

The Global Cannabis Movement – Full Steam 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 cannabis market size is expected to reach \$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 forecasted period. Increasing legalization of cannabis for medical as well as adult-use/recreational 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 exclusive projections from the latest factbook.

In a recent poll by Quinnipiac University, 93% of American voters are in favor of the legalization of cannabis for medicinal purposes. The massive shift in U.S. public opinion for the legalization of cannabis across the country is now at 67% up from 25% roughly 20 years ago. There are currently 33 states as well as the District of Columbia that have pushed through medical cannabis programs in their respective states. In addition, 11 states and the District of Columbia have legalized cannabis for recreational use. The upcoming 2020 election will be critical for the future growth of the U.S. cannabis sector. States like Arizona, Montana, and New Jersey are all voting on recreational measures while Mississippi and South Dakota are voting on medical programs. The amount of states voting on cannabis measures was intended to be much greater but due to the pandemic states were unable to obtain the necessary signatures to include cannabis on the ballot. If these measures pass according to BDS analytics, 71% of the U.S. would have access to medical cannabis while 34% of Americans would have access to an adult use/recreational cannabis market.

We think the legalization of cannabis on a national level would be extremely beneficial to not only consumers, but for

the federal and local governments. The pandemic has caused massive ripple effects in the U.S. economy with permanent job loss on the rise, unemployment that may take years to go back to pre-pandemic levels, and governments that are greatly in need of increased revenue. In this scenario, U.S. federal legalization could result in \$128.8 billion in taxes and 1.6 million jobs according to New Frontier Data. These are very significant figures and would undoubtedly help propel the economy forward during this time of need.

The 2020 election could have a major impact on the cannabis sector. We have the upcoming presidential/senate elections that can accelerate the strong growth we are currently seeing in the sector. If we get a Biden presidency, the Biden-Sanders Task Force potentially mitigate federal risk or possibly lead to a full re-scheduling of cannabis away from a schedule 1 drug classification. If Trump is reelected, we still may see a change in the federal laws surrounding cannabis as the opportunity could be too great to ignore. Trump has expressed in the past that he may be willing to put the determination of cannabis legalization in the individual states hands.

We recently attended the Canaccord Genuity Virtual Cannabis Symposium and had the opportunity to hear from 60 presenting companies (both public and private) on the strong growth they are seeing in the U.S. cannabis market. What many of these companies are seeing is an uptick in spending with some company's basket size (the amount an individual spends when purchasing cannabis) increasing from \$100 to \$150-\$200 per visit. As more form factors (vapes, edibles, beverages, etc.) are released and states move forward with full-recreational plans, consumers will have a variety of ways to consume cannabis. We believe this may lead to many new first-time users in the cannabis market who are opposed to the traditional way of consuming cannabis. Many of the companies we met with all were very excited about the results coming out of Florida and Pennsylvania as patient growth in these states is very robust. In addition, the preliminary numbers out of Illinois recreational market are extremely encouraging.

Canadian Licensed Producers (LPs) continue to struggle relative to companies in the United States. Canada's legal recreational market currently is running at about \$2.16 billion per year.

As you can see, the size and scale of the U.S. cannabis market eclipses that of the Canadian market. Despite the COVID-19 outbreak, sales in the U.S. are booming as cannabis is now deemed an essential business and consumers are looking for alternatives to potentially treat specific ailments. We are also seeing a major push for states like New Jersey to fully legalize cannabis in the upcoming election. We think this is one of the most important things to watch for in the cannabis sector in 2020. It is our belief that this will push highly populated surrounding states like New York, Connecticut, and Pennsylvania to accelerate legalization efforts. The continued build out for U.S. MSO's (Multi-State Operators) has been an important piece of the puzzle as more supply is able to meet the overwhelming demand we are seeing across the country.

In addition to the U.S. exposure the Fund currently has, we continue to hold certain Canadian cannabis companies we believe are positioned to capture the global opportunity. Companies the Fund holds have war chests of cash from the partnerships they have entered into with global alcohol, tobacco, pharmaceutical, and consumer packed goods

companies and are waiting patiently to enter the U.S. market once the law changes. In fact, some Canadian companies have already agreed to acquire U.S. cannabis assets and are standing by for the law to allow the deal to close.

Our goal for investors is to continue delivering valuable information and professional management to help guide you through this complex environment. The global cannabis sector is still in its infancy and following the prohibition playbook of alcohol in the 1930's, we believe the U.S. cannabis sector will be very similar in its size and scale. Potentially even more impactful due to the medicinal benefits cannabis is shown to have. I'd like to finish with a statistic that I find to be very intriguing. According to Arcview Market Research and BDS Analytics, the U.S. legal cannabis industry is projected to total roughly \$16.3 billion in 2020, although total cannabis demand in the U.S. is estimated at roughly \$75-100 billion when including markets served illicitly. In our opinion, it is only a matter of time before illicitly consumed cannabis becomes legally consumed cannabis.

Citations:

https://itep.sfo2.digitaloceanspaces.com/012319-TaxingCannabis_ITEP_DavisHillPhillips.pdf

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

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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