

KARB

Carbon Strategy ETF Investment Case

Exposure to Global Carbon Markets

The Carbon Strategy ETF (NYSE: KARB) is an actively managed exchange-traded fund that aims to provide exposure to global carbon markets. KARB uses as a reference index, the Carbon Streaming BITA Compliance Index, which is a rules-based index that tracks the performance of the compliance carbon markets through an allocation into a series of carbon allowance futures.

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Investment Case for Carbon Strategy ETF



Some governments may use compliance carbon markets as the cornerstone of climate policy.



Prices in these markets are expected to benefit from tightening environmental regulations.



Higher global carbon prices are needed by 2030 for the world to reach net-zero.¹



Carbon is a new asset class for investors and historically has had a low correlation to other asset classes.²



Exposure to carbon markets may act as a hedge against climate-related risks in a portfolio.

The Growing Impact of Climate Change

The Earth has now reached a tipping point due to climate change. Climate-related impacts are already “widespread” and, in some cases, “irreversible,” according to the Intergovernmental Panel on Climate Change (IPCC).³

In April 2022, the concentration of atmospheric carbon dioxide (CO₂) hit 422.06 parts per million (ppm), its highest reading ever.⁴

Figure 1: Global CO₂ Atmospheric Concentration (ppm)⁵



According to the World Meteorological Organization (WMO), the global mean temperature in 2021 is estimated to have been 1.21°C (2.17°F) above the average temperature from 1850-1900, a period often used as a pre-industrial baseline for global temperature targets. It is the seventh consecutive year (2015-2021) that the global temperature has been over 1°C above pre-industrial levels.⁶

Scientists agree that rising temperatures are fueling longer and hotter heat waves, more frequent droughts, heavier rainfall, and more powerful hurricanes.⁷ If current trends continue the world will go from around 400 disasters per year in 2015 to an onslaught of about 560 catastrophes a year by 2030, according to the United Nations Office for Disaster Risk Reduction.⁸

Governments Take Action Against Climate Change

Governments around the world are joining the fight against climate change and adopting initiatives to reduce global emissions and limit rising temperatures and its damaging impacts. In 2015, the Paris Agreement, an international treaty on climate change, was adopted. Achieving the 1.5°C temperature goal of the Paris Agreement requires that global greenhouse gas (GHG) emissions are cut by approximately 50% by 2030 and a balance between GHG emissions and removals, known more simply as the “net-zero” goal, is reached by 2050.⁹

Key Climate Goals of Governments

Paris Agreement

International treaty signed by 196 parties, with the goal to limit global temperature rise to below 2°C, preferably 1.5°C, compared to pre-industrial levels.

Net Zero by 2050

Many countries, states and cities have set targets to reach net-zero by 2050. More than 70 countries have set a net-zero target, covering about 76% of global emissions.¹⁰

Fit for 55

The European Union's target to reduce GHG emissions by at least 55% compared to 1990 level by 2030.

Compliance Carbon Markets

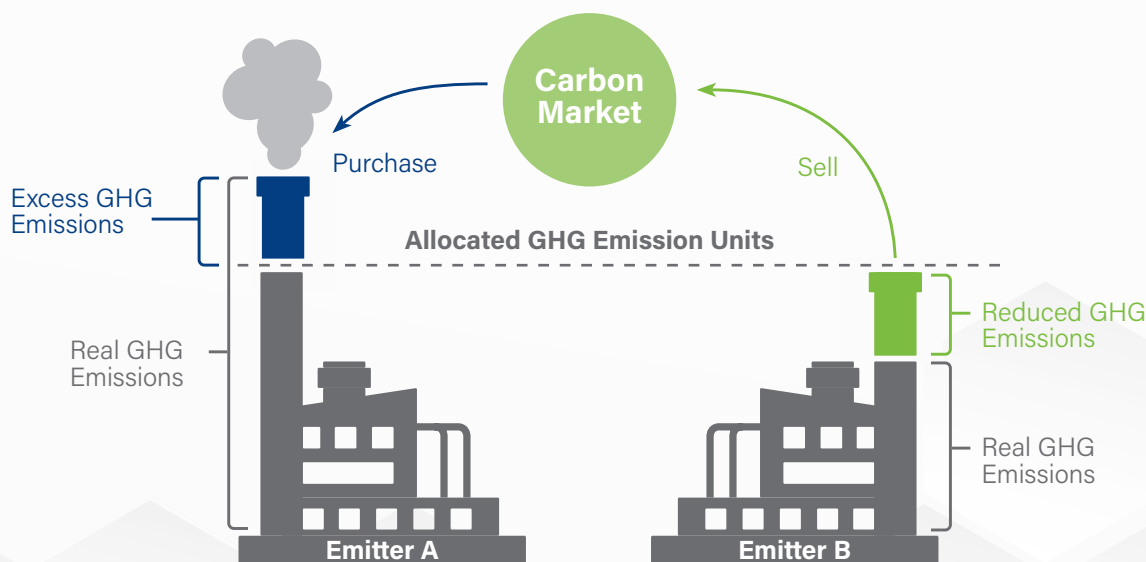
Some governments have created emissions trading systems (ETS) to put a price on emissions and incentivize carbon-intensive industries to reduce their emissions. They have become a key component of these jurisdictions' climate policies.

