Ninepoint Alternative Health Fund

March 2022 Commentary

Introduction

The month of March presented stable performance for the **Ninepoint Alternative Health Fund** while the broader markets experienced dramatic changes in the yield curve, inflationary pressures and geopolitical instability all contributing to uneasy market dynamics. In this month's commentary, we discuss the strength of healthcare investments during these periods. In addition, we discuss the longer-term demand for vaccination against COVID-19 and the resulting benefits of investment in pharmaceuticals. We also discuss significant regulatory changes in the US cannabis sector both at the state and federal levels.

Investment Team

Charles Taerk,
President & Chief Executive Officer, Faircourt Asset Management - Sub-Advisor

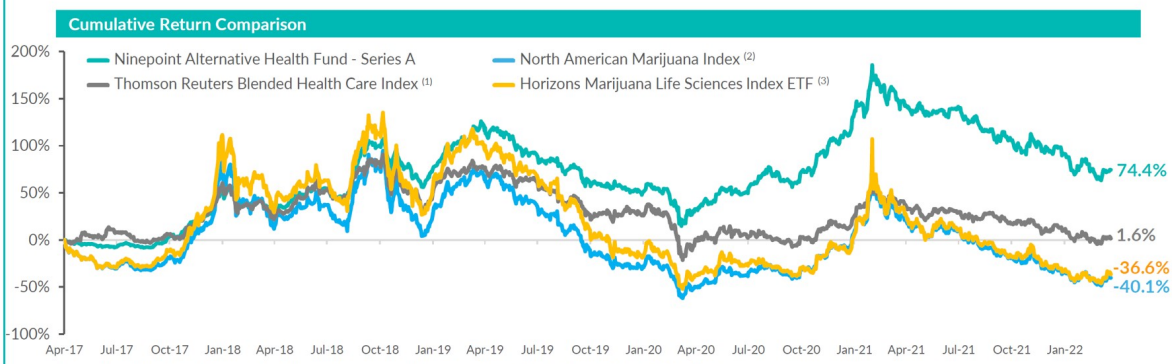
Douglas Waterson, CPA, CA, CFA
Chief Financial Officer & Portfolio Manager, Faircourt Asset Managment - Sub-Advisor

Commentary

Equity market volatility continues to cause gyrations due to several cautionary factors; inflationary pressures weighing on consumers; the likelihood of US Fed interest rate hikes, in addition to geopolitical uncertainties. In a market such as this, certain sectors have characteristics of outperformance. Healthcare is one sector that has been able to withstand some of the headwinds experienced in the broader markets due to the resilience in consumer demand for health services, in addition to the rebound in hospital visits and elective surgeries taking place in the US. Health care consumption patterns have been accelerating and we continue to see strength both YoY and QoQ with growth in healthcare visits and elective surgeries. The Fund's portfolio provides top ten investments through **Pfizer Inc. PFE** +10.29%, **Johnson & Johnson (JNJ)** +7.7% and **UnitedHealth Group (UNH)** +7.5%. In addition to healthcare names generating solid returns in March, health and wellness company **Jamieson Wellness (JWEL)** +6.6% continues to have strength in proactive consumer health choices while cannabis REIT **Innovative Industrial Properties (IIPR)** +9.9% continued to gain traction for the portfolio in March. The Fund's positioning in health care provides growth and stability while the cannabis sector awaits federal legislative changes to spur the next phase of share price appreciation.

Ninepoint Alternative Health Fund

Cumulative Returns (As at March 31, 2022)



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

Period between April 11, 2017 and March 31, 2022	Annualized Return	Annualized Std Dev	Downside Deviation	Sharpe Ratio	Sortino Ratio	Max Drawdown
Ninepoint Alternative Health Fund – Series A	12.1%	28.0%	16.8%	0.41	0.72	-39.8%
Thomson Reuters Blended Health Care Index(1)	0.3%	36.4%	22.8%	-0.01	0.01	-58.7%
Horizons Marijuana Life Sciences Index ETF	-9.0%	61.0%	35.0%	-0.16	-0.26	-72.9%
North American Marijuana Index(2)	-10.0%	55.5%	33.5%	-0.19	-0.30	-80.3%

Performance and fund statistics are based on daily observations.

