Ninepoint Alternative Health Fund

March 2019 Commentary

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Investment Team

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We are proud to wish original fund investors a happy 2 year anniversary in Canada's first actively managed cannabis focused mutual fund. To March 31st **the Fund's two year performance return is 107%, 43% annualized.**

Since launching the Fund in March of 2017, we have seen significant changes in the regulatory landscape both in Canada, the US and around the world; we have seen the number of investible companies grow as well as witnessed an increase in the diversity of focus of many companies within the sector. We have also begun to see an extensive amount of M&A activity illustrating the unique value and market focus that certain companies are building.

Over the month, a number of developments took place that reaffirmed our belief in how we have positioned the Fund. In Canada, we saw what we believe will be the start of consolidation as the "haves" begin to swallow up the "have nots" on less favourable terms for the smaller company. We have been concerned about smaller LP's that are not well capitalized, and do not have distribution, and we believe this trend will accelerate during 2019. We also saw a number of transactions in the U.S., but these transactions were driven by the desire of multi-state operators (MSO's) to fill in missing pieces as they build towards a more national presence. Again, we believe that we will see further M&A transactions of this kind.

Quarterly earnings told a similar story. A number of Canadian LP's missed even modest financial expectations, while U.S. MSO's generally fared better. While we still have Canadian LP exposure we have generally seen better opportunities in the US. While the sector remains extremely volatile, we continue to believe that it is early days, and there are significant catalysts ahead.

M&A:
There were significant transactions announced during the month that contributed positively to the Fund and the global cannabis sector.

Early in March, **Hexo Inc. (HEXO)** announced the acquisition of **Newstrike (HIP)** in an all share transaction valued at $263 million, a share ratio of 0.06332 HEXO shares to each HIP shares, essentially done at minimal premium to its trading price. Over the last few months, HIP stock had been trending down from a high of $0.78 in October even though HIP had over $90 million in cash on its balance sheet. HIP ads four facilities totalling 470,000sq ft of cultivation to complement

HEXO's 1 million sq ft greenhouse facility in Gatineau and will result in total capacity of 150,000 kg annually. HEXO now has provincial supply agreements in eight provinces: Ontario, Quebec, British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, and Prince Edward Island while its brand association with the Tragically HIP will build out HEXO retail branding in Canada.

HIP indoor facilities can also help with international exports that require EU GMP certification. We believe that over the long term, Canadian LPs will need to secure international medical exposure as the domestic recreational market is confined to 37 million people. In addition, indoor cultivation (although more expensive to operate) is able to achieve premium pricing with the recreational market. Given the price paid, the current capacity acquired and the retail branding that HIP provides, this was a very positive transaction for HEXO.

Perhaps representing a precursor to future strategic partnerships or M&A opportunities, **Aurora Cannabis (ACB)** announced that it had come to agreement with well-known hedge fund and activist investor Nelson Peltz. The agreement focusses on Peltz guiding ACB with potential strategic partners. Peltz has invested in various consumer packaged goods companies including **PepsiCo (PEP), Dr. Pepper/Snapple (KDP), Proctor & Gamble (PG), Kraft Heinz (KHC) and Mondelez (MDLZ)**. We believe that this arrangement was implemented as leadership at ACB has not been able to gain traction with large US strategic investors, similar to what **Cronos Group (CRON), Canopy Growth (WEED), Tilray (TLRY)** and HEXO have achieved with **Altria Group (MO), AB InBev(ABI), Novartis, Constellation Brands (STZ)** and **MolsonCoors (TA**P). As part of the agreement ACB has granted options to Peltz to purchase 19,961,754 common shares in ACB at a price CAD$10.34 per share. This is positive for ACB as it gets a well-known and well-regarded leader to assist in its CPG strategic search.

