Ninepoint Alternative Health Fund

August 2023 Commentary

Summary

The month of August was very positive for the Ninepoint Alternative Health Fund as the healthcare sector witnessed strong data to support breakthrough drugs treating obesity and Type II diabetes while US federal regulatory announcements related to re-scheduling of cannabis on the Controlled Substances Act led to strong re-bounds for the cannabis names in our portfolio.

We got a reminder of the optionality of our allocation to cannabis with the announcement from Health & Human Services (HHS) that they have recommended re-scheduling cannabis to Schedule III to the Drug Enforcement Agency (DEA) as they review their inputs prior to a decision document for the President by year-end. We have room in these stronger markets to add to select positions while increasing names that have new tailwinds and provide good upside for the Fund.

Investment Team

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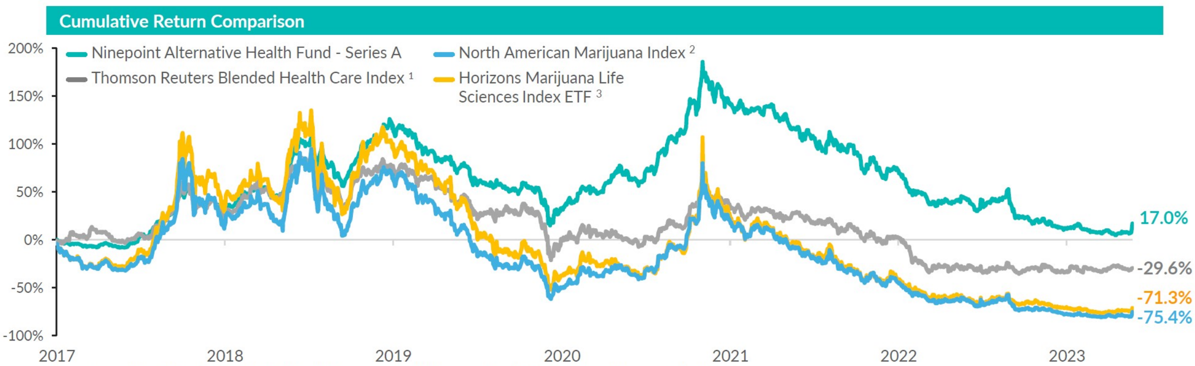
Ninepoint Alternative Health Fund

Cumulative Returns (As at August 31, 2023)



Inception date: March 26, 2017. Chart shows period between April 11, 2017 and August 31, 2023

Period between April 11, 2017 and August 31, 2023	Annualized Return	Annualized Std Dev	Downside Deviation	Sharpe Ratio	Sortino Ratio	Max Drawdown
Ninepoint Alternative Health Fund – Series A	2.5%	26.8%	14.8%	0.03	0.17	-58.7%
Thomson Reuters Blended Health Care Index[1]	-5.5%	35.6%	20.1%	-0.20	-0.27	-58.7%
Horizons Marijuana Life Sciences Index ETF[3]	-18.2%	58.6%	30.9%	-0.34	-0.59	-89.1%
North American Marijuana Index[2]	-20.1%	55.2%	29.6%	-0.40	-0.68	-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.

Major Step Forward Re-Scheduling Cannabis: Positive Catalyst

On Aug 29th Bloomberg News reported that a senior official at the Department of Health and Human Services (HHS) delivered a recommendation to Anne Milgram, Administrator at the Drug Enforcement Administration (DEA) that cannabis should be moved to Schedule III of the Controlled Substances Act (CSA) from its current classification under Schedule I. Recall that on Oct 6th 2022, President Biden announced a review of the CSA with respect to cannabis calling for reform, largely on criminal record expungement and its classification as a Schedule 1 controlled substance. At the time, the White House pointed to the inconsistency of having cannabis considered as dangerous as other Schedule I drugs including heroin and LSD, while fentanyl and other opioids (e.g., OxyContin, Morphine) are Schedule II substances.

