Ninepoint Alternative Health Fund

May 2020 Commentary

It's High Time To Revisit An Investment In The Cannabis Sector

Investment Team

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

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

Conventional thinking is that high growth, high beta sectors will tend to perform worse than average during times of turmoil. We are pleased to report that has not been the case for the Alternative Health Fund during the first five months of this year. Despite the shutdowns, job losses, and market volatility, the Fund is positive for the year driven by its top holdings in cannabis and pharma. In addition, having weathered the tough economic conditions of the pandemic induced lockdown as an Essential Service, the cannabis sector is poised for continued organic growth in 2020. We believe that having protected the downside well, the Fund is now positioned to profit from the growth and catalysts in the cannabis and pharma sectors on the horizon.

This month, Cannabis companies re-asserted their strength as the market rewarded growth in the recovery from the pandemic. Several drivers during the last month led to renewed investor demand. Investors took note that many of the companies in the sector have been operating as Essential Services in various jurisdictions across North America. That resiliency and perhaps even an unexpected respectability brought investment capital into the sector when many other sectors are still not operational. In addition to being an essential service, the sector's demand inelasticity with a broadening base of consumers continues to produce month over month sales growth for many of the leading companies in both Canada and the US.

On the regulatory front, there are encouraging changes on the horizon. The industry now employs over 250,000 people in the US, at a time when there has been historic job losses across other industry groups. Home delivery service as part of the Essential Service measures has shown different levels of government the tax collection and job creation strength of the legal business, at a time when consumers have reduced their dependence on the illicit market with a reticence to exchange bills and maintain social distancing.

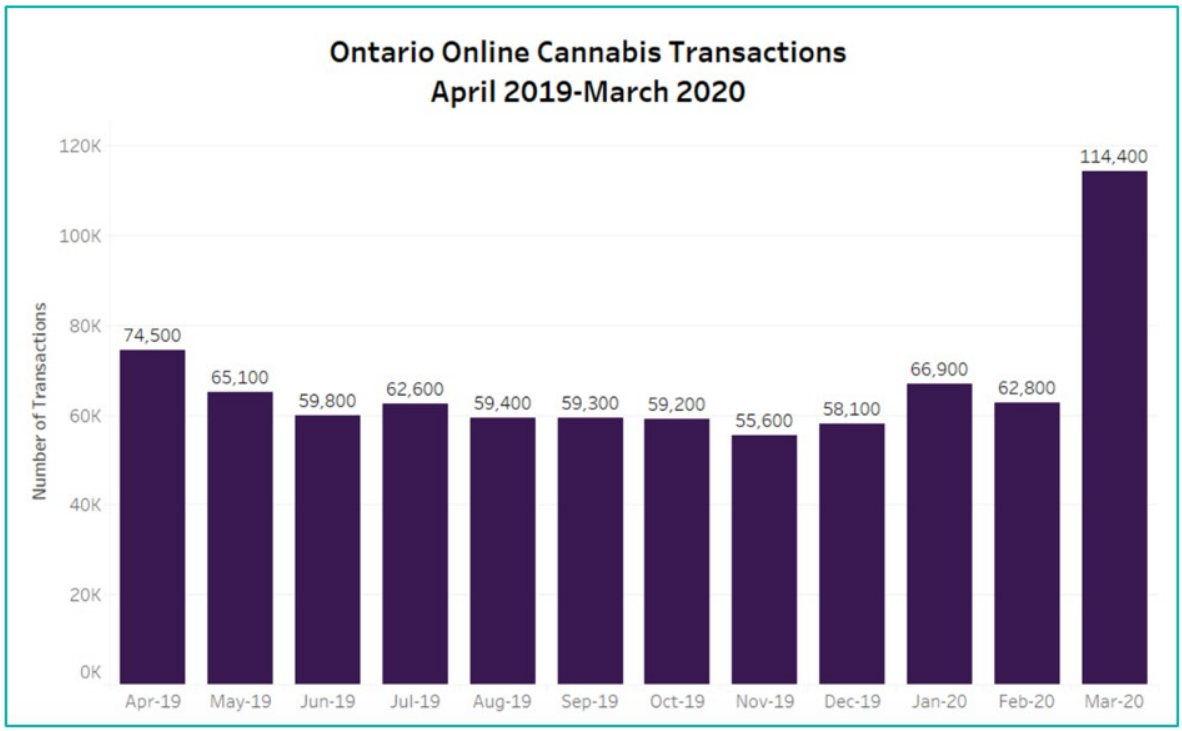
As the North American economy is re-opening our primary sector focus, cannabis and pharma/healthcare have catalysts that are acting as tailwinds for companies in the Fund.