What is an ETS?

An ETS, also sometimes referred to as a cap-and-trade program, is a system where regional, national or subnational jurisdictions set a cap on the total annual GHG emissions to be generated by specific industries. The cap, or permitted emissions, declines annually to achieve the climate goals of the jurisdiction(s).

Carbon allowances equal to the emissions cap may then either be freely allocated and/or auctioned to emitting companies by the governing entity. Companies within an ETS may buy or sell carbon allowances based on need as illustrated below in Figure 2. For example, a company with lower emissions may choose to sell allocated carbon allowances to an entity with higher emissions. Emitters with an insufficient amount of allowances to offset their emissions at the end of the reporting period incur penalties.

Figure 2: How an Emissions Trading System Works¹¹



What is the Purpose of an ETS?

In an ETS, the number of carbon allowances are set and reduced each year so that climate goals are met. The supply and demand for these allowances establishes a market-based price for emissions. When the price of carbon allowances is sufficiently high, companies have an incentive to invest in lower-cost green energy alternatives.

According to the International Energy Agency, carbon prices need to reach \$130/ton by 2030 and \$250/ton by 2050 in advanced economies to meet net-zero ambitions. However, the global weighted-average carbon price is still only \$28/ton.¹²

What are the Potential Benefits of an ETS?



Puts a clear price on emissions by establishing a market for carbon allowances.



Sets a cap on emissions that can be tailored to each jurisdiction's climate goals.



Provides companies with the flexibility to decide how to meet their obligations.



Incentivizes companies to invest in lower emission alternatives when allowance prices exceed the cost of the investment.



Provides revenue to jurisdictions from the auctioning of allowances and payment of penalties, which is often used to further climate action.

How many ETSs are there?

The ETSs created and regulated by jurisdictions collectively form the compliance carbon markets. According to the World Bank Group, there are currently 32 ETSs that have been implemented or are scheduled for implementation.¹³ A good portion of the world's gross domestic product (GDP) and population are living in jurisdictions covered by an ETS.¹⁴

Statistics on Global ETSs¹⁴

55%

Jurisdictions making up 55% of global GDP are using ETSs.

1/3

Almost 1/3 of the global population lives under an ETS in force.

17%

17% of global greenhouse gas emissions are covered by an ETS.

