



Ninepoint Alternative Health Fund

October 2020 Commentary

Equity markets during the month of October were hampered by the delay in stimulus talks between Congressional leadership and the US Treasury representing the White House. Competing political positions led to stagnant negotiations between the Republicans in the Senate and White House and Democrats controlling the House. As well, there was increased uncertainty with respect to the outcome of the US elections on the horizon. Will the election be contested; will mail in ballots take weeks to count; will there be States that lead to further drama such as Florida in the 2000 Presidential election? During election season, tax policy pronouncements have also led to considerable debate that now stands at the forefront in the minds of the US investor electorate. As a result, North American equity markets reflected increased volatility as investors began to focus on what potential changes could occur in the next Congress.

For the month of October, the Fund was up 6.51% outperforming the passive cannabis indexes such as the HHMJ, up 4.7% as well as the SP500 Healthcare Index -3.34. Strong performance in the month was led by the Fund's weighting in US cannabis Multi-State Operators (MSO's) that have been gaining traction as significant catalysts became a possibility as polls put the Democrats ahead of Republicans in many battleground States as well as in the race for the White House. Leading performance was achieved through our newest MSO investment Terrascend (TER) +33.80% in October; followed by Top Ten investments Curaleaf (CURA) +28.6%; Green Thumb Industries (GTII) +22.22% and Cresco Labs (CL) +18.37. Our portfolio allocation continues to favour US MSO's that maintain 75% of our overall cannabis weighting as we believe that the US landscape continues to offer great upside. Sector allocations for the fund include Cannabis at 55.6%; Pharma & Health Tech at 18.35%; Other Wellness 16%; Supplements & Nutraceuticals 3.38% and a Cash weighting of 6.52%.

Topics Covered

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

1.1 US Regulatory- The Green Sweep

The blue wave did not materialize however a Green Wave did take place. The results of the US elections produced positive results for Cannabis investors allocating capital in a strong environment for the leading US Multi-State Operators (MSO's). At the time of writing, Democrat Presidential candidate Joe Biden appears to be taking the White House, who along with running mate Kamala Harris, have been vocal supporters of federal cannabis legislation. In addition, all five states with

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cannabis measures on the ballot Nov 3rd were successful. New Jersey, Arizona and Montana all passed adult-use cannabis legalization, while South Dakota passed medical and adult-use cannabis legalization at the same time. Finally, Mississippi passed medicinal cannabis legalization bringing the total US market to 35 states legalized for medicinal cannabis, and 15 states legalized for adult-use. 16 million Americans were added to the addressable market of States that allow adults to use marijuana legally. They join 93 million Americans who live in states that already have legalized, meaning approx. 1 in 3 Americans now live in states where marijuana is legal for anyone at least 21 years old.

Many States that have passed adult use recreational legislation have Republican Senators including MT, SD, and MI. Given the growth of cannabis in their states, we think that may be supportive of further federal reforms as cannabis is one of the few issues that is resonating across party lines. We can see the combination of a Democrat White House and House of Representatives, and a Republican controlled Senate could bode well for opening the door to negotiation for the SAFE Act.

The Green Wave: Five States Approve Cannabis Legalization Measures



Source: MJ Biz Daily

In terms of portfolio companies that have exposure to the state ballot initiatives, **Curaleaf (CURA)**, with the #1 market share in NJ, #2 market share in AZ, the #3 position in PA and a leading position in NJ. **Harvest Health and Recreation (HARV)** has the most torque to the AZ ballot passing, with the #1 market share in AZ, and the #2 market share in PA. Finally, **Green Thumb Industries (GTII)** has #1 market share in PA, and has a strong presence building in NJ.

The growth in the total addressable market (TAM) doesn't end Nov 3rd. As mentioned in previous commentaries, the domino effect in the North East is taking place as neighbouring states around New Jersey will be forced to enact adult use legislation to avoid the loss of tax revenue from drivers going to NJ. We see New York, Pennsylvania and Connecticut in the next 6 to 12 months bringing legislation forward for adult use legalization. The concern on the part of Governors is the potential loss of tax revenue that has become a major issue given the economic and health care cost challenges that COVID lockdowns have caused.

As more states approve adult-use, pressure will continue to build on Congress to take some action on one or more of the cannabis-related legislation at the federal level.

