

The U.S. Legal Cannabis Movement Shows No Signs of Slowing Down

In the following commentary, Portfolio Manager Korey Bauer of the Cannabis Growth Fund (CANIX) provides a cannabis market update, the performance and composition 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 emerging cannabis sector.



Korey Bauer, CMT®

Chief Investment Officer

Managing Director, Portfolio Manager

9 years of experience

Current Shareholders & Prospective Investors,

We are pleased to provide an update on important changes that will be occurring soon. Foothill Capital is currently in the process of converting the mutual fund to an exchange traded fund (ETF). This will expand our potential investor base to tens of millions of Americans and allow us to deliver our cannabis investment vehicle to the masses. This will also allow investors to access the fund through their traditional brokerage accounts (Schwab, Fidelity, TD Ameritrade, Robinhood, etc.). The investment strategy and overall management of the portfolio will not be changing. We expect the conversion to the ETF to occur in late September 2021. We will be providing much more information on this change as we move closer to the conversion date.

Cannabis Market Update:

The first and second quarters of 2021 were a major milestone for the cannabis sector. We continue to see significant progress at the state level and now **45% of the population live in a state where cannabis is legal for recreational use or legislation has passed to allow for recreational cannabis use in the near future.**

In 2021, we had five new major cannabis markets open: New York, New Jersey, Virginia, New Mexico, and recently Connecticut has joined the movement. These are exciting times for the cannabis sector as momentum continues to build rapidly across the nation. Not only are

we seeing momentum in the U.S. cannabis market, but we also continue to see strong growth in the Canadian cannabis market. Our neighbors to the south in Mexico are also looking to legalize cannabis potentially creating another major cannabis market on the global stage.

We continue to still see major support from across the country. Back in 2000, only 31% of U.S. residents backed legalization. In 2020, that number has now grown to 68% who are in favor of legalization of recreational cannabis in the U.S. If we look at the political climate, we have a favorable situation right now with the Democrats controlling all forms of government. Another interesting study was done in 2019 and Pew Research Center found that 55% of Republicans are pro-cannabis legalization.

Many cannabis businesses are thriving in the U.S. with over 27,000 cannabis business currently according to MJBizDaily. We have been big believers that this is exactly what the economy needs; not only for significant job growth but for tax revenues that can help soften the blow from the deficits that were incurred during the pandemic.

We often get a lot of questions regarding the product categories within the cannabis sector itself. Flower and pre-rolls are still the major driving product category in the U.S. legal cannabis market making up 46% of all cannabis sales. Other than flower, vapes continue to gain market share over the last few years now making up 29% of all cannabis sales. Another category that has seen explosive growth is the ingestible space with gummies dominating the California cannabis market at the current time. We continue to see innovation and new products being launched all the time.

Portfolio Performance:
Cannabis Growth Fund Returns (%) as of 6/30/21

	1 Mo.	3 Mo.	1 Yr.	Since Inception*
CANIX (Class I)	-3.08	-11.89	94.49	-10.02
S&P 500 Index	2.33	8.55	40.79	22.32
Cannabis World Index	-8.62	-10.85	49.56	-29.72

*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 (CANIX) was up 31.25% year to date as of June 30, 2021. Over the last three months the Fund was down -11.89%. Over the last year, the Fund was up 94.49% relative to our benchmark the Cannabis World Index which was only up 49.56%. We continue to deliver strong relative outperformance compared to our benchmark based on our active and tactical approach. While performance has been strong, we continue to diligently navigate the cannabis sector as new opportunities and challenges will inevitably emerge in the future.

