Ninepoint Alternative Health Fund

August 2022 Commentary

Investment Team

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Summary

In this month's commentary, we discuss the challenges of US Fed tightening that continues to create headwinds for many sectors. We believe that in this light, the **healthcare industry** is one that can outperform in this economic reality, helping provide growth and stability to the fund as the cannabis market awaits legislative action. We see this as a good opportunity for investors to add to your position in the **Ninepoint Alternative Health Fund**. Additional topics covered in this commentary include the **US mid-term elections** and the potential jockeying for positions Democrats and Republicans are going through with respect to **federal cannabis legislation**. We also discuss recent acquisitions in Canada involving Sundial Inc. (SNDL) as it attempts to consolidate its position as a leading producer/retailer. Various companies are highlighted including Q2 financial releases from wellness companies Jamieson Wellness (JWEL), and SunOpta (STKL), as well as Q2 results from US MSO Verano Holdings (VRNO). For the month of August, that resilience related to "needs" vs "wants" was evidenced as the Ninepoint Alternative Health Fund returned 4% for the month while the broader markets suffered with the S&P 500 down 4.24% in August.

Full Commentary

Since the beginning of the year, North American equity markets have been coming to terms with new realities that have not been factors in equity markets for well over a decade; an economic environment of slowing growth, an economy with sustained elevated inflation, and tightening monetary policy conditions. Equity markets started the month of August with renewed enthusiasm based on misplaced hope that the US Federal Reserve would pivot from its program of interest rate hikes to a more moderate approach. It is understandable for many to assume a pivot was in the works given the multi-decade "Fed Put" that has been in place as if the Federal Reserve would backstop equity markets. However, by the latter part of the month and with the presentation of Chairman Powell's short but to the point remarks from Jackson Hole, the market received the message; the Fed is no longer backstopping equity markets. The Fed's mandate is to pursue the economic goals of maximum employment and price stability and as we have seen recently these dual roles can conflict. Investors are concerned that focusing on price stability (read combating inflation) means economic growth will slow and will cause a recession leading to loss of employment. After more than a decade of historically low interest rates and accommodative monetary policies that for a variety of reasons did not result

in high inflation, central banks must now provide needed medicine to bring uncontrolled inflation under control.

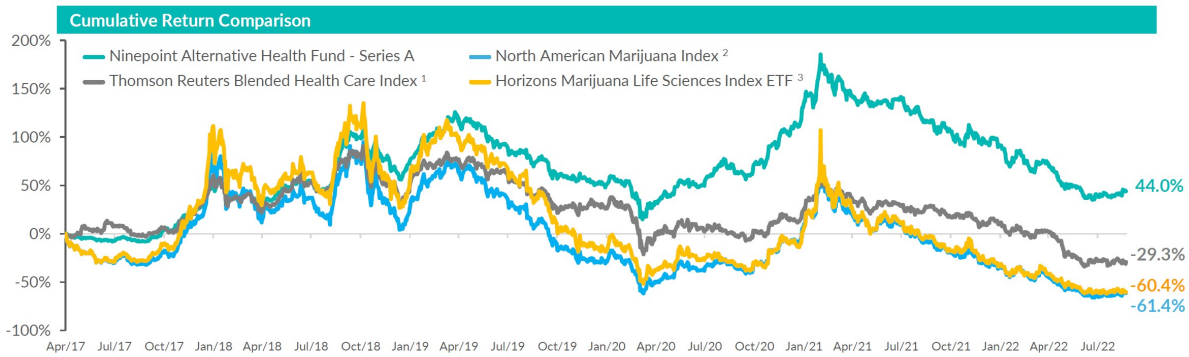
As a result, investors must adjust to new realities, looking at companies that have the ability to pass on a good portion of inflationary cost increases, generate stable cash flows, often those with leading brands with solid distribution. These companies are categorized as providing "needs" vs "wants". As we have seen recently with weakness in consumer discretionary stocks vs consumer staples, consumers become more discerning when inflation and recessionary fears take hold. It is with this backdrop that healthcare and related industries can be seen to provide solid opportunities for investors in the coming months. Healthcare data suggests that non-COVID hospitalization is up relative to 2019. Similarly, we have discussed an inelasticity of demand for cannabis emanating from its medical applications as well as its recreational consumption patterns similar to alcohol and tobacco. In addition, we believe that operationally the leading US MSO's do have the operational scale and breadth of product offering to successfully weather the downturn. As a result we see resilience for the Fund in the following months.

