would allow access to FDIC banking services as well as enhanced credit card payment services. COVID provides a unique opportunity for the cannabis sector, to grant services to a sector that has largely been ignored in terms of support at the national level. Despite the noted illegal federal stance, many states continue to exhibit strong markets for continued growth in the cannabis sector.

New Jersey Department of Health announced that it would issue waivers allowing medical dispensaries to provide delivery services. While NJ is a little late enacting the waiver, this is another positive development offering an added channel for cannabis companies to distribute product. Also during the month, the NJ assembly approved a decriminalization bill that would make possession of up to two ounces a civil penalty punishable by a $50 fine and no jail time. NJ is one of two states that have adult use legalization ballot initiatives taking place in November, and with well over half of the electorate in favour, we see the state as a key north east growth market. The NJ ballot vote in November represents a potential domino effect where as one state goes, so do its neighbours with additional states like NY, CT, PA to follow with legalization initiatives in early 2021 to preserve potential losses in consumption based tax revenues in neighbouring states. There are now 11 dispensaries operating in NJ. One of the Fund's top ten holdings, Curaleaf (CURA) is the market leader in NJ. CURA had the highest grossing dispensary in the state recently, holding an approx. 30% market share. CURA is scaling up in anticipation of legalization for adult use and is undergoing an expansion of its current cultivation capacity. CURA has grown its wholesale division selling products to retail dispensaries throughout NJ. Other MSO's in NJ include a top fund position, Green Thumb Industries (GTII), as well as Columbia Care (CCHW), Verano (private) and Ianthus (IAN).

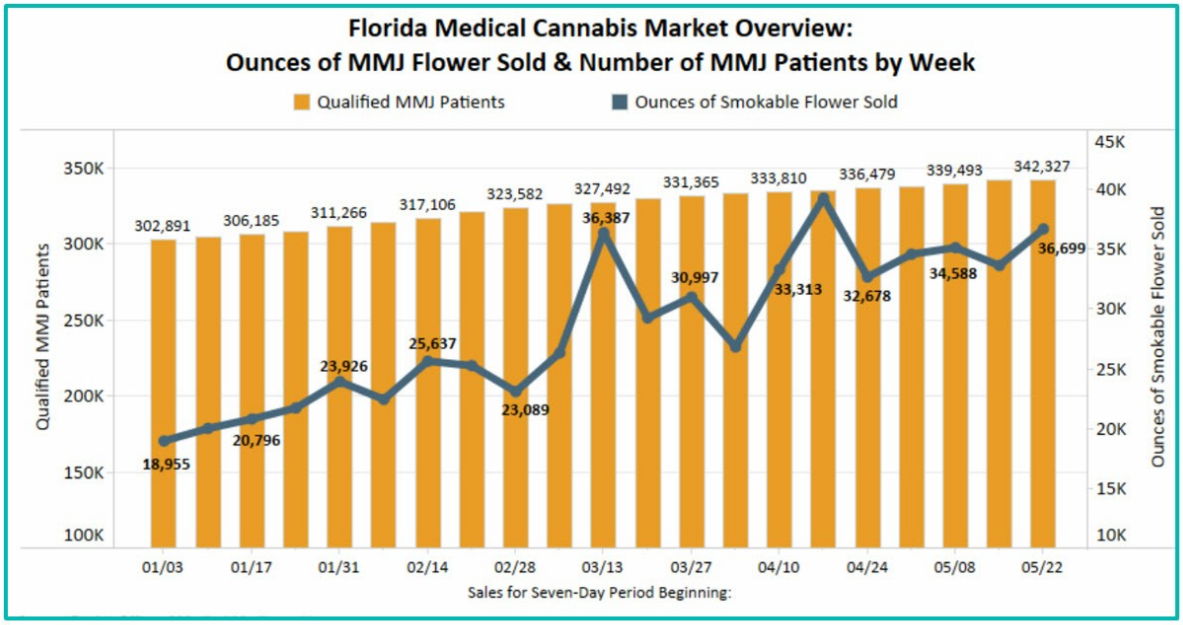
Illinois reported total state cannabis sales at $76 million for May (up 12% MoM) representing an annualized run-rate in excess of $900 million. Recreational Adult Use sales were up 19% MoM for

May to $44.3m, representing the strongest monthly performance to date for the market. Continued strength in sales also supports our view of the positive impact on cannabis demand during the COVID crisis. Medical sales of $32 million have been stable MoM with patient growth at 4.2% bringing the total to 118,176 (0.93% penetration rate). Public multi-state operators (MSO's) with exposure to IL include GTII, CURA (with the pending closure of its Grassroots acquisition) and Cresco Labs (CL).



