

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 December 31, 2019



TICKER: SEED (Unhedged)

MACROECONOMIC HIGHLIGHTS:

North American cannabis companies faced numerous challenges over the course of 2019. Previously hot investment activity cooled in 2019 and began running at what one analyst called a more “normal” pace of growth.ⁱ

One on-going challenge for the sector is the level of supply and the cost-per-gram of legal cannabis, versus black market weed. The US experience has shown that layers of taxes at various levels can impact a consumer’s decision about where to buy cannabis. The same appears to be happening in Canada, between the goods and services tax, social responsibility tax and provincial sales tax (to name a few) that are added to the retail price.ⁱⁱ According to Statistics Canada, the price gap between legal and illegal cannabis is now the widest it’s been since legalization in October 2018. 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.ⁱⁱⁱ

The Ontario Cannabis Store (OCS) will move ahead with a “hybrid” wholesale model that will allow the private sector to be involved in storing and distributing cannabis. The move comes in response to “feedback” provided from producers to the OCS, many of whom have demanded more involvement in the distribution of cannabis to maximize cost efficiencies. Licensed producers have increasingly become frustrated with the OCS monopoly, arguing that having the province as the middle-man increases the per gram price of legal cannabis, which is currently about 30 per cent higher than the black market price. The OCS will still continue to be involved in wholesaling, using a hybrid model that will allow private involvement.

To that end, the Ontario government also announced that it is doing away with the province’s controversial licence lottery system, as of January 1, 2020, opening up the retail cannabis market in Ontario to more participation and more competition. Prospective retailers will still face a criminal record checks and a government approval process, but the new rules will allow legal cannabis producers to open retail shops on their premises.^{iv}

In related news, Ontario’s new ban on the promotion of vaping products in convenience stores and gas stations came into effect at the end of December in response to rising youth vaping. The new regulation brings vaping rules in line with the current bans around tobacco promotion. Regulations still allow the products to be promoted in specialty vaping and cannabis shops open to people aged 19 and older.^v



Growing cannabis outdoors began to gain real traction in Canada in 2019. Outdoor growing makes sense: it costs about one-fifth the price of growing in greenhouses. Only about 10 per cent of the cultivation licenses granted in Canada are for outdoors — but many more are in the pipeline after the Canadian government changed its rules in 2018 to allow pot farms.

Canopy Growth announced that it has received a license to grow marijuana outdoors in northern Saskatchewan, while Aurora Cannabis Inc. received licenses for outdoor cultivation in Quebec and British Columbia. Aurora is taking a go-slow approach to test the best growing methods and genetics before deciding whether it wants to embark on large-scale farming.^{vi}

PERFORMANCE ATTRIBUTION:

At the end of 2019, the SEED portfolio held a 47.5% exposure by weight to five of Canada’s largest 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 33% exposure by weight in emerging cannabis companies and a 18% weight in ancillary cannabis-related securities.

The best performing stocks in SEED during 2019 were Aurora Cannabis Inc., followed by Canopy Growth Corp.

SOURCES:

- ⁱ <https://nicinvestors.com/2019/11/22/this-landmark-bill-shows-full-legalization-is-just-around-the-corner/>
- ⁱⁱ <https://policyoptions.irpp.org/magazines/november-2019/cannabis-sales-could-jump-with-edibles-but-industry-should-be-prepared/>
- ⁱⁱⁱ <https://business.financialpost.com/cannabis/cannabis-business/cannabis-investing/canntrust-breach-will-damage-legal-pot-market-cannabis-weekly>
- ^{iv} <https://cannabislifenetwork.com/ontario-officially-doing-away-with-pot-shop-lottery-system/>
- ^v <https://nationalpost.com/pmnl/news-pmn/canada-news-pmn/new-vaping-promotion-ban-comes-into-effect-in-ontario-on-wednesday>
- ^{vi} <https://business.financialpost.com/cannabis/cannabis-business/growing-outside-is-a-dream-asparagus-makes-way-for-cannabis-in-canadas-fields>

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.