In the U.S., MSO **Harvest Health & Recreation (HARV)** announced its acquisition of private company Verano in an all stock transaction valued at US$850million. Verano is one of the largest private MSO's in the US, operating in 11 states. Verano's Florida operations were excluded from this transaction. With the purchase, the multi-state footprint of HARV increases from 12 to 16 states with a combined 123 licensed retail store fronts. Currently, there are 30 stores open with plans to grow to 70 by year end. Also significant for HARV is Verano's proprietary branded products, 900,000 sq ft of cultivation and its presence in high barrier medical states; Illinois, Maryland and Nevada that provide significant value to the transaction.

In another US MSO transaction, **Curaleaf (CURA**) signed a definitive agreement to acquire Nevada based Acres Cannabis for $70 million in cash and shares. Acres operates the state's largest cultivation facility, a state-of-the-art production and extraction lab. This helps CURA expand into the very lucrative NV market. Previously, CURA had a relatively small production platform in NV with a ~10,000 sq.ft. operation. With this transaction, production will expand to ~280,000 sq.ft., making the company's footprint the largest in the state amongst public MSOs. In our view, this should enable CURA to capitalize on significant wholesale opportunities in NV.

The most active US MSO has been **Cresco Labs (CL)** with two major transactions. First, in early March it entered the second largest cannabis market in the US, Florida agreeing to acquire VidaCann Ltd, a medical dispensary business that operates in seven cities with plans to have 14 dispensaries open by the end of June 2019, and 20 by the end of the year. With 70,000 ft2 of cultivation CL will be growing and manufacturing its full suite of branded products for distribution across the state. Florida is a medical only state with over 22 million residents and 259,000 registered patients, making it a coveted state to operate dispensaries.

On April 1st, CL announced the acquisition of **Origin House (OH)** for $1.1 billion, making the transaction the largest US cannabis acquisition to date. The transaction is priced at C$12.68 per OH share representing a 6% premium to the 30-day OH volume weighted average price. While the 6% premium seems modest, it is important to note that OH shares have been one of the best performing equities in the sector up 31.7% in March and 87% YTD.

OH has a singular focus in California, which is considered the largest cannabis market in the world with over 40 million residents. OH has a strong position in California with manufacturing and distribution from 5 facilities; 50 brands that have distribution into 500 dispensaries representing a penetration of rate of ~60% of all dispensaries in CA. With CL's recent acquisitions in Fl, MI and CAL, the MSO now has an addressable market of 185 million people making it one of the largest MSO's in the US. The Fund has done well with its holdings in both companies and we will continue to weight the Fund towards US focussed names where we believe there are stronger near term opportunities relative to the Canadian landscape.

Canadian Regulatory & Market Updates:
Mid-month, Health Canada released January market data that showed total recreational sales to consumers were down 4% MoM in January vs December. The decline suggests that many LPs are still working through production and supply chain issues. Total finished inventory at retailers was 12,342kg at the end of January, flat compared to the end of December. This suggests that there is no inventory build-up at the provincial level supporting our thesis that near term, our focus in more oriented towards the growing US market.

The 2019 Federal Budget was released and did contain a potentially positive revision to cannabis excise tax charges. The proposed change would maintain the $1/g excise tax for dried flower but would change the tax for extracts (edibles/capsules/sprays/topicals) to $0.01/mg of THC, effective May 1, 2019. What this does is levy a higher tax for increased THC levels, allowing medical, health and wellness oriented products to have a lower tax burden.

The Canadian Federal government also released further details on regulations focussed on edibles/extracts that will be available to the adult use market beginning Oct. 17, 2019. The new cannabis regulations require a specific research licence for each specific project and as of March 11, there were 36 licences issued and another 122 applications are at various stages of the review process. A challenge that is being debated is proposed regulations requiring companies who are already making non-cannabis infused goods (food/beverages) to establish separate manufacturing facilities for cannabis edibles. This could limit participation initially to only well capitalized participants and will have the effect of potentially slowing down the development of the edibles and extracts market in Canada. We will be watching announcements later this Spring.

US Regulatory Updates:
The State of Florida, a medical only state announced that it would end its ban on smokable cannabis products, opening the door to further legal medical demand.