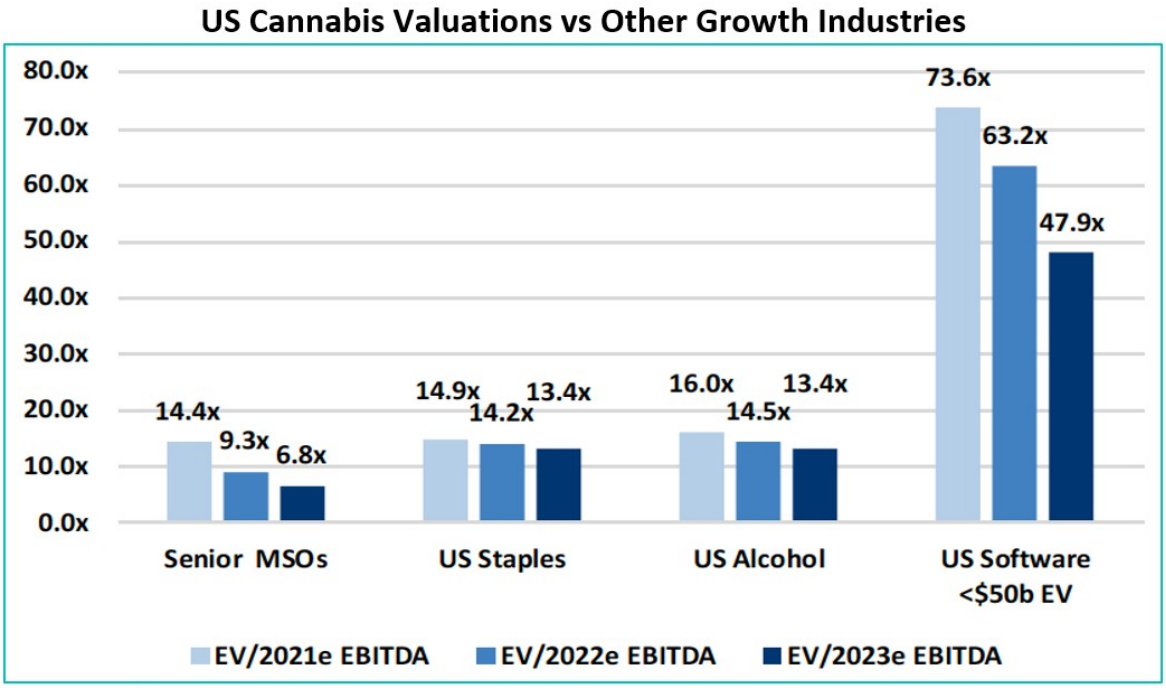
Effective April 23, 2018, Ninepoint Partners became the Manager of Ninepoint Alternative Health Fund (formerly UIT Alternative Health Fund)

(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.

The US cannabis sector saw significant M&A transactions during the month that have major implications for regulators as well as market participants. In addition, Northeast states are getting ready to open adult use dispensaries near term. We have also seen increased momentum for cannabis reform in Washington that on a combined basis is resulting in the leading names gaining traction. At a time when US multi-state operator (MSO) equity values are dislocated from underlying fundamentals, little institutional activity and no competition from tobacco, alcohol or consumer packaged goods (CPG) companies in the space, we see a continued opportunity to invest in the US cannabis sector. We anticipate a decade of growth ahead as more states continue to legalize adult use markets as the total addressable market (TAM) is poised to grow at a 20% CAGR; top line revenue growth continues at 20-30% YoY and EBITDA margins are in the 25-35% range. These are all tailwinds for investors wanting to put capital to work as the low multiples provide support to share prices.



