Ninepoint-UIT Alternative Health Fund

May 2018 Commentary

Investment Team

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The month of May saw Fund returns improve significantly with the Fund's one month return at 8.9% (A Series). Our actively managed strategy has allowed us flexibility to move into names that we see as undervalued while harvesting gains in some names that have appreciated above our estimated valuation targets.

The IPO market in the cannabis sector had been fairly quiet through the early spring until The Green Organic Dutchman (TGOD) successfully raised $132 million, closing early in the month. TGOD's IPO was the largest to date in the Canadian cannabis industry. TGOD currently operates a licensed facility in (Hamilton) Ontario, and is building two more facilities in Ontario and Québec that could take aggregate annualized capacity to 116,000kg with total of 970,000 sq ft. A significant strategic investor in TGOD is ACB that, as a result of its equity stake, has an option to purchase up to 20% of TGOD's annual production with an ability to increase its share of production to 33% if Aurora increases its ownership stake. The Fund participated in the TGOD IPO and has since reduced its position as TGOD's share price appreciated significantly, well ahead of the company's fundamentals, in a short period of time.

From the M&A front, the month of May witnessed a significant merger in the cannabis space. After more than a week of rumors, Aurora Cannabis (TSX:ACB) and MedReleaf (TSX:LEAF) entered into a definitive agreement under which ACB will acquire LEAF for 3.575 shares of ACB/share of LEAF. The transaction represents a 16% premium to the previous trading day's closing price for LEAF of $24.90/per share, and valued LEAF at approximately $3.2B. The boards of both companies unanimously approved the transaction, and LEAF shareholders representing 56% of the stock signed irrevocable hard lock-ups to support the transaction. This purchase price represents a 24x EV/C2019E EBITDA of LEAF based on consensus estimates. We currently own LEAF, we do not hold ACB.

ACB has positioned itself as the dominant name in western Canada and has the opportunity of growing its business to becoming a dominant global player. In acquiring LEAF, ACB gets one of the industry's leading low-cost producers that has approximately 20% of the medical market in Canada. In addition, LEAF has a strong focus on R&D and innovation and will bring a team to ACB that was involved in the development of Canada's first cannabis oil capsules as well as the first LP to launch a CBD topical cream back in the fall of 2017.

In our opinion, ACB is a great acquirer of significant positions or controlling interests in various businesses in the cannabis industry. But these acquisitions haven't come cheap and the resulting dilution is a concern. Aurora will need to issue close to 400 million new shares for the purchase of Medreleaf. We also have some concerns with respect to integration of the companies they acquire, remembering that the Cannimed acquisition only closed in April. As a result of these issues, we are cautious on the name.

On the earnings front, CannTrust (TSX:TRST) released Q1/2018 results which were slightly below consensus estimates, with some one time costs related to the ramp up of the 450,000 sq ft. Niagara greenhouse. With its Q118 results on May 15th, the Company reported that the Niagara Greenhouse can likely support annualized capacity of 50,000kg, once the Phase 2 expansion is complete, approximately 20% more production capacity from TRST previous estimates. We note a lower sales price per gram in the quarter yet believe that the increased efficiency and capacity that should be regularized in the coming quarters will once again produce positive EBITDA.

Increased institutional acceptance for the cannabis sector was also present in May with two Canadian Banks, CIBC and BMO, both initiating research coverage on the sector. In addition, BMO held its Inaugural cannabis conference in Toronto. From an investment standpoint the sector has made inroads with the institutional investment community, both from the standpoint of opening up two of the Bank owned dealers to research and education within the sector, in addition to the participation in new issues and bought deals that, with Bank involvement, will bring further institutional investment into the leading names. We view this change as a positive catalyst as once again a related stigma to involvement in the sector has been reduced.

To that end, we have also seen a number of listing changes from some of the existing LP's. During the month of May, Canopy Growth became the first marijuana company to be listed on NYSE, following Cronos Group (CRONOS:NASD and TSX) as the first marijuana company to list on a US exchange the previous month on NASDAQ. Other "uplistings" included Hydropothecary (THCV:TSXV) applying to the TSX; Cronos also moving to TSX after listing on NASDAQ. Although many companies have flourished on the CSE and TSX-V, institutions appreciate and are more comfortable with the listing requirements of the TSX.

As Canada is about to become the first G-7 country to legalize adult recreational use of cannabis at the federal level, there has been considerable movement on the part of Licensed Producers to unveil brands and recreational strategies. Who wins the hearts and minds of consumers will depend not just on capturing consumer attention but also being able to continually fill shelves with needed supply. The measure of success will be which LP's are able to be ready when the bell rings with each round of provincial supply tenders.

Charles Taerk

COMPOUNDED RETURNS (%) [1]

	1M	YTD	3M	6M	1YR	INCEPTION
FUND	8.9%	4.9%	7.1%	21.5%	55.2%	39.1%
INDEX	10.4%	3.0%	8.3%	17.3%	40.5%	34.6%

[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 May 31, 2018. 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.

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