The Fund has added some new positions to the portfolio during the quarter that we think possess strong tailwinds in the growing cannabis sector. Hydrofarm (HYFM: 4.92% of portfolio as of June 30, 2021) is a leading hydroponics equipment and supplies manufacturer. We feel they have a strong management team and have been helping growers execute higher quality products with more efficiency. IM Cannabis Corp. (IMCC: 1.05% of portfolio as of June 30, 2021) is an Israeli cannabis company that grows and sells premium

cannabis all over the globe. WM Technology (MAPS: 4.03% of portfolio as of June 30, 2021) is a leading online listing marketplace for cannabis consumers and businesses. MAPS is a cloud-based SaaS solution that provides cannabis companies an end-to-end solution for cannabis retailers. Agrify (AGFY: 5.31% of portfolio as of June 30, 2021) is a developer of premium grow solutions for indoor agriculture businesses. AGFY utilizes technology seeking to become more efficient and more productive. AGFY systems are designed to help their customers deliver high quality cannabis consistently which is something that is critical in the cannabis space. AGFY recently partnered with Curaleaf Holdings which is one of the largest Multi-State Operators (MSOs) in the U.S. We believe this adds significant credibility to the companies unique growing techniques to maximize yield while keeping costs low. Lastly, the Fund is using options as a tool to gain exposure to the U.S. cannabis market.

Outlook:

We are still very bullish on the long-term outlook for the global cannabis market. Last year in the U.S. there were \$17.2 billion dollars in cannabis sales. That amount was 40% greater than 2019 and we think this is only beginning to scratch the surface of what could be a \$60+ billion cannabis industry in the U.S. alone. It is our belief that Merger and Acquisition (M&A) activity in the U.S. and around the globe will continue to accelerate in the coming years as states and countries start to build a robust legal cannabis program in their respective jurisdictions. The consolidation will likely happen faster than most people realize, and we believe size and scale will win the race long-term when building a national and global brand. While full federal legalization is something we think is still a little bit away, that does not mean the U.S. government will not make major progress and changes to the rules for cannabis companies to be treated equally by the IRS and the national banking system. The two biggest upside factors that may drive significant value for these companies is a removal of the tax law 280e and the eventual listing on major U.S exchanges such as the NYSE or the NASDAQ. We believe this is coming by 2022. What is 280e? 280e is a piece of the U.S. tax code that does not allow cannabis

companies to offset any expenses. Currently, cannabis companies in the U.S. are paying effective tax rates of anywhere between 60-80%. The windfall to the U.S. cannabis companies if 280e is repealed cannot be overstated. As we mentioned above, the major U.S. cannabis companies are not listed on major exchanges at this time. We believe this puts them at a complete disadvantage relative to their Canadian counterparts which are listed on the major exchanges. According to FactSet data, only 3.9% of U.S. MSOs are owned by institutional investors relative to Canadian cannabis companies which institutional investors own 14.6%. In a recent analyst report from Jefferies, they noted there is \$500 billion of assets invested in consumer staples. Depending on how large these companies are when they can up-list, there could be a significant amount of new money that will enter the space. At some point when the regulation change is in motion, we believe this could be a potential favorable arbitrage opportunity that will dissipate extremely quickly.

I think the biggest misconception for cannabis investors is that we need federal legalization for these companies to thrive. In my opinion, that is not the case and if anything, it strengthens the ability of these companies to build stronger moats that may make it more difficult

for larger consumer packaged goods and alcohol and tobacco companies to eventually acquire these businesses. Analyst estimates show that sales for some of the largest MSOs are growing anywhere from 30% to 80% over the next few years.

Lastly, I would like to touch on another topic that is often overlooked as well. Canadian cannabis companies are not “plant touching” businesses in the U.S. At this point, Canadian Licensed Producers (LPs) are not able to produce or sell any (THC) Tetrahydrocannabinol in the U.S. THC is still a schedule one drug as classified by the DEA and for these companies to be able to touch the plant they would need to delist from the major exchanges in Canada and the U.S. and move to the (CSE) Canadian Securities Exchange. 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.

Important Risk Information:

CANIX Gross (Net) Expense Ratio: 14.13% (1.24%). The Fund's advisor has contractually agreed to waive its fees and/or pay for operating expenses of the Fund to ensure that total annual fund operating expenses (excluding any taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, acquired fund fees and expenses (as determined in accordance with SEC Form N-1A), expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation expenses) do not exceed 1.10% of the average daily net assets of the Class I shares of the Fund. This agreement is in effect until May 31, 2031, and it may be terminated before that date only by the Trust's Board of Trustees.

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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