

## More States move Forward with Cannabis Legalization

In the following commentary, Portfolio Manager Korey Bauer of the Cannabis Growth Fund (CANNX/CANIX) provides a cannabis market update, the performance of the portfolio, and the cannabis sectors outlook moving forward.

Thank you for choosing the Cannabis Growth Fund as your vehicle of choice when investing in the cannabis sector.



### **Korey Bauer, CMT®**

Chief Investment Officer

Managing Director, Portfolio Manager

9 years of experience

### **Cannabis Market Update:**

The good news keeps on coming...During the first quarter of 2021 New York decided to legalize cannabis. Now that New York is moving towards a recreational cannabis market, more than 40% of Americans live in states that have full recreational cannabis programs according to Politico. New York and New Jersey both legalized in the last few months and now we think the next state to move forward with a plan for recreational cannabis is Pennsylvania. If we look at the New York market, sales this year may only be a few hundred million. By the 4th year of legalization, MJBIZ estimates cannabis sales could eclipse \$2.3 Billion in sales. New Jersey's recreational market by 2024, could eclipse a \$1 billion-dollar annual run rate.

### **Portfolio Performance:**

#### **Cannabis Growth Fund Returns (%) as of 3/31/21**

|                        | 1 Mo. | 3 Mo. | 1 Yr.  | Since Inception* |
|------------------------|-------|-------|--------|------------------|
| CANNX (Investor Class) | -5.54 | 49.57 | 161.65 | -5.22            |
| CANIX (Class I)        | -5.61 | 48.96 | 161.04 | -5.62            |
| S&P 500 Index          | 4.38  | 6.17  | 56.35  | 20.48            |
| Cannabis World Index   | -6.78 | 46.16 | 90.01  | -28.81           |

\*Annualized

**The performance data quoted represents past performance. Such favorable performance was attributable to unusually favorable conditions that are likely not sustainable or may not recur. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost. Returns less than one year are not annualized. For the most recent month-end performance, please call 888.885.0588.**

The Cannabis Growth Fund (CANNX) was up 49.57% for the quarter. Performance has been extremely strong in the first quarter following a blue wave election and hopes for federal legalization in the United States. Over the last year, the Fund is up 161.65% delivering strong outperformance over our benchmark which was only up 90.01% for the same period. While performance has been great, we continue to navigate the cannabis sector as new opportunities and challenges will emerge in the future. We have added some new positions to the portfolio during the quarter that we have strong convictions on. Willow Biosciences is a biosynthesis company who is producing pharmaceutical-grade cannabinoid compounds (APIs). They recently announced they completed the first commercial scale fermentation of its first cannabinoid for the market, Cannabigerol (CBG). Another company that we entered was AFC Gamma (Advanced Flower Capital). The company originates and manages real estate backed loans for cannabis companies. We think the legalization process is going to take time and we think AFC Gamma will be positioned well by focusing on originating loans secured by real estate assets such as cultivation facilities, processing facilities and dispensaries.

### **Outlook:**

Now that New York has passed a program for recreational cannabis, Senate Majority Leader Chuck Schumer is pushing forward with federal cannabis reform across the entire country. What was interesting is that he said that he hopes President Biden views of cannabis legislation will evolve, but whether that happens or not, "at some point we're going to move forward, period". These are some very strong comments and it does look like we should be expecting something soon. Whether or not it passes on the first round is yet to be seen but we think just by getting the conversation started could accelerate the federal reform that is much needed during this recovery. Americans agree with Schumer and in 2020 nearly 68% of Americans support the legalization of cannabis according to Gallup.

The legal cannabis market is now estimated to reach \$84 billion by 2028 according to Grand View Research. We continue to focus on North America as our main thematic focus as 91.1% of the revenues are coming from this region currently. In 2020, according to Grand View Research, the chronic pain segment accounts for the largest revenue segment of the cannabis market.

We are also monitoring the situation with the SAFE Banking Act (The Secure and Fair Enforcement Act). The SAFE Banking Act would allow financial institutions to serve the cannabis industry without fear of federal penalties. We often get the question that cannabis companies are not allowed to bank their cash. Right now, there are over 500 banks that provide services to the cannabis related businesses. While SAFE Banking is important, we think the MORE Act (The Marijuana Opportunity, Reinvestment, and Expungement Act) will be the big one to watch. This bill would remove cannabis from the Controlled Substances Act and “provide restorative justice for communities that have been disproportionately

impacted by the war on drugs” (Jerrold Nadler). Cannabis businesses currently do not have the luxury of deducting businesses expenses due to a certain IRS code known as 280E. If cannabis businesses could deduct operating expenses, this will significantly increase the profitability of these United States cannabis companies. In some cases, some companies EPS (Earnings Per Share) could increase more than 50% without 280E.

As the cannabis industry continues to mature over the next few years, we believe the sector will take on many of the same characteristics of healthcare and consumer staple stocks. On behalf of all us at Foothill Capital and the Cannabis Growth Fund, we appreciate your trust in us to help navigate this potentially transformative investment opportunity.

### 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.

Gallup - <https://news.gallup.com/poll/323582/support-legal-marijuana-inches-new-high.aspx>

Grandview - <https://www.grandviewresearch.com/press-release/global-legal-marijuana-market>

Earnings Per Share - A company's profit divided by the outstanding shares of its common stock.

**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 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](http://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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