In this month's commentary, we discuss the challenges of US Fed tightening that continues to create headwinds for many sectors. We believe that in this light, the **healthcare industry** is one that can outperform in such economic cycles and as such we see this as a good opportunity to add to your position in the Ninepoint Alternative Health Fund. Additional topics covered in this commentary include the **US mid-term elections** and the potential jockeying for position Democrats and Republicans are going through with respect to federal cannabis legislation. We also discuss recent acquisitions in Canada involving Sundial Inc (SNDL) as it attempts to consolidate its position as a leading producer/retailer.

Companies highlighted include Q2 financial releases from wellness companies Jamieson Wellness (JWEL), and SunOpta (STKL), as well as Q2 results from US MSO Verano Holdings (VRNO). For the month of August, that resilience related to "needs" vs "wants" was evidenced as the Alternative Health Fund returned 4% for the month while the broader markets suffered with the SP500 down 4.24% in August. The Fund's holdings that contributed to the month's strength included Green Thumb Industries (GTI) +48.3%, Sunopta Inc. (STKL) 12.6%, Verano Holdings Inc (VRNO) 13.16%.

Ninepoint Alternative Health Fund

Cumulative Returns (As at August 31, 2022)



Inception date: March 26, 2017. Chart shows period between April 11, 2017 and August 31, 2022

Period between April 11, 2017 and August 31, 2022	Annualized Return	Annualized Std Dev	Downside Deviation	Sharpe Ratio	Sortino Ratio	Max Drawdown
Ninepoint Alternative Health Fund – Series A	7.2%	27.5%	16.1%	0.24	0.45	-47.6%
Thomson Reuters Blended Health Care Index[1]	-6.4%	36.6%	21.9%	-0.19	-0.29	-58.7%
Horizons Marijuana Life Sciences Index ETF[3]	-16.2%	60.5%	33.6%	-0.28	-0.48	-82.4%
North American Marijuana Index[2]	-16.6%	55.0%	32.2%	-0.31	-0.51	-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.
Source: Ninepoint Partners

US Federal Cannabis Reforms

August witnessed positive equity returns in the cannabis space while broader markets sold off. We suggest that although fundamentals are sound for the leading US MSO's (multi-state operators) much of the enthusiasm occurred in response to discussions taking place in Washington in response to Senator Schumer's cannabis legislation proposal finally being brought to the US Senate floor. The long-awaited Cannabis Administration and Opportunity Act (CAOA) is an all-encompassing piece of legislation that has been in the works for well over a year. We remind readers, the House has passed SAFE Banking legislation seven times in the last few years, the stumbling block being Senate Democrats wanting far more in terms of social equity and judicial reforms in return for FDIC banking access for regulated cannabis companies. Our view is that we do not see federal cannabis reform passed prior to the midterms. While the US appears to be on the path to eventual federal cannabis reform, exact timing remains unclear.

Key points in the legislative package should include the opening up of capital markets and improving US based custodians' comfort in providing custodial services for US cannabis company shares. This involves getting the Department of Justice (DOJ) to provide protection similar to that provided by the Cole Memo (Obama Admin document preventing DOJ funding to stop state legal cannabis enterprises) and for The Financial Crimes Enforcement Network (FinCen) to allow banks to service licensed cannabis businesses. For investors, the safe harbor language in SAFE would provide effective comfort for US Exchanges, and could force FinCen to update or issue new guidance clarifying policy changes to allow banks and financial services to

lawfully service legal cannabis businesses. This would be the best outcome for legal US cannabis companies. We believe we are still years away before any comprehensive cannabis reform.