Catalyst #1- People are at Home; and whether its stress, sleeplessness, aches and pains or they just want a diversion - cannabis is showing durable demand. Similar to alcohol consumption, past crisis' shows how consumption rose and we see that now with the cannabis sector with continued month over month sales growth in many states across the US.

Catalyst #2- Ontario Re-Starts Build out of Storefronts: Ontario is the largest legal cannabis

market in Canada. Annualized run rate for cannabis sales across Canada is ~$1.9 billion, 80% of sales are derived from storefronts . This point highlights the importance of storefront expansion in Ontario. Below we see the sales volume from the Ontario Cannabis Store for online sales which illustrates the growth achieved over the last year. However, storefront expansion is a catalyst to significant growth.

During May, construction on licensed stores was allowed to re-start. Construction for cannabis retail in the province of Ontario came to a halt April 5th. Ontario has stated that there are 72 dispensaries as "Authorized to Open" and 80 applications in the "Public Notice Period"; and 301 applications are "In Progress". The Province is standing by its commitment to open more private cannabis stores in Canada's biggest market. The opening of new dispensaries will be a big catalyst for those Cdn LPs that have strong distribution in the second half of calendar 2020.



Source: Ontario Cannabis Store

Catalyst #3- The Heroes Act: The Heroes Act, as it's known, includes legislation that would allow banks to service state-legal cannabis companies. The measures have been endorsed by a bipartisan group of 34 attorneys-general, who said the pandemic has only exacerbated health and safety concerns around the handling of cash. With access to federal banking as well as credit and debit card transactions, the industry will be provided with necessary financial instruments to continue to grow, while reducing regulatory burden.

Catalyst #4- Pharmaceutical Innovations: The companies involved in the fight against the coronavirus are game changers to assist in the re-opening of the global economy. Whether it is creating tests, vaccines and anti-virals, the combination of these applications will allow for the return to a new "normal". We saw that in April when Gilead announced the successful trials related to remdesivir, creating huge upward movement in the broader markets. Concerts and sporting events where spectators will once again be allowed to attend, are not going to happen until people feel comfortable. These innovations are the linchpin to a wider re-opening. Within our top holdings,

companies are developing solutions that have world changing implications.

Catalyst #5- Sector Re-Ratings: With federal regulatory reform combined with breakthroughs in the pharma sector, we believe that there will be increased liquidity and awareness of both cannabis and pharma leading to re-ratings that will further propel valuations.

YTD, we have outperformed relative to both the cannabis sector and the North American pharma/healthcare indexes.

Performance YTD to May 31

Alternative Health Fund	HMMJ	US Healthcare Index	Canadian Healthcare Index
+0.94%	-11.79%	6.85%	-20.75%

For the Month of May, the Fund was up 9.53% (F Class)

Performance of US MSO's	25%*
Performance of Canadian LP's	18%*

Source: Paradigm Capital

Topics Covered

- **Canadian & US Cannabis Market Updates**
- **Company Announcements & Quarterly Financials**
- **Options Strategy**

At a time when the cannabis sector is capital constrained, it is important to manage the portfolio in a way to reduce risk while positioning for growth. Our view of the sector leads us to own those companies that are larger operators, have sound cost structures, with strong retail distribution, sound balance sheets, and continue to have growth catalysts.

Regulatory Environment & Market Analysis

StatsCan: Cannabis Crop Receipts

Crop receipts for all crops processed in Canada totaled $36.6 billion in 2019, up 3.9% from 2019. The gain was attributable to a $1.7 billion increase in licensed cannabis producer receipts during the first full year of recreational legalization. Growth in cannabis receipts in Ontario and Alberta accounted for over 56% of the national increase. Without cannabis, national crop receipts would have declined 4.7% for the year.