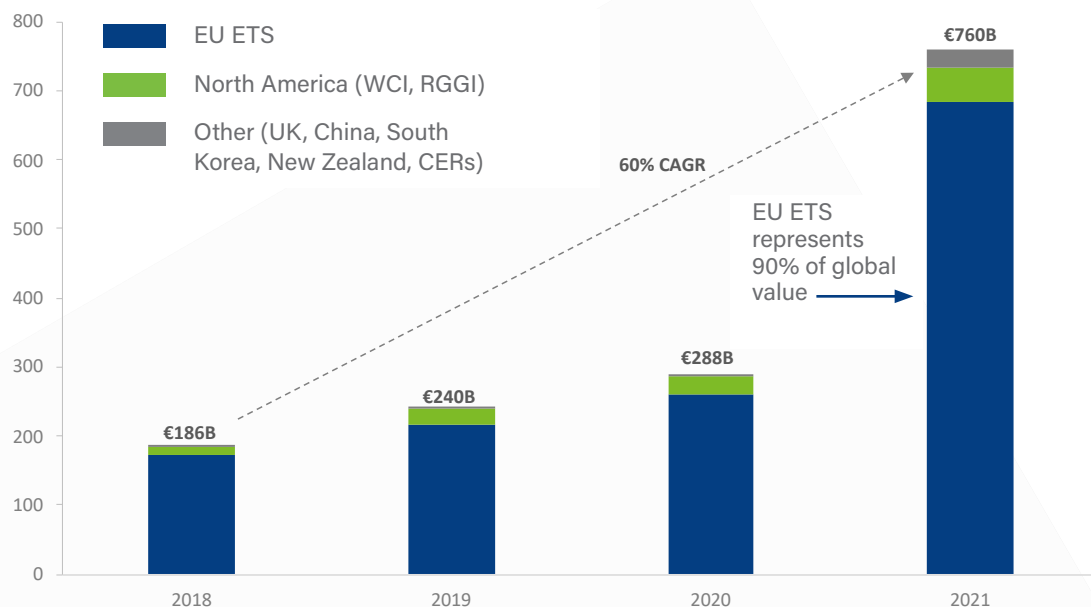
\$161B

Over \$161 billion in auction revenue has been generated globally by ETSs since 2008.

Statistics on Global ETSs (continued)

As shown in Figure 3, the transaction value of the global compliance carbon markets has grown from €186 billion (\$220 billion) in 2018 to €760 billion (\$899 billion) in 2021. That represents a compound annual growth rate (CAGR) of around 60%.¹⁵

Figure 3: Global Compliance Carbon Markets – Transaction Value (€ billion)¹⁵



How to Invest in the Carbon Markets

Carbon Futures Allow Individuals to Participate in the Compliance Carbon Markets

Companies and other registered entities in an ETS may buy or sell carbon allowances for that particular ETS. Unless registered, most investors do not have access to directly buy and sell carbon allowances in these systems. However, there are active futures markets that provides investors with exposure to certain compliance carbon markets.

A futures contract is a legal obligation to purchase or sell an underlying asset for a specified price at some date in the future. Carbon allowance futures contracts allow for the trading of the underlying carbon allowances of specific ETSs.

An investor may consider investing directly in carbon allowance futures contracts; however, it may be difficult for some investors to gain access to derivative markets. Another more accessible option is to consider investing in an ETF that invests in a portfolio of carbon allowance futures.

Why Carbon Allowance Futures?

Limited number of carbon allowances in each ETS

Need to be registered in each ETS to trade their carbon allowances

Future contracts provide liquid exposure to carbon markets

Introducing the Carbon Strategy ETF

The Carbon Strategy ETF (NYSE: KARB) is an actively managed ETF to provide investors with access to the global compliance carbon markets. It uses as a reference index, the Carbon Streaming BITA Compliance Index, which is a rules-based index that tracks the performance of the compliance markets through an allocation into a series of carbon allowance futures.

Carbon Strategy ETF will initially hold futures contracts for carbon allowances that are some of the most liquid¹⁶, namely:

- › European Union Allowances (EUA)
- › California Carbon Allowances (CCA)
- › Regional Greenhouse Gas Initiative (RGGI) CO₂ Allowances

The Fund will hold the futures contracts with the aim to maximize capital appreciation and minimize the cost of rolling futures.¹⁷ The ETF will be rebalanced semi-annually.

Why Consider KARB?

KARB provides exposure to the compliance carbon markets and potential appreciation in carbon prices as the world aims to achieve the goals of the Paris Agreement.

KARB seeks to provide a vehicle to potentially benefit from tightening environmental regulation and reductions in the amount of allowances, which may lead to higher prices.

KARB may act as a hedge against climate-related risks and the impact of rising global carbon prices on a portfolio.

KARB provides access to the emerging asset class of carbon which has historically had a low correlation to other asset classes.¹⁸

Where KARB May Fit in Your Portfolio

Thematic Exposure

With a focus on the global energy transition and decarbonization, KARB may be appropriate for a portion of your portfolio's thematic allocation.

Alternatives Exposure

With futures as its primary holdings, KARB may be appropriate for a portion of your portfolio's alternatives allocation.

ESG Exposure

With exposure to the global carbon price needed for the world to fight climate change, KARB may be appropriate for a portion of your portfolio's ESG allocation.

Summary

ETSs are one of the mechanisms being used by governments worldwide to combat climate change and reduce global emissions. Carbon allowance futures contracts allow individuals to gain exposure to the global compliance carbon markets to which they may have limited, if any, access.

KARB offers the potential for capital appreciation with exposure to global carbon markets as the world aims to reach net-zero by 2050.