New York

In the run up to the election, New York Gov. Andrew Cuomo said NY will legalize marijuana “soon” to help with the economic recovery from the coronavirus pandemic. As he stated at a press conference “I’ve tried to get it done the last couple years.” Gov. Cuomo has included legalization in his last two budget proposals, but negotiations between his office and other State officials fell through, with challenges about how cannabis tax revenue would be allocated is causing significant debate. Already, NY has joined several other States announcing regulations with respect to CBD ingestibles, (food and drinks) that goes against the slow response at the Federal level and guidelines from the FDA. The New York health department is allowing the public to comment on the proposed regulations until January 11th of the next year.

Illinois

The Illinois Department of Financial and Professional Regulation (IDFPR) reported that October adult-use cannabis sales grew 15% month over month (MoM) reaching a new monthly record of \$75 million. As IL approaches its first anniversary since adult use recreational sales began, monthly reports continue to show stronger sales growth. October sales were up 92% from January levels of \$39 million, when the market originally opened. Q3/20 cannabis sales reached \$288 million, up 30% from Q2/20, and 53% from Q1/20. Cannabis sales YTD has reached \$700 million, with a run-rate of more than \$1.1 billion annually. Leading players in IL include Green Thumb Industries (GTI) Cresco Labs (CL) and Curaleaf (CURA).

Illinois Monthly Recreational Sales



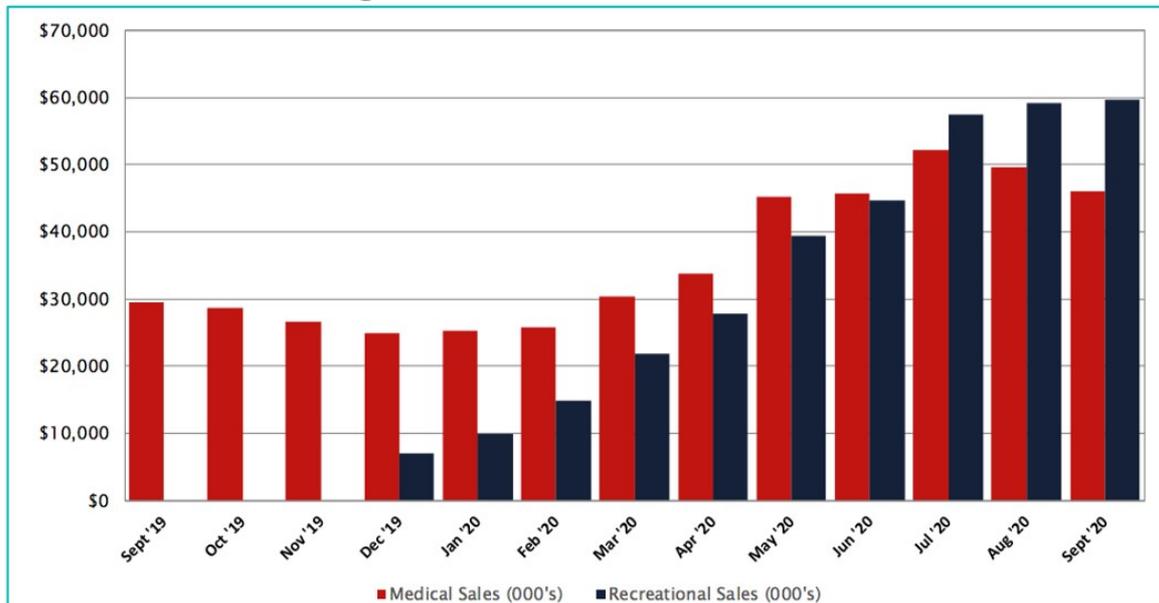
Source: IDFPR, Stifel GMP

Michigan

Adult-use cannabis sales were \$59.7 million in September, the most recent monthly data available, up 1% from August while medical sales in August was down 7% to \$46 million. Year to date, adult-use sales approached \$340 million while medical sales YTD have reached \$353 million. On a quarterly basis, strong growth has been seen from both medical as well as recreational demand

growth, with adult-use sales in Q3/20 up 58% from Q2/20 and 280% from Q1/20. Medical sales in Q3/20 were up 18.6% from Q2/20 and 81% from Q1/20.