The Heroes Act & Federal Legalization

Cannabis has been in the spotlight this year. During COVID, it was deemed an Essential Service in many jurisdictions across Canada and the US. The sector continues to see employment growth at a time when the US economy has lost more than 20 million jobs. In addition, politicians recognize the inequality related to current cannabis incarceration rates, and this legislation is another step towards federal legalization and the cleansing of previous laws that unjustly targeted certain groups. While the US economy has been shut down, tax revenue generation has been strong from cannabis sales and as States re-open, Governors are looking for ways to generate taxes in an effort to support re-opening initiatives.

Elements of the SAFE ACT have been Included in the House of Representatives Coronavirus Relief Bill that is now being debated in the Senate. This is the second stimulus to be provided by Congress to deal with the economic hardships related to the coronavirus. It is estimated that this new stimulus package will reach $3 Trillion USD.

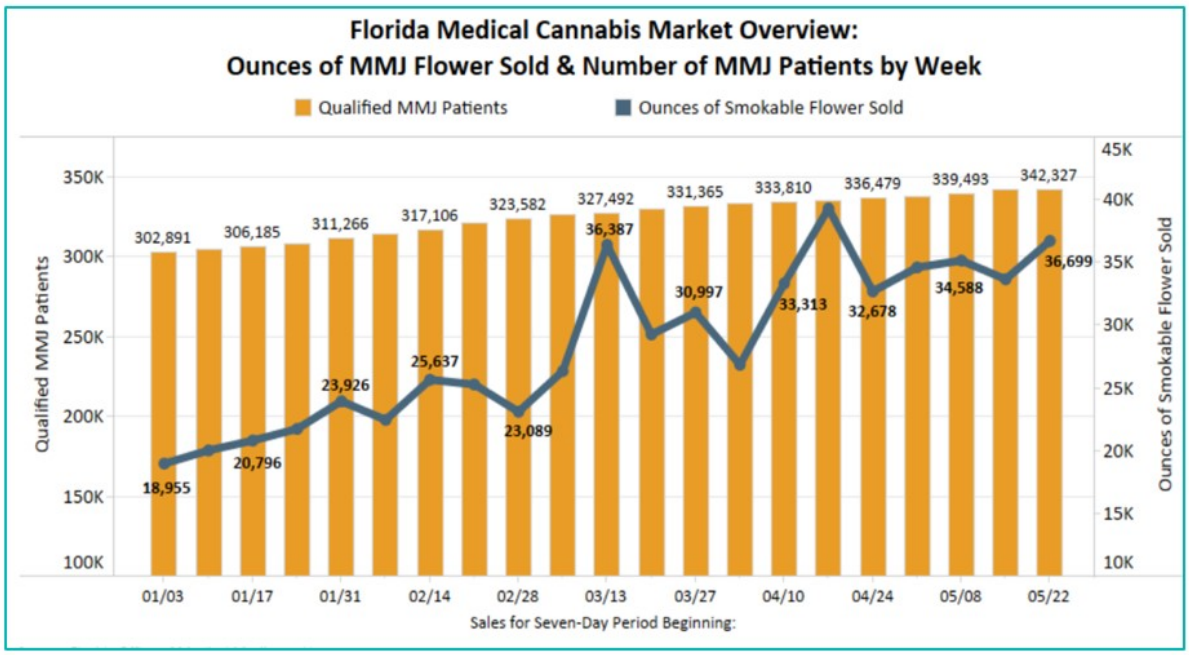
As part of the proposed legislation, the relief bill includes provisions to protect banks that service marijuana businesses from being penalized by federal regulators that would allow legal state authorized cannabis businesses, to access banking services and products, as well as insurance." There is strong bipartisan support, as the SAFE Banking Act was already passed in the House with a large majority, including 91 Republicans, and was co-sponsored by over a third of the Senate before the pandemic hit. Both the economic and social aspects of this legislation are far reaching and seen as positive in a majority of States.

As a result of cannabis being deemed an "Essential Service" in most States, we have seen greater sales growth than what we have seen in Canada. When we look at potential Q2 revenue and EBITDA growth, we anticipate generally stronger results from US operations relative to Canadian producers.

