The cannabis industry is a new, emerging area of the market that we believe has tremendous growth potential. As shown in the chart below, according to BDS Analytics, in 2018, legal global cannabis spending was valued at $12 billion. By 2022, spending is anticipated to grow to $30 billion.

Several industry trends are driving this growth: legalization in many U.S. states and countries around the world, health care applications, recreational uses, and merger and acquisition activity.

For investors looking for a way to participate in this growing cannabis market, they may want to consider an active management approach.

THE GROWING CANNABIS INDUSTRY

Over the past few years, the following trends have driven the industry’s growth.

1 | Growing Global Legalization of Cannabis and Hemp

Cannabis legalization in the U.S. has been building momentum in recent decades. In 1996, California was the first state to legalize cannabis for medical use, and in 2012, Colorado and Washington became the first states to legalize cannabis for recreational use. By the end of 2018, legalization has gained momentum. Ten states and Washington, DC, have legalized recreational cannabis. In 14 states, cannabis has been decriminalized and in 33 states, cannabis has been approved for medical use.

Looking ahead, more U.S. states are undergoing discussions to end prohibition and regulate cannabis. Congress and nearly all states across the U.S. have over 1,000 bills slated for 2019 legislative sessions covering many issues including authorizing home production, decriminalization of possession of marijuana, sales and income taxes, new medical cannabis programs and modifying regulations for existing laws.1

GLOBAL CANNABIS MARKET

Global spending on legal cannabis is anticipated to grow to $30 billion by 2022.

In addition, the 2018 U.S. Farm Bill made hemp an agricultural commodity and removed it from the list of controlled substances. With the potential opportunity for U.S. farmers to grow industrial hemp, proponents are growing more optimistic and vocal each year about hemp as a potential game changer for U.S. agriculture,” says the American Farm Bureau Federation.


Global spending projections are not indicative of future investment performance.

1 “Marijuana Legislation Tracking,” Marijuana Moment, information pulled 3/19.
The U.S. is not the only country taking action on legalizing cannabis. Canada became the first major economy to legalize cannabis for recreational use in 2018. Medicinal use of cannabis has been legal in the country since 2001. With a population of 37 million and a GDP of $1.7 trillion, Canada could potentially be a tremendous market for many cannabis-related companies as black-market purchases decrease.

Many other countries have laws that cover the legal use of medical cannabis as well as the decriminalization and use of hemp, including Uruguay, Israel, Germany, and the UK. In fact, more than 22 countries covering a population of nearly 1 billion have laws that cover the legal use of medicinal cannabis.²

“We don’t get an opportunity every day to participate in the very early stages of the creation of a large global industry and that is what is happening now.”

— Cam Battley, Chief Corporate Officer at Aurora Cannabis in Financial Times, 3/15/19

We believe the trend of increased global legalization is important as it could transform the cannabis industry into a legitimate economy of significant size. According to one estimation, the illicit cannabis market is estimated to be worth up to $200 billion.³

2 | Uses and Applications

The cannabis sativa plant has been used by humans since 4000 B.C. as a major food crop and for its psychotropic effects for recreational and medicinal purposes. The two primary cannabinoids that naturally occur in cannabis include the following:

- **Cannabidiol (CBD)** is the non-psychoactive form and has been found to combat inflammation and pain, suppress seizure activity and act as an appetite stimulant.

- **Tetrahydrocannabinol (THC)** is the psychoactive form, creating a high for the user. THC has been found to help create a sense of relaxation and well-being, induce sleep, and act as an appetite stimulant.

Cannabis has many potential applications in both health care and consumer sectors.

**Medical Uses**

Around the world, research is underway to uncover the potential medicinal benefits and uses of cannabis. In the U.S., although the federal government has continued to regulate cannabis as a Schedule 1 drug, two products have been approved by the FDA that reduce nausea and pain.⁴ The FDA is also conducting scientific research involving the compounds found in marijuana. Current FDA research has been focused on CBD and THC, with ongoing clinical testing in therapeutic areas such as cancer pain, overly contracted muscles, childhood seizures and infantile spasms.

Canada, where medical marijuana has been legal for nearly two decades, had nearly 350,000 medical cannabis patients registered with Health Canada as of the end of September 2018.