Click on the link to review our comments from last Fall-
https://www.ninepoint.com/commentary/commentaries/2022/092022/alternative-health-fund-092022/

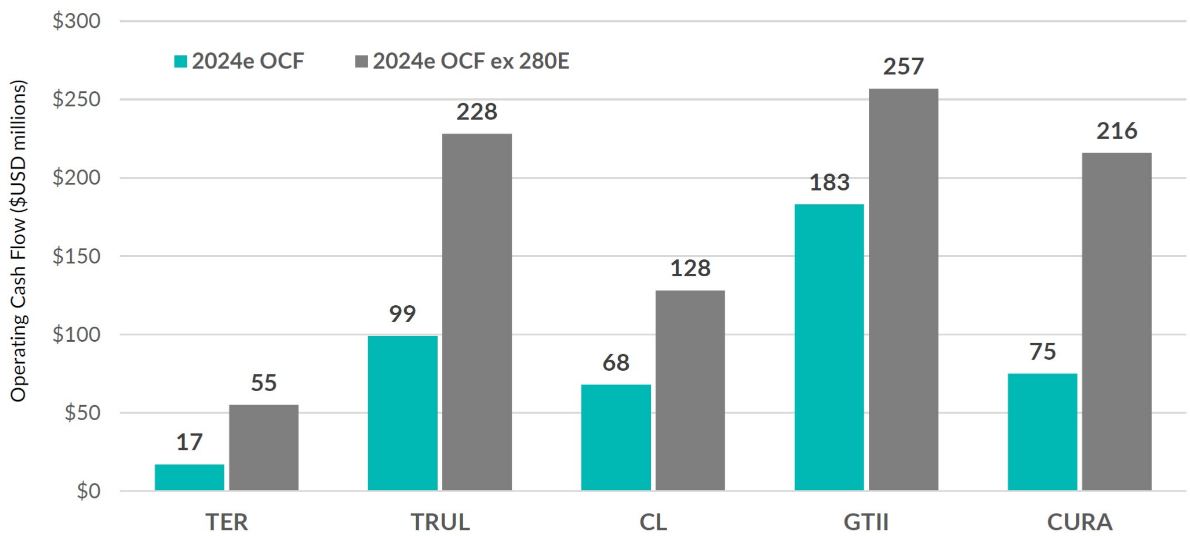
US Controlled Substances Act: Definitions & Examples

Schedule	Definitions	Examples
Schedule I	High abuse potential with no accepted medical use; medications within this schedule may not be prescribed, dispensed, or administered	Heroin, marijuana, ecstasy, gamma hydroxybutyric acid (GHB)
Schedule II	High abuse potential with severe psychological or physical dependence; however, these medications have an accepted medical use and may be prescribed, dispensed, or administered	Morphine, codeine, hydrocodone, hydromorphone, methadone, oxycodone, fentanyl, methylphenidate, pentobarbital
Schedule III	Intermediate abuse potential (ie, less than Schedule II but more than Schedule IV medications)	Hydrocodone/acetaminophen 5 mg/500 mg or 10 mg/650 mg; codeine in combination with acetaminophen, aspirin, or ibuprofen; anabolic steroids; ketamine
Schedule IV	Abuse potential less than Schedule II but more than Schedule V medications	Propoxyphene, butorphanol, pentazocine, alprazolam, clonazepam, diazepam, midazolam, phenobarbital, pemoline, sibutramine
Schedule V	Medications with the least potential for abuse among the controlled substances	*Robitussin AC*, *Phenergan* with codeine

Source: DEA, Echelon Capital Markets

By moving cannabis on the CSA from a Schedule I drug where it is at the highest level of regulation and taxation, while limiting institutional research into the medical properties of cannabis use, down to a Schedule III drug, it removes onerous tax rates and adds several positive implications for the sector including a re-rating of equities that have seen lackluster trading prior to the announcement. With respect to taxes, a company that produces a Schedule I drug operates under Section 280E of the Internal Revenue Code, which that states businesses that traffic in Schedule I or II substances (like cannabis, heroin or LSD) are prohibited from taking normal business deductions such as salaries, rent, and interest expense when calculating tax liabilities. It means that MSOs are in effect paying tax on gross profit, resulting in effective tax rates of 50-70%+, rather than other businesses with regular deductions that bring their effective tax rates to 21%, meaningfully improving the cash flow profile of the sector.

Cash Flow Effect of Removal of IRS Sect 280E



Source: Faircourt Asset Management calculations, Company Documents, Factset, Stifel, Echelon, Roth

Additional implications for Re-Scheduling could open participation from US institutions into the sector. We have already begun to see increased daily trading with the recent up-listing of Terrascend (TSND) to the TSX since July 4th, where volumes for TSND have increased in the first month +100% relative to the 90-day average prior to its up-listing. With a move to Schedule III, there is also an opportunity for US Custodians to remove trading blocks and custodial bans on any marijuana related business (MRB) rather than just TSND due to its unique TSX listing.

