

A Blue Sweep Could Mean More Green Ahead.

In the following commentary, Portfolio Manager Korey Bauer of the Cannabis Growth Fund (CANNX/CANIX) discusses future projections domestically and abroad, the impact of the U.S. election on the cannabis industry, and provides his thoughts on future developments.



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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 significant growth over the next decade. 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 Marijuana Business Factbook. Total U.S. sales could rise as high as \$27 billion by 2024, according to projections from the latest factbook.

There are currently 33 states as well as the District of Columbia that have medical cannabis programs in their respective states. There are 15 states plus the District of Columbia that have legalized adult use cannabis equating to over 30% of the U.S. population.

The recent Georgia runoff elections have now concluded resulting in a clean sweep for the Democratic party giving them power to control the House, Senate, and White House. This was the absolute best-case scenario for cannabis investors and for the sector overall. The current Senate Majority Leader Mitch McConnell has been the main person in the way of cannabis legislation. The appointment of the new Attorney General Merrick Garland who will hopefully be more pro-cannabis and the Democrats pushing for major changes that could include a complete federal rescheduling of cannabis would be a massive catalyst forward for cannabis stocks and companies alike.

One thing I would like to point out is the difference in Canadian LPs (Licensed Producers) and U.S. MSO's (Multi-State Operators). For one, the majority of Canadian LPs don't have a presence in the U.S. due to federal laws. Until it is federally permissible, these companies will not be able to "touch the plant". I am referring to the THC (Tetrahydrocannabinol) until federal permissibility. At this point, there is still no clear path for Canadian companies to operate in the U.S. so there is big difference when looking at the cannabis sector. On the other hand, U.S. MSO's are touching the plant and we think now that the Democrats have full control over the government, this will lead to a pathway for regulatory changes. One of those changes are 280E tax rules which would help companies' earnings and pave the way for even more growth than they are already seeing. Another major change would be the SAFE Banking Act, which passed the House in 2019. This would allow banks to accept marijuana-related businesses as clients. We also think some time in 2021 or 2022 the MORE Act, which would mean federal decriminalization of cannabis, would also be on the table for passage. The MORE Act becoming law would be the most significant bill to pass and could have massive implications for the sector moving forward.

We also believe that Mergers and Acquisitions will be substantial in 2021. Aphria and Tilray, two of the largest Canadian cannabis companies, proposed a merger which would make them the largest cannabis company in the world by revenue at \$874 million Canadian Dollars. We think this is the first of many deals not only in Canada but here in the United States as well. Large corporations that have been sitting on the sidelines may soon have the ability to acquire some of these companies and expand their corporate portfolios.

Another recent development that could also propel the U.S. cannabis sector forward is the legalization of cannabis in the state of New York. Governor Cuomo announced a

proposal to legalize cannabis for adult recreational use in New York. This is a massive market and one that many companies are very excited to enter once legislation passes.

We think the legalization of cannabis on a national level would be extremely beneficial to not only consumers but for federal local governments. The pandemic has caused massive ripple effects in the U.S. economy with permanent job loss of the rise and unemployment that may take years to go back to pre-pandemic levels. In this scenario, U.S. federal legalization could be worth \$128.8 billion in taxes and result in 1.6 million jobs according to New Frontier Data. These are very impactful numbers and could help propel the economy during this time of need.

Our goal for our investors is to continue delivering valuable information and to help guide them in this complex

Citations:

<https://www.businesswire.com/news/home/20191002005609/en/U.S.-Federal-Cannabis-Legalization-Worth-128.8-Billion>

environment. The global cannabis sector is still in its early innings and following the prohibition playbook of alcohol in the 1930's, the U.S. cannabis sector will be very similar in nature. As the sector matures 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 of 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.

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.

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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