Source: VIII Capital

Although there has been considerable discussion on adult use recreational legalization, we continue to see strength in medical state markets. In **Florida** the registered patient count has exceeds 355,000 (1.7% penetration rate) as of the week ended June 26. As data from the Florida Office of Medical Marijuana Use (OMMU) shows, the state has already dispensed 10.5% more non-smokeable product by volume and 34% more ounces of dried cannabis than it did in Q1/20. We believe the Florida market is currently the strongest medical-only market in the U.S. One of the Fund's top holdings is the market leader in FL with over 50% market share, **Trulieve Cannabis (TRUL)**.



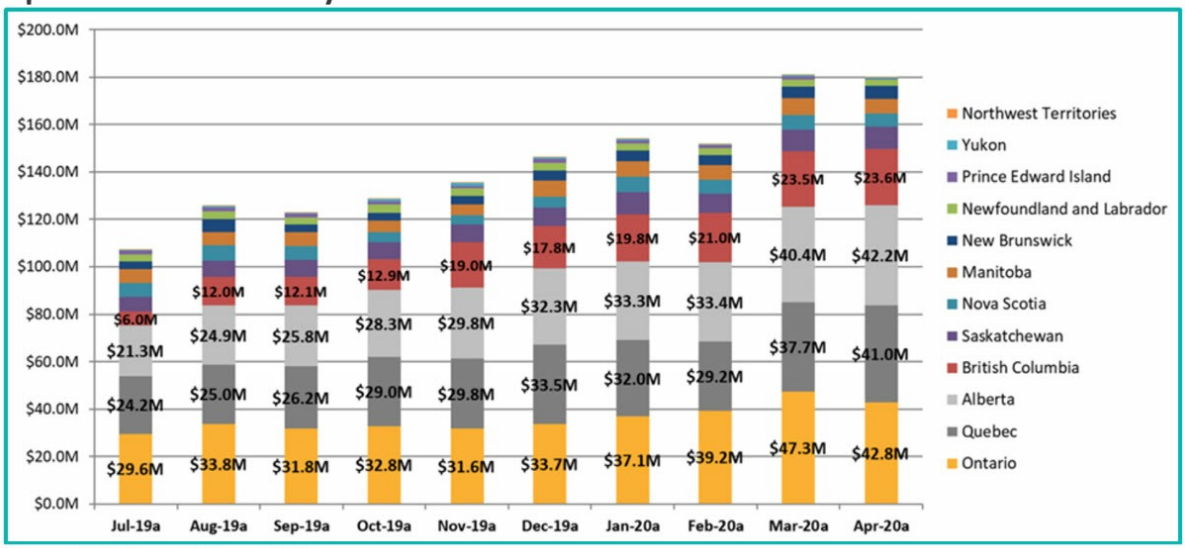
Source: MJ Biz

Arizona May sales are estimated at $83 million with total products dispensed up 9.4% from April. Total registered patients finished the month at 245,533 (a 3.4% penetration rate).
We believe Arizona represents the second most attractive current medical only cannabis market in the U.S. The state also has a ballot initiative to legalize adult use cannabis in November similar to NJ, and with proposed amendments we could see a cap on retail dispensaries when adult-use sales begin early as next year. Given that it is not expected for new store licenses to be issued, we believe operators with existing infrastructure/exposure could see upside in the near term. The AZ market is led by **Harvest Heatlh & Recreation (HARV)** and Fund holding **CURA**.

Pennsylvania represents a near-term growth medical market with an enrolled patient base that is now almost half of Florida's. Further, we believe the state is already starting to see leaders emerge who have been able to secure store licenses in virtually all of the state's "zones". Currently, we estimate that PA has a revenue run-rate of >US$500M. According to the PA Department of Health, the medical program now has 205,000 active certifications. Governor Wolf has stated his support for adult-use legalization, and with COVID economic re-opening issues increasing pressure on governments to find alternative sources of tax revenue, we believe legalization post NJ ballot initiative is a virtual certainty. In PA, one of the Fund's top holdings, **GTII** opened its 12th location in PA, representing a 14% share of state wide dispensaries. Management announced as part of its Q1/20 earnings call in May, that it is also undertaking additional expansion of its cultivation/manufacturing capacity in PA, which would support enhanced Q4 growth.