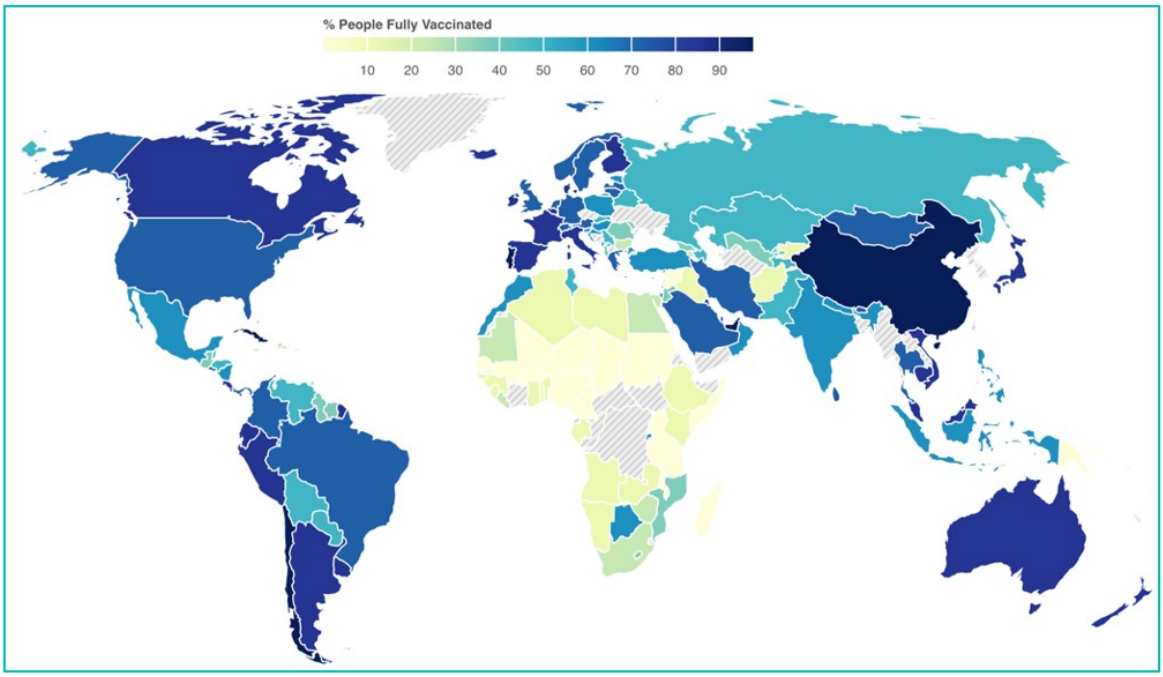
Source: Stifel February 2022

Global Regulatory Environment

Vaccination Demand

Although North America, parts of Europe and select other countries have reached more than 70% vaccination for its citizens, there are still substantial portions of the world's population that are less vaccinated and leave future outbreaks from variants continuing to persist. Recently, the FDA Vaccines and Related Biological Products Advisory Committee (VRBPAC) met to discuss COVID-19 vaccine boosters as well as strategies on how to coordinate efforts with manufacturers ahead of a potential next wave that could come in the fall/winter. It's one component of our positive opinion on **Pfizer (PFE)** vaccine brand leadership based on its wide acceptance amongst different demographic groups, as well as its manufacturing and distribution capability.

Significant portions of the global population still to vaccinated



Source: Johns Hopkins University Research Center

US Cannabis Federal Regulatory Updates

In the first week of April, the US House of Representatives voted 220 to 204 in favour of the Marijuana Opportunity, Reinvestment and Expungement (MORE) Act. This is the second time **the MORE Act** has been passed in the HOUSE. Key provisions of The MORE Act includes the removal of cannabis from the Controlled Substances Act (CSA); increases social justice reforms surrounding cannabis use; reinvests into communities most impacted by the war on drugs, and outlines expungement of previous non-violent cannabis offenses. Within this version of the legislation, states will not be required to legalize cannabis and may keep existing state-law in place, even if prohibitive in nature. Existing legal operators would be required to obtain a federal producer permit and would have additional federal packaging/labelling requirements.

It last passed the House in December 2020 but failed to hold a vote in the then-Republican controlled Senate. We believe that passage in the Senate will be challenging for different reasons this time around. Senate Majority Leader (D) Chuck Schumer has been planning (since last summer) to introduce his own comprehensive cannabis legislation in April around 4/20, so in our opinion Senate leadership doesn't appear to support MORE this time either. It is our opinion that neither Schumer's plan nor the MORE Act will pass. Both still require 60 votes in the Senate, a level of support we do not believe they have. Even among Democrats, Sens. Tester (D-Montana) and Shaheen (D-New Hampshire) have spoken out against cannabis legalization.

At the same time the Senate is debating the merits of **America COMPETES Act**, moving lawmakers closer to reconciling the two chambers' versions of long-awaited legislation meant to bolster U.S. competitiveness with China. In February the US House passed its version of **America COMPETES Act of 2022**, that included provisions of the **Secure and Fair Enforcement (SAFE) Banking Act**.

