



Change the future

Back the race to net zero

The decarbonisation of the world is accelerating with the rise of government-backed carbon markets reshaping economies in order to reduce emissions and reach net zero by 2050 or earlier.

The value of the global carbon market has achieved a compound annual growth rate (CAGR) of 60% from 2018 to 2021.¹ Estimates forecast global carbon prices need to be higher for countries to meet their emissions target. Immense growth opportunities abound.

What is a carbon price?

Having a price on carbon means companies/ organisations have to pay for each tonne of CO₂ they emit.



How is it applied?

There are two main applications: carbon taxes and via a 'cap and trade' program, where companies/organisations have a limit on their CO₂ emissions. For a cap and trade program, those that exceed the limit are required to buy carbon credits that are equivalent to excess emissions.



How do carbon credits work?

Also known as emissions allowances, these are official permits that allow a company to produce a certain amount of carbon emissions and which can be traded.



1. Source: Refinitiv

The benefits of carbon pricing

Delivers cost-effective mitigation



Incentivises low carbon growth



Raises revenue



Generates development benefits



Enable regional or international cooperation

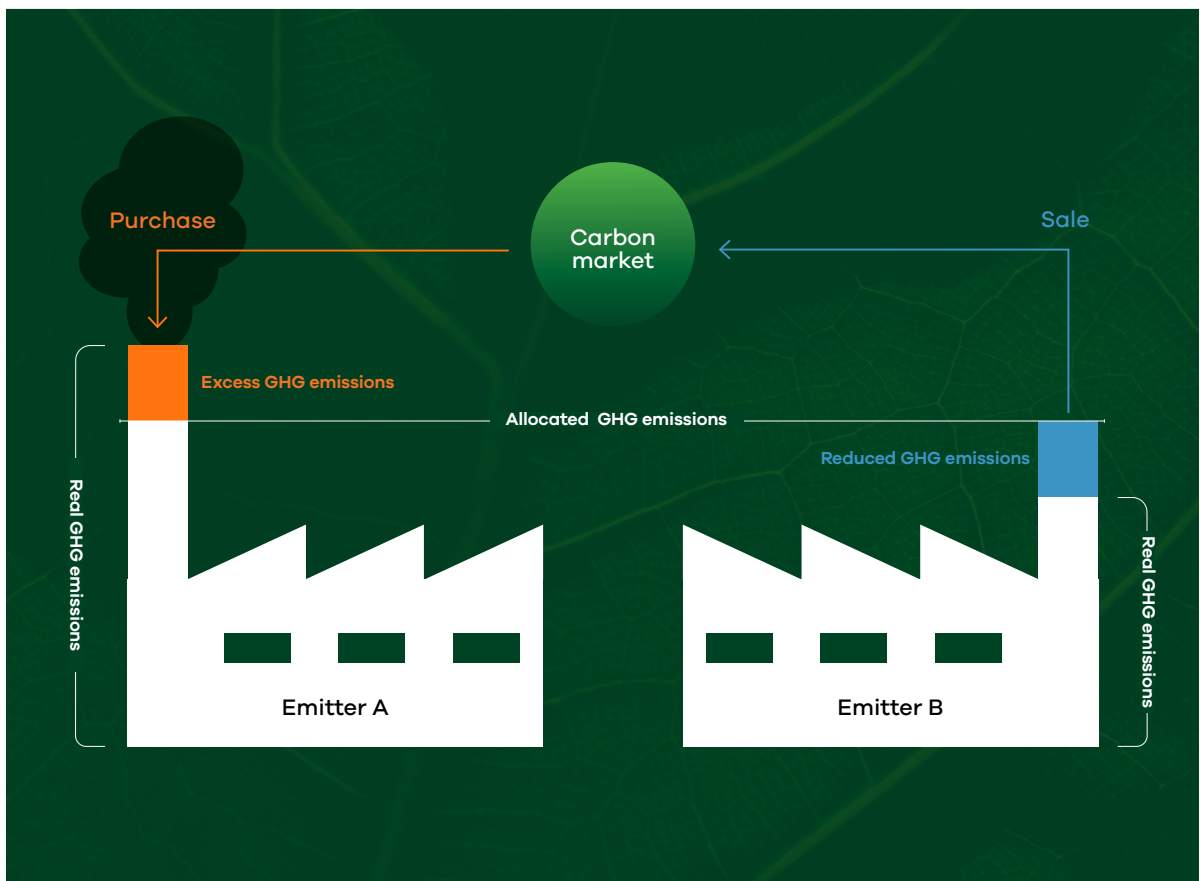


How an emissions trading scheme works

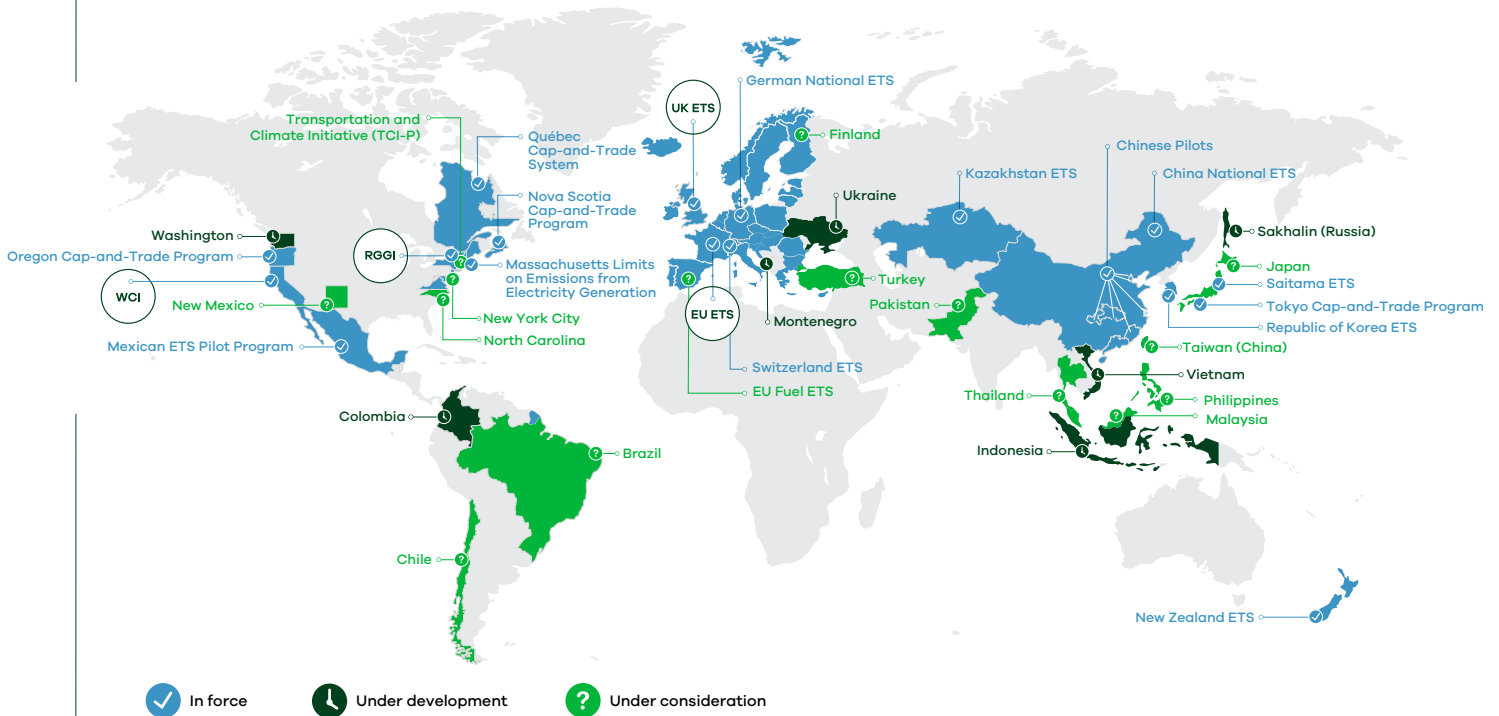
A carbon Emissions Trading System (ETS), also referred to as 'cap and trade', is a market for trading carbon credits which are regulated by governmental organisations.