State Results

Florida (pop. 21.5 million)

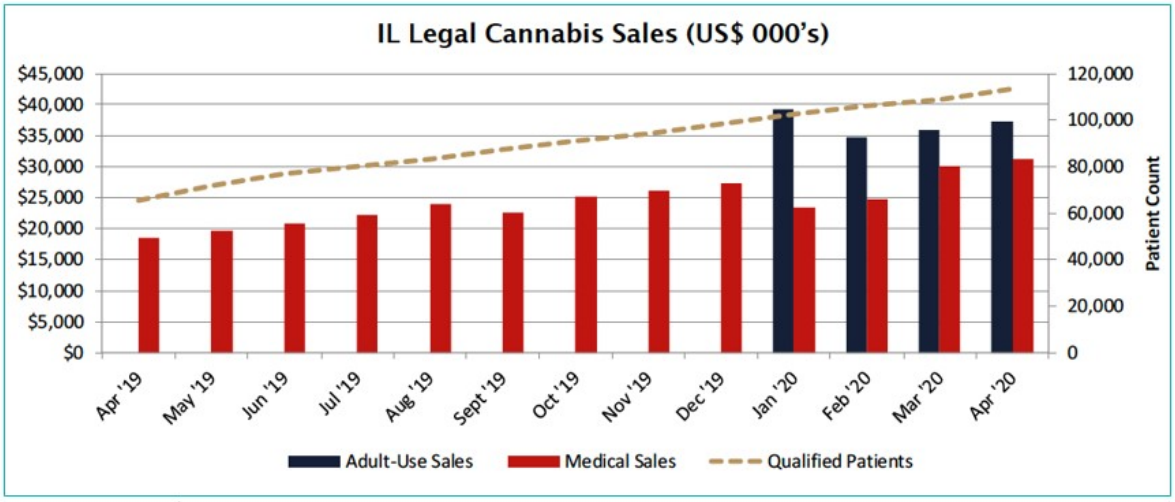
This medical only state continues to impress with its growth, with sales remaining above pre-shutdown levels. Over the first 10 weeks of 2020, dispensaries in Florida sold an average of 22,800 ounces of smokable marijuana per week. Then in mid-March, dispensaries sold approx. 36,400 ounces, an increase of 38% from the previous week, just as COVID-19 shutdowns and "pantry loading" was starting. As the chart below illustrates, demand continues to grow in Florida, the seven-day period beginning April 17 showing patient purchases of 39,290 ounces of smokable flower and over 40,000 ounces into May. Total registered patients is now over 342,000, up 13% on the year, and representing a 1.6% penetration rate statewide.



Source: Florida Office of Medical Marijuana Use, Marijuana Business Daily

Illinois (pop. 12.7 million)

Another state that exhibits strong sales despite COVID lockdown measures is IL. Combined medical and adult-use sales for April was $68.3 million, up 3.8% from March. YTD ending April 30, cannabis sales in the state reached $256 million in 2020 on pace for over $760 million this year. What is also important is that patient growth continues despite recreational market openings since Jan. During April, patients registered in the state cannabis program increased 4.4% month over month to 113,458.



