

## 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 September 30, 2019



**TICKER:** USMJ (Hedged)

### MACROECONOMIC HIGHLIGHTS:

In a landmark move, the US House of Representatives voted overwhelmingly to pass the SAFE Banking Act, a bill that would provide marijuana businesses in States where they are legal with full access to banks and other financial services; as well as allow consumers to use credit and debit cards to buy legal weed. The inability to obtain bank financing has had a dampening effect on the growth of the cannabis industry.

The legislation does not change marijuana's status as a Schedule I drug under the Controlled Substances Act, but it prohibits the federal government from cracking down on banks for treating state-legal cannabis firms like any other business. The bill is still subject to Senate approval, which is to be determined.<sup>i</sup>

Once considered safer than tobacco cigarettes and a source of growth for cannabis companies, vaping came under heightened scrutiny by regulatory and state bodies, following several deaths and respiratory illnesses among users. This could adversely affect the growth prospects of cannabis companies.

The Food and Drug Administration launched a criminal investigation into the soaring numbers of vaping-related illnesses, following at least eight deaths in states such as California, Indiana, Illinois, Kansas, Minnesota and Oregon. The Center for Disease Control and Prevention (CDC) predicted that the death toll would rise and said that there have at least 530 reported cases of vaping-related chemical injury to the lungs. The CDC issued a warning about vaping, while several states launched investigations into the alleged ill effects of the practice.<sup>ii</sup>

The rise in vaping, especially among youth, has reached crisis proportions. According to the CDC the proportion of e-cigarette users among high school students increased to 20.8% in 2018 from 11.7% in 2017. This proportion increased to 4.9% from 3.3% among middle-school students. The number of young people using e-cigarettes increased by 1.5 million year-over-year in 2018.

Concerned about use among youths, North Carolina's announced that the state was suing eight companies for targeting children with vaping products. The attorney general said that these companies were marketing their vaping products to students with flavors such as cotton candy and gummy bear. In May, the State sued leading e-cigarette maker Juul and urged the court to ban the company from selling e-cigarettes to minors in the State. In addition, the FDA and FTC are also investigating Juul Labs for its marketing practices and the alleged ill effects of vaping.





San Francisco became the first US city to ban e-cigarettes, while Michigan and New York have banned flavoured cigarettes to protect young people from the ill effects of vaping.<sup>iii</sup>

Heritage Cannabis Holdings Corp announced that it has entered into a Letter of Intent to form a Joint Venture Partnership with Empower Clinics Inc. based in Oregon for the extraction of hemp for CBD oil production, and formulated CBD products.

Terms of the LOI will have Heritage and Empower each with a 50% ownership of the Joint Venture. Heritage, via its wholly owned subsidiary Purefarma Solutions Inc., will install extraction units and related downstream extraction equipment inside Empower's existing licenced hemp processing facility. In addition, Purefarma will train and supervise the staff on the proprietary methods of extraction and oil production that it produces in Canada.<sup>iv</sup>

Utah legislators unanimously passed legislation allowing 14 private medical cannabis dispensaries, substantially boosting the business opportunities for a program scheduled to launch as soon as March 2020. Utah backtracked from establishing a state-run dispensary after county attorneys expressed concern that such a system would put public employees at risk of being prosecuted under federal drug laws.<sup>v</sup>

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.<sup>vi</sup>

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## PORTFOLIO ATTRIBUTION:

The ETF held a 48% allocation by weight to large-cap cannabis and cannabis-related stocks, with the largest weights in this category to Charlotte's Web Holdings Inc., and Curaleaf Holdings Inc; and a 31% weight in emerging companies in the sector, with the largest exposure to Medmen Enterprise Inc. Class B. The remaining portion of the portfolio was held in ancillary stocks. The best performing stock during the month was the emerging company Ignite International Brands, followed by the ancillary company Amyris Inc.

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## SOURCES:

<sup>i</sup> <https://www.rollingstone.com/culture/culture-news/safe-banking-act-passes-house-marijuana-bank-bill-890525/>

<sup>ii</sup> <https://www.nbcnews.com/health/vaping/more-deaths-expected-vaping-lung-illnesses-cdc-says-n1056316>

<sup>iii</sup> <https://mjbizdaily.com/ca-governor-issues-executive-order-on-vaping-saying-its-an-e-cigarette-and-marijuana-problem/>

<sup>iv</sup> <http://reply.investingnews.com/dm?id=37A43EDB715F2C3A1EC569ECD1582F5D2D97B5EED138AE6E>

<sup>v</sup> <https://mjbizdaily.com/utah-lawmakers-vote-to-increase-medical-marijuana-dispensaries-to-14/>

<sup>vi</sup> <https://mjbizdaily.com/cresco-labs-acquires-marijuana-company-tryke-for-282-5-million/>





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**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.