Ninepoint Carbon Credit ETF

June 2022 Commentary

As of June 30, 2022, the Ninepoint Carbon Credit ETF was valued at a NAVPU of $20.55 (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

On June 13, the S&P 500 fell by 3.9%, leaving the index more than 20% below its recent record high in January 2022 - the US stock market has entered the bear market territory. In the global carbon market, this June, the **California Carbon Allowance (CCA)** price traded in line with the broader financial market, while the other three markets **(EUA, UKA, RGGI)** remained fairly immune to the bearish market sentiment.

The price volatility in CCA is caused by both buying from compliance entities and selling from financial entities – the regulated entities continued to increase their CCA futures and options holdings over the past four weeks, while financial players continued to reduce their positions amid the overall risk-averse tone in the global financial market.[1]

In the EU market, the most notable event this month is the passing of the EU ETS reform package by the European Parliament. The reform package has yet to be reviewed by the EU Commission, but we see this as a strong sign of the EU's climate ambition. Amid the recent policy developments in the EU, in this commentary, we provide a deep dive into the EUA price movement since 2022.

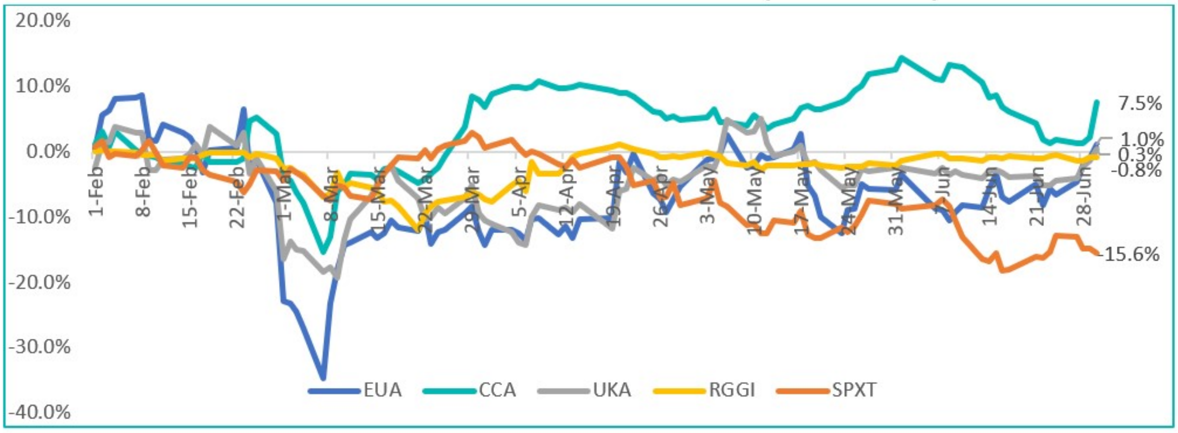
We also discuss Canada's first federal carbon offset market that came into effect this June.

Perfomance of Major Carbon Markets (Jun 1 - Jun 30)

	Monthly Return (Jun 1 - Jun 30)	Monthly Volatility (Jun 1 - Jun 30)
ICE EUA Carbon Futures Index (ER)	7.3%	10.7%
ICE CCA Carbon Futures Index (ER)	-4.5%	8.0%
ICE UKA Carbon Futures Index (ER)	2.9%	4.0%
ICE RGGI Carbon Futures Index (ER)	1.3%	2.0%
S&P 500 (TR)	-8.3%	7.9%

Source: Bloomberg

Global Carbon Markets – Cumulative Returns (Feb 1 – Jun 30)



