

Nowhere to Hide during the Global Market Selloff

In the following commentary, Portfolio Manager Korey Bauer of the Cannabis Growth Fund (CANNX/CANIX) discusses what has transpired in the cannabis sector amid the global Covid-19 pandemic.

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8 years of experience

A Brief Overview

The first quarter of 2020 was extremely difficult for investors and cannabis stocks were hit just as hard. CANNX was down -31.50% for the quarter while the Cannabis World Index was down -40.50%. Covid-19 (the “Coronavirus”) shocked global markets which led to the fastest bear market in U.S. history. If there ever was a silver-lining, cannabis stock valuations are much more attractive now from where they were a year ago.

What does this mean for cannabis stocks going forward?

To the delight of many, cannabis stores and companies are being seen as “essential businesses” during this pandemic which means that these companies may continue to operate despite all the shutdowns of businesses and shelter in place orders by the states. For example, Akerna, a technology firm that services the cannabis industry, is up 20% in the past two weeks. Online ordering is up over 300%, with an average basket size growing 47% from \$78 to \$114. Ontario Canada decided to close all stores temporarily due to the coronavirus outbreak, but residents will still be able to purchase cannabis online at the Ontario Cannabis Store and pick up cannabis purchases curbside. Our long-term outlook and the catalysts for success that we have discussed in prior commentaries remains intact.

Will the COVID-19 pandemic accelerate defaults?

We unfortunately believe that the coronavirus will lead to an acceleration in the amount of defaults for many cannabis companies in Canada and the U.S. Just in the last two weeks we have already seen several defaults. CannTrust Holdings Inc.

and James E. Wagner Cultivation Corp. both filed for bankruptcy protection in Canada. In the United States, iAnthus Capital Holdings which is a very well-known U.S. operator defaulted on its debt. We believe this is only the beginning of the bankruptcies and defaults we will see. We think this is a positive development for the sector as companies’ default and oversupply issues start to fade. The sector is flooded with greenhouse grown cannabis which tends not to be very high quality as cannabis consumers are demanding higher THC (Tetrahydrocannabinol) strains from Licensed Producers.

Will the coronavirus push states to legalize recreational cannabis?

We believe that the coronavirus will push states to legalize cannabis for a few different reasons. First, prior to the coronavirus outbreak, a lot of states were having funding issues. Many states were in the process of building up their reserves during the recent economic expansion, but many states didn’t do enough to ensure solvency during the next downturn. We believe states are going to push to legalize cannabis across the United States in search of additional tax revenue. In addition to revenues, states will be looking for new jobs to be created during this time of stress. In addition, the federal government will be looking for ways to pay for the massive stimulus packages that have been enacted during this pandemic. Rescheduling cannabis at the federal level seems like a logical step to take.

How is the Cannabis Growth Fund navigating the current investment landscape?

The Fund is focusing on companies that are producing unique products and are positioned to be successful in Canada and eventually the U.S. In particular, there is a lot of excitement surrounding CBD only and CBD and THC combined cannabis beverages. Currently, this is a very small market in the U.S and Canada but has the potential to be a

very sought after product in both countries. We are keeping a close eye on this development.

The Fund favors companies that are taking a conservative approach to furthering the size and scale of their grow operations. Current projections show the market as being fully supplied. We are favoring cash rich companies that may be able to take advantage of companies that start to default and whose assets become distressed. There may be an opportunity for these cash rich companies to pick up those distressed assets at a discounted price.

Product branding and distribution will be extremely important. What brands will lead the way and which will the consumer choose? This is still in its infancy, but certain brands are already starting to emerge as industry leaders. The Fund is actively honing in on those companies that are producing and selling the most sought- after products.

Another area of the market we are focused on is extraction. Extracting the cannabinoids from the plant is a capital-intensive process and we think there is significant upside to those companies that are specifically focusing on this part

of the industry. In addition, certain companies are foregoing the traditional process of extracting the cannabinoids from the flower and starting to grow certain cannabinoids in a lab. We think this has the potential to be very disruptive to the traditional extraction process in the long run.

The Fund also has exposure to the U.S. CBD market and we believe there is still an opportunity for companies to gain significant market share.

Lastly, we are very bullish on the science of cannabis as there is still a lot to learn. We have exposure to biotechnology companies using cannabis medicinally to combat specific diseases and ailments. This remains a very exciting segment of the cannabis industry.

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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