Statistics Canada released April cannabis retail sales data, up 2.7% Apr vs Mar on a per day basis, to $180 million. Ontario contributed a 23.7% share, with sales down 9.6% MoM, followed closely by Alberta at 23.4%, having grown 4.7% MoM. Of note, Quebec sales were up 9.0% to a national 22.8% share while BC was down 0.2% 13.1% market share of overall sales.

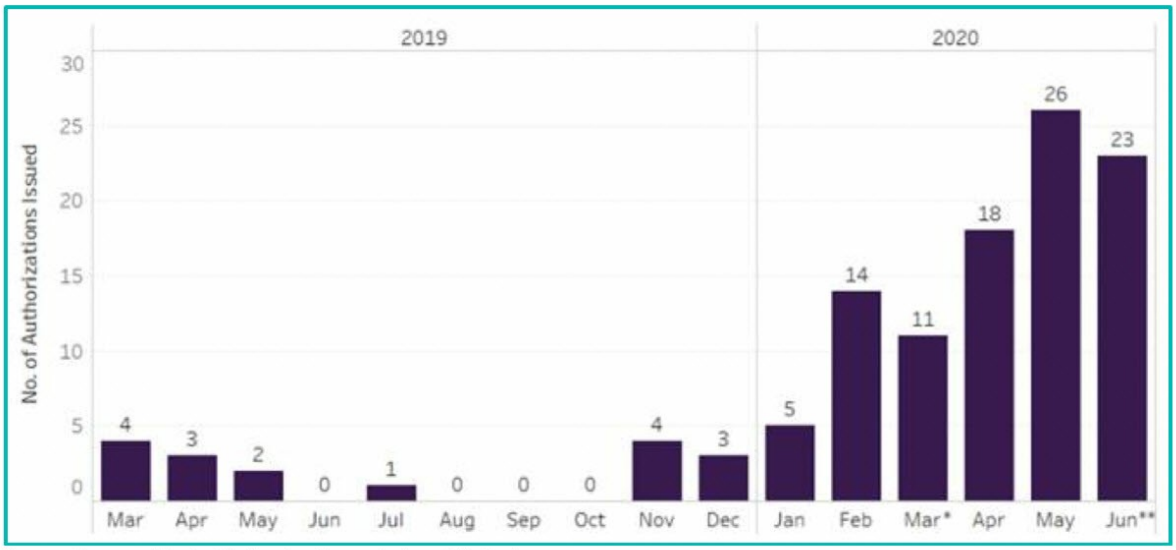
April Cannabis Sales by Province



Source: StatsCan and Cowen & Co

The Alcohol and Gaming Commission of Ontario (AGCO) announced that Ontario has been adding more cannabis stores in the post COVID re-opening. As at Friday June 26th, the AGCO issued the province's 100th cannabis store authorization. Over the last few months, the pace of opening has increased as the illustration in the chart shows; 14 new store licenses were granted in February; 11 in March; then 18 and 26 in April and May. Toronto now has 26 cannabis retail stores, up from five a year ago, while across the province there are still 300 pending applications at the AGCO.

Ontario Cannabis Store Authorization Growth



Source: Source: Alcohol & Gaming Commission of Ontario

Israeli Decriminalization & Legalization

In international cannabis markets, the Israeli government has reached agreement on the legalization and decriminalization of cannabis. In a statement released by the government, the country's leaders are advancing legislation "to resolve the issue of decriminalization and legalization". Reforms will also be made to the national medical program to increase access for patients. We note that Israeli scientists and doctors have been credited with being among the earliest researchers into the medical benefits of cannabinoids in various ailments. Amended legislation will enhance those companies that have business in Israel, both in terms of the domestic

business, but also in terms of its international supply opportunities in the Middle East and Europe. The Fund has a position in International Medical Cannabis (IMC) that has had a strong month. IMC operates ongoing research studies, as well as medical cannabis sales distribution in Israel, and through its wholly owned pharmaceutical subsidiary in Germany.

2. Company Announcements

CURA announced amendments to the Closing Terms of its acquisition of GrassRoots (based in IL). The original terms were an approx. US$103 million in shares, a US$75 million cash payment, and another approx. US$40 million worth of shares to be issued on a VWAP day on closing. With the announced changes, **CURA** has reduced total consideration to a valuation of roughly ~$690 million a reduction of $25 million; eliminated the $75 million cash requirement, and increased the fixed-value share component to $90 million. Given CURA's strong balance sheet and geographic leadership, Grassroots' management is clearly seeing the net positive as an eventual large shareholder in one of the largest MSO's in the industry. The removal of the cash component increases **CURA's** liquidity position to $175 million for further capital requirements. Curaleaf will look to dispose of some of Grassroots assets in Illinois, Ohio and Maryland to comply with these local regulations.

