

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 September 30, 2019



TICKER: SEED (Unhedged)

MACROECONOMIC HIGHLIGHTS:

The increasing supply of cannabis in Canada could lead to a glut in the market, reversing earlier concerns of a supply shortage. Currently, Canadian cannabis producers are harvesting enough pot to satisfy 81% of the total demand projected by Health Canada. However, legal sales in June amounted to just 14% of demand by volume, according to new data from industry researchers The Cannalysts.

The disconnect between cannabis being harvested by licenced producers and their actual share of the market is a looming problem for investors and the industry alike, says an analyst from Cannalysts. Incidentally, the anticipated demand from new retail stores and stockpiling inventory ahead of the approval of edibles are the often cited as reasons for rising supply but there is doubt that these channels will absorb the growing glut of cannabis sitting in company vaults.ⁱ

During the month, three cannabis companies faced regulatory scrutiny, leading to sanctions on two companies. CannTrust's cannabis licenses were suspended by Health Canada for failing to comply with Canada's federal cannabis law and regulations. CannTrust's suspension came on the heels of another handed down to British Columbia-based Evergreen Medicinal Supply over noncompliance with federal law and regulations.ⁱⁱ

On the other hand, former directors and officers of Toronto-based Canadian Cannabis Corp have been accused by the Ontario Securities Commission of defrauding investors; failing to comply with sections of the Securities Act; and engaging in "conduct that is contrary to the public interest."ⁱⁱⁱ

Speaking at the Money Show in Toronto, experts believe that the US cannabis market, is edging out Canada. It was noted that when it comes down to the two countries, the US will leverage its branding know-how to expand, while Canadian companies, which have more experience in the sector, will ship out proficiency at the operational level. Incidentally, cannabis is still illegal at the Federal level in the US but legal in selected states.

The upcoming legalization of edible cannabis products in October could result in a doubling of the market, supported by the expansion of retail stores. However, the vaping market which has come under heightened scrutiny in the US could adversely affect plans by Canadian companies seeking to participate in the segment of the industry.



Last month, Canopy Growth announced a partnership with Greenlane Holdings. Under this partnership, Greenlane will have exclusive rights to distribute Canopy Growth's Storz & Bickel vaporizers in the US. Greenlane's extensive distribution network will help Canopy Growth boost the market reach of Storz & Bickel vaporizers.

Aphria, on the other hand, expects vapes and concentrates to account for 30% of the Canadian adult-use market by 2021. Aphria has partnered with Pax Labs to provide premium cannabis extracts in Pax pods that will be used in Pax's vaporization devices.

Aurora Cannabis also announced a supply agreement with PAX Labs. Under the agreement, Aurora aims to introduce vape products through 510 thread cartridges and disposable single-use units. Pax Labs has also partnered with two other cannabis companies—OrganiGram and the Supreme Cannabis Company.

Canadian Stock Exchange-listed Chicago-based Cresco Labs announced that it is acquiring Tryke, a vertically integrated private cannabis company active in Nevada and Arizona. Tryke owns the Reef Dispensary brand, which includes six stores in Las Vegas and Phoenix. Cresco, a major multistate cannabis operator, will also gain access to another state market – Utah – where Tryke has one of just eight cultivation licenses.^{iv}

PERFORMANCE ATTRIBUTION:

The portfolio held a 48% exposure by weight to five of Canada's leading large-cap cannabis stocks – Aphria Inc., Aurora Cannabis Inc., Cronos Group Inc., Tilray Inc. Class 2 Common; 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 34% exposure by weight in emerging cannabis companies and an 18% weight in ancillary cannabis-related securities. The best performing stocks during the month were the ancillary cannabis-related securities, Loblaw Companies Limited, followed by CVS Health Corp.

SOURCES:

ⁱ <https://ca.finance.yahoo.com/news/growing-cannabis-supply-glut-means-investors-should-be-bracing-for-impact-155339203.html>

ⁱⁱ <https://mjbizdaily.com/health-canada-suspends-british-columbia-cannabis-producer-evergreens-licenses/>

ⁱⁱⁱ <https://mjbizdaily.com/securities-regulator-accuses-former-canadian-cannabis-corp-directors-of-fraud/>

^{iv} <https://mjbizdaily.com/cresco-labs-acquires-marijuana-company-tryke-for-282-5-million/>

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.