- ¹ Credit Suisse, Carbon Markets: The Beginning of the Big Carbon Age
- ² IHS Markit, A Global Price for Carbon Emissions, 04/2020
- ³ IPCC, Climate change is widespread, rapid and intensifying, 8/9/2021
- ⁴ Arctic News, Carbon dioxide crosses 422 ppm
- ⁵ Our World in Data Project, Global atmospheric CO₂ concentration; BCE (Before Common Era)
- ⁶ World Meteorological Organization, 2021 of the seven warmest years on record, 1/19/2022
- ⁷ Natural Resources Defense Council (NRDC), Global Warming 101, 4/7/21
- ⁸ Time, "Expect More Disasters, U.N. Warns, as Climate Change Worsens Everything From Droughts to Economic Meltdowns," 4/26/22
- ⁹ World Resources Institute, What Does "Net-Zero Emissions" Mean
- ¹⁰ United Nations, For a livable climate: Net-zero commitments must be backed by credible action
- ¹¹ Ministère de l'Environnement – Government of Quebec, The Carbon Market, A Green Economy Growth Tool
- ¹² Credit Suisse, Carbon Markets: The Beginning of the Big Carbon Age
- ¹³ The World Bank, Carbon Pricing Dashboard
- ¹⁴ International Carbon Action Partnership (ICAP), Emissions Trading Worldwide Status Report 2022
- ¹⁵ Refinitiv, Carbon Market Year in Review 2021, 1/31/22. (2018: \$1 = 0.847 euros and 2021: \$1 = 0.845 euros)
- ¹⁶ Liquid or liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price.
- ¹⁷ Futures trade with standardized delivery dates. As futures approach their maturity date (or expire), they must be replaced with futures that mature at a later date. This process is known as rolling the futures or the futures roll.
- ¹⁸ IHS Markit, A Global Price for Carbon Emissions, 04/2020

Disclosures

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's full and summary prospectus, which may be obtained by visiting <http://karbetf.com/investor-materials>. Read the prospectus carefully before investing.

The investments held in the Fund's portfolio may experience sudden, unpredictable drops in value or long periods of decline in value. **Cap and Trade Risk.** There is no assurance that cap and trade programs will continue to exist. Cap and trade may not prove to be an effective method of reducing greenhouse gas emissions. As a result, or due to other factors, cap and trade programs may be terminated or may not be renewed upon their expiration. **Investment Capacity Risk.** If the Fund's ability to obtain exposure to carbon credit futures contracts, which are commodity futures contracts linked to the value of emission allowances ("Carbon Futures"), consistent with its investment objective is disrupted for any reason including, limited liquidity in the Carbon Futures market, a disruption to the Carbon Futures, or as a result of margin requirements or position limits imposed by the Fund's FCMs, the CME, or the CFTC, the Fund would not be able to achieve its investment objective and may experience significant losses.

Distributor: Quasar Distributors, LLC.

The Carbon Streaming BITA Compliance Index is jointly owned by Carbon Fund Advisors Inc. and BITA GmbH, and is calculated, administered, and disseminated by BITA GmbH.

While the Carbon Strategy ETF utilizes the Carbon Streaming BITA Compliance Index (the "Index") as a reference index, it is an actively managed fund and is under no obligation to follow the rules of the Index or invest in the underlying holdings of the Index and may not track the performance of the Index.

An emissions trading system, sometimes referred to as a cap-and-trade program, is a regulatory program designed to limit, or cap, the total level of emissions of greenhouse gases, particularly carbon dioxide, by companies in regulated industries, such as manufacturers or energy producers. The regulator, such as a governmental entity or supranational organization, allocates and/or auctions a limited number of annual emission allowances that allow companies to emit a certain amount of greenhouse gases. Companies are then penalized if they are unable to offset their emissions with enough emission allowances. If a company reduces its emissions levels, it can sell, or "trade," unused emission allowances to other companies on the open market. Over time, regulators lower the number of emission allowances available each year, thereby lowering the total cap on emissions, making emission allowances more expensive, thereby incentivizing regulated entities to reduce their emissions.

The Fund expects to gain Carbon Futures exposure by investing in a wholly owned and controlled subsidiary of the Fund organized under the laws of the Cayman Islands (the "Subsidiary"). The Subsidiary is not registered under the 1940 Act, and, unless otherwise noted in the prospectus, is not subject to all the investor protections of the 1940 Act.

The Fund's investment exposure to futures instruments will cause it to be deemed to be a commodity pool, thereby subjecting the Fund to regulation under the CEA and CFTC rules. Registration as a CPO imposes additional compliance obligations on the Advisor and the Fund related to additional laws, regulations, and enforcement policies, which could increase compliance costs and may affect the operations and financial performance of the Fund.

Shares are to be bought and sold in the secondary market at market prices. Although it is expected that the market price of Shares will approximate the Fund's NAV, there may be times when the market price of Shares is more than the NAV intra-day (premium) or less than the NAV intra-day (discount) due to supply and demand of Shares or during periods of market volatility.