CURA also announced that it would expand distribution of its Select brand to new States including Massachusetts, Maine, Ohio, and Florida. With existing penetration in nine other states (OR, CA, NV, AZ, CO, MI, MD, OK and CT), these launches will put Select products into 13 markets within the next two months. The closing of the GR deal will allow Select into additional markets, further enhancing Select as a national cannabis brand. It is important to note that **CURA** trades at **5.8x** (as at month end) based on F2021 EBITDA forecast. This represents a 34% discount to the 8.8x average for US operating cannabis companies, and a 50% discount to the 11.6x average for the broad cannabis peer group. With catalysts that include the closing of the Grassroots acquisition, closing of the ATG transaction in Massachusetts, and Q2/20 financial results we continue to see fundamental leadership.

Trulieve Cannabis Corp. (TRUL) announced it has received provisional adult-use cultivation and retail approvals in MA. Life Essence, Inc., doing business as **Trulieve**, received unanimous approval for its Adult-Use/Recreational Provisional License from the Massachusetts Cannabis Control Commission (CCC) to operate an indoor cultivation facility and to carry out product manufacturing in Holyoke, Massachusetts.

The CCC also awarded **TRUL** its Adult-Use/Recreational Provisional License to operate a retail cannabis establishment in Northampton, Massachusetts. **TRUL** intends to co-locate the adult-use cannabis licenses at their facilities in Holyoke and Northampton, where they currently have their vertically integrated provisional medical licenses for cultivation, product manufacturing, and retail operations in place.

GW Pharmaceuticals Plc (GWPH) announced that Epidiolex, the first CBD based medication to be approved by the USFDA has now been additionally reclassified down to a Schedule 5 Drug by the UK Home Office. Under the Misuse of Drugs Regulations 2001 in the UK, Schedule 2 drugs are deemed to have a higher level of abuse potential (e.g., cannabis, heroin, cocaine), whereas Schedule 5 drugs are considered to have the least level of abuse potential (e.g., codeine, morphine, frequently over the counter drugs, and now Epidiolex). Epidiolex is now free from controlled drug requirements which results in further penetration with Dr's and patients as it will be easier to access the

medication, with more flexibility in terms of the quantity that can be dispensed.

GWPH also has promise with Sativex, and how they intend to advance that program in the US. Sativex has upside potential as well as other cannabinoids and conditions as part of GW's pipeline and clinical programs as they reach meaningful milestones. Over the near-to-mid-term, we expect that expansion and commercialization of Epidiolex in more European countries will serve as catalysts. Over the long-term, we see catalysts linked to developments on GW's pipeline, including its Rett Syndrome clinical trial and its Sativex program in the US.

Gilead Sciences (GILD) announced that The European healthcare regulator recommended conditionally approving GILD's antiviral treatment, remdesivir, for use in COVID-19 patients across the continent, just weeks after a speedy review. The European Medicines Agency said its human medicines committee (CHMP) recommended the drug's use in adults and adolescents from 12 years of age with pneumonia who require supplemental oxygen. This approval means physicians can prescribe the Gilead drug, to be branded Veklury, in Europe once approved by the European Commission, approval that usually follows CHMP recommendations. Remdesivir has already been approved for emergency use in severely-ill patients in the United States, India and South Korea, and has received full approval in Japan. Further innovations leading to positive outcomes on remdesivir are the changes announced in the delivery of the drug, now being tested in human trials on a nebulizer. By developing an inhaled version, patients can take it outside of hospital settings rather than requiring a hospital visit for intravenous infusion.

GILD came out with a decision to price remdesivir for governments of developed countries at $390 per vial. The company's CEO, Donald O'Dea stated "to ensure broad and equitable access at a time of urgent global need, the company has set a price for governments of developed countries of $390 per vial". Based on current treatment patterns, the vast majority of patients are expected to receive a 5-day treatment course using 6 vials of remdesivir, which equates to $2,340 per patient. As the company stated, "Part of the intent behind its decision was to remove the need for country by country negotiations on price". **GILD** has entered into an agreement with the U.S. Department of Health and Human Services (HHS) whereby HHS and states will continue to manage allocation to hospitals until the end of September. After this period, once supplies are less constrained, HHS will no longer manage allocation. This still allows GILD to generate further revenues as governments and health officials consider stock piling programs in the future, which we see as providing significantly higher revenue and earnings potential.

