# GCO2

## Global X Global Carbon ETF (Synthetic)

Invest in the global transition to net-zero.

Commodities — Direct

## FUND DETAILS

| | |
|---|---|
| ASX Code | GCO2 |
| Bloomberg Code | GCO2 AU |
| IRESS Code | GCO2.ASX |
| Benchmark | ICE Global Carbon Futures Index (AUD Total Return) |
| Mgt. Fee (% p.a.)* | 0.45 |
| Rebalance Frequency | Annually |
| Distribution Frequency | Annually |
| W-8 BEN Form Required | No |

* Calculated on the Net Asset Value (NAV) of the Fund. All fees and costs are inclusive of GST. Refer to the PDS for a complete list of fees and costs.

## KEY FEATURES

**Access Global Carbon Allowance Markets**
Exposure to the price of carbon driven by the world's biggest and most developed emission trading schemes.

**Structural Tailwinds**
Medium to long term growth potential backed by global initiatives and regulations to reach net-zero targets.

**Unique Asset Class**
Gain diversification with a unique asset class which is reasonably uncorrelated to other assets including oil prices.

## INTRODUCING GCO2

GCO2 offers access to the world's largest carbon markets covering the European Union Emissions Trading Scheme, Regional Greenhouse Gas Initiative, Western Climate Initiative (California cap and trade program) and the UK Emissions Trading Scheme. The fund seeks to provide returns which correspond generally to the performance, before fees and expenses, of the ICE Global Carbon Futures Index (the "Index"). The fund is currently the lowest cost of its kind in Australia.

## DID YOU KNOW?

- The EU has the world's most robust carbon allowance regulations and is lowering emissions by cutting the number of allowances by 2.2% each year.
- Emission trading schemes are gaining traction and are likely to be implemented in more jurisdictions as net-zero targets become more ambitious.
- Carbon allowances are not the same as carbon offsets which are unregulated, voluntary programmes where polluters aim to equal out their emissions through carbon neutral projects.

## WHAT ARE CARBON ALLOWANCES?

Carbon allowances – also called carbon credits – are tradeable government permits which enable polluters (such as airlines, coal fire electricity producers and gas generators) to pump one tonne of carbon dioxide ($CO_2$) into the atmosphere per allowance they hold. Emissions trading schemes were introduced by governments to help curb greenhouse gas emissions, with the ultimate goal of meeting net-zero targets by 2050.

There are currently more than 20 markets using carbon allowances and each jurisdiction has implemented different rules to govern its trading scheme. However, the basic premiss is consistent across the board.

- Governments hold an annual auction, where heavy emitters bid to purchase carbon allowances – the more $CO_2$ an entity plans to emit, the more allowances they need.
- Organisations with left over allowances from the previous year may also auction off excess allowances.
- Audits and hefty fines are issued by trading scheme authorities to deter emitters from exceeding their allowance limit.
- The number of new allowances up for grabs is reduced each year – creating a more competitive market, in turn pushing up the price of $CO_2$ and encouraging the adoption of clean energy.



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## HOW TO USE GCO2 IN A PORTFOLIO

- A satellite allocation added to a core portfolio with medium to longer-term growth opportunity backed by structural tailwinds.
- Low-cost exposure to global efforts aiming to reduce carbon emissions and meet climate change targets.
- As a diversification tool for an asset class which is typically illiquid and difficult to access directly.

## HOW GCO2 WORKS

- GCO2 tracks the ICE Global Carbon Futures Index.
- It holds a portfolio of long carbon allowance futures contracts across the world's four largest carbon markets.
- As of fund inception, the European Union Emissions Trading Scheme, Western Climate Initiative (California cap and trade program), UK Emissions Trading Scheme and Regional Greenhouse Gas Initiative are weighted at 58.5%, 19.3%, 17.7% and 4.2% respectively.

## PLANT-A-TREE WITH GCO2

Global X is aiming to support a carbon neutral future by contributing 10% of GCO2's annual management fees towards Carbon Neutral's Plant-A-Tree Program. Carbon Neutral is an Australian based company with more than 20 years of experience creating innovative large-scale reforestation projects. Please note the contribution to Carbon Neutral by Global X does not constitute a carbon offset for the fund, Global X or for investors.

## NET-ZERO TARGETS POWER GROWTH

Political pressures, international investment and built-in supply declines will contribute to the growth of carbon allowance markets. Public demand and globally recognised policies – notably the Paris Agreement – are driving corporations and governments alike to swiftly take action to meet net-zero targets by 2050. According to consultancy McKinsey, the cost of doing so could total around US$275 trillion – meaning there will be significant capital expenditure in the space over the coming decades.[1]

Carbon allowances are one of the most regulated and measurable tools to lower emissions, hence trading scheme adoption should grow worldwide. Paired with allowances becoming scarcer in existing jurisdictions, the cost of polluting CO2 will rise alongside the price of carbon allowances. Academics have indicated global carbon prices per tonne will need to at least double from current levels around US$26 to reach climate change targets.[2] This potential growth is captured by the carbon futures market. Think of it like commodity futures such as oil, where you are investing in the price of the underlying asset – in this case carbon allowances – going up over time.

For more information on Global X Global Carbon ETF (Synthetic) (ASX Code: GCO2), please speak to Global X ETFs.

### Client Services

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[1] (McKinsey Sustainability, 2023) https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring
[2] (IOP Science, 2021) https://iopscience.iop.org/article/10.1088/1748-9326/ac1d0b



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