The next steps in the approval process of Re-scheduling involve HHS handing over its medical and scientific research to the DEA for consideration. While the final decision rests with the DOJ's review of both the departments' reports, HHS's scientific and medical evaluation is binding on the DEA which is a positive. Given the DEA's historical hostility towards drug liberalization, we believe this step still presents a risk to Schedule III however it will be tough to refute HHS data and science given the medical data from cannabis research over the last several years. Countering that risk is the fact that the DEA Administrator is a Biden appointee, and although the outcome is months away, it should not be forgotten that the 2024 election cycle may provide the impetus for a positive White House announcement.

We remind investors that there are several catalysts that could take place over the next six months, adding further upside to the momentum created by the Re-Scheduling announcement. First is the upcoming Ohio Ballot Initiative taking place in November to legalize recreational cannabis. The state is one of the top ten largest states by population at 12 million people and already has a fairly strong medical market. As we have seen with all other strong medical market conversions to recreational status such as Maryland, New Jersey, Illinois and Michigan, sales trends suggest a 2-4 times multiplier for those with operations ready to go. Based on the success of the Ohio Ballot, we could see Pennsylvania forced to also bring in recreational cannabis legislation as pressure from lost taxation revenue on its western and eastern borders exerted itself to create a change in legislation. PA is a larger state as well at over 13 million people and its market will also add significant financial benefits to those operating there. Finally, both Ohio and Pennsylvania are considered Republican held states and as each state moves to recreational status, they add Republican Senators in Washington to become more supportive of local jobs, local taxes and other benefits this industry provides.

<u>Breakthrough Trial Results for Ozempic & Other Weight Loss Drugs</u>

In August, Denmark based pharmaceutical company Novo Nordisk (NOVO) announced that its successful drug, Wegovy, better known by its trade name Ozempic had significant phase II trial results. The double-blind trial compared a dose of Wegovy with its active ingredient semaglutide vs placebo as an adjunct to standard care for the prevention of major adverse cardiovascular events (MACEs) over a period of up to five years. The trial enrolled 17,604 adults aged 45 years or older who were either overweight or categorized as obese based on BMI scales. The trial results surprised investors and analysts surpassing its objective by demonstrating a statistically significant and superior reduction in MACE of 20%. This is important not just for NOVO but for other pharmaceutical companies that have similar glucagon-like peptide 1 (GLP-1) agonist drugs.

The Ninepoint Alternative Health Fund portfolio holds Eli Lilly & Co (LLY), and it has a new drug similar to Wegovy; a tirzepatide based medication, which is a dual GIP/GLP-1 receptor co-agonist. Monjauro, as it is known in the market is quickly gaining ground to become a market leader according to a new report from GlobalData. Approved in May of last year in the treatment of Type 2 diabetes, Mounjaro has already had a strong launch with Q1-23 sales of $569 million. Mounjaro is in the process of filing its phase II trial results similar to the NOVO drug. Analysts suggest the trial data for Mounjaro could make it the world's primary treatment, already with 22.5% loss in body weight in some patients and about half realizing at least a 20% reduction.

Since the announcements in early August, LLY has increased substantially based on the anticipated trial results and potential for FDA approval and updating in various health insurance plans. Currently, about 30% of US private coverage includes these drugs in their programs. Success in its trials may lead to pressure for improved payer coverage, with Medicare inclusion perhaps in 2025.

To understand the reasons behind the significant equity move this past month, it is important to understand the size of the potential population that could use these drugs. There are approx. 150 million people in the US are categorized as overweight or obese and these breakthrough medications could be seen to treat 30-40% of these patients at any given time (for 3 to 6 months at a time) to proactively assist in the reduction of cardiac events. Although Medicare inclusion would be costly, there would be savings in other areas, as a reduction in MACE (Major Adverse Cardiac Events) from these medications would result in the reduction of services or other medications either used to treat patients in hospital suffering a heart attack or from other medications that are less effective. This debate for healthcare coverage is only beginning but what it shows is that with 30% of payor coverage already, it is expected that once trials confirm this type of reduction in MACE, more commercial payors will jump on board, resulting in a significant upside for LLY and NOVO and other providers.