The SAFE Act is more narrow legislation designed to provide legal cannabis companies access to federally regulated financial institutions and other service providers without repercussions for those

businesses from federal authorities. We still believe that once **MORE and The Cannabis Administration & Opportunity Act (CAOA)**, Senator Schumer's Bill fail, the more focussed SAFE (Banking) Act will be brought forth for a vote. There appears to be 60 votes in favour in the Senate as some Republican Senators regard this as a public safety issue since cannabis companies often have to deal in large amounts of cash as a result of being denied banking services – leaving their staff subject to robbery.

Added support for SAFE Banking comes from US Treasury Secretary Janet Yellen who stated in House Financial Services Committee meetings in early April that the situation is "extremely frustrating" that Congress has not enacted marijuana banking reform legislation, adding that the department is "supportive" of the bipartisan Secure and Fair Enforcement (SAFE) Banking Act. Secretary Yellen said "we have talked about it for a very long time; It's an important issue," the secretary said. "We're supportive of it." She went on to say "there is a conflict between state and national law. Banks are trapped in the middle of that. And some legislative solution, I think, is necessary… I think it does require congressional action."

The history of cannabis legislation in the US is one of the incremental changes rather than significant bold steps. In that sense, we believe that **SAFE Act** is the bill to pass but is more than just a face saving act for the Democrats. If we consider that federal legislation that allows financial institutions or any other business that works with a plant touching cannabis business in the US is free from federal prosecution, this has significant implications. The most important one is that with this first step, momentum for further federal reform is on the way. Also important from a capital markets perspective is that some institutional investors that have been reluctant to participate in the cannabis sector will view this as reducing compliance risk enough to begin investing. We expect that this "incremental buyer" can be meaningful to share prices considering how undervalued cannabis stocks are relative to other growth industries.

State Level Cannabis Updates

New York Enacts Policy to Counter the Delay in SAFE Banking

Early in March, there was a positive development in New York state that came to be because of the lessons learned from other states that have had challenges and delays bringing in, effective social equity licenses and funding. Gov. Kathy Hochul announced a new plan with $200 million in state funding to help those impacted the most by the war on drugs, an initiative that is being enacted due to the lack of federal protection that would have been available if Democrats had worked to pass SAFE Banking laws over the last two years.

The new initiative has the State working with local municipalities and licensees to plan the opening of the first 100 retail outlets by the end of this year. Key to the plan is giving applicants access to cannabis grown by local farmers and offering sweeteners like new storefronts leased by the state. To be one of the state's first licensed retailers, you or a member of your family must have been convicted of a marijuana-related offense.

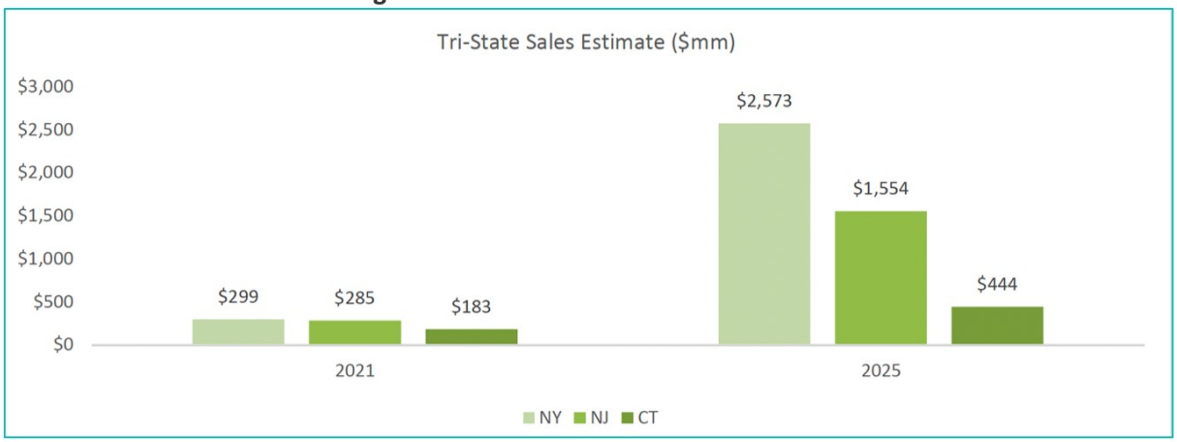
In working with people who have previous non-violent cannabis convictions the state will be proactively working with new dispensaries, potentially avoiding the delays that have occurred in other states. What has been evident to date is that despite state level governments issuing social equity licenses, there is a conflict with a lack of federal protections related to funding and as a result many applicants do not have access to capital in addition to competing with deep-pocketed MSO's.

