

Evolve U.S. Marijuana ETF

USMJ is an actively managed ETF that provides investors with exposure to a diversified mix of equity securities of public issuers that are involved in the U.S. marijuana industry.



As at June 28, 2019

TICKER: USMJ (Hedged)

MACROECONOMIC HIGHLIGHTS:

- The pressure to legalize marijuana at a Federal level in the US - the world's largest market - continued to intensify during the first half, fuelling optimism that the Feds will eventually give in to public demand. Although 11 states have so far legalized marijuana for personal use, possessing and selling the drug remains a federal offence.
- But lawmakers have already enacted protections for the 47 states where medical marijuana is legal in some form or another. In June, the Democratic-controlled House voted to block the Justice Department from interfering with states that have legalized marijuana for recreational use.ⁱ
- As a result, analysts are bullish about the industry's growth. In a research note released in June, Canaccord Genuity analyst Bobby Burleson forecasted that legal-channel U.S. sales would hit roughly \$22 billion by 2022, more than double the \$10 billion last year.ⁱⁱ
- The impetus for the stronger outlook appears to be Illinois becoming the 11th state to legalize adult-use marijuana. As well, Maine's governor signed a bill in June that spelled out how Maine residents can grow, buy, and sell legal marijuana, putting the state in line to legalize marijuana soon. Industry observers estimate Maine's cannabis market will reach US\$107 million in 2020.ⁱⁱⁱ
- In May, a bipartisan group of attorneys general from 33 states and five territories urged Congress to advance the Secure and Fair Enforcement Banking Act (SAFE Act) that would allow cannabis businesses access to the federal banking system. Currently, banks providing services to state-approved cannabis businesses could face criminal and civil liability under some banking statutes.^{iv} Consequently, marijuana companies are largely financed through the issue of shares.
- Anticipated growth in the marijuana sector has been marked by a surge in M&A transactions, with several Canadian companies also participating.
- Curaleaf Holdings, Inc, a leading vertically integrated cannabis operator in the US, announced in May that it has acquired exclusive rights to operate the Emerald dispensary in Arizona, one of the state's largest and longest standing medical cannabis retailers, serving over 44,000 unique patients since 2014.^v In June Curaleaf also announced that it is buying the regulated cannabis business of Cura Partners Inc., a maker of oil for vape pens, in a stock deal valued at about US\$950 million, in what is the largest acquisition so far between U.S. cannabis companies.^{vi}



- MedMen is in the midst of buying privately held PharmaCann for \$682 million in an all-stock acquisition; Cresco Labs is ponying up \$823 million in an all-stock deal to purchase cannabis distribution license holder Origin House; Harvest Health agreed to buy privately held Verano Holdings for approximately \$850 million in an all-stock deal; and iAnthus Capital completed a nearly \$600 million deal to buy MPX Bioceutical earlier this year.^{vii}
- In May, Canopy Growth reached an agreement to acquire New-York based Acreage Holdings Inc., a multistate operator in the US, giving it the right to acquire all of the company's shares, if and when cannabis is legalized at the Federal level. Canopy also signed a deal to buy the UK-based skin-care company This Works for \$73.8 million in cash, as part of its entry into the natural wellness industry and to boost its international presence. This Works currently offers a range of natural skin-care and sleep products globally.^{viii}
- Canadian cannabis producer, OrganiGram commenced trading on the NASDAQ in May, joining other Canadian companies like Canopy Growth Corp., Aurora Cannabis, Tilray and Cronos Group. Aphria, HEXO, Village Farms, and CannTrust Holdings, which are also listed on major US exchanges.
- OrganiGram also announced a \$15 million investment in chocolate cannabis edibles and a high-speed, high-capacity, fully automated production line that will have the ability to produce an estimated four million kilograms of chocolate cannabis edibles annually.^{ix}

PERFORMANCE ATTRIBUTION:

- The ETF held a 40% allocation by weight to large cannabis and cannabis-related stocks, with the largest weights in this category to Curaleaf Holdings Inc. and Canopy Growth Corp.; and a 36% weight in emerging companies in the sector, with the largest exposure to Zynerba Pharmaceuticals Inc. The remaining portion of the portfolio was held in ancillary stocks. The best performing stock during the month was Zynerba Pharmaceuticals Inc., followed by Innovative Industrial Properties.

SOURCES:

ⁱ <https://www.apnews.com/dbc5f186271949e3863539904aea1cd4>

ⁱⁱ <https://www.fool.com/investing/2019/07/07/us-marijuana-sales-should-more-than-double-to-22-b.aspx>

ⁱⁱⁱ <https://www.bnnbloomberg.ca/cannabis-canada-why-pot-stocks-saw-steep-declines-in-q2-1.1280464>

^{iv} <https://www.cnn.com/2019/05/09/politics/attorneys-general-marijuana-banking-bill/index.html>

^v <https://finance.yahoo.com/news/curaleaf-announces-acquisition-sixth-dispensary-120000416.html>

^{vi} <https://www.usatoday.com/story/news/nation/2019/06/25/legal-weed-illinois-approves-recreational-marijuana-criminal-reform/1552697001/>

^{vii} <https://www.fool.com/investing/2019/07/07/us-marijuana-sales-should-more-than-double-to-22-b.aspx>

^{viii} <https://www.bnnbloomberg.ca/pot-grower-canopy-to-buy-british-skin-care-company-1.1262513>

^{ix} <https://potstocknews.com/organigram-edible-investing-nasdaq/>





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