The First congressional marijuana vote of 2019 took place in late March with a bipartisan bill designed to protect banks that service the marijuana industry from being penalized by federal regulators passed the House Financial Services Committee. The bi-partisan bill with over 140 co-sponsors is called the Secure and Fair Enforcement (SAFE) Banking Act.

New Jersey Governor Murphy has backed away from adult recreational cannabis legalization citing

more work needs to be done, while New York Governor Cuomo has stated his intention to have legislation for adult use recreational cannabis in place by June of this year

Quarterly Financial Releases:
Year to date many of Canada's largest producers have announced quarterly and/or full year results which have disappointed investors. We continue to see Canadian based companies fall short on revenue estimates while also incurring operating expenses above anticipated levels. The result has been many companies announcing greater than expected losses and investors have been left questioning valuation metrics and wondering when these companies will become cash flow positive. Investors understand there is capital required for the considerable build out of facilities, however excessive non-production operating cost overruns are hurting profitability and testing investor patience.

Top Ten holding **Village Farms (VFF)** reported Q4/18 results that illustrated the strength of the greenhouse growers cultivation capability with high gross margins from its 50% JV interest in Pure Sunfarms that it operates for **Emerald Health Therapeutics (EMH)**. Revenues at the Delta BC greenhouse came in at US$3.6 million, lower than market estimates, however the revenue miss does not appear to be a demand issue but rather product availability as VFF incurred delays in cultivation which will shift revenues into Q1/19. The topline miss is similar to what other LP's have experienced as they continue to ramp production. The most important metric in its quarterly financial report was the gross margin from the JV that came in at 70% supported by low production costs of ~$1/gram despite capacity utilization challenges related to ramp up of the greenhouse. EBITDA margin of 45% also highlights the JV's lean SG&A cost base which we anticipate leads to profitability in subsequent quarters. Sales for VFF, including the Company's proportionate share of Pure Sunfarms' sales, increased to US$40.6 million with EBITDA of US$1.5 million. EBITDA included $0.9 million from its 50% interest in Pure Sunfarms. For the year, revenue including VFF's proportionate share of Pure Sunfarms, were US$151.9 million with EBITDA of US$2.9 million. Also noteworthy during the quarter was the JV expansion of the Pure Sunfarms square footage from 1.1 million sq ft to 2.2 million sq ft and the announcement of the joint venture (65%-owned by VFF) with a Jennings Group, Nature Crisp, LLC, for the outdoor cultivation of high-cannabidiol (CBD) hemp in multiple states throughout the United States. YTD, with the noted announcements, VFF has gained over 320% while the company commenced trading on the Nasdaq Capital Market under the symbol "VFF".

Another Canadian top ten holding **HEXO Corp. (HEXO)**, reported FQ2/19 financial results ended Jan/19 that represented continued strong penetration into the Canadian recreational market. HEXO Corp. announced revenue of $13.4M, an increase of 137% QoQ, with Adjusted EBITDA of ($6.4M) versus ($4.3M) Q218. Cannabis oil sales increased to 23% of total sales in the quarter which represents demand for HEXO's award winning Elixir product line. Net revenue per gram for the medical market decreased to $7.73 per gram equivalent from $8.84 in the prior quarter reflecting a full quarter of excise taxes being applied as many LP's continue to absorb excise tax for patients. The company is well capitalized as it successfully raised $57 million after quarter end, bringing total cash and short-term investments on its balance sheet to over $220 million while its 1,000,000 sq. ft. greenhouse is fully operational. Similar to many Canadian LP's near-term guidance for the next two quarters is below current estimates however FY20 revenue guidance is still anticipated at approximately $400M, subject to the completion of the HIP acquisition that we believe can provide significant upside.