Interest in Northeast Cannabis licenses

With the opening of the adult use market in New Jersey (potentially Q2-22) and New York (est. in 2023) there has been great interest in having operations in the northeast. In New Jersey, a population of close to ten million people, with a limited license structure, we believe that this state market will be lucrative for those vertically integrated operators. The opportunity to supply a growing list of dispensaries is extremely valuable as can be seen with the recent acquisition of **Columbia Care (CCHW)** by **Cresco Labs (CL)** discussed below. Then there is New York, America's fourth-largest state by population and a limited license regime. NY holds great promise and the cost of entry continues to grow. In February 2021, **Ascend Wellness (AAWH)** acquired the **MedMen (MMEN)** NY license for $90 million. In early 2022, **Verano Holdings (VRNO)** announced the acquisition of **Goodness Growth Holdings (GDNS)**, formerly known as **Vireo Health (VREO)**, in an all-stock transaction valued at US$413 million, primarily for the acquisition of one of only ten NY vertically integrated licenses. Then on March 30th, **RIV Capital (RIV)** announced the acquisition of another one of the ten vertically integrated licensees, **Etain (private)** for $247 million. As the opening of the NY market gets closer, and the opportunity becomes clearer, there is significant interest in the market potential.

New York, New Jersey, and Connecticut adult-use markets that are anticipated to open over the next 18 months are estimated to add over ~$4.5B by 2025 to cannabis sales. According to market estimates, this tri-state area will represent the highest growth opportunities through 2025 with a CAGR of 55% from 2021 to 2025.

Existing Medical Sales vs Adult Use Market Potential



Source: BDSA, MJBiz, NFD & Roth Capital Partners

Maryland Formally Allows Ballot Initiative

Maryland's Senate approved a bill in early April that the State House had previously approved in February, which allows a cannabis adult-use question to be on the November ballot as part of the mid-term elections. The Senate also cleared a related bill to establish a regulatory framework that would govern the adult use market should the ballot initiative be passed.

New Mexico has launched the newest US recreational cannabis market on April 1, with a focus partly on local businesses. Sales are expected to reach $400 million annually by 2027 supported by neighbouring state traffic, especially Texans driving across the border. Texas is the America's second-most-populated state however it operates a very limited medical cannabis industry with select ailments approved for treatment. New Mexico is the first state bordering Texas to launch a

recreational marijuana market.

Announcements: Mergers & Acquisitions

Cresco Labs (CL) announced the acquisition of **Columbia Care (CCHW)** for $2 billion USD in the largest proposed merger in the US cannabis industry, larger than last summer's TRUL-HARV merger at $1.7 billion. The combined entity will have 131 stores across eighteen states, adding eight state markets to its current operational landscape. The merger would offer CL entry to the attractive New Jersey and Virginia markets, broaden its scale in many other states. The combined **CL/CCHW** entity would become potential market leaders in CO, IL, MA PA, and VA where adult-use sales are already approved; as well as strong growth to medical markets in NY, NJ and FL. Operationally there are overlapping operations and so we anticipate divestiture of licenses in NY, IL, MA, OH and FL. Given the recent M&A activity, various state licenses and dispensaries could garner hundreds of millions of dollars in proceeds from divestitures.

CCHW shareholders will receive 0.5579 of a subordinate voting share of CL for each CCHW share held, and after the transaction, CCHW Shareholders will hold approximately 35% of the new combined company. The transaction has been approved by the Boards of Directors of each company. The transaction requires two-thirds approval from CCHW shareholders, and is expected to close by early 2023, subject to regulatory approvals and federal HSR review.

A unit of **NYSE** listed **Scotts Miracle-Gro (SMG)** agreed to acquire private New York-based cannabis company Etain for total consideration of $247 million USD, payable with US$35 million in stock and US$212 million in cash. Etain is mother-daughter founded, one of the only women led cannabis companies in the US and one of New York's original five licensed operators. The transaction is subject to receipt of all state regulatory approvals and includes Etain's vertically integrated license in NY and four active dispensaries. Etain has four operating dispensaries, including its Manhattan flagship store and locations in Kingston, Syracuse and Westchester. The acquisition is being completed through **RIV Capital (RIV)** listed on the CSE. **RIV** is a company with significant funding from the Hawthorne Collective, an **SMG** subsidiary. As part of the acquisition, **RIV** announced a new CEO, Mark Sims, former SVP of Strategy and M&A for **SMG** in addition announced the raising of $150 million in capital from The Hawthorne Collective to help finance the cash portion of the deal. This transaction is an innovative way for a NYSE listed company to avoid federal illegalities and enter the direct plant touching side of the US cannabis industry. This wrinkle in the transaction is a significant development and it opens the door for very different conversations as to what the investing decisions will be for entities wishing to enter the US cannabis sector. This comes at a time where CEOs of US cannabis companies are now communicating with NYE and NASDAQ asking, "why won't you do this for us". This is a significant turn of events for investment in the US cannabis industry.

