Alternative Health Fund

November 2019 Commentary

During the month of November, the **Ninepoint Alternative Health Fund continued to outperform all other cannabis focussed ETF's and Funds as our active management, combined with a broad portfolio allocation contributed to positive outperformance.** For the month of November the Fund was positive at 0.84% for the F Class units, comparing it to the index or HMMJ that generated a negative return of -12.24%. Year to date, our Fund is down slightly at -2.60% vs HMMJ that is -32.75%.

Investment Team

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Our team has been able to avoid the deep losses seen in the ETFs and Funds through a combination of sector allocation, holding cash, option writing, overweighting US names, and holding only a select group of Canadian cannabis names. Going forward, we see the tight capital conditions continuing for a while across the industry, and the excess capacity in Canada will need to be worked off. Considering these conditions, we believe this strategy will continue to outperform.

In terms of the outlook for the fund, we're positive on 2020 while recognizing the challenging conditions facing the sector. Some of the challenges (in no particular order) are:

- Difficulty raising additional capital
- Weaker financial results for large Canadian producers
- Lack of dispensaries in Central Canada (Ontario and Quebec)
- Lack of clarity from the FDA on approval for CBD ingestibles

Saying that, the overall theme of the fund is still very much intact. We continue to see more US states legalizing for adult use leading to broader market opportunities; slow but continuing increases in international markets continues with more countries legalizing for medical purposes, and the introduction of Cannabis 2.0 products in Canada are all positive for the sector.

We think that the days of just owning the sector passively are really coming to an end. In Canada, it means doing the work to find those differentiated companies, efficient operators like **Village Farms (VFF)** (very low costs, good sales growth) instead of just selecting the larger names such as **Canopy Growth (WEED)** or **Aurora Cannabis (ACB)**. The larger names have some structural issues to deal with from over building on cultivation, slowing the path to positive cash flow. In the US, we see more of a runway developing as more states come online with recreational adult use and we see much more significant sales growth and over the next few years, as cannabis becomes legalized federally. We're starting to see the market rewarding companies that are more focused on profitability such as top ten performers **Trulieve (TRUL)** and **Green Thumb Industries (GTII)**.

Topics Covered:

1. Regulatory Updates
2. Company Announcements

3. Quarterly Financial Results
4. Options Strategy

1. Regulatory Updates

FDA Warnings re: CBD

The U.S. is not without its regulatory risks. Late in the month the FDA sent warning letters to 15 companies that are currently selling foods, drinks, cosmetics and supplements containing CBD. The FDA re-emphasized that it has only reviewed the safety and efficacy of a single CBD-based product – Epidiolex – and any other CBD-containing products have not been approved. Current FDA policy is that it is illegal to include an FDA approved drug into cosmetics, foods, and dietary supplements.

CBD at this point is not "Generally Recognized as Safe", or GRAS designated, a designation stating that a food ingredient is widely regarded as safe and thus exempt from product specific safety reviews. By stating that it cannot designate CBD as GRAS, this suggests that the FDA is preparing some type of limitations on the use of CBD in food products. With the new FDA commissioner currently undergoing Senate hearings, the final regulations will likely not come out until early 2020.

Ontario Store Openings:

In Canada, the most significant impediment to allowing the growth of the adult use recreational market to grow is to increase the number of store fronts in Canada's most populous province. This past month, the Government of Ontario announced its intention to review the current lottery system of awarding dispensary licenses with the goal of opening up dispensaries and removing regulatory burdens associated with applying for retail licenses in the province. This is seen as a positive sign, however more work and more details need to come forward. By looking across the country, we can see that less populous provinces such as Alberta, have more successfully issued licenses with over 200 open dispensaries in the first year of adult legalization. Growth in the number of store fronts leads to better education, a better understanding of what consumers can buy, and a better opportunity to bring new consumers into this new and growing industry.

Some Provinces Move to Restrict Vape Products:

The vape related illnesses issue continues to be a headwind for the regulated cannabis market, despite the findings in multiple jurisdictions that additives and low quality hardware in the illicit market are the cause of pulmonary illnesses in the US and Canada. The Provinces of Quebec and Newfoundland have announced that they will restrict vape sales, while British Columbia has introduced a higher sales tax on vape products. Our view, as mentioned in previous commentaries is that by restricting the regulated market the illicit market will continue to flourish, while also causing the health risk to continue.

