



# Ninepoint Alternative Health Fund

## June 2022 Commentary

### Summary

In this month's commentary, we discuss the benefits of our allocation to US healthcare and large cap pharmaceuticals as equity markets continue to remain volatile, adjusting to the realities of a rising interest rate environment as the global economy slows down. We will also cover emerging opportunities in the European cannabis market, prospects for change and the potential impact. We discuss regulatory and state level changes in the US cannabis space.

For the month of June, global equity markets continued to sell off on the realization of a more hawkish US Federal Reserve and weakening trends among consumers. Around the globe, we see central banks finally stepping in to address what they failed to deal with one year ago, the onset of rampant inflation. At the same time, we see consumers tightening up as the cost of filling up their cars; food purchases and other basics rise. The S&P 500 was -7.46% for the month while the tech heavy NASDAQ was off -7.95%. To counterbalance the weakness in the broader markets, the Fund uses its allocation to healthcare to assist in stabilizing the NAV. June returns in US healthcare outperformed with the S&P XLV -2.2% while the Thomson Reuters US Healthcare Index was -1.61%. Healthcare is standing up better than the broader market and we provide reasoning behind our allocation in this month's commentary. We continue to see the US cannabis market outperforming the Canadian cannabis market in addition to seeing the European cannabis beginning to take shape after many years of false starts. As a result, we are allocating increased capital to healthcare while keeping our powder dry for opportunities for mispricing across different sectors within our mandate.

### Investment Team

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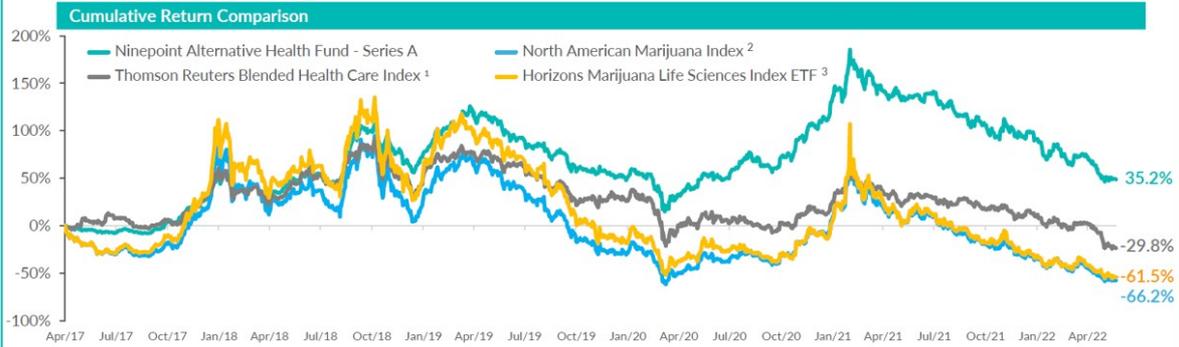
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Portfolio Manager, Faircourt  
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# Ninepoint Alternative Health Fund

Cumulative Returns (As at June 30, 2022)



Inception date: March 26, 2017. Chart shows period between April 11, 2017 and June 30, 2022

Period between April 11, 2017 and June 30, 2022	Annualized Return	Annualized Std Dev	Downside Deviation	Sharpe Ratio	Sortino Ratio	Max Drawdown
Ninepoint Alternative Health Fund - Series A	6.1%	27.8%	16.4%	0.20	0.37	-47.6%
Thomson Reuters Blended Health Care Index <sup>1</sup>	-6.7%	36.6%	22.2%	-0.20	-0.30	-58.7%
Horizons Marijuana Life Sciences Index ETF	-17.1%	60.6%	34.2%	-0.29	-0.50	-82.4%
North American Marijuana Index <sup>2</sup>	-19.2%	55.1%	32.7%	-0.36	-0.59	-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.

Positions that contributed to the portfolio in the month included Jazz Pharmaceuticals (JAZZ) with a +5% performance, Jamieson Wellness (JWEL) +4% and UnitedHealth Group (UNH) +4%. Also outperforming the broader markets were Johnson & Johnson (JNJ) at -0.92% and Pfizer Inc (PFE) at -1% both continuing to stabilize the Fund. Year to date, the S&P500 is -18.5% (in CAD) while the US Cannabis ETF, MSOS YTD generated a -58.8% in CAD. During this challenging time, the Fund came in at -31% YTD.

## Topics Covered in this commentary

1. Healthcare Outperforms the Broader Market
2. US Cannabis Update
3. European Cannabis Update
4. Options Strategy

### 1. Healthcare Outperforms

Periods of economic weakness and market volatility can create a challenging environment for some companies, while others can appear almost immune to the noise. We highlight our healthcare allocation in the Ninepoint Alternative Healthcare Fund and why these investments are continuing to provide stability and growth.

