

# Medical Cannabis and Wellness UCITS ETF | FAQs

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## The ETF

### What Is the Medical Cannabis and Wellness UCITS ETF?

The Medical Cannabis and Wellness UCITS ETF (CBDX) is designed to track the price and yield performance, before fees and expenses of the Medical Cannabis and Wellness Index. The ETF is fully physically replicated and is available to trade in USD, GBP and EUR on London Stock Exchange and XETRA. The ETF has been issued via the HANetf white-label ETF platform by Purpose Investments.

### What Are the Main Features and Key Risks of CBDX?

#### Advantages:

- ✓ **Distinctive:** As the first product of its kind in Europe, CBDX provides investors with access to a unique new sector
- ✓ **Transparent, modern approach:** CBDX follows a rules-based free float weighted index ensuring only investible companies are included in the ETF
- ✓ **Diversified:** In a single trade, CBDX provides exposure to a basket of companies from US and Canada with high exposure to the medical cannabis theme
- ✓ **Governance:** CBDX embeds multiple levels of governance and contains constituents engaged in legal, licensed and regulated activities
- ✓ **Accessible:** Listed on major European exchanges and available on wide variety of execution and broker platforms
- ✓ **Legal analysis:** During the construction of this ETF there has been significantly more legal analysis across multiple jurisdictions than would occur during the typical ETF product development process, providing reassurance for investors that the fund is in compliance with all relevant local laws and listing standards

#### Key Risks:

1. The value of equities and equity-related securities can be affected by daily stock and currency market movements
2. Investors' capital is fully at risk and investors may not get back the amount originally invested
3. Exchange rate fluctuations could have a negative or positive effect on returns

### Who Are Purpose Investments?

Purpose Investments is a Canadian-based asset management company with more than \$8 billion in assets under management. Purpose Investments offers a range of managed and quantitative investment products. Purpose Investments is led by well-known entrepreneur Som Seif. Purpose Investments are a pioneer in the provision of cannabis investment funds and have extensive experience researching and trading cannabis securities, having launched the actively managed "Purpose Marijuana Opportunities Fund" in 2018.

### Why Choose a Cannabis ETF Over Individual Stocks?

Investing in cannabis ETFs may help investors withstand the short-term high price volatility of individual cannabis securities, potentially making for a lower risk more long-term investment. Cannabis ETFs are a way to diversify, investments are split across multiple securities reducing risk and maximizing potential profits. ETFs also provide ease of access; investors don't need to research each individual stock, but can instead invest in a pre-screened basket of Cannabis securities. <https://money.usnews.com/investing/funds/articles/pros-and-cons-to-marijuana-etf-investing>

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## Can I Include the CBDX ETF in my SIPP or ISA (UK Clients)?

As with other UCITS ETFs, it is eligible for inclusion in SIPPS and ISAs.

## Where Can I Buy the CBDX ETF?

CBDX is available on many major fund supermarkets and investment platforms. For a list of platforms please click here: [www.hanetf.com/ecosystem](http://www.hanetf.com/ecosystem) or call HANetf for further information. As with any other investment product, please seek qualified advice before considering an allocation.

EXCHANGE	BB CODE	RIC	ISIN	CURRENCY	INCOME
London Stock Exchange	CBDX	CBDX.L	IE00BG5J1N38	USD	Acc
London Stock Exchange	CBDP	CBDP.L	IE00BG5J1N38	GBP	Acc
XETRA	CBSX	CBSX.DE	DE000A2PPQ08	EUR	Acc

## Cannabis Stocks had a Volatile 2019. Why Invest Now?

We have seen that companies in the cannabis sector have had a kind of gold rush in recent years. The promises of this innovative and dynamic sector sparked the imagination of many investors. Prices rose sharply in 2018 and early 2019. Due to some regulatory setbacks, the sector then missed investors' earnings expectations and subsequently corrected them significantly.

Markets have been keen to challenge expensive valuations and consequently has improved at pricing in anticipated headwinds. The recent sell-off in cannabis stocks has corrected lofty expectations to the extent where the stocks themselves are oversold and once again cheap against their long-term growth and valuation targets. With numerous medical studies now in place and regulatory easing within sight, there are multiple positive catalysts to push the industry forward. The euphoria has come to an end as long-term investors come to join.