2. Company Announcements

During the month several US M&A transactions cleared the Dept of Justice HSR reviews while also responding to concerns of shareholders of the acquirers by gaining concessions or adjusting the share ratios on closing terms. **Harvest Health & Recreation (HARV)** announced amended deal terms with respect to the acquisition of CannaPharmacy, Inc. (private)

Under a new binding agreement, HARV and CannaPharmacy have agreed to terminate their current agreement where HARV was to acquire CannaPharmacy's right to own or operate cannabis licenses in Pennsylvania, Delaware, New Jersey and Maryland. Under the new agreement with CannaPharmacy and subject to regulatory approvals, HARV will only acquire Franklin Labs, LLC, a subsidiary of CannaPharmacy, for $26,000,000 payable with $15,000,000 in cash and an $11,000,000 via promissory note.

The aggregate purchase price is well below the purchase price in the original agreement which consisted of $88,000,000 in cash, plus HARV stock. Franklin Labs owns and operates a 46,800 sq. ft. cultivation and manufacturing/processing facility in Reading, PA which will assist HARV in building its vertically integrated medical business in PA.

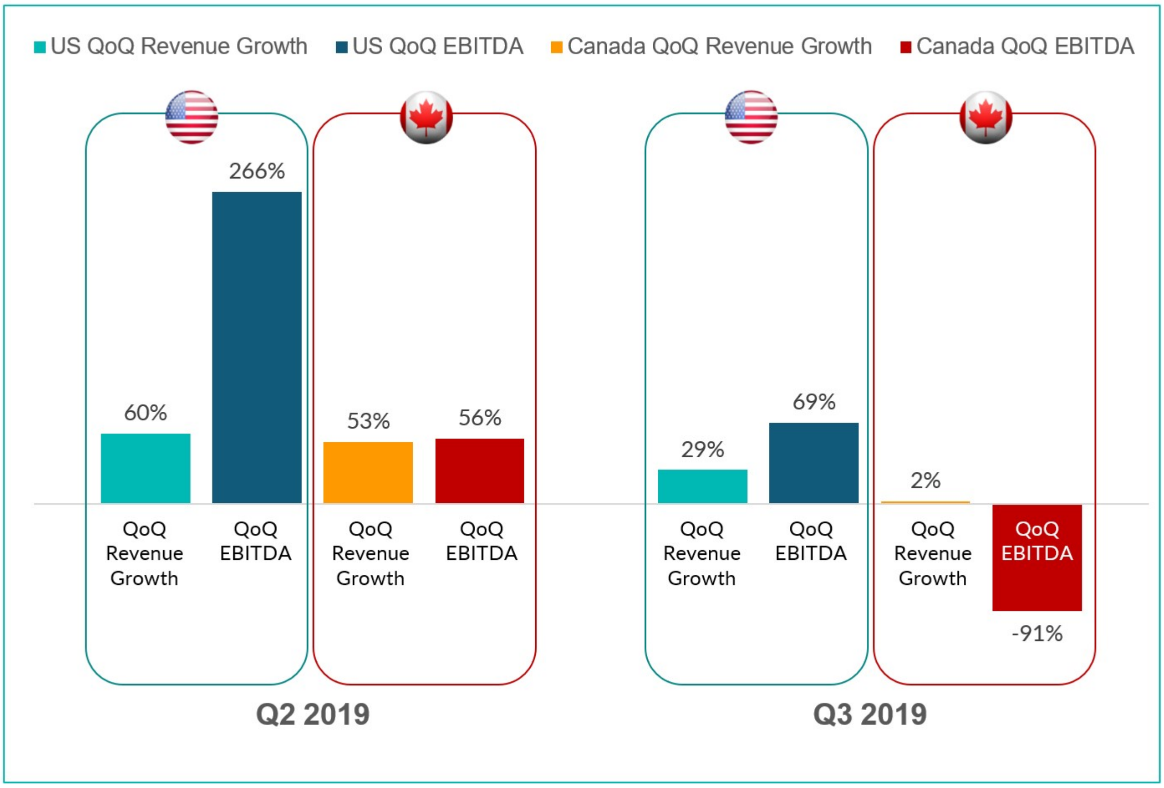
Cresco Labs (CL) & **Origin House (OH)** also announced an amendment to their agreement as well as a non-brokered financing for OH. In this case, the exchange ratio of the acquisition changed given market conditions since the original deal was announced early in the year. The exchange ratio has bee reduced from 0.8428 CL Share for each OH share to 0.7031 CL share for each OH share tendered. CL expects to close the transaction in January 2020. From the middle of November to close of business December 6th, the shares of OH rose relative to the CL takeout price based on the new terms from 32% to 21%, still representing a healthy spread. Origin House expects to hold a meeting of its shareholders to approve the new terms in late December, 2019.