Financial Results

MSO's Reporting Q2-23 Financial Results

What is interesting in this inflationary environment where consumers are becoming more selective in their buying behaviour, the key for management teams is execution and cost control as those multi-state operators (MSOs) that can withstand pricing pressures while generating strong cash flows will be in a good position to take advantage of M&A and new licensing opportunities.

To emphasize this point, Terrascend (TSND) announced very strong results for Q2 achieving industry leading revenue growth of 26% in the first half of 2023 with Q2 revenues reaching $72 million up 3.9% QoQ and 12.7% YoY. What is compelling about TSND results is that their revenue growth has been achieved while selling higher value, higher quality flowers, sold at higher prices, and less susceptible to price competition that has been evident in various state markets in value priced products. As the company has been increasing sales, the company also achieved stronger gross margins of $38.9 million or 54% vs 52%.9 in Q1 illustrating effective execution. Adj EBITDA reached $12.8 million or 17.8% of revenues, higher than Q1 at 17.6% or $12.2 million.

The second half of the year is also shaping up well for TSND. The company has just closed on transactions that bring its dispensary count to the state maximum of 4 owned locations in Maryland (a $1 billion run rate state), the newest recreational market that started July 1st.

They also continue to make profitable inroads into the growth market of New Jersey where they maintain a top 3 position according to BDSA. As a result of the various state markets in which they operate in addition to the strong cultivation metrics they are generating, the company announced revenue guidance of + $300 million up 23% YoY and Adj EBITDA of $58 million to finish FY23.

The most significant recent announcement from TSND was discussed in our July commentary with the company's July 4th up-listing to the TSX. For the company, it provides broader institutional investor interest, while also reducing the cost of capital. Also noteworthy is that within days of the up-listing announcement, a major change from US Custodians occurred as Major players such as Morgan Stanley, Cowen and BoNY Mellon Pershing all removed previous trade blocking from TSND as a result of the TSX listing. This is a big deal with large custodians opening their compliance regimes to the TSX listed US cannabis companies, it paves the way for US institutions to freely invest. We have already begun to see increased daily trading volumes with the recent up-listing of TSND, where volumes for TSND have increased in the first month +100% relative to the 90-day average prior to its up-listing. This is a great indication for other MSOs that are considering up-listing. For the month TSND was up 45%.

One of the Fund's top holdings, Green Thumb Industries (GTI) also announced noteworthy Q2-23 results generating revenue of $252 million, an increase of 2% QoQ bringing total first half 2023 revenue up 1% to $501 million, while trading value saw 33% upside in the month. Management noted that revenue was primarily driven by price compression while units sold rose. Retail revenue decreased 2.4% YoY vs Q2-23 while same store sales (stores open at least 12 months) decreased 3.3% versus the prior year on a base of 76 stores. Wholesale revenue increased 12.8% versus the second quarter of 2022 which is a standout as many MSO's are increasingly protecting shelf space for their own brands. Gross profit for the second quarter 2023 was $125.3

million or 49.6% of revenue compared to 49.5% in Q2-22.

Management was able to offset price compression headwinds through operational efficiencies as well as an increase in sales through GTI owned RISE retail stores. Adjusted EBITDA was $76 million or 30% of revenue and GAAP net income was $13 million or $0.05 per basic and diluted share. After $52 million in tax payments during the first six months of the year, cash flow from operations reached $93 million. Growth for the company comes from its operations in select markets such as New Jersey, Virginia, Connecticut and now Maryland. The Company made a bold decision illustrating the strength of its cash flow by putting that cash flow to work with the decision to invest an additional $90 - $100 MM in capex this year at a time when most of its peers are slashing growth spending to preserve liquidity. GTI in our opinion is a best of breed cannabis company, operating 84 retail locations, 18 manufacturing facilities across 15 states.

Trulieve Cannabis (TRUL) another top 10 fund holding announced Q2-23 results that beat expectations. As its primary market is Florida, where significant price compression is occurring, the company exceeded analyst estimates beating consensus with top line revenue of $282 million. While many MSOs concentrate on taking down TRUL and its dominance in the FL market with campaigns focussed on value pricing, the company achieved a gross margin of 50% or $142 million. Again, execution is the key for management to achieve financial results during this challenging period and TRUL has been able to use various levers at its disposal to continue to generate solid cash flows. The company was able to reduce SG&A expenses by $4 million resulting in adjusted EBITDA of $79 million or 28% of revenue. Cash flow excluding 2 tax payments during 1H23 was $98 million.