Companies like UnitedHealth Group (UNH) and Johnson & Johnson (JNJ) are often considered “safe havens” during recessionary periods and we wanted to outline why we hold these names and what they provide to the Fund. During this recent six-month period, companies are trying

to keep pace with rising prices, supply chains, the war in Ukraine, and other challenges. When consumers are under pressure, the first items to be taken off the shopping list will be luxuries such as cars, trips or wardrobe upgrades. But people will still need to take care of their health, they still want to see their doctor, they need scans and surgeries that have been put off over the last two years. Demand for these services is very resistant to changes in the broader economy. UNH provides medical and dental insurance solutions to both corporations and individuals. In addition, it continues to add services to its list of offerings including telehealth, pharmacy as well as data analytics to healthcare providers. JNJ is large and diversified with various lines of business. In the case of JNJ they own brands that regardless of the economy are in demand; Johnson's Baby, Neutrogena, Tylenol, Band-Aid, Listerine, Aveeno, Rogaine, and Nicorette. JNJ also develops drugs for conditions such as diabetes and prostate cancer. The consistent level of demand, and diversified product ranges for both companies lead to these companies being "safe havens" assets during a recessionary period. We can also look back at other periods when market weakness was pronounced and see better returns in healthcare.

Additional healthcare stability and growth have been provided in our exposure to pharmaceuticals. At a time when consumer focussed companies are seeing reduced demand, pharmaceutical companies are announcing innovative new drugs and delivery systems. Investors responded to Jazz Pharmaceuticals' (JAZZ) positive results from a Phase II & III trial, conducted in collaboration with the Children's Oncology Group (COG), evaluating the intramuscular (IM) administration of Rylaze in adult and pediatric patients with acute lymphoblastic leukemia. Also in June, the company announced Phase III study results on Sativex for the treatment of multiple sclerosis which failed to achieve significant improvement in muscle tone for patients in the trial. However, JAZZ remains committed to the program with additional data being analyzed from two other ongoing trials that have the potential to support a U.S. FDA submission. Sativex is already approved in 29 countries to treat adults diagnosed with moderate to severe spasticity due to multiple sclerosis who did not respond well to other anti-spasticity drugs.

Another top ten holding that has benefited significantly from the pandemic and continues to generate significant profits from COVID-19 solutions is Pfizer Inc. (PFE). PFE's 2021 revenue was over \$81 billion, double its 2020 revenue. Two years ago, PFE's biggest revenue generators were a pneumonia vaccine, the cancer drug Ibrance, and the fibromyalgia treatment Lyrica. In 2021-22 its mRNA vaccine accounts for 70% of the U.S. and European COVID-19 vaccine roll out. And with the development of Paxlovid, its COVID anti-viral treatment, the company expects to generate \$50 billion in global revenue from its COVID business unit alone.

In June PFE announced a significant new vaccine supply agreement with the U.S. government to continue the fight against COVID-19. Under the agreement, the U.S. government will receive 105 million doses at a price of \$30.47/dose which is significantly higher than the \$19.50-a-dose the US government paid for its first 100 million doses. The doses are planned for delivery in Q3 and Q4. We anticipate that other countries will be announcing similar supply agreements as well, further supporting the value of PFE as this is the end of the potential first wave of COVID-19 and its related variants, setting PFE up for longer term revenues and earnings from their leading

COVID-19 franchise. Beyond COVID-19, we believe the potential of applying its mRNA platform to other diseases represents a compelling opportunity.

Abbott Labs (ABT) has announced the development of a new bio wearable that will continuously monitor glucose and ketone levels from one sensor. The system has received breakthrough device designation from the FDA. The designation certifies that the ABT device is a novel medical device that has the potential to provide more effective treatment than previous glucose monitoring systems or devices.

## **2. US Federal Cannabis Legislative Update**

Recently, Attorney General Merrick Garland said that Department of Justice resources are not going to be allocated to prosecuting marijuana-related offences whether or not states have cannabis legalization laws on their books. Garland noted that the department's resources are better spent on "violent crimes and other crimes that cause societal harm and endanger our communities." The attorney general also indicated that the Department of Justice might be tackling marijuana issues more generally soon as he stated, "The Department is examining a range of issues that relate to marijuana and its production, sale, and use, and we intend to address these issues in the days ahead." Although not directly stating it, Garland's views are similar to that expressed during the Obama Administration when Deputy Attorney General James M. Cole drafted the famous "Cole Memo" in 2013. That draft essentially directed the DOJ not to put resources towards the prosecution of state legal cannabis operators. Although the Biden White House has not expressly dealt with cannabis, these comments and statements do outline a more laissez faire attitude when it comes to federal legislation.

