Ninepoint Carbon Credit ETF Commentary

August 2022 Commentary

As of August 31, 2022, the **Ninepoint Carbon Credit ETF** was valued at a NAVPU of $19.74 (Series F). When the fund was launched on Feb 16, 2022, the NAVPU was $20.00 (Series F).

Investment Team

John Wilson, MBA
Co-CEO, Managing Partner,
Senior Portfolio Manager

Investment Strategy

The Fund seeks to achieve its investment objectives by primarily investing directly in carbon allowance futures. The Fund currently invests in the major carbon allowance futures globally, namely, the **European Union Allowance (the "EUA")**, the **California Carbon Allowance (the "CCA")**, the **UK Allowance (the "UKA")** and the **Regional Greenhouse Gas Initiative (the "RGGI")**. The Fund may invest in additional carbon allowance futures contracts as the global carbon credit market grows.

Market Performance

For the month of August, the markets faced further selling pressure driven by the Fed's hawkish remarks on inflation. S&P 500 finished the month 4.1% lower on a total return basis, bringing the year-to-date losses to -16.1%. On Aug 26, 2022, Federal Reserve Chair, Jerome Powell said in his Jackson Hole speech that the central bank won't end its fight against rapid inflation, signalling investors to weigh the implications of a tough stance against inflation in place for a longer time. In commodity markets, Brent Crude fell 12.3% in August, while gold fell by 3.1%.

Compared to other asset classes, the compliance carbon markets continued to demonstrate their portfolio diversification benefits. In Europe, ICE UKA Carbon Futures Index posted a 23.9% gain supported by a lack of selling interest while the ICE EUA Carbon Futures Index added 1.9% in the month of August. Notably, on Aug 19, 2022, EUA prices reached its all-time high - the Dec-22 contract rallied strongly to a peak of €98. The upward trend was mainly driven by factors including utilities switching to coal generation from natural gas, more demand for cooling in Europe and low trading volume due to the holiday period.

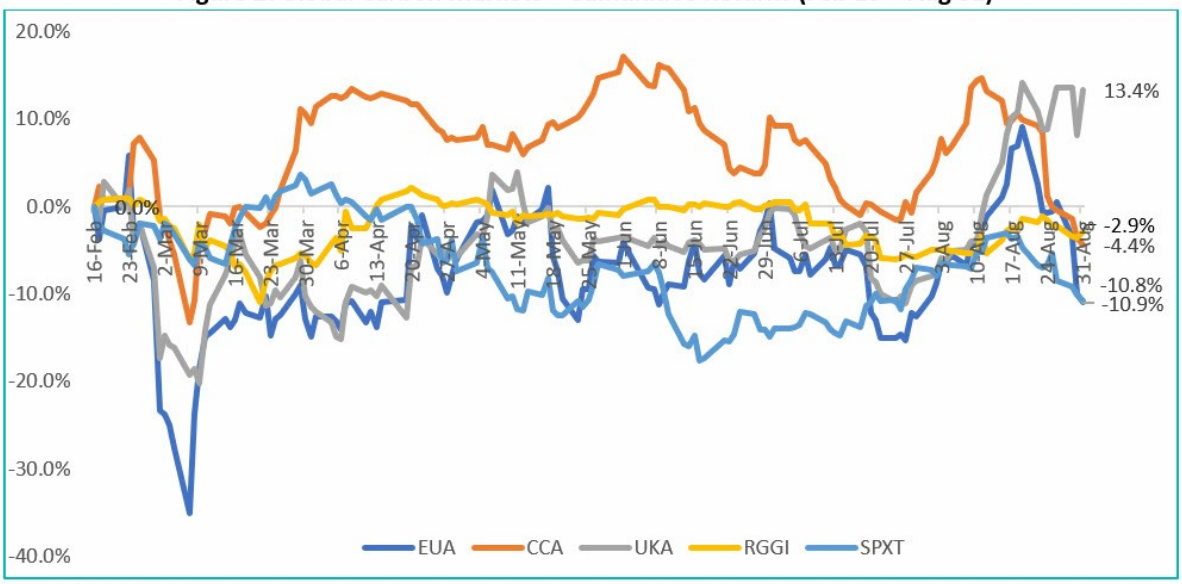
In America, the ICE RGGI Carbon Futures Index strengthened 3.0%, while the ICE CCA Carbon Futures Index dropped 5.9% due to bearish global macro influences as the equities further sold off. While CCA prices seemed to be macro-driven, RGGI price increase was mainly driven by clarity gained from legal development – As discussed in July commentary, a Pennsylvania judge temporarily suspended the state from joining RGGI, the ongoing court challenges is expected to cause some volatility to the regional program. As the situation evolved, later in August, Pennsylvania's Department of Environmental Protection (DEP) withdrew its 16 million allowances from the upcoming September RGGI auction.

Figure 1: Perfomance of Major Carbon Markets (Aug 1 - Aug 31)

	Monthly Return (Aug 1 - Aug 31)	Monthly Volatility (Aug 1 - Aug 31)
ICE EUA Carbon Futures Index (ER)	1.9%	13.2%
ICE CCA Carbon Futures Index (ER)	-5.9%	10.0%
ICE UKA Carbon Futures Index (ER)	23.9%	10.4%
ICE RGGI Carbon Futures Index (ER)	3.0%	4.4%
S&P 500 (TR)	-4.1%	5.8%

Source: Bloomberg

Figure 2: Global Carbon Markets – Cumulative Returns (Feb 16 – Aug 31)



Source: Bloomberg

Why Ninepoint Carbon Credit ETF?

For an **emerging asset class like carbon credit**, **diversification** is at the heart of our fund strategy. Currently, the **Ninepoint Carbon Credit ETF** invests equally in the four major ETS markets globally with quarterly rebalancing. Having a diverse market exposure has demonstrated its benefits to serve investors well. Below are four key reasons for investors to consider **Ninepoint Carbon Credit ETF**:

1. Diversification: Balanced exposure to all carbon credit markets can help minimize single jurisdiction risk by eliminating over-concentration to any single market, as recent market action has demonstrated. Having a diversified underlying market portfolio is important for an emerging asset class with volatile price patterns, like carbon credits.

2. Global Exposure: The fund provides investors with access to a US$851 billion global carbon credit market which has grown by 18x since 2017[1]. Compared to volume-weighted fund or funds that invest in one single market, we believe that our equal-weighted fund strategy has a better value proposition, over the long-term, given its overweight to the under-represented and rapidly growing carbon credit trading markets.

3. Core Value: As a Canadian fund, by overweighting the North American market relative to its total index weight, we are aligning our strategy with our values and our local community.

4. Easy Access: The fund is structured as an alternative mutual fund offering on Fundserv as well as an ETF series on the NEO Exchange (NEO:CBON / CBON.U)

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[1]Refinitiv, "Carbon Market Year in Review 2021". Global carbon markets value surged to record $851 bln last year-Refinitiv (Reuters - January 2022).

The Ninepoint Carbon Credit ETF is generally exposed to the following risks See the prospectus of the Fund for a description of these risks Absence of an active market for ETF Series risk, cap and trade risk, collateral risk, commodity risk, concentration risk, cybersecurity risk, derivatives risk, foreign currency risk, foreign investment risk, Halted trading of ETF Series risk, inflation risk, interest rate risk, liquidity risk, market risk, regulatory risk, securities lending, repurchase and reverse repurchase transactions risk, series risk, substantial securityholder risk, tax risk, trading price of etf series risk.

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