Source: Bloomberg

Canada’s First Federal Carbon Offset Market

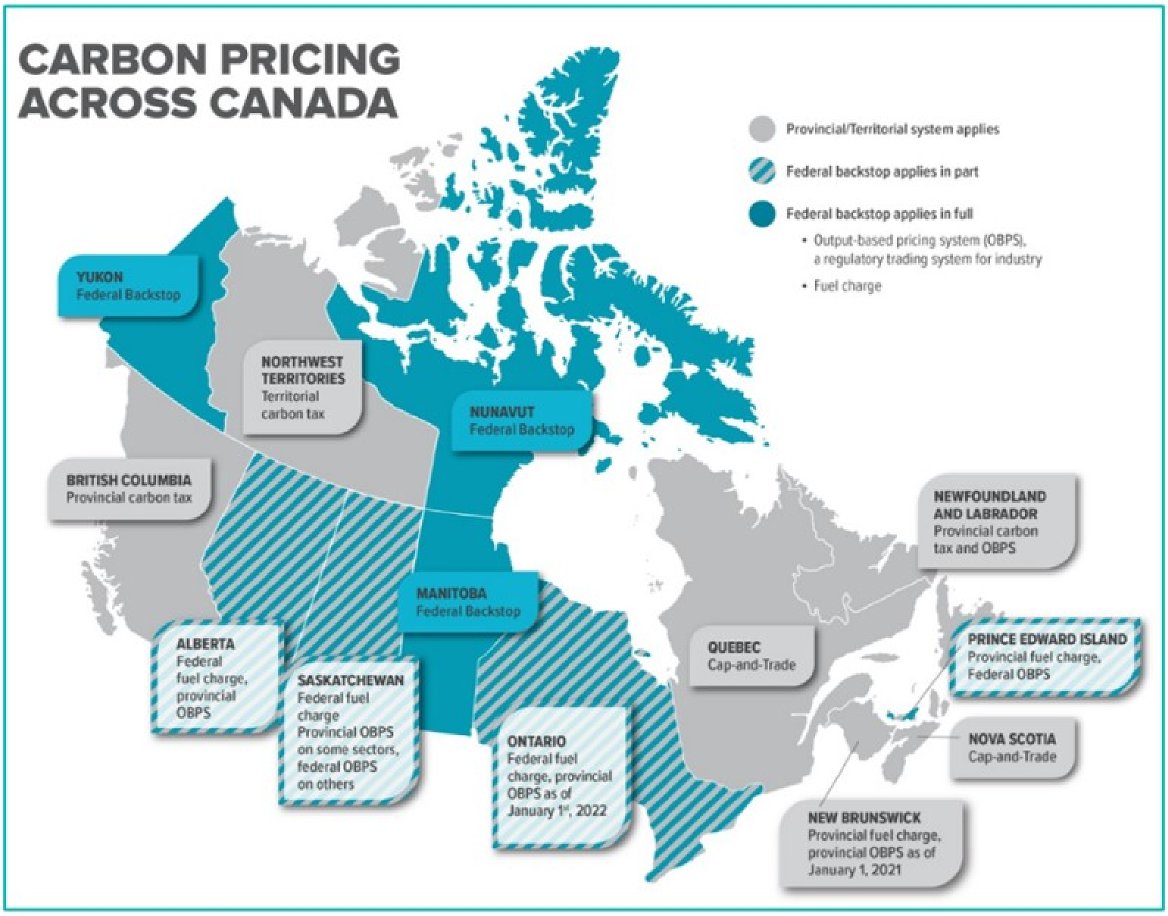
On June 8, 2022, Canada launched its first federal carbon offset market, taking another step towards a nationalized carbon pricing strategy, is it a good first step towards regulating the carbon "wild west", or a gateway to cheap credits that allow the industry to keep polluting? Please read our special commentary on this topic.

Carbon Pricing in Canada

Putting a price on carbon is widely supported as the most efficient means to reduce greenhouse gas emissions, among policy makers and business leaders across the globe, including the federal government of Canada.

As we all know, Canada is a decentralised federation, where provinces and territories have a high level of autonomy in policy decisions, including those in relation to the environment and energy. Therefore, Canada’s carbon pricing policy is designed and managed at both the federal and provincial levels. At the federal level, the Greenhouse Gas Pollution Pricing Act, which came into effect in June 2018, provides a federal carbon pricing policy that sets minimum national stringency standards (the federal ‘benchmark’) for carbon pricing, but each jurisdiction can opt to establish or maintain its own policy provided it meets the federal ‘benchmark’. The federal backstop policy will be applied to any jurisdiction not meeting the ‘benchmark’. The map below shows the different carbon pricing methods applied across Canada.

