

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 December 31, 2019



TICKER: USMJ (Hedged)

MACROECONOMIC HIGHLIGHTS:

North American cannabis companies have faced numerous challenges over the past two quarters. In the US, cannabis industry capital investment in 2019 hit \$10.4 billion through Week 40 – a 40% increase over 2018 – but the previously hot investment activity has cooled in recent months and is now running at what one analyst called a more “normal” pace of growth.ⁱ

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.ⁱⁱ

Although 11 states have so far legalized marijuana for personal use, and medical use is legal in some form in 47 states, pressure to legalize marijuana at the Federal level continued to intensify in 2019.

According to a Gallup poll released in 2019, 66 percent of Americans say that they endorse legalization of cannabis, a total that is consistent with other recent polls, representing a nearly 30 percent increase over 2012 totals. A separate nationwide poll also released by PPRI (the Public Religion Research Institute) also reported that two in three Americans support legalizing and regulating cannabis. The Gallup poll found that support for legalization is held by a majority of Democrats (76 percent), Republicans (51 percent), and Independents (68 percent).ⁱⁱⁱ

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.^{iv}

While marijuana is making inroads, the CBD segment of the market, stemming from the legalization of hemp, is growing far faster. In fact, it grew more than 15 times faster than the



cannabis market in 2019. 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.^v

Missouri's highly anticipated medical marijuana market has attracted more than 2,200 applications, which were submitted for only 338 cultivation, manufacturing and dispensary licenses in the state, where annual sales could eventually reach \$300 million.^{vi}

Florida repealed a ban on smokable medical marijuana products in March, giving the state's cannabis market a shot in the arm, prompting large multistate companies to aggressively expand their production, operations and retail footprints. As a result, competition has increased, with the market share of Tallahassee-based Trulieve which controls nearly 52% of the sales in the non-smokable marijuana market in the state, gradually declining to around 35%.^{vii}

Once considered safer than tobacco cigarettes and a source of growth for cannabis companies, vaping came under heightened scrutiny by regulatory and state bodies in 2019, following a string of 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, which peaked in September 2019, and have included deaths in 15 states. The CDC issued a warning about vaping, while several states launched investigations into the alleged ill effects of the practice.^{viii} The illnesses were not linked to one specific substance, however the CDC says products containing THC, a psychoactive component in cannabis, played a role in the outbreak, likely from illegally manufactured cartridges. There is also investigation of the role vitamin E acetate, an additive that has been flagged as a likely suspect behind the vaping health crisis, may have played in the illnesses.^{ix}

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.^x

SOURCES:

ⁱ <https://nicinvestors.com/2019/11/22/this-landmark-bill-shows-full-legalization-is-just-around-the-corner/>

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

ⁱⁱⁱ <https://thehill.com/opinion/civil-rights/468162-60-percent-of-americans-support-marijuana-legalization-times-are>

^{iv} <https://www.rollingstone.com/culture/culture-news/safe-banking-act-passes-house-marijuana-bank-bill-890525/>

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

^{vi} <https://mjbizdaily.com/chart-missouri-medical-marijuana-market-draws-thousands-of-applications>

^{vii} <https://mjbizdaily.com/more-medical-marijuana-companies-bolster-operations-in-lucrative-florida-market-following-smokable-flower-ban-repeal/>

^{viii} <https://www.nbcnews.com/health/vaping/more-deaths-expected-vaping-lung-illnesses-cdc-says-n1056316>

^{ix} <https://mjbizdaily.com/massachusetts-keeps-cannabis-vape-ban-orders-quarantine-of-products-as-regulators-focus-on-suspect-additive/>

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



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