UnitedHealth Group (UNH), ranked as the largest health insurer in the world, announced the acquisition of **LHC Group (LHCG)** for approx. $5.4 billion in cash, as **UNH**, the largest U.S. health insurer continues to expand its service offering in home-based health. **LCHG** provides in-home health and hospice care to patients dealing with injuries, illnesses, or chronic conditions. The Lafayette, Louisiana, company has 964 locations in 37 states. Technology improvements also allow for more care to be provided at home, and payers see the practice as a good alternative to expensive stays in hospitals or care centers when possible. The business unit will be combined with UNH's Optum unit, which manages drug benefits and offers healthcare data analytics services. Demand for home healthcare over clinic-based services continues to increase in the US, especially

pronounced given the pandemic as patients and caregivers increasingly prefer to access services from the safety of their homes. The transaction still requires regulatory and shareholder approval. Once approved, **UNH** will pay $170 for each share of **LHCG**, representing an 8.12% premium to LCHG closing price the day before the announcement.

Quarterly Financial Announcements

Trulieve Cannabis (TRUL) released Q4-21 results that were in line with estimates with Q4 being the first quarter post the Harvest acquisition. Revenues reached $305 million, an increase of 36% QoQ with the combined TRUL-HARV business having gone through an extensive re-branding of dispensaries and forced liquidation of inventory in FL which hampered potential rev run rate as well as margins. As a result, gross margin declined from the noted inventory sales in addition to having expanded operations outside the vertically integrated, high-margin state of Florida. Gross margin came in at 59.1% vs Q3-21 at 68.7% while EBITDA came in at $101 million, representing 3% growth sequentially, a 33% margin, below consensus of $111 million.

There are several growth catalysts for **TRUL** in 2022 that we highlight below, making it a top fund holding. TRUL's home market of FL continues to grow, with over 700,000 medical patients as of March end, growing by over 3,000 a week on average since the beginning of 2022. In addition, the integration of Harvest operations offers considerable margin accretion, with **TRUL** dispensaries having higher average basket size, better customer retention and a deeper list of products upon which to draw for increased sales in the previous HARV state markets. **TRUL** has witnessed strong outperformance following the rebranding of Harvest stores to **TRUL** with a 75% increase in number of transactions in legacy Harvest stores in December compared to August.

Given **TRUL's** track record of profitably maintaining its leading position in FL, the company can export its standard operating procedures (SOPs) across state lines to raise the margin of its non-FL operations. In its core FL market, the company's new Tampa processing facility, offers increased brand partnerships to add revenues/store. In AZ, the company is building out cultivation for its own stores and could look to supply wholesale markets later in FY22. We also see upside with the opportunity for M&A in the New Jersey and New York adult use markets, where the company already has a strong management. Team leading its PA state market operations.

TRUL provided 2022 guidance with revenues of $1.3-1.4 billion in revenues ~4% below consensus and Adj. EBITDA guided at $450-500 million, ~15% below consensus' $562 million. At first review managements guidance is softer than consensus however this is a management team that has a history of under-promise and over-deliver and as a result we continue to have TRUL as a top holding in the fund.

Cresco (CL) in addition to announcing the acquisition of **Columbia Care (CCHW)**, discussed above, **CL** provided Q4-21 results that featured top line revenue growth of 73% YoY. Revenue in Q4 was $218 million that was softer than anticipated largely due to exposure to the weakened California market. Over regulation combined with excessive cultivation hitting the market has led to many CA operators seeing reduced sales and/or reduced margins in Q4. Management provided results outside CA that showed 6% sequential growth vs Q3-21. The revenue mix of **CL** was 54% retail vs 46% wholesale across its state markets with strong 10% QoQ sales from MA, FL and PA while wholesale markets saw -7% QoQ reduction, +2% excluding the CA market. Gross Margin in Q4 was $188 million or 54%, the fifth consecutive quarterly GM improvement. Adj EBITDA was $57 million or 26%, not meeting the company's 30% operating goal. From an operational perspective, strength was

seen in PA with improved flower quality, while CA and its FloraCal brand wholesale business resulted in the #1 flower brand in that state market. Independent of the merger with **CCHW**, the state markets CL operates in, we anticipate growth this year for CL from markets such as OH, FL, MA and NY.