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## The Index Methodology

The Medical Cannabis and Wellness Index is a modified market capitalisation weighted index, calculated by Solactive. The latest guidelines for the Medical Cannabis and Wellness Equity Index ("Index") can be accessed here: <https://solactive.com/downloads/Guideline-Solactive-MEDCAWE.pdf>

### What Types of Companies Does the Index Include?

Index Constituents will compose primarily of three types of businesses.

- 1) Direct cannabis related activity:** this includes businesses engaged in cannabis activity operating in jurisdictions where cannabis is federally legal. Operations can include cultivation, processing, manufacturing, sale and research of cannabis.
- 2) Indirect cannabis related activity:** this includes businesses engaged in hemp and hemp derived-CBD in all jurisdictions where hemp is federally legal. Operations can include cultivation, processing, manufacturing, sale and research of hemp.
- 3) Ancillary businesses:** this includes businesses which are defined as non-plant touching and facilitate the growth and operations of cannabis and hemp related activity in all jurisdictions where it is federally legal to do so.

### What Are the Definitions Used?

- **Medical:** Medical companies are those operating in medical legal jurisdictions and have ZERO exposure to recreational or adult-use cannabis.
- **United States Listings:** Exposure is limited to companies operating in the pharmaceutical cannabis space. This list of company includes the likes of GW Pharma, Zynerba Pharma, Cara Therapeutics, Amyris.
- **Canada Listings:** very similarly exposure is limited to those operating in medical only jurisdictions such as Columbia Care, Liberty Health and Vireo. Also, Canada based providers of synthetic cannabidiols or pharmaceutical research.
- **Legal:** In addition to medical marijuana companies, this condition will add those companies strictly operating in the hemp/CBD business in consumer goods and those providing ancillary services to the cannabis industry such as equipment, processing, manufacturing.
- **CBD/Hemp:** The farm bill has made CBD from hemp federally legal in the US and this has also been the case in Europe. We will see the addition of companies such as cbdMD, Isodiol, Hempco to the mix.
- **Ancillary Services:** Materials providers such as Scotts MiracleGro and GrowGeneration get added to the mix in addition to consumption equipment providers such as Kushco and Greenlane (both names are non-plant touching and listed in the US).

### How Often are the Index and CBDX Reviewed and Rebalanced?

The Index and CBDX are reviewed and rebalanced on a quarterly basis. A detailed rebalance calendar is available on the fund page on [www.hanetf.com](http://www.hanetf.com)

### How Does the Index Methodology Adapt to Changing Regulations?

The Index and fund methodology enable the addition of securities listed outside U.S. and Canada, as regulatory changes increase the number of medical cannabis securities listed globally.

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## Screening & Selection

### What Restrictions are Used in the Index Methodology?

In order to qualify for inclusion in the Index, companies must form part of an investable universe of publicly listed companies with significant business activities in the medical cannabis, hemp and CBD industry (Cannabis Companies). Cannabis Companies must engage in the medical cannabis or cannabis related activities where they are legal in the countries in which they operate.

**Sales:** No revenue is to be derived from recreational cannabis sales. All revenue must be generated from the above definition of "Strictly Medical AND Legal". Both conditions of the medical and legal definitions to be met in order to qualify as an investable security. Those medical players operating in federally illegal jurisdictions are excluded. This condition will also exclude ancillary service providers and Hemp-derived CBD processors/manufacturers.

**Business activities:** Companies with significant business activities in cannabis or cannabis-related services/products. We do not discern the amount of a company's revenue derived directly from the cannabis or cannabis related activities.

### How Are Constituents Screened?

The Index intends to only hold medical cannabis companies, CBD and hemp companies or companies which provide ancillary services to the cannabis sector including hydroponics, equipment and processing. The index is constructed using a rules-based methodology to screen publicly traded securities for cannabis-related activity which are legal under jurisdictions of operation. The starting universe includes companies directly involved in the cannabis trades as well as those providing ancillary services to cannabis-related activity, and the wellness industry around hemp and hemp-derived CBD.

#### First Level Screening: Exchanges

Securities listed on senior Exchanges (NYSE, NASDAQ, TSX, TSX-V) will forego further screening as these Exchanges require federal legality as a pre-condition of listing.