After a very strong Q3 quarterly release last November, the market was anticipating sound financial

results from the Fund's Top Ten holding **CannTrust (TRST)**. The company announced Q4/18 revenues of $16m, up 28% quarter over quarter (QoQ), but below consensus estimates of $21 million with gross margins coming in lower than expected at 35% while consensus estimates were at 58%. Adjusted EBITDA was ($8.5 million), well below estimates. We believe the miss stemmed from price decreases on TRST premium product that was focussed on gaining market share. In addition, COGS per gram was $3.08 placing TRST in the middle of the pack with Organigram at $1.29/g being the lowest COGS/gram producer and Tilray at the upper end at $8.03. Q4 appears to have missed on investor expectations. We have reduced our weighting in TRST. Long term we continue to consider TRST to be a long term leader with its broad patient base, innovative manufacturing, ramping production as well as focusing much of its business on the Canadian medical cannabis market and the international clinical cannabis market.

TILRAY (TLRY) announced Q4 and full year financial results that illustrate slower Canadian production growth and reduced revenues while the company focusses its efforts on distribution to the international medical market. For the quarter, revenue increased to C$20.9 million, up 203.8% however gross margin was only 20% vs consensus estimate of 37% and many peers achieving even higher production cost efficiencies. In prior planning TLRY made a strategic decision to supplement its cultivation in Canada buying in the B2B market to support product development and sales. This has resulted in weaker margins as well as an inability to ramp up production at the same pace as its Canadian peers. Net income (loss) for the quarter was ($31.0 million) while adjusted EBITDA came in at ($17.8 million). For its fiscal year end, revenues reached C$56.4 million, up 110.0% compared to last fiscal year with adjusted EBITDA for the year of ($33.1 million) compared to EBITDA of ($5.5 million) the prior year. Net income (loss) for the year was ($67.7 million), or $0.82 per share. We continue to watch the name however we look at its elevated share price being a challenge to an investment.

Cronos Group (CRON) also reported Q4/18 and fiscal year end results which were below consensus estimates. In Q4 revenues came in at $5.6 million, up 49% QoQ, but below consensus of $10.4m. Adjusted EBITDA was ($7.9 million) in Q4/18, lower than consensus of ($2.1 million). For the year, net revenue came in at $15.7 million with total operating expenses of $29.3 million generating net income (loss) of ($19.2 million). The average selling price of $5.39 was a main factor that contributed to the topline and EBITDA miss while SG&A of $10.8m also led to a lower than expected EBITDA in Q4. With ~$11.6 million of inventory on hand at period end and with only $1.6M classified as finished goods, we do not anticipate short term revenue upside. The lower inventory position could make it difficult in Q1/19 for CRON to increase its sales volumes sequentially. Management indicated during the earnings call that improvements were needed in downstream packaging operations to support the company's expected growth. CRON continues to focus on the long term development of its international expansion through a $4.2 billion strategic investment from Altria Group.

Charlotte's Web (CWEB), a US hemp producer and one of our top ten holdings reported Q4/18 and fiscal year end results. For Q4, CWEB generated revenue of $21.1 million, meeting consensus estimates for the quarter. EBITDA was $4.3 million vs consensus estimates of $6.7 million as CWEB was impacted by one-time costs related to its going public transition. Strength in operations was illustrated as gross margin as a percentage of revenue was 76% with gross profit of $16.3 million. Revenues increased 71% YoY, with revenues up 21% sequentially over Q3/18. For the year, revenue came in at $69.5 million, up 74%. Gross profit increased to $52 million, gross margin of 75% while adjusted EBITDA was 30% or $21 million demonstrating strong bottom line results.

As a result of the US Farm Bill passage in December, the company's products continue to gain both mass market and retail acceptance with products now available in over 4,000 retail locations across the U.S, representing growth of 80% YoY in terms of growth in retail doors carrying CWEB products. The company's online strategy is also demonstrating success as online business accounted for 57% of sales. Important for further revenue and earnings in coming quarters were the announcements made by US national retail grocery, convenience and drug store chains CVS, Safeway and Walgreens that have all launched CBD derived hemp products on their shelves.