Carbon Pricing Across Canada



Source: (Carbon pollution pricing systems across Canada, 2022)

This federal carbon pricing policy adopted in 2018 consists of two parts:

1. A regulatory charge on fossil fuels
2. An output-based emissions trading system for carbon-intensive industries (OBPS)

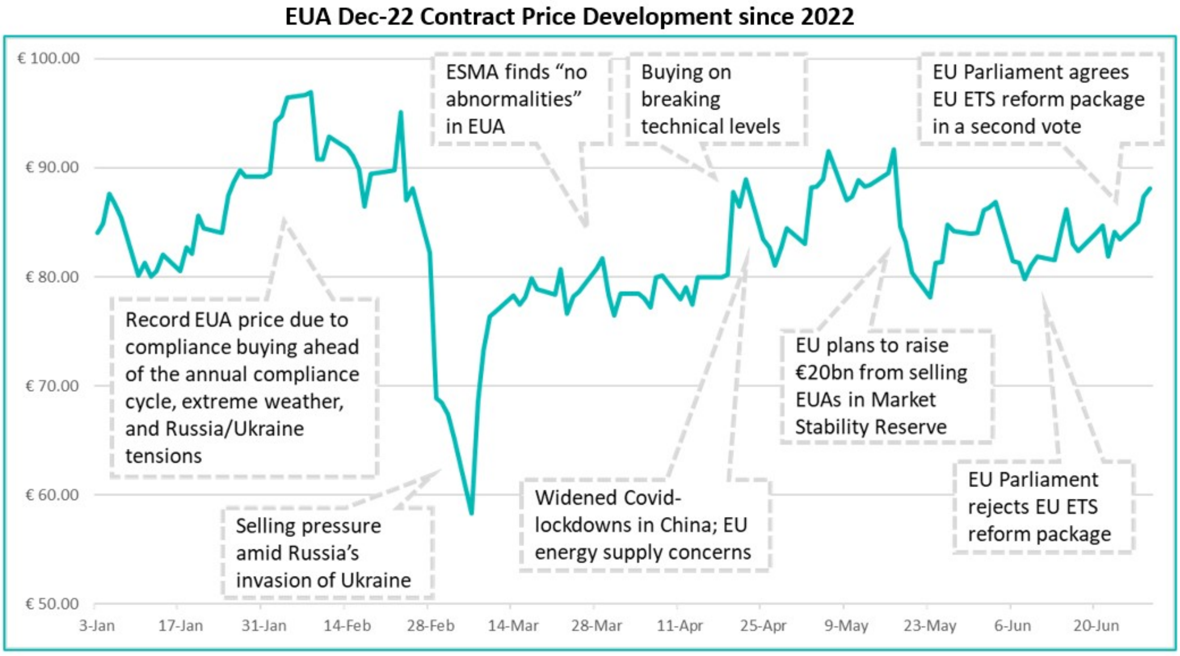
Similar to the emissions trading system in other countries, compliant companies covered under the OBPS are required to compensate for their greenhouse gas emissions that exceed an annual emissions limit. At the end of each compliance cycle, all companies under the federal OBPS that exceed their annual emissions limits have three options to comply:

1. Pay the excess emissions charge - $50 per ton in 2022
2. Surrender enough compliance carbon credits (including the newly created federal carbon offset credits)
3. A combination of the above two options

A central advantage of this approach is that it maintains a minimum carbon price benchmark across the country, while giving each jurisdiction the flexibility to manage its own carbon pricing policies.

A deep dive into EUA price since 2022

Since Russia’s invasion of Ukraine, EUA manages to recover and trade between €80 and €90 despite some significant headwinds - a sign of long-term market confidence.



Source: Bloomberg; Carbon Pulse

This June, in a second attempt, the EU Parliament voted and agreed on a number of amendment measures to reform the EU ETS. According to Carbon Pulse, the amendments suggest that "*the ETS should achieve an emissions reduction by 2030 slightly greater than both the 63% target adopted line-by-line in the first vote and the European Commission's proposed 61%, but less than the 67% target sought by the Parliament's environment committee (ENV).*" The amendment also proposes to increase the Linear Reduction Factor (LRF), the rate that determines how fast the allowances in the EU ETS decline each year, to 4.4% in 2024/25, 4.5% between 2026 and 2028, and 4.6% from 2029, compared to the current 2.2%.[2]

The proposal is set to move to trilogue negotiations between the representatives of the Parliament, the Commission, and the Council of the EU member states. Given the EU's current priority on economic growth and energy security, it is likely that the Commission will push the reduction target back to 61%. We expect the EUA price to remain volatile as the negotiations develop, nevertheless, the amendment proposal is still a very encouraging policy sign to the market.

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:

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.

Global Exposure – The fund provides investors access to a US$851 billion global carbon credit market which has grown by 18x since 2017[3]. 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.

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.

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:

Sarah Wang
Senior Business Analyst
Ninepoint Partners
swang@ninepoint.com

References

[1]Carbon Pulse
[2]Carbon Pulse
[3]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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