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WisdomTree Carbon



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WisdomTree Carbon

Climate change mitigation is front of mind for investors, corporates and policymakers alike, with many seeking to reduce their carbon footprint and align with the Paris Agreement¹. WisdomTree Carbon (CARB) allows investors to gain exposure to the performance of carbon through a fully collateralised exchange-traded commodity.

Investing in Carbon: European Union Emissions Trading Scheme (EU ETS)



The European Union Emissions Trading Scheme (EU ETS) is the world's biggest carbon market and the foundation of the European Union's (EU) policy to mitigate climate change and reduce greenhouse gas emissions. The scheme is intended to support the EU in achieving carbon neutrality in the region by 2050.



In 2022 the EU Emissions Trading System accounted for 87% of the total value of all carbon emission trading systems globally with 9 billion emission allowances changing hands and a market value of €751bn². Trading in European Union Allowances (EUAs) futures is unrivalled in terms of liquidity.



Under ETS, a cap exists which limits the amount of greenhouse gases that can be emitted by companies each year. A fixed number of carbon emission allowances are issued each year, with companies required to hold enough allowances to cover their emissions and ensure they fall under the cap. Price increases in carbon means it gets more expensive for companies to cover their carbon footprint with the allowances and incentivises them to invest in pollution abatement technology which could help drive change faster.

1 The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2 °C (degrees Celsius), preferably to 1.5, compared to pre-industrial levels.
2 Source: Refinitive Carbon Market Year in Review 2022, January 2023. Includes futures but excludes options.

The Paris Agreement: Putting carbon at the top of the European agenda

Environmental policy in the EU is becoming increasingly ambitious as the Union develops a roadmap to meet its obligations under the Paris Agreement. As a near-term goal, the European Commission aims to reduce greenhouse gas emissions by 55% by 2030 from 1990 levels. By 2050 the Union aims to be carbon neutral. The latest round of legislative changes announced in July 2020 will likely:

- Increase the scope of the European carbon market
- Reduce the supply of allowances to emit carbon
- Raise the price of allowances and thus help policymakers deliver on their promises to decarbonise and become emissions net neutral by 2050

Investors in carbon futures can benefit from these trends and inject further liquidity into these trading instruments. The benefit of higher liquidity is a better price discovery process. The social cost of an underpriced carbon future is the overproduction of carbon. Therefore, avoiding an underpriced carbon market with an improved price discovery process is a welcome development.

The European Commission: “Fit for 55” reaffirming support for the EU Emissions Trading System

In July 2021 the European Commission released its “Fit for 55” legislation proposal, supporting its commitment to reduce net greenhouse gas emissions by at least 55% by 2030. In April 2023, the package was approved by the tripartite (European Commission, Parliament and Council). A central pillar in this package is the enhancement of the EU Emissions Trading System (ETS). The system will cover more sectors and tighten the supply of allowances. Ultimately, we believe these measures will raise the price of carbon – the European Commission’s market signal to companies to more aggressively reduce greenhouse gas emissions.

How does CARB provide exposure to carbon?

WisdomTree Carbon (CARB) tracks the Solactive Carbon Emission Allowances Rolling Futures Index, with a fully collateralised swap, providing broad access to this emerging asset class.

The index tracks the performance of the ICE EUA (Intercontinental Exchange Carbon Emission Allowances) front December futures contracts, the most liquid exchange-traded carbon futures contract globally³.

³ Refinitive, February 2023.

CARB as an investment proposition

- Greater environmental ambitions are likely to drive the price of carbon.
- Investing in EUA futures can help boost liquidity and help the price discovery process. The social cost of an underpriced carbon future is the overproduction of carbon.
- A front December contract-focused strategy offers the most liquidity and represents the EUA market the best.

Product Information: WisdomTree Carbon

Ticker	Exchange	ISIN	Bloomberg Code	Listing Currency	Base Currency	MER%
CARB	LSE	JE00BP2PWW32	CARB LN	USD	USD	0.35
CARP	LSE	JE00BP2PWW32	CARP LN	GBx	USD	0.35
CARB	Borsa Italiana	JE00BP2PWW32	CARB IM	EUR	USD	0.35
WCO2	Xetra	JE00BP2PWW32	WCO2 GY	EUR	USD	0.35
CARB	Euronext Paris	JE00BP2PWW32	CARB FP	EUR	USD	0.35

MER: Management expense ratio.

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