

Evolve Marijuana Fund

SEED is an actively managed ETF that provides investors with exposure to a diversified portfolio of companies, both domestic and international, that are involved in the marijuana industry.

As at March 29, 2019



TICKER: SEED (Unhedged)

MACROECONOMIC HIGHLIGHTS:

- Industry consolidation continued during the month on the back of a maturing cannabis industry. Newstrike Brands agreed to a friendly takeover by Quebec-based HEXO Corp. in an all-share transaction. According to the two companies, the transaction is expected to give HEXO the capacity to produce about 150,000 kilograms of cannabis annually and to realize \$10 million of annual synergies. The companies have also established distribution agreements in eight provinces, excluding New Brunswick and Newfoundland and Labrador.
- Altria Group announced the completion of its approximately C\$2.4 billion investment in Cronos, representing an almost 45% economic and voting interest in Cronos, with a warrant to acquire additional ownership exercisable over next 4 years, which would potentially increase its ownership to about 55%.
- Shares of Aurora Cannabis rose on the announcement that it appointed U.S. billionaire Nelson Peltz as a strategic adviser and given him the option to buy a stake in the company. Peltz is CEO and founding partner of Trian Fund Management LP, a multibillion-dollar investment management firm.
- Evolve Funds Group Inc. announced that it has filed a preliminary prospectus with the Canadian securities regulators for Canada's first actively managed U.S. marijuana industry focused ETF. The U.S. Marijuana ETF ("USMJ") is designed to provide investors with long-term capital appreciation by actively investing in a diversified mix of equity securities of public issuers that are involved in the U.S. marijuana industry where state and local laws regulate and permit such activities.
- Incidentally, Evolve's Canadian-based Marijuana ETF, was Canada's top performing ETF out of 504 equity ETFs listed on the TSX for the 12-month period ending February 28, 2019. SEED returned 48.48% over this period, more than doubling the performance of the North American Marijuana Index during the same period.
- In the meantime, Canada's second wave of recreational legalization of marijuana will permit cannabis edibles for legal sale no later than Oct. 17, 2019, according to Health Canada.¹
- The edibles industry is expected to be worth \$4.1 billion in Canada and the United States by 2022, according to a report by a marijuana market research company, The Arcview Group.





- Under the proposed federal rules, a single serving would be limited to 10 milligrams of THC, the psychoactive ingredient in cannabis, and each serving must be individually wrapped.
- The proposed edible pot regulations have been published by Health Canada and were subject to a 60-day consultation process which has come to an end.
- In the fund's portfolio, HEXO reported strong Q2 2019 results, showing that revenue grew 144% over Q1, and 1,269% over Q2 2018. Since the legalization of marijuana, the firm's revenue growth exceeded the entire fiscal 2018 by 200%.
- During the quarter, the company made its first investment in Greece, for a 33% interest in a joint venture named HEXOMed; and established a Eurozone processing, production and distribution center.

PERFORMANCE ATTRIBUTION:

- The fund produced a positive return in March. The portfolio held a 47% exposure by weight to the Big 5 cannabis stocks – Aphria Inc., Aurora Cannabis Inc., Cronos Group Inc., Tilray Inc., and Canopy Growth Corp; and a 32% weight in emerging cannabis companies and a 20% weight in ancillary securities. The best performing stock was Auroro Cannabis Inc., followed by HEXO Corp.

SOURCES:

ⁱ <https://globalnews.ca/news/5096541/marijuana-cannabis-edibles-canada/>

DISCLAIMER:

Commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs). Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Investors may incur customary brokerage commissions in buying or selling ETF units.