Michigan Medical and Recreational Sales



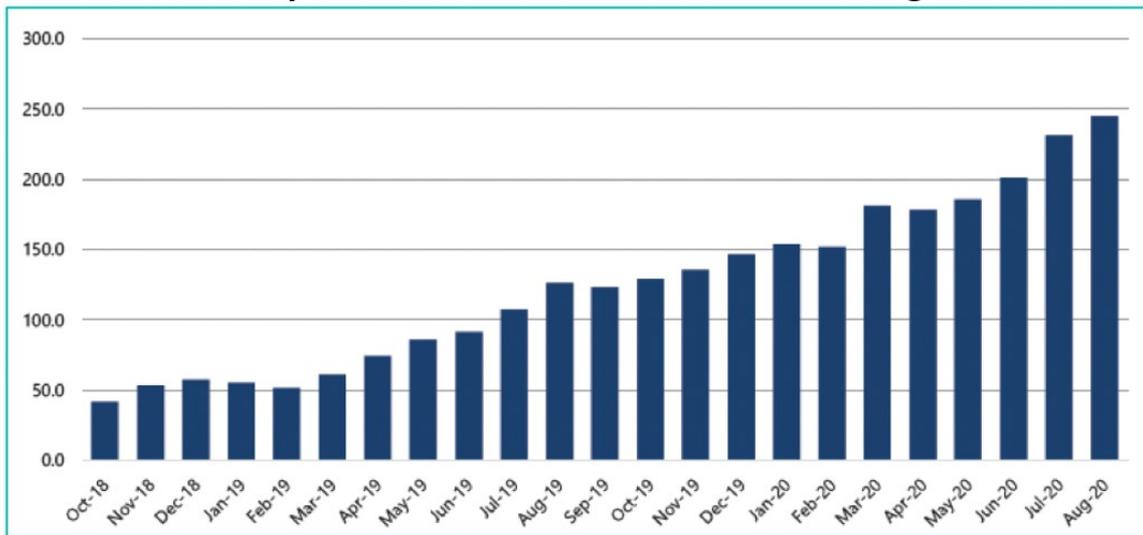
Source: VIII Capital

1.2 Canada

Statistics Canada results continue to show slow and steady increases in Canadian adult-use recreational demand. During the month of August, cannabis stores recorded sales of \$245 million, up 5% over July, putting the Canadian market on course for a \$2.8 billion run-rate and a \$3.5 billion run-rate for the total Canadian market when combining both medical and recreational sales. 90% of provinces saw increased sales growth in August with **NFLD** experiencing the most MoM growth at +13%; **ON** was +11%, while **NS** was +9%. Of significance from a dollar perspective is Ontario's 11% MoM growth which translated to sales of approx. \$67 million, representing 27% of the national market.

Sales growth has been generated by several key factors. First are increased store openings especially in **Ontario**, the largest province by population, with 27 retail locations added in the month. With the Alcohol & Gaming Commission committed to 40 store authorizations per month, we anticipate more brick and mortar to help provide convenient locations throughout the province. It is important to note that Ontario has significant room to grow with **Alberta** and its over 527 stores exhibiting a ratio of 12.1 stores per 100,000 people vs. **Ontario** with 1.4 stores per 100,000. A second factor leading to increased sales is long over-due form factors that are entering the market, such as gummies, chewy, cookies, chocolates, beverages and powdered beverage mixes. As traditional CPG (consumer packaged goods) strategies and product ideas enter the space, we anticipate further inroads to sales growth. A final factor that contributes to overall demand relates to health concerns brought on by COVID. Issues such as assured cultivation practices, sealed packaging, convenient locations and home delivery are all helping consumers in this uncertain time.

Monthly Canadian Recreational Retail Sales Progress



Source: StatsCan

Alberta

Alberta has lifted its cap on the percentage ownership that cannabis retailers can control through retail distribution. Seen as a constraint to entice retail participants, Alberta is removing its cap to allow companies to take up more of the market share. At the end of September, the provincial government amended the Gaming, Liquor and Cannabis Regulation to remove the limitation that prevented any one person or group from controlling more than 15 per cent of cannabis licenses issued in Alberta. The government introduced the 15 per cent cap prior to cannabis' legalization in October 2018. According to the AGLC, the cannabis retailers with the biggest share of the market include Fire & Flower, Nova Cannabis and SpiritLeaf each controlling a little more than 5% of the 527 cannabis providers found in Alberta.

2.1 Company Announcements

Aphria Inc. (APHA) announced it has entered into an agreement to acquire SweetWater Brewing Company, a US-based craft beer company, for US\$300 million representing a 12.5x adjusted EBITDA multiple, an accretive transaction given that APHA trades at 16x 2021 EV/EBITDA. The deal helps APHA with its brand building ahead of US federal legalization initiatives that are on the horizon. SweetWater was founded in 1997, and is a leading independent craft brewer, with distribution in 27 states including thousands of stores, bars and restaurants. The distribution is key to the transaction as APHA has made it known that it wants to enter the US market with brand businesses as a way to use existing distribution to build awareness of its cannabis brands (once federally permissible). In addition, management believes that SweetWater's own brands should complement APHA brands especially one of its best-selling "SweetWater 420 Extra Pale Ale" that already uses a terpene-based profile via hemp.

