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# WisdomTree California Carbon

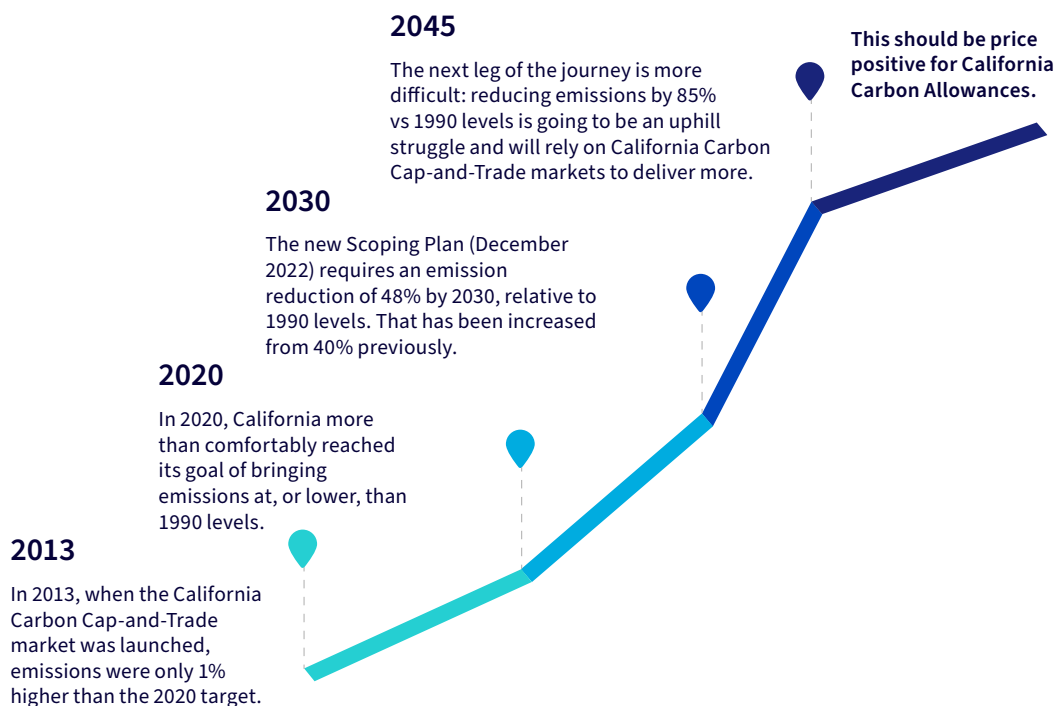


WisdomTree.eu  
+44 (0) 207 448 4330

# WisdomTree California Carbon

Introducing Europe's first California Carbon Allowance exchange-traded product.

California has an ambitious decarbonising goal: to reduce emissions by 85 percent below 1990 levels, no later than 2045. Its Cap-and-Trade market, that uses California Carbon Allowances (CCA), is a key policy tool to achieve this goal. The 2022 Scoping Plan for Achieving Carbon Neutrality lays out a path to cut emissions aggressively and CCAs will play a larger role in the policy toolkit than ever before.



Source: WisdomTree, California Air Resources Board, California Greenhouse Gas Emissions for 2000 to 2020 (26/10/2022) and December 15 2022 press release on completion of Scoping Plan.

## California gets serious

California reached its goal of reducing green-house gas (GHG) emissions to 1990 levels by 2020. That was relatively easy. CCAs, one of the many policy tools, barely saw its price rise above the structural floor price (5% increase per year above California's inflation rate) in the process. In essence, other tools were doing more of the heavy-lifting and the low hanging-fruit, decarbonising electricity production, was quickly picked. But to meet future goals, the harder-to-decarbonise sectors such as transportation and buildings need to see visible progress. These sectors are covered by California's Cap-and-Trade market. It's time for CCAs to provide the necessary price incentives to decarbonise more sectors. To deliver on the results, California's tools will be sharpened. The 2022 Scoping Plan does precisely that. Instead of skirting along the price floor, CCAs are likely to rise substantially.