US Cannabis Regulatory Update

US Mid-Term Election Posturing

Pennsylvania Lt. Governor John Fetterman (D) is running for the US Senate and has been getting press as President Biden plans to spend time in PA during the election campaign, a significant swing state. Lt Gov. Fetterman has been a cannabis activist for years. Over the last two years, the Biden Administration has been silent on cannabis reform after the candidate pledged cannabis reform and decriminalization when he ran for president.

Senator Ron Wyden (D-OR), a lead Senator along with Sens Schumer and Booker with respect to the drafting and negotiating the Cannabis Administration and Opportunity Act (CAOA), has recently been adjusting his position with the reality, in his words, that they probably don't have enough votes to get CAOA across the finish line.

The challenge that many Democrats have is that they talked about cannabis reform and then rather than taking a step by step approach, went for the home run and came up with nothing. House of Representative Member Earl Blumenauer (D-OR), the six time co-sponsor of the SAFE Banking Bill in the House recently provided his opinion on Senate leadership on the issue when he said "I think the senator is fully aware of the consequences of this failed policy of prohibition in terms of SAFE Banking and the threat to the very communities he wants to support." To attempt some form of cannabis policy win, Senators Schumer and Booker have recently been speaking with senior Republican Senators to try and find a place in September to put SAFE+ to the Senate floor. It is thought that what hits the floor is some combination of the SAFE Act and the HOPE Act. While we recognize that the legislation faces a difficult path, we do see bipartisan support for SAFE and therefor significant upside for the sector should be considered.

M&A in the Cannabis Industry

CURA Continues to Look Outside the US

Early in August, Curaleaf International, 68.5% owned by US MSO Curaleaf (CURA) announced it was taking a 55% stake in Germany's Four20 Pharma by paying €19.7Mn in cash and stock. Four20 Pharma is an EU-GMP & GDP licensed producer and distributor of medical cannabis, distributing its own branded product line. The parties involved have signed a "shotgun" agreement allowing either party to trigger the buyout of the remaining 45% after two years into a potential legal recreational cannabis market opening in Germany. With a significant population and considerable demand, Germany could be a large rec market for CURA, as Germany currently represents the largest medical cannabis market in Europe, with a total addressable market of over €200M in 2022 and expected to grow to nearly €1bn post legalization. Insight Health data shows the company had 9.7% volume share in flower year-to-date (Jan-July).

Sundial Consolidates Processing & Distribution

In Canada, we are seeing M&A consolidation type transactions however we caution readers that with current market dynamics, we are unsure of the success. Canadian market dynamics are challenged in that more stores continue to open, yet the average sales per store continues to come down. Retail prices are putting pressure on producers to continue to be more efficient, while they attempt to be low-cost operators. However, unlike the US market where marketing and branding are leading to product differentiation and a national following with increased traction for certain brands, in Canada there is a regulated inability to support product offerings with marketing. In Canada, marketing is severely limited essentially to instore promotion with very limited outreach. In the US, marketing continues to expand using digital opportunities, print ads and in some states billboard advertising. It is with this comparison that we believe the US retail landscape continues to build brands in the cannabis sector whereas in the Canadian market, distribution networks are being established based on price and product format only.

Sundial Inc. (SNDL) a Canadian LP has made some major changes to its focus since an extremely disappointing IPO in the summer of 2019. Coming out of the gate this Alberta based LP was not able to gain traction with investors as its cultivation was subpar and competition for shelf space prevented the company from building a retail following. Since that time, SNDL has changed its focus to become a holding company for various strategic cannabis investments, using its IPO proceeds to acquire strategic assets in both Canada and the US. Although its US assets are to date less than exciting, its recent Canadian announcements are turning heads.