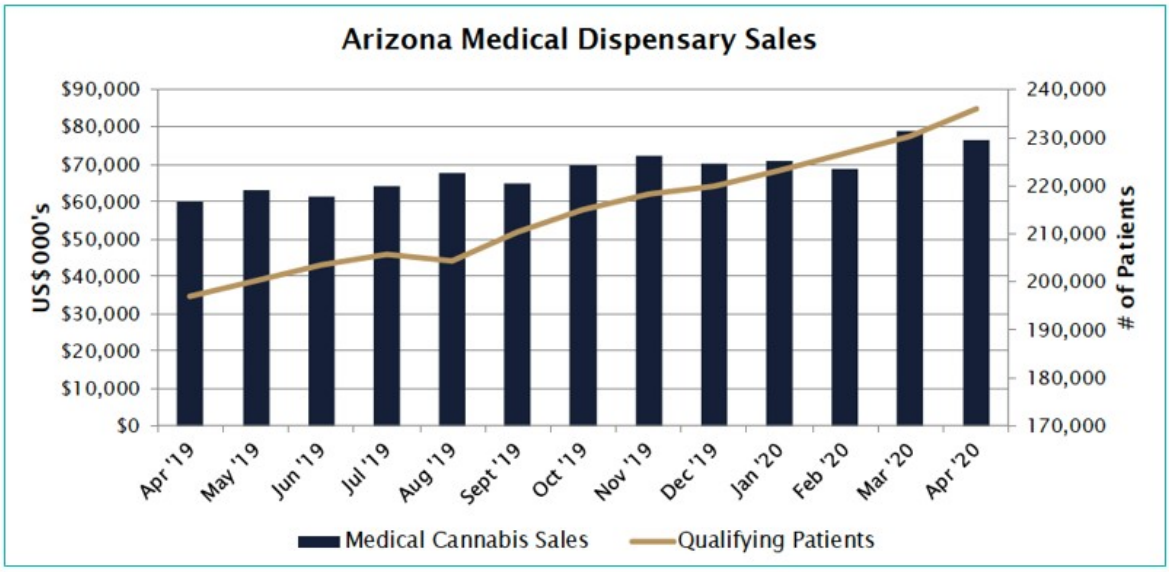
Source: VIIICapital

OH (pop. 11.7 million)

The State regulator announced that OH medical cannabis sales reached $57 million through May 11, 2020. Although not as significant as Ill or Fla, the State has been slower in its medical roll out. Encouraging growth stats show that OH has sold as much cannabis through the first 20 weeks of 2020 as it did in the first 36 weeks of the program in 2019. OH reports that 101,400 patients have registered and growing by an average of 7% month-over-month so far in 2020. Average weekly sales

were up 12% from March to April, driven by an 11% jump in transaction size and a 1% increase in the average number of weekly transactions.

Arizona (pop. 7.3 million)
April sales are approaching $76 million, or 265,000 total ounces of products sold, down 3.3% from March 2020 but an increase of 27% YoY. Registered patients have grown to 235,999 (3.2% penetration rate), up 2.5% MoM, with 5,682 patient adds. Patient adds were 56% higher in April than March and were 2x greater than the monthly average over the last 64 months.



Source: VIIICapital

Nevada (pop. 3.1 million)
In late March, the state ordered the shutdown of all cannabis storefronts, forcing a delivery-only model. Effective May 9th store re-openings were allowed up to 10% of the fire code maximums, followed by the June 3rd announced increase to 50% of fire code maximum. Propelling companies with a focus in NV is the resumption of tourists to Las Vegas as casinos re-opened June 4th. We have already seen strong response to NV focussed names.

Company Updates

MERCK, Inc., (MRK) announced three significant initiatives to combat COVID-19: 1) the company's acquisition of Themis Bioscience (Private), a company focused on vaccines and immune-modulation therapies for infectious diseases, including COVID-19; 2) a collaboration with IAVI to develop a vaccine against COVID-19; and 3) a collaboration with Ridgeback Bio (Private) to advance development of an oral antiviral candidate for COVID-19, EIDD-2801. We expect MRK to be a significant player in COVID-19 treatments. A key consideration for vaccine development will be a company's capabilities around manufacturing and supply. In our view, MRK's expertise in vaccines and anti-infectives gives it an advantage in identifying promising candidates/technologies, accelerating development efforts, and achieving scale.

Trulieve Cannabis Corp. (TRUL), one of the Funds' top holdings opened it 50th store in the US with its 48th Florida location in Daytona Beach, in addition to dispensaries in CT and CA. On June 4th, TRUL received approval for its Adult-Use/Recreational License from the Massachusetts Cannabis Control Commission (CCC) to operate as an indoor cultivation facility in Holyoke, MA. The

company was also awarded a license to operate a retail cannabis dispensary in Northampton, MA. The cultivation license will be instrumental as TRUL builds its wholesale distribution business.

Cresco Labs (CL) announced an agreement with Verdant Creations to purchase four additional OH dispensaries, giving CL a total of five in OH, the maximum allowable in the State. In PA, CL announced a fourfold increase in its cultivation footprint, enabling its wholesale business to meet increased demand as it distributes to 100% of the dispensaries in PA. CL operates three dispensaries in PA with three licenses in Philadelphia under development.