In June, it was announced that once again, SAFE Banking was not approved in the Senate and therefore removed from the America Competes legislative process. However, Congressmen from both sides of the aisle have come together to create The CLIMB (Capital Lending and Investment for Marijuana Businesses) Act which seeks to assist the cannabis Industry with banking services as well as capital access through securities regulatory changes. Sponsors and drafters of this new legislation include Rep. Troy A. Carter (D-Louisiana) and Rep. Guy Reschenthaler (R-Pennsylvania) introduced CLIMB (Capital Lending and Investment for Marijuana Businesses) Act. The newly proposed act would provide the industry with increased access to traditional funding as well as allow US cannabis companies to list on US national securities exchanges, similar to provisions afforded to Canadian cannabis companies. Although we do not believe that CLIMB will be passed but it does demonstrate continued bipartisan legislative engagement on cannabis issues, which we regard as positive.

### **Washington DC**

Washington D.C. Council unanimously approved emergency legislation that will effectively create a recreational marijuana market by allowing people to self-certify themselves as medical cannabis patients and access dispensaries without needing to get a recommendation from a doctor. The legislation cleared the Council in a 13-0 vote. It effectively enables DC to circumvent a congressional rider barring it from using its local dollars to implement a system of adult-use marijuana sales. Voters approved the legalization of personal cannabis possession, cultivation

and gifting in a ballot initiative in 2014, but there's been no licensed retailers for non-patients.

### **3. European Cannabis Legislative Progress**

Long-term readers of these monthly commentaries will appreciate that it has been a long time since we have spoken positively about the European cannabis market. Early on, there was significant hype, but unlike the US market, sales numbers never really met expectations. But, after years of waiting for the European market to provide a boost to the global cannabis addressable market, countries within the EU are now showing signs of progress, a willingness to legislate medical and or recreational marijuana markets.

In Germany, with a population of over 83 million, Olaf Scholz's coalition government has in recent weeks reiterated its 2021 coalition-deal vow to legalise recreational use. The government's official motivation for legalisation is to eliminate illegal cannabis sales, as well as to protect minors from contaminated cannabis in circulation. Germany's Health Minister has a draft of legislative changes and proposed laws to be ready by the end of this year. In his discussions, he noted that there are already 4 million adults in Germany that use cannabis. It has been suggested that a draft bill legalizing adult-use will be tabled before year end. As we have seen with the development of legislation in Canada, a bill requires coordination with several ministries including taxation, public health, consumer safety, youth prevention measures in addition to Germany's responsibilities within the greater EU market. It should be noted that Germany faces greater complexity than Canada regarding the legalization of cannabis due to its EU obligations, which could impact proposed timelines.

With Europe's largest economy focused on legalising cannabis, that could create pressure on neighbouring European states to follow Germany's lead to legalise cannabis and open the EU to further liberalization. There would also be a concerted effort to change the 1961 UN convention that limits the import/export of cannabis. For Germany, it would reap significant economic benefits with estimated annual revenue of €4.7billion Euros (\$4.8 billion USD) a year through additional taxes as well as cost savings from no longer prosecuting those who consume.

### **4. Options Strategy**

Since the inception of the option writing program in September 2018, the Fund has generated significant income from options premium of approximately \$4.28 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.

Cross asset volatility collectively, including currencies, fixed income, high yield, and treasuries have been misbehaving since November 2021. Equity volatility continues to spike although being in the mid / late twenties makes it vulnerable for higher spikes. Risk happens slowly and then all at once. However, every spike in equity volatility (VIX) and the related spikes in volatility of volatility (VVIX) has been an opportunity to monitor correlations within health care/cannabis. 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. We need to see lower levels of trending volatility and accelerating volume signalling to us a healthier investing environment. We will continue to be macro aware, showing discipline, and focusing on investible volatility. Volatility spikes are trending and as such we have been quite selective on our trades, tilted more towards large cap, lower beta health care to execute on, for now. During the month we used our options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately \$17,000 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), UnitedHealth Group (UNH) 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 Procter & Gamble (PG) and Baxter International (BAX).

The **Ninepoint Alternative Health Fund**, launched in March of 2017 is Canada's first actively managed mutual fund with a focus on the cannabis sector and remains open to new investors, available for purchase daily. An ETF version (NAHF) of the fund is also now available for investors. Utilizing our actively managed approach we can 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 Returns<sup>1</sup> as of June 30, 2022 (Series F NPP5421) | Inception Date - August 8, 2017

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED)
FUND	-9.0%	-31.5%	-22.3%	-31.5%	-42.8%	-10.1%	8.5%
TR CAN/US HEALTH CARE BLENDED INDEX	-8.1%	-37.2%	-30.3%	-37.2%	-46.1%	-24.6%	-7.7%

Statistical Analysis

	FUND	TR CAN/US HEALTH CARE BLENDED INDEX
Cumulative Returns	49.4%	-32.6%
Standard Deviation	28.5%	31.3%
Sharpe Ratio	0.3	-0.3

<sup>1</sup> 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, 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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