

World Carbon Fund Monthly Report July 2024

Generating Absolute Returns from Global Carbon Markets with Direct Climate Impact

Investment Approach

SFDR Article 9

The World Carbon Fund (WCF) invests across multiple liquid and regulated carbon markets. The fund objectives are to generate absolute returns with a low correlation to traditional asset classes and to have a direct impact on climate change. The fund deploys capital across two complementary strategies within a clearly defined risk framework: Core Strategy and Alpha Strategies. The Core Strategy seeks to generate returns from long-biased tactical allocations across five carbon markets combined with an options overlay. The Alpha Strategies seek to generate returns from arbitrage, relative value and other short term trading strategies. The fund is an Article 9 fund under the EU's SFDR. It seeks, through its investment activities, to contribute directly to the reduction in global CO₂ emissions. In addition, 20% of the performance fees are committed to buying and permanently retiring carbon allowances and other CO₂ emission reduction initiatives and activities.

Net Fund Performance USD

Fund AUM: \$454m

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2020	-	-0.51%	8.92%	-4.45%	-6.29%	3.94%	1.87%	2.05%	-0.16%	-0.44%	2.55%	4.11%	11.28%	-
2021	-11.35%	6.18%	-1.00%	4.84%	1.86%	9.31%	-1.11%	6.25%	16.75%	4.71%	6.40%	2.64%	52.60%	-
2022	0.24%	0.09%	0.65%	2.90%	0.61%	1.41%	-1.85%	5.31%	-6.38%	5.47%	-0.99%	1.71%	8.96%	-
2023	1.72%	0.07%	-0.58%	-0.18%	0.03%	2.23%	4.95%	0.40%	-1.09%	2.98%	0.06%	3.31%	14.60%	-
2024	-1.40%	-2.31%	4.58%	1.74%	3.01%	0.54%	-1.66%						4.37%	121.31%

All monthly performance data provided in this monthly report are quoted net of manager fees and costs unless stated otherwise. Past results are not necessarily indicative of future results.

Net Performance Statistics	Prior 12 Months	Inception to Date	Correlations since Inception	WCF	S&P 500	Global Bonds	Bloomberg Commodity
Annualised Return	10.3%	19.3%	World Carbon Fund	-	-8%	-6%	10%
Annualised Volatility	7.5%	14.5%	S&P 500 Index	-8%	-	54%	43%
Sharpe Ratio	0.63	1.15	Global Bond Index*	-6%	54%	-	7%
Max. Peak to Trough Drawdown	-3.7%	-11.4%	Bloomberg Commodity Index	10%	43%	7%	-

*Official name: Bloomberg Global Aggregate Treasuries Index

The World Carbon Fund was launched on 24th February 2020. Performance data in the above table is in relation to the Class I USD Shares which were launched in July 2023. Prior to this date performance data is based on Class A and B USD Shares (shaded above) adjusted on a pro-forma basis to reflect the 1.5% management and 15% performance fees of Class I Shares. Annualised and inception to date performance statistics are similarly based on this combination of Class I USD Shares and fee-adjusted Class A & B USD performance. Information on all share classes is available upon request from Carbon Cap. Past results are not necessarily indicative of future results.

Investment Commentary

European carbon prices experienced a volatile month but ended in slightly positive territory in July, aided by a bullish energy complex and stable auction demand. The high correlation of carbon to gas prices continued and gas prices rose due to several factors affecting the global LNG supply outlook. Hurricane Beryl reduced flows from the US Freeport export terminal, leading to the expectation of a reduced number of LNG vessels leaving the country. Escalating geopolitical tensions between Iran and Israel further bolstered the energy complex. Robust hydro and solar generation prevented any significant bullish response, with EU fossil generation continuing to decline compared to seasonal averages.

The UK market declined significantly in July, falling -17%, with bearish selling erasing pre-election price gains. Following a decisive Labour victory at the beginning of the month, UKA prices fell, quelling expectations of an immediate bullish policy response from the new government. Investment funds slashed positions in response, aiding the downside. UKAs eventually consolidated around the £40 level. The sharp fall in prices caused the UKA discount to EUAs to reach its highest level in over a month, at close to 30%.

RGGI continued to rally in July, maintaining the strong bullish run this year and setting a new all-time high having breached \$27. Price action continued to be buoyed by a combination of strong cooling-related demand across the northeast and pending program amendments. A persistent heatwave kept temperatures elevated across key RGGI states, leading to higher emissions demand, contributing to the rise in prices.

In contrast, the CCA market plummeted a further -10% in July bringing its year-to-date performance to -20% almost erasing all of last years price gains. Price action was fuelled by announcements from the California Air Resources Board (CARB) that highlighted both a more lenient and delayed implementation of its program updates. The CARB presented a new budget allowance scenario for 2030, which included a smaller reduction in future supply (180mn compared to initial 265mn) and implementation in 2026 (compared to 2025 as initially expected). Despite these short term negative factors, we forecast structural deficits beginning in 2025 pointing to a bullish outlook in the long term.

NZU prices recovered in July, though market direction remained weak following a tepid reaction to the government's new draft Emissions Reduction Plan (ERP), released on 17 July. Ahead of the release, prices initially rose to almost \$55. However, market direction turned as the new ERP, which will be in consultation until 21 August, highlighted the governments' focus on a net emissions reduction approach in achieving its climate targets rather than the pressing concerns of gross emissions reduction. This likely tempered fears of a weaker response by the government to the forestry overhang and limited the upside for the month.

