



# Ninepoint Carbon Credit ETF Commentary

September 2022 Commentary

As of September 30, 2022, the **Ninepoint Carbon Credit ETF** is valued at a NAVPU of \$17.63 (Series F). When the fund was launched on Feb 16, 2022, the NAVPU was \$20.00 (Series F).

## 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 Update

For the month of September, the Fed reiterated its hawkish stance on monetary policy and delivered another 75-basis points rate hike which was more aggressive than markets were expecting, taking the central bank's policy rate to a new target range of 3%-3.25%, the highest the rate has been since the global financial crisis in 2008. The ECB also raised interest rate by a surprising 75-basis points. The stock market gave back summer gains and revisited bear-market territory, S&P 500 finished the month 9.2% lower on total return basis, bringing the year-to-date losses to -23.9%. Brent Crude fell 8.8% in September, while gold fell by 2.9%. The compliance carbon markets also came under pressure in September.

In Europe, ICE UKA Carbon Futures Index posted a 22.6% loss while the ICE EUA Carbon Futures Index went down by 16.5% in the month of September. Due to soaring energy costs in Europe, industrial demand shrank amid widespread reductions in production. Since the Russian crisis, several EU member states brought up the idea to release more carbon allowances from the Market Stability Reserve to help finance the EU's strategy to reduce its reliance on Russian gas. Conversations are going on in the European Parliament, the worry of having more allowances supply in the market next year is injecting significant volatility in the European carbon credit markets.

The EUA sentiment also spilled over the American markets. The ICE CCA Carbon Futures Index lost 1.3% this month. Despite more financial market participation in the CCA, central banks' rate hike policy and the energy crisis caused by Russia's invasion of Ukraine have generated bearish macroeconomic conditions for much of 2022. The ICE RGGI Carbon Futures Index also followed the CCA sentiment and dropped 3.4% this month.

**Figure 1: Performance of Major Carbon Markets (Sep 1 – Sep 30)**

	Monthly Return	Monthly Volatility
ICE EUA Carbon Futures Index (ER)	-16.5%	17.9%
ICE CCA Carbon Futures Index (ER)	-1.3%	6.4%
ICE UKA Carbon Futures Index (ER)	-22.6%	12.6%
ICE RGGI Carbon Futures Index (ER)	-3.4%	4.2%
S&P 500 (TR)	-9.2%	6.9%

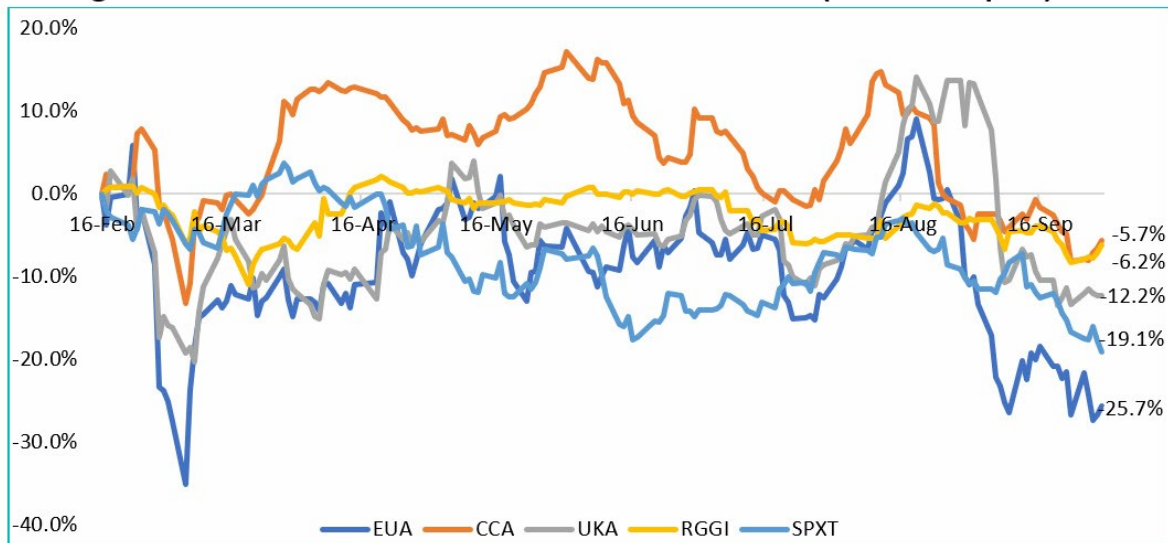
Source: Bloomberg

## Investment Team



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

**Figure 2: Global Carbon Markets – Cumulative Returns (Feb 16 – Sep 30)**



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 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 an US\$851 billion global carbon credit market which has grown by 18x since 2017<sup>1</sup>. 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)

### Product Inquiries:

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<sup>1</sup>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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