

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 July 31, 2019



TICKER: USMJ (Hedged)

MACROECONOMIC HIGHLIGHTS:

Though still illegal at the Federal level, the U.S. cannabis market continues to experience strong growth at the state level. The legal cannabis market was valued at \$11.9 billion in 2018 and is expected to be worth \$66.3 billion by the end of 2025.ⁱ

Although 11 states have so far legalized marijuana for personal use, and medical use is legal in some form in 47 states, possessing and selling the drug remains a federal offence. However, pressure to legalize marijuana at the Federal level continued to intensify in July. The passage of the Secure and Fair Enforcement Banking Act (SAFE Act) that would allow cannabis businesses access to the federal banking system is waiting Congressional approval; which if approved, would be a big boost to the marijuana industry.

California remains the biggest government-sanctioned market in the nation, topping the \$1.6 billion in legal sales projected this year for Colorado, which legalized cannabis in 2014. In a study by Arcview Market Research and BDS Analytics, released in July, it was noted that California is on track to post a record \$3.1 billion in licensed cannabis sales this year, solidifying its status as the largest legal marijuana market in the world, with legal sales of approximately \$2.5 billion in 2018, the first year of licensed cannabis sales in the state.

However, high taxes and a refusal by most cities to allow licensed shops, have resulted in the black market sales being far greater. An estimated \$8.7 billion is expected to be spent in the illegal cannabis market in California in 2019 — more than double the amount of legal sales.ⁱⁱ

In the meanwhile, legalizing recreational adult-use marijuana in Florida, once an afterthought, appears to be gaining momentum. In 2016, Florida voters approved an initiative that legalized medical cannabis, but state lawmakers subsequently banned smokable forms of the drug, until earlier this year.

Now, several groups and influential individuals are pushing for legalized recreational marijuana in Florida, with speculation that it could become a reality as soon as 2020. Make it Legal Florida, a political group registered in July; MedMen, a California company that currently has a store in West Palm Beach and a delivery service in Orlando, with plans for 11 more stores across the state; and the advocacy group Regulate Florida, are all pushing for legalization.



In fact, Regulate Florida, has gathered more than 83,000 signatures so far, enough to trigger a judicial review by the Florida Supreme Court. As well, Agricultural Commissioner Nikki Fried, whose pro-medical cannabis and hemp platform helped boost her bid as the only Democrat to win statewide office in Florida last year, is focused on improving the state's medical marijuana program.ⁱⁱⁱ

While marijuana is taking off, the CBD segment of the market, stemming from the legalization of hemp, is growing much faster. In fact, it is on track to grow more than 15 times faster than the cannabis market this year. And as mainstream retailers like Walmart, Walgreen's, CVS, and Neiman Marcus start selling CBD products in addition to smaller dispensaries, sales in this sector are projected to jump to \$22 billion by 2022.

According to the new quarterly release of the Marijuana Business Factbook, Oklahoma is the fastest-growing medical marijuana market in the average number of daily patient increases, bolstered by low barriers of entry, including the fact there's no list of qualifying conditions for patients; Florida is the second-fastest-growing market in terms of patients joining the registry; Arkansas and Ohio have reached a statewide proportion of medical marijuana patients on par with mature markets such as Illinois, New Jersey and New York, although the state's program has been operational for less than a year.^{iv}

PERFORMANCE ATTRIBUTION:

The ETF held a 37% allocation by weight to large cannabis and cannabis-related stocks, with the largest weights in this category to Canopy Growth Corp. and Charlotte's Web Holdings Inc; and a 34% 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.

SOURCES:

ⁱ <https://www.forbes.com/sites/nicolemartin/2019/06/26/how-big-data-and-ai-help-drive-the-cannabis-industry/#6e9224542bca>

ⁱⁱ <https://www.latimes.com/california/story/2019-08-14/californias-biggest-legal-marijuana-market>

ⁱⁱⁱ <https://www.rollingstone.com/culture/culture-features/marijuana-weed-florida-legalization-ballot-initiative-2020-872703/>

^{iv} <https://mjbizdaily.com/medical-marijuana-market-growth-with-oklahoma-and-florida-leading/>

DISCLAIMER:

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