The price of carbon is driven by emissions limits and the number of carbon allowances within circulation. A regulated entity must comply with emissions limits within its jurisdiction by buying carbon allowances.

ETSs create a price for the negative impact of carbon emissions while incentivising investment into cleaner technology.



23% of the world's greenhouse gases are covered by a carbon price and there are 68 carbon pricing instruments in operation around the world.



To meet the 2 degree temperature goal of the Paris Agreement the carbon price needs to be between US\$50 to US\$100/tCO₂e by 2030.

Currently only around 4% of global emissions are covered by a carbon price at and above this range.

Even higher prices will be needed over the next decade to reach the 1.5° C target.

Investor demand and climate neutrality goals are shaping the latest 'energy transition' which involves a long-term shift in the energy mix to a net-zero-carbon economy.

To facilitate this, carbon credits have become a liquid and investable asset class. This led to the creation of the ICE Global Carbon Futures Index, which covers the four most actively traded carbon futures markets in the world:

- EU ETS** - European Union Emissions Trading Scheme (EU ETS), which started in 2005
- WCI** - Western Climate Initiative (California Cap and Trade Program), which started in 2013
- RGGI** - Regional Greenhouse Gas Initiative (RGGI), which was established in 2009
- UK ETS** - UK Emissions Trading Scheme (UK ETS), which was created in 2021

Together these markets represent some of the largest regional economies in the world.

The futures market for these programs make up the majority of the volume in all carbon-based futures contracts. ICE are continually evaluating which markets would be viable to launch as futures contracts and plan to add more to the index when possible.

Sources: International Carbon Action Partnership, Emissions Trading Worldwide, Status Report 2022; World Bank State and Trends of Carbon Pricing 2022.

Change the future with XCO2

Investors can now access the price of carbon via the VanEck Global Carbon Credits ETF (Synthetic) (ASX: XCO2).

In addition to the long-term requirement for the price of carbon to rise for the world to achieve its temperature goals, there are short term drivers that impact the price of carbon from which investors may potentially benefit. These include:

- Changes in current and expected future scarcity of allowances;
- Variations in general economic conditions, e.g. GDP;
- Revisions to the rules of the systems (including those governing offsets and market stability mechanisms); and
- Interactions with other climate and energy policies.

XCO2 offers

Access to carbon markets

An investment in carbon markets are a vital tool in the fight against climate change and are increasingly viewed as a cornerstone in global efforts to achieve net-zero targets. Tightening regulation could support an increase in carbon prices.

A carbon neutral future

Carbon prices are being used to incentivise pollution reduction and investment in green technology.

Diversification and a hedge to manage the impact of carbon emissions on portfolios

Carbon prices are lowly correlated to conventional asset classes and a targeted exposure to the carbon price could potentially hedge the impact of increasing carbon prices on investor's portfolios.

ASX code:	XCO2
Commencement date:	13 October 2022
Management fee:	0.45% p.a.*
Index:	ICE Global Carbon Futures Index
ETSs covered:	European Union ETS, Regional Greenhouse Gas Initiative, California, UK ETS
Key risks:	An investment in the ETF carries risks associated with: ASX trading time differences, financial markets generally, cap and trade regimes, derivatives, futures strategy, foreign currency, sector concentration, political, regulatory and tax risks, fund operations and tracking an index. See the PDS for details.

*Other fees and costs may apply. See PDS for more details.

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