TRUL remains the market share leader in FL, succeeding against ongoing pricing competition from other MSOs while the company brings its 750k sq ft flagship facility (JEFFCO) fully online by the end of the year to expand margins once again. The company is also well positioned as one of only 2 license winners in the neighboring state of Georgia, where early operations and regulations remind the Florida based operator of the early days in the FL market. Further growth for TRUL will be generated with the new Maryland rec market that began July 1st.

The company operates 186 retail dispensaries and over 4 million square feet of cultivation with operations in 11 states, and important to note that despite its leadership in FL, 32% of its retail locations are outside of the state of Florida.

A more recent addition to our top ten holdings is MSO Verano Holdings (VRNO). Q2 revenue was $234 million increasing 5% year-over-year and 3% versus the prior quarter, beating consensus of $231.0 million. Gross profit came in at $115 million or 49% of revenue, also beating consensus of $111.8mm, an improvement of 400bps from Q2-22. Effective execution led to reduced SG&A to 36% of revenues or $85 million, down from $100 million in Q2-22, driven by a decrease in salaries and benefits. The company was able to beat consensus adj EBITDA reaching $72 million or 31% of revenue.

Key to management's execution is a focus on limited license states combined with cultivating premium flowers that has helped the company generate stronger operating margins while the industry faces increased headwinds from value priced competition. States that contributed to the company's growth include adult use markets in New Jersey and Connecticut, which helped the company weather retail declines in Pennsylvania and Arizona. VRNO is the number one brand in NJ for the quarter (according to BDSA data), with an overall market share of 21%. We see continued growth for VRNO with its exposure to newly opened rec markets in Maryland which is expected to drive revenues for those players ready to supply that new market. With operations in 13 states, including 132 dispensaries and 14 cultivation and processing facilities and one million square feet of cultivation capacity, we believe VRNO is positioned to continue to generate profitable growth in coming quarters.

Q2-23 Pharmaceutical Results: LLY

Global pharmaceutical company Eli Lilly & Co (LLY) is a fund holding that is experiencing significant growth up 22% month over month, beating analyst estimates on the tailwind of a breakthrough treatment in its Monjauro drug, designed to treat Type II Diabetes. LLY reported 2Q-23 sales of $8.3 billion vs consensus of $7.6 billion which led to an EPS beat of $2.11, $0.13 above consensus. 2Q revenue increased 28% YoY as a result of volume-driven growth from Mounjaro (Type II diabetes); Verzenio (breast cancer) and Jardiance (Type II diabetes). In addition to over $600 million in Q2 revenues from Monjauro, LLY has had pipeline progress with positive results in Phase 3 trial submissions to the FDA and Business development activity included M&A progress and closings with DICE Therapeutics, Inc. (DICE), Sigilon Therapeutics, Inc. (SGTX) and Versanis Bio (Private).

As a result of the strong Q2 results, management has raised its FYE23 sales guidance to $33.4 billion from $31.2 billion while also raising EPS guidance range to $9.70-9.90.

Option Strategy

Since the inception of the option writing program in September 2018, the Fund has generated significant income from options premium of approximately $4.85 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.

During the month we used our options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately $27,000 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 which included Perrigo Co PLC (PRGO), Bristol-Myers Squibb Co (BMY), and Merck & Co Inc. (MRK). 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 UnitedHealth Group Inc. (UNH), Abbott Laboratories (ABT) and Eli Lilly and Co (LLY).

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.

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 August 31, 2023 (Series F NPP5421) | Inception Date - August 8, 2017

	MTD	YTD	3MTH	6MTH	1YR	3YR	5YR	INCEPTION (ANNUALIZED)
FUND	9.8%	-4.8%	7.3%	0.4%	-17.8%	-11.0%	-7.2%	4.5%
TR CAN/US HEALTH CARE BLENDED INDEX	-4.1%	7.5%	0.9%	-2.8%	-0.4%	-11.0%	-16.2%	-6.3%

Statistical Analysis

	FUND	TR CAN/US HEALTH CARE BLENDED INDEX
Cumulative Returns	30.9%	-32.4%
Standard Deviation	27.5%	29.1%
Sharpe Ratio	0.1	-0.3

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at August 31, 2023. 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 August 31, 2023 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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