During August, SNDL entered into an agreement to acquire The Valens Co. (VLNS) in a share transaction valued at $138 million. The transaction does not come as a surprise as SNDL controls ~8% of VLNS through an equity purchase last summer and SNDL management has discussed their game plan to bring the company under the SNDL umbrella to assist with enhancing margins through vertical integration. VLNS has the capability to be a large volume low-cost producer of edibles and beverages, with a market position in Canada of approx. 3% of the recreational market. The focus of the transaction is to combine businesses and create a cannabis company that can reach a network of 185 SNDL related cannabis dispensaries through its Spiritleaf and Value Buds banners. Another incentive for VLNS shareholders is that the acquisition removes financing risk with SNDL's balance sheet of $314 million in cash, eliminating default risk on maturing debt in addition to providing shareholders with greater daily liquidity.

On the last day of August, SNDL announced another dispensary focused acquisition, buying Superette, operator of six retail dispensaries in Ontario, specifically in Toronto and Ottawa. Similar to the VLNS acquisition, SNDL had previously injected capital into Superette earlier this year to assist the company in preventing a CCAA closure. Although this transaction is not as large as the VLNS deal, it once again illustrates SNDL’s goal of becoming the largest retailer in the Canadian cannabis space. The challenge as mentioned at the top is that as the country seems to have some saturation issues, it will be interesting to see how this plays out. We are on the sidelines when it comes to the Canadian market.

Health & Wellness Update

As we contemplate a slowing down in consumer behaviour it is **important to allocate capital to names that have the ability to provide goods and services that are in demand despite overall economic weakness**. It is with this backdrop that we see a separation between "*needs*" vs "*wants*". Various names in the Alternative Health portfolio exhibit strong consumer demand, and are in a product category that consumers "*need*" meaning despite economic weakness, revenues will continue to grow.

To explain the difference, we will use two stocks not currently in the portfolio: Walmart (WMT) and Target (TGT). WMT sells a lot of grocery items, in fact 60% of revenues are in grocery, so WMT sells things people "*need*". Target, despite it being in the exact same category as WMT, does not sell as much on the grocery side, is actually larger into fashion, and other consumer products. As a result, TGT provides items people "want. In the current quarter and coming quarters we diverge on these names as people need to eat, they don't need to have latest fashion.

<u>We wanted to highlight some of our "*needs*" vs "*wants*" names and go through our rationale.</u>

- SunOpta (STKL) is a top ten holding with strong quarterly results out this month. STKL is one of the strongest players in plant based foods. It is a manufacturer of various dairy alternatives including oat, soy, rice, coconut, almond and hemp, producing alt-milk under its own brands, co-manufacturer for CPG companies, in addition to private label brands. It's largest client is Starbucks. Demand for the category continues to be driven by consumers' dietary changes, perceived health benefits, environmental reasons against cows milk, lactose intolerance, and changing taste preferences. The company is building the only US national network in a sector where demand outstrips supply.
- STKL revenues in Q2 reached $243.53 million, up 20.4% YoY based on strong demand in the plant-based beverage sector. Company revenues beat estimates by 12%. In Q2-22, the company had an earnings surprise of 400% and over the last four quarters, STKL has surpassed consensus EPS estimates three times. YTD shares are up approx. 27.2% versus the S&P 500's -13.5%. The plant based milk category has been growing steadily for over three decades, however with inflation headwinds creating challenges for many consumer companies, STKL saw 95% of cost increases due to inflation covered through increased pricing due to such strong demand. To add conviction to our position, SunOpta updated its full-year outlook to reflect the strong first half, with management providing revenue guidance of $930 million to $960 million, up from $890 million to $930 million, representing growth of 14% to 18% versus 2021. Also important is that guidance was also raised on EBITDA to $72 million to $78 million, up from $67 million to $75 million, representing growth of 18% to 28%.
- Jamieson Wellness (JWEL) reported Q2 financial results that shows continued traction for the Canadian based vitamins, minerals and supplements provider. JWEL Increased revenue overall by 1.3% to $112.0 million with strength from its Jamieson brands segment where sales grew 6.5% QoQ or $87.7 million. There were pressures from international sales however domestic branded sales increased 8% in Q2. Gross profit was 36.4%, increasing by

$2.4 million to $40.7 million in the second quarter driven by revenue growth and improved gross profit margin in the Jamieson Brands segment. Noteworthy is that in this inflationary environment where many companies are challenged with maintaining margins, JWEL Increased adjusted EBITDA by 9.5% to $24.4 million while net earnings reached $10.1 million.

