Ninepoint Carbon Credit ETF Commentary

January 2023 Commentary

As of Jan 31, 2023, the Ninepoint Carbon Credit ETF is valued at a NAVPU of $18.49 (Series ETF). When the fund was launched on Feb 16, 2022, the NAVPU was $20.00 (Series ETF).

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, including:

- **European Union Allowance (the "EUA")**
- **California Carbon Allowance (the "CCA")**
- **UK Allowance (the "UKA")**
- **Regional Greenhouse Gas Initiative (the "RGGI")**

As the global carbon credit market grows, the Fund may invest in additional carbon allowance futures contracts.

Market Update and 2023 Outlook

The global financial market experienced strong gains entering into 2023. S&P 500 finished the first month 6.3% higher on total return basis, Brent Crude briefly went down by 1.7%, while gold went up by 5.7%.

In the carbon market, ICE EUA Carbon Futures Index posted a 10.8% gain while the ICE UKA Carbon Futures Index went up by 4.5%. In North America, the ICE CCA Carbon Futures Index lost 3.3% this month, while the ICE RGGI Carbon Futures Index also went down by 5.6%.

Throughout 2022, with energy security at risk in various parts of the world, low industrial demand led by cost inflation remains a key risk factor for the demand of carbon allowances. Russia's invasion of Ukraine in late Feb sparked a surge in gas prices, driving up demand for more price-competitive alternatives including coal, which in turn pushed up coal prices. It is expected that industrial production level will remain solid and emissions from the utilities sector will last for longer than expected, increasing the need for carbon allowances.

On the policy side, in 2022, the EU agreed to raise €20 billion from carbon allowances to finance the energy transition over the next three years, this clouded the market and dis-encouraged some traders from taking long positions. That said, amid the war in Ukraine and energy crisis, several major countries are calling for tightened carbon policies and more innovative strategies. Among them, EU reached a final agreement to further tighten its carbon market in December, the California and RGGI programs are also undergoing reviews.

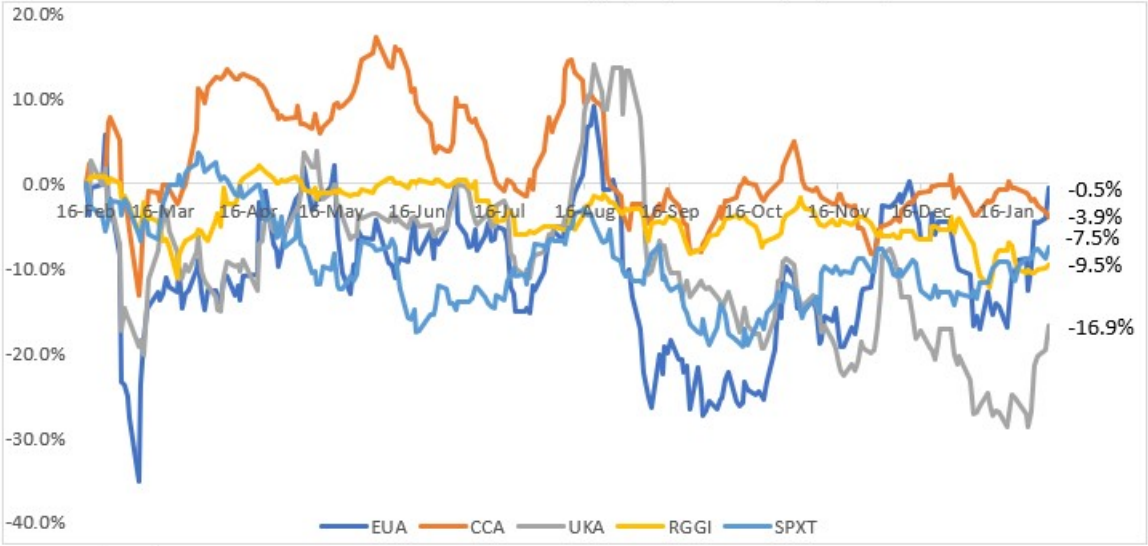
2023 will be a defining moment for carbon for all the reasons we mentioned above, and we are watching very closely.

Figure 1: Perfomance of Major Carbon Markets (Jan 1 – Jan 31)

	Monthly Return	Monthly Volatility
ICE EUA Carbon Futures Index (ER)	10.8%	14.1%
ICE CCA Carbon Futures Index (ER)	-3.3%	3.5%
ICE UKA Carbon Futures Index (ER)	4.5%	12.5%
ICE RGGI Carbon Futures Index (ER)	-5.6%	5.6%
S&P 500 (TR)	6.3%	4.6%

Source: Bloomberg

Figure 2: Global Carbon Markets – Cumulative Returns (02/16/2022 – 01/31/2023)



Source: Bloomberg

Why Ninepoint Carbon Credit ETF?

For an emerging asset class like carbon credit, diversification is at the heart of our fund strategy. At the moment, 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 . 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 a record $851 bln last year-Refinitiv (Reuters - January 2022).

[1]All returns and fund details are a) based on Series F $USD units; b) net of fees; c) annualized if period is greater than one year; d) as at February 23, 2023.
[2]Sector allocation as at February 23, 2023. Sector allocation based on % of net asset value. Numbers may not add up due to rounding. Cash and cash equivalents include non-portfolio assets and/or liabilities.

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.