Tilray Inc. (TLRY) announced the closing its High Park Gardens greenhouse, illustrating the continued reduction in cultivation on the part of many larger Cdn LP's as right-sizing is under way with **Canopy Growth (WEED), Aurora Cannabis (ACB), Cronos Group (CRON)** and **Hexo Inc (HEXO)**. We note that TLRY announced the purchase of this 406,000 sq ft facility in January 2019 for a price of C$70 million.

CannTrust, had its cultivation license re-instated this month related to its Fenwick Facility. CannTrust has been working in collaboration with Health Canada for many months to address the Company's regulatory deficiencies. We caution investors as the company is still in creditor protection, lost its TSX and NYSE listing, lost 1 yr of sales and lost traction and credibility with patients. Our opinion is that the best probable outcome is selling the facility because the brand has been tainted.

Financials

We witnessed very strong Q1 financial results from our leading MSO's. **Trulieve Cannabis (TRUL)** continues to be the most profitable cannabis Co in the world with revenues in Q1 of $92 million and industry leading EBITDA in Q1 of $49 million, largely generated in the State of Florida, a medical State. Revenue improved 21% q/q. The company continues to see growth post pandemic with avg. active patient spending patterns growing from 2.5 visits pre-COVID to April at 2.7 visits, while average spend per patient rose from $125/basket to $127/basket.

The **TRUL** financial position remains one of the best in the industry, the company generating positive free cash flow during the quarter, with cash and equivalents of $101 million USD at quarter end. As the company continues to expand both in Florida and MA, we believe that TRUL will reach 65 dispensaries (from its current footprint of 50) by the end of the year.

Green Thumb Industries (GTII) also released strong Q120 financial results.

Revenue was up 35% QoQ to $103 million, ahead of consensus of $93 million, with its wholesale business generating $26.8 million from 9 states while its retail distribution was up 45% QoQ generating $76 million in 10 of its 12 operating states. Gross margins increased to 51.6% and EBITDA reached $25.5 million, well ahead of consensus $18 million. GTII also has a sound balance sheet with $72M in cash at the end of 1Q20. We believe it has enough capital to build out its existing retail footprint (licensed for 96 stores). GTII has several catalysts including its ability to achieve positive free cash flow during the quarter, along with vertical integration to be boosted by facilities in NJ, IL, and OH coming online near-term, resulting in our belief that the company's profitability outlook remains strong.

Curaleaf's (CURA) generated revenue of $96.5 million, 28% revenue growth QoQ, with gross margin of 43%. The company *generated $20.0 million of Adjusted EBITDA as Operations continue to*

scale across 17 States. CURA exited Q1/20 with $176m of cash, following the closing of its $300m debt deal in January and we continued top line growth primarily from the closing of the *Grassroots Acquisition that is scheduled to close by the end of 2Q*. Grassroots adds 63 dispensary licenses with 30 already open in large markets (ILL, PA).

Village Farms International (VFF) reported that its Pure Sunfarms (PSF) JV gained strong momentum QoQ in both REC and wholesale channels and continued to hold a robust market share in Ontario. Net Sales were C$18 million, up from C$12.1 million in Q4 while gross margin was lower at 52%, due to increased winter cultivation costs, with an all-in cost of cultivation of C$0.88/gram. EBITDA for PSF was C$6.7 million. During the quarter, VFF increased its ownership of the joint venture to 57.4% at March 3, 2020 and subsequently to 58.7% as of April 2, 2020.

PSF remained the top-selling brand of dried flower in ON and achieved a provincial volume market share of ~20% in April, accelerating from 13-14% in the first two months of 2020. We believe this is driven by the combination of attractive price points, product quality and the recently launched Oz-sized offerings. During the quarter, PSF launched its offerings in the second largest cannabis market in Canada, Alberta.

We contrast **VFF** with the fiscal Q420 results of **Canopy Growth (WEED)**. WEED net revenues were C$107.9 million in the quarter, below estimates of C$128.8 million, driven by lower recreational cannabis sales, a 28% drop in rec sales, at a time when industry average revenue was up 18%. The company reported adjusted EBITDA loss of (C$102 million), below consensus of (C$87.2M). Canopy recorded approximately C$800M in impairment charges in F4Q20, and it expects FY21 to be a transition year as it resets its strategic focus to markets and product categories with the highest near-term profit opportunities.