The potential growth could be significant, with Grand View Research estimating the global legal market for medical cannabis growing to $100 billion by the end of 2025.⁵

**Recreational Use**

Cannabis can be used in several different forms other than in cigarette paper or from a pipe. It can be ingested in teas, sodas, baked goods and it can be in a vaporizing form.⁶ Therefore, cannabis has the potential to be applied to multiple consumer goods, including infusing edibles and beverages to compete on store shelves with energy drinks, carbonated beverages, coffee, alcohol, tobacco and other packaged goods. While alcohol makes up a significant portion of U.S. consumer goods sales, cannabis products could be a rival in the next few years. In fact, BDS Analytics sees “substantial opportunities across consumer industries, including new occasions that alcohol cannot and will not play. Consumers will continue to look to cannabis products over alcohol for occasions when they are feeling creative, need to get motivated, or seeking health, medical or wellness benefits.”⁷

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³ Gurdus, Lizzy. “Cannabis could disrupt a $500 billion market, says CEO of top marijuana maker after deal with DEA,” CNBC.com, 10/12/18.
⁵ “Legal Marijuana Market Worth $146.4 Billion by 2025 | CAGR: 34.6%,” Grand View Research, 4/18.
In relatively new industries, many companies strategize for market share and global expansion to gain a competitive edge by engaging in mergers and acquisitions. As a result, the cannabis industry has experienced a growing number of consolidations, joint ventures, and mergers and acquisitions over the last few years. In 2018, the number of global merger and acquisition transactions doubled compared to the previous year. In addition, nearly $14 billion of capital was raised by cannabis companies around the globe—significantly more than what was raised in all of 2017.9

A few larger 2018 and 2019 deals include:

» Constellation Brands, the top alcohol beverage company in the U.S., took an equity stake in Canopy Growth of $3.8 Billion.

» Altria Group, which owns several large cigarette companies including Philip Morris, invested $1.8 Billion for a 45% stake in Cronos Group.

» Molson Coors, an international manufacturer of beer and other malt beverage products, has a joint venture with Hydropothecary Corporation.

» Sandoz Canada Inc., a global leader in generic pharmaceuticals and part of the Novartis Group, partnered with Tilray.
Canopy Growth Corp. announced it would acquire one of the largest U.S. cannabis growers, Acreage Holdings, for $3.4 billion after the U.S. legalizes the production and sale of cannabis.

Cresco Labs acquired Origin House, creating the largest distribution footprint in the U.S.

Curaleaf announced it would buy Cura Partners, which owns Select cannabis brand for approximately $1 billion.

In addition, cannabis-related companies often lack access to bank loans and capital. Therefore, to grow and expand their businesses, cannabis companies need to rely on other companies to take an equity stake or institutional investors to provide needed capital.10

INVESTOR OPPORTUNITY

There has been a growing interest in investing in cannabis stocks and as the industry evolves, the universe of public companies has been quickly changing. Currently, approximately 300 to 350 small-, mid- and large-cap companies located around the world engaged in legal cannabis activities.

Investors may want to take an active management approach, where an investment strategy guides portfolio changes. Based on daily market conditions, the portfolio manager can make buy or sell decisions to help reduce the overall risk in the portfolio while attempting to maximize returns. An active fund has the ability to stay nimble and flexible to take advantage of emerging opportunities due to mergers and acquisitions. In addition, an actively managed fund can use options in an attempt to enhance the Fund’s return and reduce volatility.

FINAL THOUGHTS

With increasing legalization, a growing number of uses and applications, and increasing merger and acquisition activity, investors have the opportunity to participate in a relatively new growth industry. While short-term setbacks in global legalization may occur, the momentum appears to be building for its potential uses and applications.

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Korey Bauer has over seven years of investment portfolio experience and is primarily responsible for the day-to-day management of the Cannabis Growth Fund. Korey is also a member of the Advisor’s Investment Committee and a founding member of Foothill Capital Management. Korey earned a B.A. from Marist College.

10 Berke, Jeremy. “Federal marijuana prohibition has opened a short window of opportunity for investors willing to stomach the risk,” Business Insider, 8/22/18.
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.

Active management does not guarantee a profit or protect against a loss.

Top 10 Fund holdings as of 3/31/19: Canopy Growth Corp, 6.30%; Aurora Cannabis Inc, 5.80%; GW Pharmaceuticals PLC, 5.04%; Canopy Rivers Inc, 3.85%; Cronos Group Inc, 3.46%; CannTrust Holdings Inc, 3.31%; HEXO Corp, 3.12%; Tilray Inc, 2.80%; Cardiol Therapeutics Inc, 1.89% and Organigram Holdings Inc, 1.73%. 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.

Data is as of the date of the white paper, except where otherwise noted.

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