

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 July 31, 2019



TICKER: SEED (Unhedged)

MACROECONOMIC HIGHLIGHTS:

A rise in legal cannabis price has led to more Canadians buying cheaper illegal cannabis. According to Statistics Canada, the price gap between legal and illegal cannabis is growing. In the second quarter, the average price of a gram of cannabis in the illicit market fell to \$5.93 from \$6.23 in the first quarter, while the average price in the legal market rose to \$10.65 from \$10.21. This is the widest gap in price since recreational use was legalized last October. As a result, the share of Canadians who claim that they bought cannabis from illegal sources rose to 59 per cent from 55 per cent, with 34 per cent citing the cost of legal pot for their decision.ⁱ

The legal price of cannabis rose largely due to a product shortage, partially the result of the halt in supply from CannTrust Holdings Inc., the fourth largest supplier, behind Canopy Growth Corp., Aphria Inc. and Aurora Cannabis Inc. Incidentally, CannTrust is being investigated by Health Canada after it was found to have been growing cannabis in unlicensed rooms at one of its facilities. The resulting plunge in CannTrust's stock price had a negative impact on cannabis stocks across the board during the month.

The shortage of cannabis worsened when the Ontario Cannabis Store, the government corporation in charge of wholesale distribution to licensed retailers and operator of the province's online store, elected to return all or substantially all of CannTrust products, valued at some \$2.2 million, because they are "non-conforming."ⁱⁱ

CannTrust has since fired two senior executives, its CEO and Chairman. And in a surprising move, Canopy Growth, also fired its founder and co-CEO, Bruce Litton in July, who was the architect of its growth. Under Litton's watch Canopy spent billions acquiring or investing in at least 30 companies in 15 countries, either to expand its cultivation capacity, boost its medical research, or accumulate an array of brands and key intellectual property that it deemed would pay off in the long run. Canopy also secured a \$5 billion investment from the U.S. alcohol giant Constellation Brands and a multi-billion-dollar option to buy U.S. based Acreage Holdings under Litton's watch.ⁱⁱⁱ Apparently, a fundamental disagreement existed between Litton and the Canopy board, as well as Constellation over strategy, and in particular, the timing of profitability.

In news about companies held by the ETF, Aphria became the first major Canadian cannabis company to report a net profit, sending its shares up +28% post earnings. The Ontario-based pot producer said it earned C\$15.8 million in the quarter ended May 31 on revenue of C\$129 million, and was up 75% from the prior quarter, beating the highest analyst estimate.





The cannabis producer and distributor, Cronos Group also announced earnings that exceeded analysts' forecasts amid ongoing demand for its marijuana-infused products in Canada and globally. Cronos reported earnings of \$250 million, or 22 cents a share, versus \$723,000, in the same quarter of the previous year. Revenue came in at \$10.3 million, above the \$3.4 million it posted a year ago and almost double consensus forecasts of \$5.5 million.

PERFORMANCE ATTRIBUTION:

The portfolio held a 44% exposure by weight to five of Canada's largest cannabis stocks – Aphria Inc., Aurora Cannabis Inc., Cronos Group Inc., Tilray Inc., and Canopy Growth Corp, plus Charlotte's Web, a US company which is the world's leading CBD brand by market share. The portfolio also had a 32% exposure by weight in emerging cannabis companies and a 24% weight in ancillary cannabis-related securities. The best performing stock during the month was Canopy Growth Corp., followed by Charlotte's Web, both among the largest cannabis companies.

SOURCES:

ⁱ <https://business.financialpost.com/cannabis/cannabis-business/cannabis-investing/canntrust-breach-will-damage-legal-pot-market-cannabis-weekly>

ⁱⁱ <https://www.cbc.ca/news/business/canntrust-ceo-terminated-1.5226018>

ⁱⁱⁱ <https://business.financialpost.com/cannabis/cannabis-business/cannabis-investing/canopy-growth-founders-legacy-as-a-dealmaker-could-take-years-to-decide>

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.