Origin House will also complete a non-brokered financing of up to 9,705,882 common shares of OH at a price of C$4.08 per Common Share (9% discount to last close, 31% discount to implied deal price) for aggregate gross proceeds of C$39,600,000. The Financing was fully subscribed, and will be held in escrow pending closing of the Arrangement. In addition, certain persons, including services providers, have agreed to be paid amounts owing to them by OH in common shares.

3. Financials

We want to highlight the growth that has been achieved this year from US MSO's, both on a top line revenue growth basis, as well as from an EBITDA or cash flow basis. What is important to note from the chart below is the impressive growth achieved from quarterly financial releases, which shows the strength in the hands of the leading MSO's.

Revenue and EBITDA Growth: Canada vs US



Source: GMP Securities. Cdn LP's include APH, WEED, HEXO, CRON, FIRE. US MSO's include GTII, CURA, TRUL, IAN, HARV

TRULIEVE (TRUL) Q3 Financials: Florida Medical Market Leader

TRUL is the undisputed leader in Florida, a medical only market with over 300,000 patients registered and a total population of 20 million, the second largest state by population behind California. The company continues to maintain over 50% market share, having 37 open dispensaries with 40 planned to be open by year end.

Revenue in Q3 was $70.7 million (up 22% QoQ) 9% ahead of consensus. The company delivered strong Adj. EBITDA margin of 53% or $36.9 MM, 23% ahead of consensus. TRUL experienced a 19% increase in Florida patient count in Q3 along with the opening of 6 additional dispensaries bringing its total in Florida to 35 at quarter-end and 40 to mid-November.

Green Thumb Industries (GTII) is gaining an important head start by building brands, value-added products, and infrastructure across the 12 states where it is licensed across the US. GTII is well positioned, as it should have enough capital to fund its organic growth expansion of the 95 retail licenses it holds, with no pending acquisitions.

GTII's Q3 revenues came in at $68m, ahead of consensus of $61m. The increase is attributable to both strong organic growth in retail sales as well as growth in wholesale distribution. Same-store-sales (SSS) were up 22% QoQ. Sales of branded products (i.e. wholesale activity) improved 50% q/q, and the company's products are now carried in 700+ stores in 8 states. The company is continuing to focus on expanding its cultivation/manufacturing in IL, MA and PA.

GTII had strong adjusted EBITDA reaching $12.7m (ex. bio asset adj.) well over consensus estimates at $7.5m in EBITDA. It’s cash flow was noteworthy in light of the company building out operations in NJ where it has no operational revenue but is incurring costs. The company now generates revenue in 11 of 12 states where it has operations. The buildout in New Jersey (the 12th state) is ongoing and expected to begin contributing to revenue within 6 months.

Through organic growth and significant M&A activity, **Curaleaf (CURA)** is the largest MSO, operating with licenses in 19 states. It recently successfully passed the Dept of Justice HSR approval on its Select acquisition which will see significant contribution to both top and bottom line results with closing of that transaction expected in early 2020. For Q319, Managed Revenue reached $73 million, a 15% beat on consensus of $63.6 MM. Sequential Q over Q growth at 27% was driven by organic expansion in FL, and wholesale revenues in MA, combined with the contribution from its previous Acres acquisition in AZ. Gross margins improved QoQ to 56.2%, and as a result, EBITDA margin came in at 14.6% or $9 million, the company’s highest quarterly profitability level on record. The company’s acquisition of Grassroots (private company-from the state of IL) is expected to close in Q1/20. Grassroots is experiencing rapid growth in its primary states of PA and IL. For 2020, company guidance is for revenue to reach $1 B - $ 1.2 B while EBITDA margins should be in excess of 30%.

CURA stands at 51 stores open as at November end. The Company is looking to add an additional 12 stores in FL by the middle of next year. Grassroots is currently at 25 locations. On a combined pro-forma basis CURA has licenses for 131 stores.

Noteworthy Canadian Financial Results

Medipharm (LABS), a Canadian leader in extraction services had strong Q3 results with revenues of $43.4 million and gross profits of $14.8M or 34%. Overall, LABS reported adj. EBITDA of $10.1 million net income of $5.4 million, which increased 32% over Q2.

