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CANNABIS UPDATE

In the five months since the last congressional session in the US ended, there has been little to be excited about for US cannabis investors. Federal regulatory momentum came to a standstill, earnings slowed down to single-digit growth as inflation eroded margins and squeezed consumer wallets, and financing continued to dry up with regional banks and credit unions tightening their credits in the face of a banking crisis in the US. The threat of an upcoming recession with persistent inflation has further added to risk-off behaviour in capital markets. In this challenging environment, cannabis operators have been forced to tighten up their operations, limit their future growth objectives, and focus on cash-flow generation to help self-fund their survival through these difficult times. Despite all the challenges, we are seeing significant state-level momentum for cannabis regulation, strong margin performance by operators, and a glimmer of hope for Federal reform as the SAFE Banking Act moves forward through the Senate Banking Committee.

At a state level, the midterm elections of 2022 resulted in the legalization of adult-use cannabis in two new states, Maryland and Missouri. And although these states are smaller in size, the numbers are starting to rack up. Missouri cannabis sales crossed $250M within three months of adult-use launch, and the combined medical and adult-use industry now employs almost...
fifteen thousand people. Maryland is also rolling out the adult-use program in coming months with sales to begin on July 1st, just in time for US Independence Day. In April, Delaware became the latest state to legalize adult-use cannabis, bringing the total number of adult-use states to 22. Legislators continue to drive state-level legalization initiatives with continued progress in some significant geographies, such as Minnesota, Florida, Ohio, and Pennsylvania. All four states already have significant medical cannabis programs and are aiming to bring adult-use legalization through legislation or through the ballot within the next two years, bringing online significant-sized cannabis markets.

**FUND PERFORMANCE AND POSITIONING**

On the operator side, fiscal discipline has been a key theme over the past months. Growth capital became further constrained, and incumbents focused on generating free cash flow to fund working capital under an onerous federal tax structure.

Two quarters. Additionally, systematic challenges facing regional banks have tightened liquidity for operators, strengthening the relative advantages large multi-state operators have over smaller, independent peers, leaving the space ripe for consolidation. Operators continue to look for regulatory relief to propel them toward the next growth cycle.

Regulatory relief is the golden ticket both operators and investors are chasing. Although many initiatives are in place to move regulatory reform forward, including President Biden's request to reschedule cannabis, the lowest hanging fruit continues to be the SAFE Act which has passed the House of Representatives seven times without ever making it to the Senate for a vote. Under Republican control, Mitch McConnell refused to hear on the issue, whereas, under Democrats, Chuck Schumer continually pushed for a widening of the bill to include social equity provisions and the SAFE Act on a stand-alone basis was never debated. This status quo, however, is expected to change as the Senate Banking Committee is expecting to hold their first hearing on the SAFE Act in early May 2023. Although it may seem small, the step is momentous in moving the bill forward through the Senate, and eventually running through the circuit in an attempt to become law.

US cannabis valuations are down 90% from their peak in Feb 2021 when Chuck Schumer made his initial promise to decriminalize cannabis. The sector has been out of favour and had to constantly deal with difficult regulatory and financial conditions. As the current backdrop becomes more constructive, there are increased chances that incremental reform can occur with the current legislative session and ahead of the general elections in 2024. The challenge is for cannabis reform to maintain legislator interest in the face of a slowing economy where systemic risks are becoming more significant (i.e. the regional banking crisis). Although it’s difficult to say with high certainty whether the regulatory tide may be turning, we acknowledge the increment as a net positive for the space, which could bring investors back to the space in droves and re-invigorate the future of the US cannabis industry.

**FUND PERFORMANCE**

<table>
<thead>
<tr>
<th>PURPOSE MARIJUANA OPPORTUNITIES FUND</th>
<th>1 MONTH</th>
<th>3 MONTHS</th>
<th>6 MONTHS</th>
<th>YTD</th>
<th>1 YEAR</th>
<th>3 YEARS</th>
<th>5 YEARS</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A</td>
<td>-1.36%</td>
<td>-11.22%</td>
<td>-43.72%</td>
<td>-16.67%</td>
<td>-62.71%</td>
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<tr>
<td>ETF</td>
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<td>-10.95%</td>
<td>-43.39%</td>
<td>-16.35%</td>
<td>-62.29%</td>
<td>-23.83%</td>
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<tr>
<td>Series F</td>
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<td>-62.30%</td>
<td>-23.83%</td>
<td>-15.66%</td>
<td>-16.87%</td>
</tr>
</tbody>
</table>

All performance data as at Apr 30, 2023.