A US based top ten holding generating strong results was **Curaleaf (CURA)** that reported Q4/18 and fiscal year end results ahead of consensus. Net revenues came in at $32 million for the quarter, up 49% QoQ while adjusted gross margins reached 62.5%, bringing in an adjusted EBITDA of ($3.4 million). Despite the small loss in the quarter this was ahead of consensus estimates calling for ($4.6million) in EBITDA. Fiscal year-end revenue of $77 million USD representing a revenue increase of 298% YoY driven by organic growth in states such as Florida and New York while making acquisitions in Massachusetts and Arizona (see above). Gross profit for the full year expanded to $45.9 million in 2018, resulting in gross margin of 60%.

Driving revenue near term will be increased distribution with hemp derived CBD products symbolized by the CURA announced partnership with CVS to distribute 'Curaleaf Hemp' products through 800 CVS stores that began March 22nd. The agreement covers 10 states and CVS's online store, making CURA the first public multi-state operator MSO to have national distribution for CBD products. Additionally, CURA has secured advertising space in the Marie-Claire, Elle, Women's Health and Men's Health magazines to further assist in developing its brands.

Options Strategy:
We continued using our option strategy to generate significant option premium while lowering volatility, enhancing the Fund's risk adjusted returns. With the extreme volatility in the cannabis sector, we are finding good opportunities to add value through selective option writing. Generally, we are writing cash secured puts on names we would like to own to increase our exposure; while we are writing covered calls on names we feel have richer valuations. We have also been employing 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 are range bound. Depending on the strike price chosen, all three strategies are neutral to slightly bullish allowing us to generate option premium or enter and exit positions at more attractive prices during periods of elevated volatility.

We were able to write cash secured puts out of the money at strike prices that offered opportunities to increase our exposure to names already in the Fund at more attractive prices including **WEED/CGC, Planet Fitness (PLNT**), and **Aphria Inc (APH)**. We also wrote covered call options out of the money at strike prices that we believe are closer to values that better represent our belief in the companies while still maintaining a cautious but bullish market sentiment. Examples of such trades included Cronos and CannTrust, with covered calls on Cronos having been especially rewarding. We have been able to take advantage of both the price increase and elevated volatility to write weekly covered calls on our Cronos position. Explained below is the summary of our trades since we implemented our covered call strategy on Cronos in early February.

On February 4th CRON reached its 52-week high price of USD$25.10. On February 5th with Cronos trading at USD$23.45 and with our position up over 135% and volatility in the name at heightened levels we began writing weekly covered calls with expiry date of February 8th at the volatility level of

190 with strike price USD$24.00 and earning USD$1.41 in option income. That equates to a strike yield of 5.9% for 4 days outstanding or the equivalent of 523% for a year. On February 8th the option expired out of the money as both the volatility and stock price began to retreat from its high. Each week since February 5th we have continued to write slightly out of the money covered calls on this position bringing us to March month end where we have been able to earn a total of USD$5.51 in option income. Since February 5th CRON has pulled back and closed at USD$18.43, a drop of USD$5.02. Investors who continued to hold the name but who had not used the covered call strategy would be down 21.4% whereas with our option income earned since February 5th we are up 2.7%, an outperformance of 24.10%.

We continue to see unique opportunities for investment in the global cannabis sector as well as the broader alternative health care space, with the rapidly evolving global medical, health and wellness markets continuing to open new markets and new delivery methods offering compelling investment opportunities for growth oriented investors. Our actively managed approach allows the Fund to invest in a broad universe of companies that include both public companies and select private companies that are focused on go public transactions.

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 invest when we see new opportunities arise. Many catalysts are on the horizon and we continue to see solid returns for the alternative health space in the coming months and years.

Charles Taerk & Douglas Waterson
Portfolio Team
Ninepoint Alternative Health Fund

Compounded Returns[1]

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	5.17	31.83	31.83	7.67	61.53	65.94
INDEX	2.56	29.67	29.67	-3.02	13.37	24.31

[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 March 31, 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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