LABS' strategy is focussed on utilizing its 300,000 kg of extraction capacity as it builds off its eight private label and white label long term contracts in the new Cannabis 2.0 environment. We believe the company is well positioned to provide distillate and isolate as the market for edibles, topicals, beverages and vapes expands both in Canada and abroad. Adding to LABS opportunity for global growth is its facility under construction in in Victoria, Australia that will have capacity of 75,000 kgs of capacity expected in 1H20. The Australian facility will service the domestic medical market as well as be an exporter to the Asia Pacific region. The company currently has over $80 million in cash and unused credit facilities that will allow it to review strategic growth opportunities as the arise.

Village Farms (VFF) announced its Q3/19 results, which missed expectations, but disclosed that its Canadian cannabis JV, Pure Sunfarms (PSF), became one of the best-selling brands on a volume and dollar basis in the OCS, achieved during its first full month of adult use recreational sales (October), having 3 of the top 7 selling dried flower products in Ontario. VFF received its sales and packaging license and is now selling directly to the provinces. This will result in higher sales volumes as VFF is no longer bound within the B2B market and can sell at higher prices.

VFF reported its Q3/2019 results which include both its legacy fruits and vegetables business and its cannabis operations in the Pure Sun Farms JV. Total revenue was US$38.3 million for the produce business. Pure Sun Farms generated revenue of C$24 million in revenue at a 69% gross margin and EBITDA of C$13.3 million or 56%.

During the month there have been conflicting reports from VFF and its JV partner Emerald Health Therapeutics (EMH) regarding capital payments required to maintain the 50/50 equity participation of EMH. The disagreement led to a revenue and EBITDA shortfall relative to estimates in Q3 for Pure Sun Farms. We do not see the sustainability of the current partnership and look to announcements over the next number of months on resolving the equity ownership issues in what is becoming a fairly public disagreement.

In analyzing the revenue potential for VFF going forward, it is important to understand the production strength of Pure Sun Farms. PSF sold 12,000 kg in Q3, making it one of the top 3 producers in the country and the only LP with a cost per gram of C$0.62 the lowest in the Canadian industry. With its sales licence in place, PSF will also be able to sell more product directly, rather than through lower margin wholesale markets.

4. Options Strategy

During November the Fund continued using its option strategy to enhance risk adjusted returns. With the above average volatility in the cannabis and associated health care sectors, we are able to generate significant option premium, while lowering the overall volatility of the Fund relative to its underlying benchmark. Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of over $2.32 million.

During the month we used our option strategy to assist in rebalancing the portfolio in favor of names we prefer while generating an impressive $87,000 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 Canopy Growth (CGC), Planet Fitness (PLNT), Intuitive Surgical (ISRG) and Aphria (APHA). During the month, we were able 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 Village Farms (VFF), Procter & Gamble Company (PG), United Health (UNH) and Tilray (TLRY) with, cash secured puts on TLRY having been especially rewarding. We have been able to take advantage of both the recent price correction and elevated volatility to write cash secured puts on Tilray.

Tilray has not been a core holding for the Fund for more than a year now. However, we have been able to take advantage of both the significant price correction and elevated volatility to write weekly cash secured puts on Tilray. Explained below is the summary of our trades since we once again implemented our cash secured put strategy on Tilray on October 23rd.

On October 23rd with TLRY down 68% year to date and volatility in the name at heightened levels we began writing weekly cash secured puts with the stock trading at $22.58, with an expiry date of November 1st at the volatility level of 73% with strike price USD$21.00 and earning USD$0.50 in option income. That equates to a strike yield of 2.4% for 9 days outstanding or the equivalent of 247% for a year. On November 1st the option expired out of the money and each week since we have continued to write slightly out of the money cash secured puts bringing us to November 29th expiry where we have been able to earn a total of USD$1.74 per share in option income. Since October 23rd TLRY has pulled back and closed at USD$19.84, a drop of USD$2.74. Investors who bought TLRY at the reference point of USD $22.58 and not used the cash secured put strategy to earn option income would be down 12.1% whereas with our option income earned since October 23rd and our final contract strike price of $20.00 being exercised we are up 8.7% on our adjusted cost base of USD$18.26, an outperformance of 20.80%. Since being assigned on November 29th we have implemented a weekly covered call strategy on TLRY.

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

Portfolio Team
Ninepoint Alternative Health Fund

Compounded Returns[1]

	1MTH	3MTH	6MTH	YTD	1YR	INCEPTION
FUND	0.8	-8.4	-20.8	-2.6	-10.5	25.8
INDEX	0.0	-8.0	-20.2	-6.3	-18.8	8.8

Statistical Analysis

	FUND	INDEX
Cumulative Returns	70.3%	21.6%
Standard Deviation	31.27	33.02
Sharpe Ratio	0.79	0.23

[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 November 30, 2019. 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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