As **WEED** is considered the bell-weather name in the cannabis, its important to consider that this name will likely take time to transition to profitability. On the earnings call, management discussed "missed opportunities" in the Canadian cannabis market's value segment. Several companies, including VFF, launched large-format (28 gram or 1 oz) value offerings into the Canadian market during the last two quarters, driving market share considerably. Canopy indicated that "4-5 months ago, the value segment represented ~6% of the market, today it's around 20%".

We can see that as Ontario announced re-opening plans, **VFF** has seen sustained upward momentum in its share price as the recognized leader in the largest cannabis market in the country. We believe **VFF** is undervalued trading at only 1/20th to that of WEED, while it generates ~1/5th of its revenue, and had its sixth consecutive EBITDA-positive quarter, a record among Canadian LPs. VFF is a lean, market share-capturing business that generates positive operating cashflow. As we look at VFF as our largest Cdn cannabis holding it is important to note its profitability in light of the fact that neither **WEED**, **ACB**, **TLRY**, **CRON**, **HEXO** have ever posted an EBITDA-positive quarter.

Aurora Cannabis (ACB) reported its fiscal Q320 with a top line beat on revenues of C$78 million benefiting from the launch of its value-priced Daily Special offering. Gross margins 54% vs. 55% in Dec, well-below the 65% of the 2019 Sept quarter. ACB continues to have EBITDA losses, this quarter generated a C$51 million loss, a bigger operating loss than 1Q20, off a similar revenue base. G&A expenses remained elevated in the quarter at (C$80 million). Mgt states its intention to

be cash flow positive by fiscal Q121, however a great deal of that is based on continued sales growth. Management admits that without significant Ontario store openings hampers chances. We caution investors that much work still has to be done here.

Jamieson Wellness (JWEL) in our nutraceuticals/supplements sector released sound Q120 financials with total revenue of $84.5 million above estimates of $84 million. JWEL's 37% gross margin was down 50bps Y/Y however the company produced adjusted EBITDA of $16.7 million, in line with consensus at $16.3 million. Adjusted net income was $7.8 million, yielding $0.19/sh in diluted EPS (in line with consensus). JWEL has tailwinds from pantry loading at the beginning of COVID lockdowns that continues to generate high demand for immunity-based products. Demand for supplements, especially vitamins that boost the immune system, have seen a surge, as retailers bolster their supplements inventories. Additional positive catalysts are found in the company's US rollout (which began in early 2020).

Option Strategy

During May the Fund continued using its option strategy to enhance risk adjusted returns. With the above average volatility in the cannabis and associated health care sectors, we are able to generate significant option premium, while lowering the overall volatility of the Fund relative to its underlying benchmark. Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of over $2.81 million.

During the month we used our option strategy to assist in rebalancing the portfolio in favor of names we prefer while generating $71,000 in option income. We 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 Gilead (GILD), Aphria (APHA), Procter & Gamble (PG), and Abbott Laboratories (ABT). During the month, we were able to write covered calls and strangles on names we feel are range bound near term and from which we could receive above average premiums. Examples of such trades include Gilead (GILD) and Abbott Laboratories (ABT).

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 generate industry leading risk adjusted returns.

Charles Taerk & Douglas Waterson
The Portfolio Team
Faricourt Asset Management

Ninepoint Alternative Health Fund - Compounded Returns[1] as of May 31, 2020 (Series F NPP5421)

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	9.63	0.94	11.74	-2.25	-22.60	19.82
INDEX	4.74	-16.33	-2.34	-13.93	-31.69	1.43

Statistical Analysis

	FUND	INDEX
Cumulative Returns	66.49%	4.08%
Standard Deviation	29.84	32.51
Sharpe Ratio	0.62	0.00

[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 May 31, 2020. The index is 70% Thomson Reuters Canada Health Care Total Return Index and 30% Thomson Reuters United States Healthcare Total Return Index and is computed by Ninepoint Partners LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Cannabis sector risk • Currency risk • Cybersecurity risk • Derivatives risk • Exchange traded fund risk • Foreign investment risk • Inflation risk • Market risk • Regulatory risk • Securities lending, repurchase and reverse repurchase transactions risk • Series risk • Specific issuer risk • Sub-adviser risk • Tax risk

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 May 31, 2020 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.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own

judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540