#### Second Level Screening: Revenue Trace

For other exchanges which don't have these listing preconditions, fundamental research will determine whether the company is operating in a jurisdiction with legalized cannabis operations. The Index will disqualify any candidate with cannabis operations which don't comply federal laws where the Candidate operates. If the nature of a company's business changes, so that they gain exposure to illegal Cannabis, the security will be removed from the Index immediately with intra-period re-constitution.

#### Third Level Screening: Depositary

The Depositary of the Fund also screens and pre-approves all the constituents prior to being included in the portfolio

#### Fourth Level Screening: Index Administrator

The Index Administrator reviews the resulting companies to ensure the constituents comply with the Index Guidelines.

### Regular Reviews and Rebalances

Regular reviews consider whether any of the constituents have expanded operations and have exposure to the recreational cannabis sector. Any breach of the above will result in constituents being ejected from the index and redeemed by the fund, at the earliest opportunity. In addition, the Index is reviewed on a quarterly basis to effectively capture new companies entering the Index Universe.

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# The Medical Cannabis Market

## What Is the Background?

While cannabis has been around for thousands of years, modern science is just beginning to scratch the surface of what's possible from a medical standpoint. A number of medical uses have already been discovered and studied extensively, with promise shown particular for cancer, AIDS and multiple sclerosis patients. As views and laws surrounding cannabis continue to liberalize around the world, more scientific inquiry will follow. The landscape is not only ripe for further scientific discovery, but also for investors. Cannabis has in essence become **a new sort of commodity** and an **entirely new industry and market has developed** relatively quickly in the last decade from a plant that humans have been using for thousands of years. Financial backers no longer shy away from supporting legal cannabis companies. Cannabis is becoming mainstream and, in our view, has great potential to deliver long-lasting social, medical, industrial and economic effects. As of 2018, the global medical cannabis market size was US \$13.4 Billion. Experts predict that the market is expected to reach a value of US \$148 Billion by 2026, exhibiting a CAGR of 26.4%.<sup>1</sup>

## Are Cannabis, Hemp and Marijuana the same thing?

Hemp and marijuana are derived from the same Cannabis plant. The difference between the two lies in the THC content; hemp contains ~0.3% TCH, whereas marijuana contains 5 to 20 percent.<sup>2</sup>

## What's the Difference Between CBD and THC?

Cannabidiol (CBD) and tetrahydrocannabinol (THC) are both natural compounds of the Cannabis plant. CBD can be found in the form of gels, sweets, oils, supplements, extracts and more. THC is the psychoactive compound in marijuana that gives the sensation of feeling 'high'. The main difference between the two compounds is that CBD is non-psychoactive, meaning there is no 'high' associated with its use.<sup>3</sup>

## What Medical Conditions Can CBD Aid?

CBD is used to help with various conditions, including:

- seizures / epilepsy
- inflammation
- pain
- psychosis or mental disorders, including depression and anxiety
- inflammatory bowel disease
- nausea
- migraines
- Parkinson's disease

The number of people suffering from illnesses and diseases that are addressable by CBD is estimated to be in excess of 1 Billion. If just 10% of those affected adopted a CBD-based treatment, it would mean an addressable market of 100 million people.<sup>1</sup>

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1 [www.globenewswire.com/news-release/2019/05/20/1829108/0/en/Medical-Marijuana-Market-To-Reach-USD-148-35-Billion-By-2026-Reports-And-Data.html](http://www.globenewswire.com/news-release/2019/05/20/1829108/0/en/Medical-Marijuana-Market-To-Reach-USD-148-35-Billion-By-2026-Reports-And-Data.html)

2 <https://phys.org/news/2019-02-hemp-marijuana.html>

3 <https://www.healthline.com/health/cbd-vs-thc>

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## Regulation, Legal & Governance

### How Did HANetf Ensure that the Fund complies with applicable laws?

The scope of local money laundering rules differs across the EU and some jurisdictions also have extra territoriality provisions. **CBDX can and will only invest in cannabis or cannabis related activities where they are legal in the countries in which they operate, and may only supply products and/or perform activities that are legal under applicable national and local laws, including U.S. federal, state and local laws.**

HANetf has obtained Irish and English law legal opinions relating to any Money Laundering risks (such as compliance with the UK Proceeds of Crime Act) and launched the Fund based on those positive opinions. If you require more details on the legal due diligence, please contact [info@hanetf.com](mailto:info@hanetf.com)

### Are There Existing Market Precedents

It should be noted that there are UCITS funds, listed on the main exchanges, that currently invest in companies that involved in the legal cannabis sector. Hence there is already precedent for listed UCITS funds holding companies in this sector. We are not aware of any investors or fund sponsors being prosecuted for money laundering as a result of investing in such funds.

