A Low-Carbon Commodity
One of the most interesting investment asset classes in the last decade are carbon credits. Carbon credits can provide unique exposure to an asset class that historically has low correlation to equity markets and is designed explicitly as a financial tool to help reduce global carbon emissions.

The Horizons Carbon Credits ETF, which trades on the Toronto Stock Exchange under the ticker CARB, will give investors exposure to this asset class in one ETF that will invest in carbon credit futures of developed markets that offer them.

CARB seeks to replicate, to the extent possible and net of expenses, the performance of an index that seeks to provide exposure to investments in cap-and-trade carbon allowances. Currently, the ETF seeks to replicate the performance of the Horizons Carbon Credits Rolling Futures Index (Excess Return), net of expenses.

The ETF seeks to hedge any non-Canadian dollar portfolio exposure back to the Canadian dollar at all times. As a result, the returns of the ETF are expected to differ from those of its Underlying Index, which does not include currency hedging.

With CARB, you can gain liquid and transparent exposure to carbon credits, primarily through the European Union’s Emissions Trading System (EU ETS)-issued carbon credits European Unions Allowances (EUAs) futures. Additionally, there is flexibility for the ETF to expand its exposure to other developed market futures as those markets mature.
What Are Carbon Credits?
Carbon credits are permits issued through a regulatory organization that provide a market-oriented mechanism designed to reduce mandated participants’ output by requiring the use of carbon credits to offset the emissions of certain amounts of carbon dioxide or equivalent greenhouse gases (GHG).

Within a carbon credit issuance system, a cap is set on the total amount of carbon dioxide and certain greenhouse gases emitted by participants required to comply with the system. Over time, the cap is reduced so participants must emit less greenhouse gases unless they purchase additional carbon credits. The regulator then issues or sells “emission allowances” to regulated entities which may then buy or sell (trade) them on the open market.

To cover their output, participants are required to redeem enough carbon credits to cover their emissions otherwise fines can be enforced. If a participant reduces its emissions, it can hold onto remaining allowances to cover future needs or sell them to another participant that needs them for their emissions.

Regulated entities are thereby incentivized to reduce their emissions; otherwise they must purchase emission allowances on the open market where the price of such allowances will likely be increasing as caps are reduced. Ultimately, the goal is that the cost of these emission allowances becomes too cumbersome forcing industries over time to reduce emissions rather than rely on purchasing allowances.

Anatomy of a Carbon Credit System

Participants are required to redeem one carbon credit for every 1 ton of carbon emissions

1. Regulator issues and retires carbon credits
2. Payment
3. Sales and transfers through carbon credit market
4. Redemption of carbon credits
5. Emitter 1 with emissions above target
6. Emitter 2 with emissions below target
7. Additional Market Participants
8. Regulatory Authority

Allocations to participants are reduced each year
Key Features

Being long carbon credits can provide key benefits to investors including:

- Potential diversification benefits in the form of non-correlated exposure to traditional asset classes
- A trend toward regulating carbon emissions globally which increases their usage
- Anticipated rising demand for carbon credits as caps reduce which potentially increases their value

A Futures-Based Approach:
CARB does not invest directly in carbon credits but instead provides exposure through futures contracts.

A futures contract is a legal agreement to buy or sell a particular commodity, asset or security at a predetermined price at a specified time in the future. Futures contracts are standardized and traded on a futures exchange. Futures are cash-settled based on the settlement value of the contract and can be traded electronically.

Currently, the Underlying Index of the ETF will hold a notional position of Carbon Credit Futures. The Underlying Index is calculated based on the daily returns of the settlement price of European Union Allowance (EUA) emission futures contracts, as determined by the Manager. The settlement prices are generally determined at 11:15 am (EST). The Index Provider has the discretion to change the roll period of futures contracts of the Underlying Index, including, but not limited to, adjustments made from time to time because of various events affecting the replication of carbon allowances.

The index rolls its future exposure on an annual basis. The notional portfolio of the Underlying Index is invested into the nearby December contract of the Carbon Credit Futures, and then rolled into the next active December contract annually over a five-day period each November. This roll schedule of the Underlying Index may be adapted subject to Carbon Credit Futures availability and liquidity.

Key Features:

- **Carbon Credit Exposure**: Canada’s first ETF that provides exposure to carbon credits through futures contracts or derivative instruments
- **Growing Global Demand**: Carbon credits can potentially benefit from increased demand to meet carbon credit allowances
- **Liquid Exposure**: Futures market for carbon credits allows for capital markets investment and has daily settlement
- **Tax-Efficient**: CARB is held in our innovative corporate class ETF structure, so all returns from CARB are anticipated to be taxed as capital gains as opposed to income from derivatives
Commissions, management fees and applicable sales taxes all may be associated with an investment in the Horizons Carbon Credits ETF (“the ETF”) managed by Horizons ETFs Management (Canada) Inc. The ETF is not guaranteed, its value changes frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETF. Please read the prospectus before investing.

The ETF is an alternative mutual fund within the meaning of National Instrument 81-102 Investment Funds (“NI 81-102”), and is permitted to use strategies generally prohibited by conventional mutual funds, such as the ability to invest more than 10% of their net asset value in securities of a single issuer or the ability to borrow cash. While these strategies will only be used in accordance with the ETF’s investment objectives and strategies, during certain market conditions they may accelerate the risk that an investment in the ETF Shares decreases in value. The ETF will comply with all requirements of NI 81-102, as such requirements may be modified by exemptive relief obtained on behalf of the ETF.

The Underlying Index is calculated by an independent calculation agent, Solactive AG. The financial instrument is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade name or the Index Price at any time or in any other respect. The Index is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the financial instrument. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade name for the purpose of use in connection with the financial instrument constitutes a recommendation by Solactive AG to invest capital in said financial instrument nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this financial instrument.

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