During the month, as the world continues to wait for the successful completion of phase 3 clinical trials related to vaccines to help control the coronavirus, three of the larger organizations involved in drug development announced temporary pauses to their clinical trials. First, **AstraZeneca (AZN)** announced that a patient had fallen ill in its trial that it was undertaking with Oxford University in the UK. Next, **Johnson & Johnson (JNJ)** with their Janssen trial also announced a patient fell ill with their promising single dose vaccine. The JNJ vaccine holds promise for JNJ as it is a single dose

regimen vs all other leading vaccines (such as Pfizer's) that require 2 doses. Finally, **Ely Lilly (LLY)** also announced a temporary delay due to illness of someone in the trial. Although media reports present a negative view of the temporary delays, it brings up the strength and efficacy that we see in the large multi-billion dollar pharma leaders and their drug development teams. It is fairly normal to have trials delayed where independent reviewers must check with scientists to verify whether medication or independent issues contribute to illness as there are double blind studies that prevent the companies from knowing directly whether illness was caused by a vaccine or a pre-existing condition.

Canopy Growth (WEED) majority-owned brand, **Biosteel**, announced distribution partnerships with Manhattan Beer and Reyes Beer Division, that will distribute Biosteel throughout New York City and into California and Florida. This is in addition to beverage distribution that WEED majority shareholder **Constellation Brands (STZ)** could provide for its various wine, spirits and soft drinks brands throughout the US. The expanded footprint and enhanced consumer awareness comes with the recent partnerships with NFL stars Patrick Mahomes and DeAndre Hopkins, and WEED's partnership with Martha Stewart that could see increased shelf space and sales.

2.2 Financial Releases

TerrAscend (TER), a newer holding for the Fund pre-announced strong Q3/20 results, with strong quarterly revenue and adjusted EBITDA growth. Net sales came in at \$51m, up 8% QoQ, where we saw continued sales growth in PA, NJ and in CA where the company has focused on building cultivation capacity since Q1. Significant strength in financials was seen in the release of adjusted EBITDA that came in at ~\$18 million, up 56% QoQ, and ~25% above consensus estimates of ~\$14 million.

We believe that **TER** should continue to produce growth in top line revenue and cash flow in coming quarters with its positioning in PA where previous investments in cultivation are strengthening its wholesale business as well as in NJ where its footprint is ramping up. Given the limited number of licenses and cultivation in NJ and the new recreational legislation discussed above, we anticipate the **TER** sales ramp to continue.

Innovative Industrial Properties (IIPR) reported Q3/20 results that showed continued strength and progress as it continues to provide real estate financing solutions to the cannabis industry. Revenues in the quarter reached \$34.3 million up 41% QoQ and ahead of consensus estimates of \$29.6 million. IIPR recorded net income of approx. \$18.9 MM for the quarter, or \$0.86 per diluted share, ahead of estimates at \$0.79 per diluted share.

Adjusted funds from operations (AFFO) were approximately \$27.9 MM, or \$1.28 per diluted share. IIPR paid a quarterly dividend of \$1.17 per share on October 15, 2020 to common stockholders of record as of September 30, 2020, representing an approximately 10% increase over Q2/20. In September, IIPR issued 474,000 shares of common stock for net proceeds of approximately \$58.1 MM under its "at-the-market" equity offering program.

Aphria Inc. (APHA) reported financials for its Q1/21 that provided significant Canadian recreational sales growth, yet muted international distribution revenues. Canadian recreational revenues came in a C\$69.6 million, an increase of 23% QoQ, showing strong execution of its retail brands widening its lead across the country. Management noted that it now controls the #1 Vape, #1 Oil and #2 flower across country. Of note is that APHA vape brands have a 32% market share. In addition to the growth of its existing brands, late in the quarter the company released Blingo, the company's

large format, lower potency cannabis brand. We note that overall cannabis sales was likely higher than Canadian market growth. Importantly, APHA continues to be one of the lowest cost producers in the country, and in the quarter announced reduced cash cost/gram of \$0.87/gr.