### What Was the Approval Process with Central Bank of Ireland?

HANetf first started the product development of the Fund during the 3<sup>rd</sup> quarter of 2018. Given HANetf's funds are domiciled in Ireland, approached the CBI who confirmed they did not have any objections on policy grounds, to a Medical Cannabis UCITS.

The CBI originally cleared the Fund by the CBI in January 2019. After a period of further product development involving the various service providers to the Fund, the UCITS Management Company of the Fund, HANetf Management Limited, approved the Fund for launch and the Fund was approved by the CBI on the 11<sup>th</sup> November 2019.

### How Was Passporting the CBDX Fund Approached?

The first step in order to promote and market the Fund is to passport it to the relevant country. The passport is notified by the CBI to other regulators under the UCITS directive e.g. BAFIN in Germany, CONSOB in Italy and FCA in the UK. This is a fundamental step that is required by regulators before the listing process can begin. As of January 2020, CBDX is passported to the UK, Germany and Italy. It is also available for sale in Ireland as the Fund is domiciled there.

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## Service Providers

### How did HANetf Work with the Depository?

HANetf engaged with the Depository for the Fund as part of the product development process. This process took approximately 18 months as it was developing its own controls and policy over this period. As a global bank, the Depository has multiple jurisdictions to comply with. CBDX was developed with controls built in to ensure that it met the requirements of the Depository's policies, including restrictions as to which exchanges Index constituents could be listed on, plus a review process for adding new securities in CBDX, that also involves sign off from the Depository.

### Why Was Purpose Investments Chosen as Fund Partner?

HANetf chose to partner with Purpose Investments LLC on the Fund given their extensive experience in Cannabis investing. Purpose are a pioneer in the provision of broad investment capabilities focused on both traditional and risk-managed alternative investment strategies and have extensive experience researching and trading cannabis securities, having launched their actively managed "Purpose Marijuana Opportunities Fund" in Canada in 2018<sup>4</sup>.

With that experience, they are able to provide a level of additional screening regarding the constituents in the Index to ensure that the companies remain eligible investments, given they are also analysing such companies as part of their active fund management offering.

### How did Hanetf work with Exchanges, Clearing & ICSDS to ensure a smooth pathway to launch?

HANetf actively engaged with the major European exchanges to understand any concerns they might have with the listing of a medical cannabis fund. Given the legal, regulatory and political environment differs across the EU, HANetf wanted to understand the challenges in the key listing jurisdictions and answer any questions the exchanges had about the Fund and its investment process. Currently, CBDX has been listed in Germany on the Deutsche Borse and in the UK on the London Stock Exchange. In order to achieve these listings, the Fund has to meet the requirements of each exchange, and each exchange undertakes its own legal and regulatory due diligence including seeking their own legal opinions regarding compliance with any local laws.

It should be noted that some service providers take a proactive stance on identifying Cannabis related securities. For example:

- **Clearstream** ICSD publish a list of cannabis-related securities that are restricted from their settlement and asset servicing services:
- The financial data firm **SIX**, which also operates the main Swiss stock exchange, launched "The Marijuana Related Businesses (MRB) Securities"<sup>5</sup> service last year which identifies and lists securities that are either directly or indirectly issued by listed MRB entities. The service will also help financial institutions identify the risk level of any given company.

### More Questions?

HANetf is pleased to help answer further questions about CBDX. Please contact us via [info@hanetf](mailto:info@hanetf) or call us on +44 (0) 203 794 1800

<sup>4</sup> <https://www.purposeinvest.com/funds/purpose-marijuana-opportunities-fund>

<sup>5</sup> <https://www.six-group.com/en/newsroom/media-releases/2019/mrb-data-service.html>

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