Columbia Care (CCHW) is the 5th largest US MSO by market cap, one of the fastest growing MSOs with a CAGR of 37% vs 27% average. This is a catalyst rich company with several of its state markets in the next few years converting from medical to adult use markets. It's organic growth winning new licenses and acquisitions in key states over the last two years all combined to establish that growth, yet it trades at the lowest multiple among the top MSO's. Revenues in Q4-21 were $139 million, 70% growth YoY, with EBITDA of $58 million, resulting in the fastest EBITDA growth rate at 78% vs the industry average of 34%. Key initiatives accomplished during Q4 included; the re-branding of its entire Florida footprint of 14 stores to the Cannabist retail model; entered the Missouri medical market in October; closed the previously announced acquisition of Medicine Man in Colorado in November and opened its third dispensary in the new Virginia medical market. **CCHW** operates in 18 US states, covering over 50% of the US population and offers considerable catalysts with 11 of those states still medical only. The company also has plans for 16 additional dispensary openings in 2022. In NY, CCHW continues to develop 710,000 sq ft of additional cultivation capacity ahead of adult use changes in NY. In NJ, CCHW is developing 270k square feet of cultivation space to be ready to meet the needs of its medical patients while competing in the soon to be opened adult use market. The company issued 2022 guidance that has revenues reaching $625-675 million that includes the beginning of the New Jersey adult use market beginning in Q2.

Terrascend (TER) announced flat QoQ Q4-21 results though the company announced operational updates and catalysts for '22 that are quite positive. Revenues for Q4 came in at $49.2 million, flat with Q3 with improvements in Gross Margin to 49.9% vs 46% in Q3. EBITDA improved in the quarter to $12.8 million, a 24% margin up from $10.5 million in Q3 an 18% margin. The company is now filing financial statements under US GAAP prepared for SEC listings. The Company has completed the significant cultivation expansion in PA that began in Q2-21 and the company has regained traction in PA achieving top 3 wholesale provider status. The upgraded facility is also cultivating premium flower gaining margin in this critical category while value categories have seen increased competition and lower margins. The biggest catalyst for the company this year is the leverage it has on the New Jersey adult-use market which could begin within 60 days. In addition, TER recently completed the acquisition of Gage Cannabis, a MI based provider in another billion-dollar state market that further adds to the growth for TER this year.

Options Strategy

Since inception of the option writing program in September 2018, the Fund has generated significant income from options premium of approximately $4.23 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.

The Fed's hawkish commentary followed by a major military conflict involving one of the world's superpowers and aggressive sanctions by the West is making us pause a bit on option activity, choosing to execute on short duration trades. Also, yield curve inversions (10/2 yields officially inverted week of April 4th) have a long track record of predicting broader economic slowdowns. Volatility seems suppressed as of late 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 $25,000 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), Johnson & Johnson (JNJ) 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), AMN Healthcare (AMN), United Healthcare (UNH), and AstraZeneca PLC (AZN).

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[1] as of March 31, 2022 (Series F NPP5421) | Inception Date - August 8, 2017

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED
FUND	-0.5%	-11.9%	-11.9%	-16.3%	-28.8%	-5.9%	15.1%
TR CAN/US HEALTH CARE BLENDED INDEX	0.5%	-9.9%	-9.9%	-15.4%	-28.1%	-16.8%	-0.7%

Statistical Analysis

	FUND	TR CAN/US HEALTH CARE BLENDED INDEX
Cumulative Returns	92.1%	-3.3%
Standard Deviation	28.2%	30.6%
Sharpe Ratio	0.5	-0.1

[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, 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; Concentration 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.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the “Funds”). Commissions, trailing commissions, management fees, performance fees (if any), and other expenses all may be associated with investing in the Funds. Please read the prospectus carefully before investing. The indicated rate of return for series F shares of the Fund for the period ended March 31, 2022 is based on the historical annual compounded total return including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

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