The headline negative for **APHA** was its international business, with reduced distribution revenues in Germany reducing ~17% to C\$82.2 million. In its call announcing the financial results, the company noted the impacts of COVID-19, including a reduction in the number of elective medical procedures and in-person visits to physicians and pharmacies in Germany which weighed on revenues. Despite reduced international distribution revenues, overall revenues were \$145.7 million declining ~4% QoQ.

When including all product lines including international distribution, adjusted Gross Margin was 30%. When focused on cannabis, adjusted cannabis Gross Margin was 49.7%, a decline from 52.9% in the previous quarter, due to the launch of larger format products and pipeline fill for its value segment products. Adjusted EBITDA remained positive, up 17% QoQ to \$10 million, APHA's 6th consecutive quarter of positive adjusted EBITDA. At quarter end, APHA continues to hold significant cash reserves at ~C\$400 million with another US\$100 million available via its ATM.

UnitedHealth Group (UNH) reported 3Q/20 total revenue of \$65.1 billion up 7.9% YoY and ahead of consensus of \$63.9 billion. Medicare revenue grew approx. 9% while its Medicare Advantage (MA) membership base increased 8.4% from Q3/19 results. Medical loss ratio (MLR) which reflects activity for elective surgeries and hospitalization came it at 81.9% vs consensus of 83.7%. MLR increased from Q2/20 levels reflecting the re-opening after COVID lockdowns in the late Spring as patients re-entered hospitals and took care of elective surgeries but patient counts continue to be lower than normal impacted by lower utilization rates. The issue on MLR is at what point will patients feel comfortable returning to hospitals for elective surgery. At this point as the number of COVID cases continue to rise, we see lower MLR into next year. UNH division Optum is a pharmacy benefit manager and care services group operating in 150 countries that generated total revenue that grew 21% YoY, reflecting acquisitions that are gaining traction in various markets. Adjusted earnings per share (EPS) for UNH were \$3.51 vs. consensus of \$3.10. The company also increased its 2020 adjusted EPS outlook to \$16.50-16.75 from \$16.25-\$16.55.

3. Options Strategy

During October the Fund continued using its option strategy to enhance risk adjusted returns. With the above average volatility in the cannabis sector, we can generate 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 **\$3.25 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 options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately **\$56,000** 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. We chose, however, not to write any covered calls during the month. 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 Innovative Industrial Products (IIPR), Grocery Outlet (GO), Maple Leaf Foods (MFI), and Nomad Foods (NOMD), with weekly cash secured puts on Innovative Industrial Products 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 Innovative Industrial Properties Inc., the leading provider of real estate capital for the medical-use cannabis industry in the United States.

Innovative Industrial Properties (IIPR) provides real estate capital for the cannabis industry in the United States by entering into sale and leaseback agreements with companies. Such agreements typically represent non dilutive capital solutions for companies whereby MSO's use the proceeds from the sale of properties to IIPR to create the scale in cultivation capacity and retail dispensary networks necessary to meet the significant increase in demand from the legalization of adult-use cannabis and the expansion of the medical-use program in their state. In return IIPR acquires existing, redeveloped and under development industrial buildings including attached enclosed greenhouse facilities. We established our core position for some time now but look to take advantage of both the recent price correction and elevated volatility to write cash secured puts to accumulate further shares. On October 21st IIPR was trading at USD \$125.81 and we wrote a 30-day cash secured put by selling a November 20th expiry at the volatility level of 56% with strike price USD\$115.00 and earning USD\$3.50. That equates to a strike yield of 3.04% for 30 days outstanding or the equivalent of 34% for a year. The breakeven for being assigned would be USD\$111.50 or 8.59% lower than the reference point when the trade was placed. As of the date of this writing IIPR trades between USD \$120 and \$130 level and we are happy to continue this strategy at these levels as IIPR negotiates additional investments for both new tenants and expanding partnerships with existing tenants.

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 daily. 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

Sub-Advisor to the Ninepoint Alternative Health Fund

Ninepoint Alternative Health Fund - Compounded Returns¹ as of October 31, 2020 (Series F NPP5421)

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED)
FUND	6.51%	12.60%	3.47%	22.30%	9.95%	17.42%	21.05%
INDEX	2.85%	-25.57%	-8.20%	-6.83%	-23.87%	-2.17%	-2.35%

Statistical Analysis

	FUND	INDEX
Cumulative Returns	85.73%	-7.42%
Standard Deviation	28.93%	30.87%
Sharpe Ratio	0.69	-0.12

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 October 31, 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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