

A New Industry Continues to Grow at an Accelerated Pace

In the following commentary, Portfolio Manager Korey Bauer of the Cannabis Growth Fund (CANNX/CANIX) discusses global projections, the current cannabis landscape in Canada, and provides his thoughts on future developments.

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8 years of experience

The global [legal marijuana market](#) size is expected to reach USD 73.6 billion by 2027, according to a new report published by Grand View Research, Inc. It is anticipated to expand at a Compound Annual Growth Rate of 18.1% during the forecast period. Increasing legalization of cannabis for medical as well as adult-use is expected to promote growth.

Retail sales of medical and recreational cannabis in the United States are on pace to eclipse \$15 billion by the end of 2020, an increase of approximately 40% over 2019 sales figures, according to exclusive projections from the 2020 edition of the Marijuana Business Factbook. Total U.S. sales could rise as high as \$37 billion by 2024, according to exclusive projections from the latest Factbook.

How far has the Canadian Market come?

Today's StatCan figures show Canada's legal pot industry has grown by 231% since it was first legalized in October 2018. Similarly, the illicit market contribution to Canada GDP has fallen below \$4B for the first time. The illicit markets GDP contribution has declined by 24%. As of June 18, 2020, there were 949 retail stores open across the country. We still think that this number needs to exceed 2,000 to challenge the illicit market that is still thriving in Canada since legalization. Ontario finally opened its 100th licensed store since legalization.

Canada's legal recreational market currently is running at about \$2.16 Billion per year. We think that this number will significantly improve as COVID-19 fears begin to dissipate and treatments/vaccines will hopefully become readily available by Q1 of 2021. We are very optimistic looking

forward to 2021 as more stores will be opening in key providences and a robust product offering from many of the Licensed Producers will be available in the coming quarters.

Canadian recreational cannabis prices have now declined by 10.4% in the regulated market since Canada legalized it in October 2018, according to StatCan. We think this price compression will continue and lead to cheaper prices across Canada. Although this may seem like a major headwind, we think this is necessary to compete against the illicit market and gain market share. (Data sourced from STATCAN)

More production cuts coming?

Many cannabis companies continue to cut production which is a major positive for the industry in the coming quarters. Unfortunately, jobs will be lost but many of the Canadian companies overbuilt on the production side and now are paying the price. This is a necessary step for the industry to reduce overall inventory levels for the entire cannabis sector. Most of the facilities cannabis companies are shutting down should have been shut down last year already. Newly appointed leadership teams are scrambling to fix the major mistakes made by past management teams.

Could Cannabis potentially help patients with COVID-19?

Researchers have suggested the cannabis derived cannabinoid Cannabidiol (CBD) may help treat patients for COVID-19. CBD has shown in the past it can have anti-inflammatory properties to help patients with COVID-19 to reduce inflammation in the body. We are actively following this to take advantage of this for our investors.

Outlook for the Rest of 2020

As COVID-19 continues to spread on a global basis we think in the near-term cannabis sales will remain robust despite the pandemic. As more stores open and more products are hitting the shelves, this will help drive better sales figures for companies in the coming quarters. We think companies need to continue to cut costs and try to work closer to an all-in production cost of below \$1.00 per gram. Companies that have high costs of production will continue to suffer. We believe that low cost producers creating high quality cannabis will become the largest segment for the cannabis

sector. We remain very optimistic about the future of global cannabis sector in the coming years as better leadership at companies will help drive success as new markets open. 2021 could be a breakout year for cannabis if we get some momentum for a federal reschedule of cannabis.

About Foothill Capital Management

Foothill Capital Management is a specialized asset manager focused on markets they view as innovative, fast-growing or emerging to provide investors with an aggressive growth component in their equity portfolios.

Of Special Note: Statements, estimates and forecasts are subject to significant legal, business, economic, and competitive uncertainties, including competition, limited access to bank services, litigation, enforcement actions, and the receipt of government authorizations. This includes differences in, among other things, laws, regulations and guidelines relating to the manufacture, transportation, and storage of cannabis, and the conduct of operations, which vary among the U.S. federal government, various states, and foreign jurisdictions. There can be no assurance that such estimates and/or forecasts will be realized, and these are not indicative of future investment performance. Historical data is not indicative of future performance.

Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the Fund's prospectus. Read the prospectus carefully before investing. To obtain a prospectus please visit www.cannabisgrowthfunds.com.

Investing involves risk, including possible loss of principal. The cannabis industry is subject to rapidly evolving laws, rules and regulations, and increasing competition which may cause such companies to change business model, shrink or suddenly close. These may limit access to banks, and create significant burdens on company resources due to litigation, enforcement actions, receipt of necessary permits and authorizations to engage in medical cannabis research or to otherwise cultivate, possess or distribute cannabis. Possession and use of cannabis is illegal under federal and certain states' laws, which may negatively impact the value of Fund investments. Where legalized by states, cannabis possession and use remains a violation of federal law. The companies in which the Fund invests are subject to various laws and regulations relating to the manufacture, management, transportation, storage and disposal of cannabis, including health and safety, conduct of operations, and environmental protection. Even if a company's operations are permitted under current law, they may not be permitted in the future, and a company may not be able to continue operations in its current location. Controlled substance legislation differs significantly between countries and may limit a company's ability to sell products.

Foreign investing involves social and political instability, market illiquidity, exchange-rate fluctuation, high volatility and limited regulation risks. Emerging markets involve different and greater risks, as they are smaller, less liquid and more volatile than more developed countries. Investments made in small, mid-capitalization and micro-capitalization companies may be more volatile and less liquid due to limited resources or product lines and more sensitive to economic factors. Fund investments will be concentrated in an industry or group of industries, and the value of Fund shares may rise and fall more than more diversified funds. Purchasing and writing put and call options entails greater than ordinary investment risks. Options ownership involves the payment of premiums, which may negatively impact Fund performance. Please see the prospectus for details of these and other risks.

For more information regarding current fund holdings and performance, please see the [fact sheet](#). Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security. The views expressed represent the opinion of Foothill Capital Management which are subject to change and are not intended as a forecast or guarantee of future results.

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