- A key driver for JWEL is strong consumer demand and point of purchase growth reflecting consumers' prioritization of health and wellness in the post COVID era. To that end, JWEL's recent acquisition of Nutrawise Health builds the company's presence in the US with Nutrawise being a leading manufacturer and marketer of premium supplements under the 'youtheory' brand in the United States. The acquisition provides JWEL with a platform for expansion in the U.S. vitamin, minerals supplements (VMS) market through added brand and product offerings that are complementary to JWEL's branded portfolio.

Collaboration in Healthcare Services

In early September, Walmart Inc. (WMT) and one of the Funds top 10 holdings, UnitedHealth Group (UNH) announced a new 10-year collaboration in healthcare that brings together the expertise of one of the largest and well known retailers and the largest healthcare service providers to offer high-quality, affordable health services. The new business will initially launch 15 Walmart Health locations in Florida and Georgia in 2023. The initial focus of this combined service called "UnitedHealthcare Medicare Advantage Walmart Flex" will provide preventive care for people aged 65 and up, and virtual healthcare services for all age groups. Walmart's effort with UnitedHealth will target common ailments among aging Americans such as heart disease and diabetes.

Unlike traditional fee-for-service models, in which health insurers pay doctors a fee for each service provided, value-based health-care payments are tied to a patient's outcome and health. The model typically provides preventive measures including dietary guides, cancer screenings and frequent doctor visits. For WMT, the collaboration with UNH provides a renewed entrance into health care to enable it to better compete with CVS Health (CVN) and Walgreens Boots Alliance (WBA). WMT already provides physicians, community-health workers, behavioral-health therapists and nurse practitioners to help serve seniors who are already shopping at WMT. A key component of the service will be UNH's Optum pharmacy benefits software that will allow Walmart clinicians to deliver more efficient care solutions through various analytics tools. Ultimately WMT and UNH look to serve millions of people across various private payor and Medicaid plans, enhancing current initiatives to address social determinants of health, over-the-counter and prescription medications, and dental and vision services. When you consider that WMT has an exceptional reach with its approximately 4,700 stores in the U.S. and already provides an extensive list of grocery items, 60% of top line revenue from grocery, the collaboration offers a complete health and wellness solution for US consumers.

Options Strategy

Since inception of the Fund's option writing program in September 2018, the strategy has generated significant income from options premium of approximately $4.35 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.

We believe the current bout of weakness, sour sentiment, and the changes in interest rates are part of full cycle investing and should be monitored. While anxious in the near term, periods of extreme volatility often set up attractive entry points for high conviction plays that suffer from short-term drawdowns as intermarket correlations peak.

For market direction to change, we will need to see a macro trend reversal, usually driven by a catalyst event like a drastic change in Federal Reserve rhetoric that causes the market to reposition for a different policy regime and which brings renewed enthusiasm and capital into risk assets. Yield curves flatten and invert while headed into a recession and then steepens while in a recession. For now the market risk is to the downside. Patience remains our core allocation.

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.

During the month we used our options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately $60,000 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), Procter & Gamble (PG) 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 AstraZeneca PLC (AZN), Procter & Gamble (PG), Abbott Laboratories (ABT), UnitedHealth Group Inc. (UNH), and Perrigo Company PLC (PRGO).

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Sub-Advisor to the Ninepoint Alternative Health Fund

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

	MTD	YTD	3MTH	6MTH	1YR	3YR	5YR	INCEPTION(ANNUALI
FUND	4.1%	-26.9%	-2.9%	-17.5%	-32.5%	-5.0%	10.3%	9.6%
TR CAN/US HEALTH CARE BLENDED INDEX	4.3%	-36.8%	-7.5%	-29.6%	-44.6%	-19.9%	-6.44%	-7.4%

Statistical Analysis

	FUND	TR CAN/US HEALTH CARE BLENDED INDEX
Cumulative Returns	59.3%	-32.0%
Standard Deviation	28.1%	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 August 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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