The World Carbon Fund ended the month down net -1.66%. The Core Strategy incurred a gross loss of -1.34% from market falls, albeit protecting downside through tactical overweight exposures in RGGI and EUAs. The Alpha Strategies incurred a gross loss of -0.53%, driven by negative performance in relative value strategies.

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Fund & Market Statistics

Figure 1: WCF Prior 12 months gross performance by sub-strategy

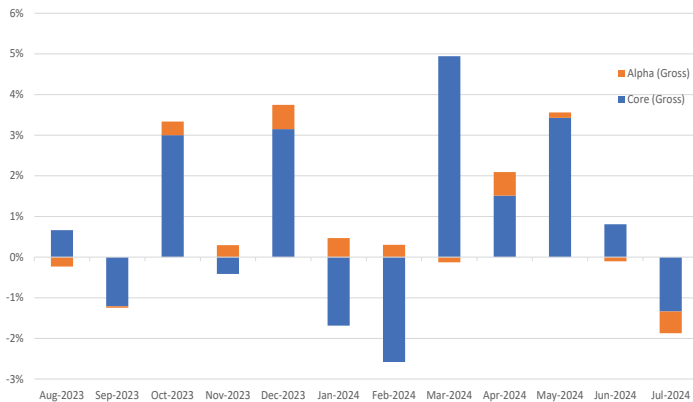


Figure 3: Fund VaR & Risk Statistics

Daily Fund VaR Statistics (97.5% confidence)	Current month Daily VaR	Prior 12 months Daily VaR
Month End	1.66%	N/A
Month Average	1.50%	1.25%
Month Maximum	2.05%	2.05%
Month Minimum	1.16%	0.60%

Figure 4: WCF Prior 24 months: Average Monthly VaR

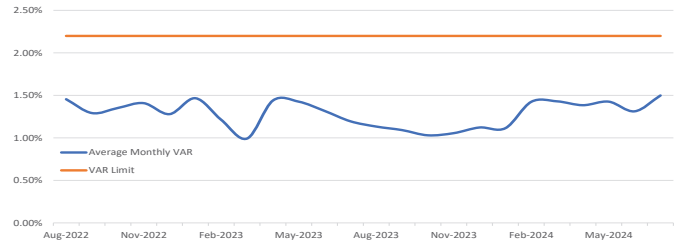


Figure 5: Monthly traded value across EU ETS, UK, WCI and RGGI

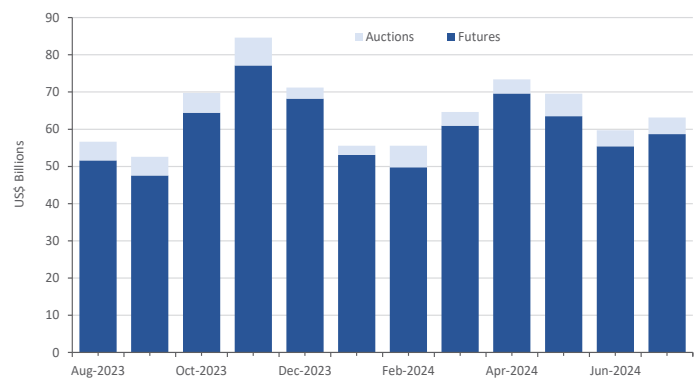
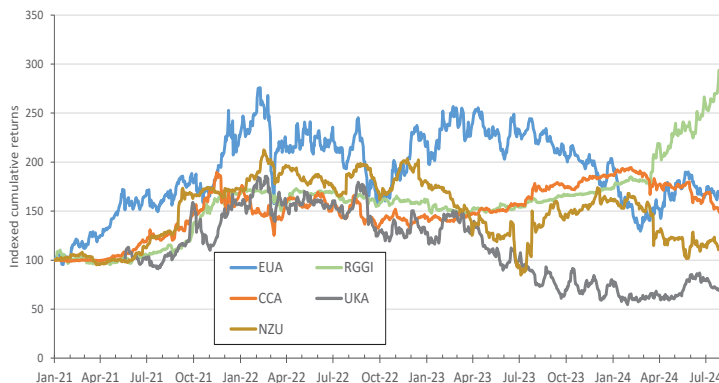


Figure 2: Carbon markets relative performance since Jan 2021



Performance information above is prepared by Carbon Cap based on its portfolio management and risk records. It has not been independently verified. Daily VaRs are based on a 97.5% confidence interval with a three year look-back window using a parametric methodology. Monthly average VaRs are simple averages of the daily VaRs over the period. Gross performance data does not include management or performance fees or fund administration costs. Past results are not necessarily indicative of future results.

Key Fund Facts

Fund Objectives:	Absolute returns & climate impact
Instruments Traded:	Carbon allowances, futures & options
Fund Structure:	Irish QIAIF
Current Fund AUM:	\$454 million
Dealing Frequency:	Monthly Subscriptions/Redemptions
Institutional "I" Share Class:	1.5% Management fee, 15% Performance fee, \$5 million minimum
Private Client "P" Share Class:	2% Management fee, 20% Performance fee, \$250,000 minimum
Investment Advisor:	Carbon Cap Management LLP
Share Class Currencies	EUR, USD & GBP
Climate Impact:	20% of performance fees are committed to CO ₂ emission reduction activities

Awards



Contact Information

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