The Valens Company (VLNS) announced a five-year manufacturing agreement with Verse Cannabis, where VLNS will manufacture and distribute a range of next-generation products, paying Verse a royalty on sales. The plan is to launch two product lines; 1) Verse Originals, high-quality vapes and oils with unique terpene profiles at value price points; and 2) Verse Concentrates introduced with crumble and a product pipeline including live resin vape pens and various water-based products. Based on mature market data from the US, concentrates and certain vape categories (including live resin) represent an underserved growth segment in the Canadian market. According to Headset, vapes and concentrates made up ~1/3 of sales in 2019 in mature markets like Colorado and California, while concentrates alone made up 14% of the market in Colorado. Given the popularity of hydrocarbon-based concentrates in mature markets, along with the barriers to entry and lack of legal products in Canada, this positions VLNS well, though the extraction market in Canada has experienced a lull as the market for 2.0 products has been slow to develop.

As a way to generate much needed capital, **Aurora Cannabis (ACB)** sold its stake in **Alcanna (CLIQ)** to a syndicate of underwriters for C$3.00 per share, total consideration of C$27.6 million, compared to C$138 million (~C$15.00 per share) it paid for CLIQ in 2018.

ACB has also announced significant layoffs, impairment charges and operational reductions during the current quarter. The company announced that it will consolidate production to its most efficient, large scale facilities. As such, plans are to close five of its smaller facilities (Aurora Prairie, Aurora Mountain, Aurora Ridge, Aurora Vie, and Aurora Eau) over the next two quarters. Management suggests that facility closures are expected to be modestly accretive to future gross margins. In its most recent quarter, **ACB** reported an adjusted operating loss of C$79.1M (the 3rd largest loss figure of CAD-denominated Licensed Producers).

Finally, the company announced the retirement of Terry Booth, **ACB's** founder, from its Board of Directors, Mr. Booth was the Chief Executive Officer of Aurora from December 2014 through February 2020 and served on Aurora's Board of Directors since December 2014.

Canopy Growth (WEED) and **Acreage Holdings (ACRG)** announced significant adjustments to its 7 year option agreement/takeover of ACRG. It was no surprise to see these adjustments given that the spread between WEED's implied take-out price and the trading price of ACRG has gone from 16% at the time of the announcement to 300%+ based on the original terms. It reduces the minimum consideration as well as the obligation to acquire the shares of ACRG upon a triggering event, improving WEED's option value and flexibility with respect to its US market exposure. In terms of ACRG, the announcement helps reaffirm the commitment and relationship between the two companies.

WEED gets an additional 3.5 years added to its option to acquire ACRG (10 years from August vs. 7.5 years from mid-2019) in return for $37.5M in cash paid to ACRG shareholders and a revised share structure that gives ACRG holders more upside participation. As part of the announcement, Kevin Murphy the CEO of ACRG announced his resignation. Mr. Murphy will remain as Chairman of the Board. The New Agreement will require approval by holders of at least 66 2/3% of shareholders voting together as a single class. The vote will take place in August 2020. Certain directors and officers of Acreage holdings ~84.6% of voting rights have entered into voting support agreements.

3. Option Strategy

During June the Fund continued using its option strategy to enhance risk adjusted returns. With the above average volatility in the cannabis sector, 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 $2.95 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 the month we used our option strategy to assist in rebalancing the portfolio in favor of names we prefer while generating $141,000 in option income. We continue 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 **GILD** and **UnitedHealth Group (UNH)**. 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 **GILD**, **Pfizer (PFE)**, **Village Farms (VFF)**, and **Aphria (APHA)** with cash secured puts on APHA having been especially rewarding. During the month we have been able to sell weekly USD$4 strike price cash secured puts on **APHA** with volatility levels in the range of 90% earning on average USD$0.20 per trade. That equates to a strike yield of 5%. The breakeven for being assigned would be USD$3.75 for each trade. APHA is in our top 25 holdings and we currently have a favorable view on the name with a tilt more to the upside.

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
The Portfolio Team
Faircourt Asset Management

Ninepoint Alternative Health Fund - Compounded Returns[1] as of June 30, 2020 (Series F NPP5421)

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	-3.34	-2.43	14.59	-2.43	-21.73	17.78
INDEX	-3.81	-19.52	10.81	-19.52	-36.24	0.04

Statistical Analysis

	FUND	INDEX
Cumulative Returns	60.93%	0.11%
Standard Deviation	29.55	32.13
Sharpe Ratio	0.56	-0.04

[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 June 30, 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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