The European Union provides a great example of what happens when policy makers get serious. European Union Allowance (EUA) prices traded below €10/tonne between February 2011 and February 2018, and then rose to €20/tonne by end 2018, €40/tonne by 2020, €80/tonne by 2021. What happened in 2018? The European Commission proposed a mechanism to absorb excess supply of allowances (which came into force in 2019). Although price caps may not allow CCAs to deliver as potent a price gain as we saw in EUAs, trading to the cap could be compelling.

## Bringing access to a coveted asset

The CCA market has been one of the fastest growing and is the second most liquid carbon allowance market globally. In 2022, CCA futures traded around \$1.7 billion per month<sup>1</sup>. Following the success of WisdomTree Carbon (CARB), an exchange-traded product (ETP) providing exposure to European Union Allowances (EUAs), and as a global leader in commodity ETPs, WisdomTree seeks to further democratise global carbon markets by providing access to the CCA market in a structure suitable for European investors. We lean on the strengths demonstrated in the design of our existing products in this offering. Tracking a synthetic rolling futures index means that investors do not need to worry about the inferior liquidity of a spot market or the holding limits imposed by the regulators. Our transparent index, managed by a third party and a swap arrangement with over-collateralisation offers investors a robust and time-tested structure with strong credit protection.

<sup>1</sup> Source: Bank of America, based on the prompt December CCA futures contracts traded in 2022.

## A low correlation asset

CCAs have a low correlation with every major asset class (Fig 1). Even with EUAs, its correlation is only 0.23 (see sources under Fig 1). To put that in context, the correlation between S&P 500 and MSCI Europe – two equity indices - is about 0.74 (over same time frame and source as Fig 1).

For two carbon markets to be so uncorrelated with each other and the other assets speaks volumes about their potential as a portfolio diversifier.

	CCA	EUA	S&P	MSCI ACWI	MSCI Europe	Bonds	Broad Commodities
CCA	1.00						
EUA	0.23	1.00					
S&P	0.39	0.26	1.00				
MSCI ACWI	0.38	0.26	0.96	1.00			
MSCI Europe	0.22	0.22	0.74	0.83	1.00		
Bonds	0.24	0.07	0.25	0.33	0.07	1.00	
Broad Commodities	0.16	0.11	0.38	0.43	0.30	0.16	1.00

Each number above represents the correlation between two assets (read the column/row intersection). A perfect positive correlation is 1 and a perfect negative correlation is -1. CCA = Solactive California Carbon Rolling Futures TR Index; Solactive Carbon Emission Allowances Rolling Futures TR Index; S&P = S&P 500 Total Return Index; MSCI ACWI = MSCI All Country World Index (includes developed and developing countries); Broad Commodity = Bloomberg Commodity Total Return index; MSCI Europe = MSCI Europe Total Return; Global Aggregate Bond = Bloomberg Global Aggregate Index TR Index. Weekly returns from 02/01/2015 to 03/03/2023, based in unhedged dollar terms.

Source: WisdomTree, Bloomberg, Includes backtested data. Solactive California Carbon Rolling Futures TR Index live date is 14/12/2022 and backtest has been calculated inhouse. Solactive Carbon Emission Allowances Rolling Futures TR Index live date is 03/08/2021. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Inflation protection

Baked into the floor price for auctions is an adjustment for California inflation plus 5%. So, investors looking to hedge against inflation may find CCAs an attractive tool.

## Conclusions

- + Investors looking to be part of California's decarbonisation journey, which will get increasingly more difficult, should look to CCAs. Prices will have to rise to deliver on the results.
- + Our time-tested robust UCITS eligible structure provides a gateway for investors to access this coveted, but difficult to access asset class.
- + If diversification is a goal, there are few assets with correlations as low as those in the carbon markets.

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### Product Information: WisdomTree California Carbon

Ticker	Exchange	ISIN	BBG Code	Listing Currency	Base Currency	MER%
WCCA	LSE	JE00BNG8LN89	WCCA LN	USD	USD	0.49
WCCP	LSE	JE00BNG8LN89	WCCP LN	GBx	USD	0.49
WCCA	Xetra	JE00BNG8LN89	WCCA GY	EUR	USD	0.49
WCCA	Borsa Italiana	JE00BNG8LN89	WCCA IM	EUR	USD	0.49

MER: Management expense ratio.

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