TD Asset Management

Product Overview + 10 Minutes
= New Solutions

TD Global Carbon Credit Index ETF

Product Overview

At a glance

- **TCBN offers the opportunity to financially participate in the energy transition** from carbon-emitting fossil fuels to more sustainable energy sources through exposure to the carbon credit market
- **Attractive Growing Market:** The carbon credit market has seen incredible growth, already valued at US$851 Billion[1], and is expected to continue to grow
- **Carbon Exposure in Mind:** Take advantage of an alternative asset class that can help diversify portfolios and mitigate the negative portfolio impacts of rising carbon costs and exposure

Investment Objective

TD Global Carbon Credit Index ETF (TCBN) seeks to track the performance of Solactive Global Carbon Credit TR CAD Hedged Index (or any successor thereto) which measures the investment return of global cap-and-trade carbon emission credits.

Why Invest:

- TCBN will track a custom global carbon credit markets index which is unique in the marketplace
- Diversify your portfolio with exposure to a rapidly growing carbon credit market
- Offers a low-cost structure with one of the lowest management fees in North America for its asset class

Designed for investors that want to gain exposure to a growing asset class that exhibits a historically low correlation to traditional asset classes, while financially participating in the energy transition economy

A Unique Investment Opportunity

An Investment Approach that benefits from a higher price on carbon

Rapidly Growing Market

Historically Low Correlation to Traditional Asset Classes

Mitigate Negative Portfolio Impact Due to Rising Carbon Prices
As carbon prices increase, investments in carbon emitting companies may be negatively impacted. TCBN provides exposure to the price of carbon and can help mitigate some of this risk.

[1] Source: Refinitiv – An LSEG Business. "Carbon Markets Year in Review 2021".

Fast Facts

	TD Global Carbon Credit Index ETF (Ticker: TCBN)
Benchmark	Solactive Global Carbon Credit TR CAD Hedged Index (subject to semi-annual market review)
CIFSC Category	Alternative Other
Suitability	Designed for medium-term to long-term investors looking to participate in the energy transition economy while contributing to the growth component of a diversified portfolio
Portfolio Manager	Michael Craig & Hussein Allidina
Management Fees	0.65%
Currency	CAD
Hedged to CAD	Yes
Risk Rating	High
Management Style	Passive (Index)
Distributions	Annually
Listing Date	August 30, 2022

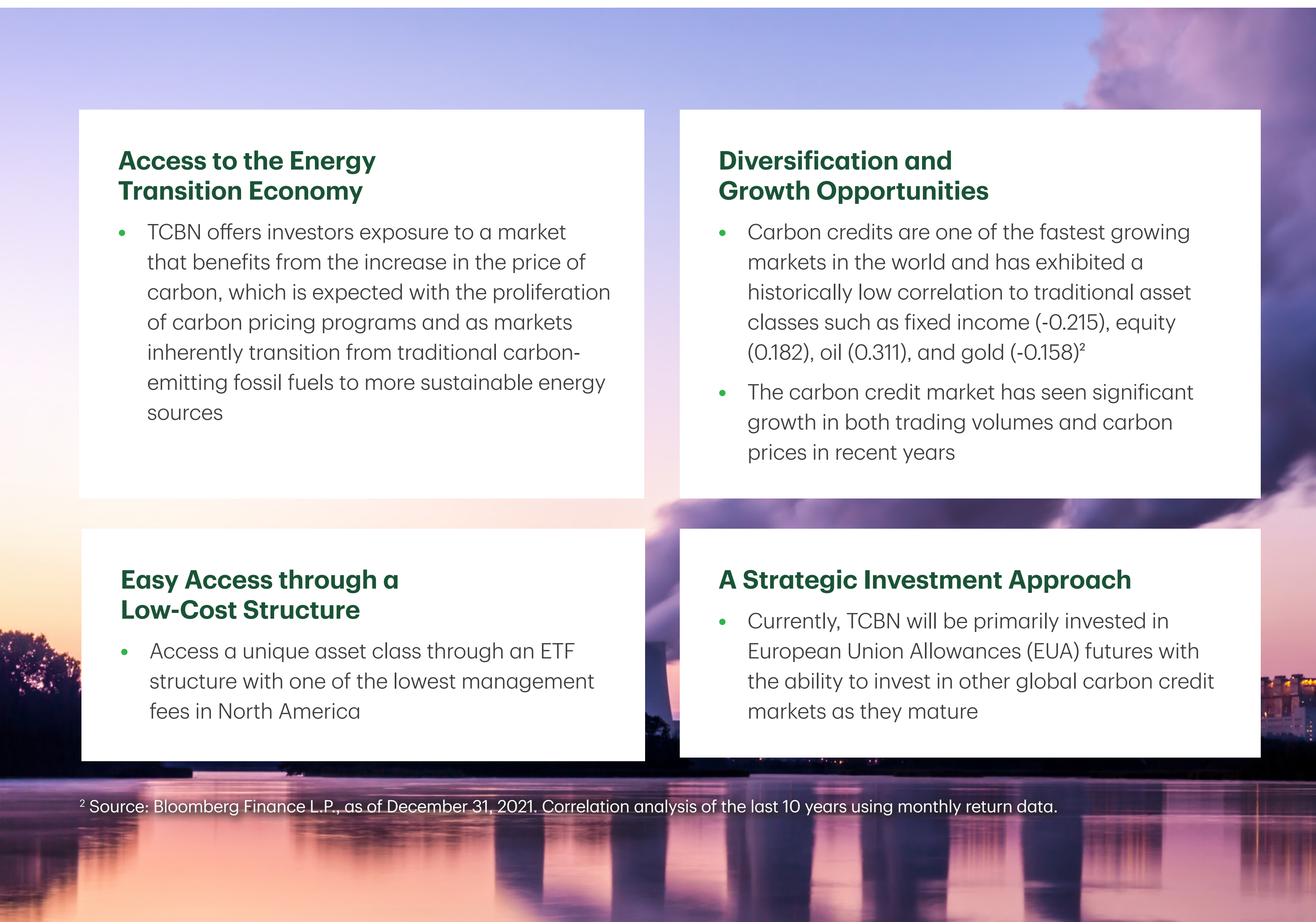
Key Features of TCBN

Currently, **TCBN** seeks to track the performance of Solactive Global Carbon Credit TR CAD Hedged Index (the “Index”), an Index calculated by Solactive AG (“Solactive”) which intends to track the prices of global cap-and-trade carbon emission allocation markets that are accessible via futures contracts. Futures contracts linked to the value of carbon credits (allowances) are known as carbon credit futures. TCBN will invest directly in carbon credit futures and/or use swap agreements, to obtain economic exposure to carbon credits.

TCBN will initially obtain exposure to carbon credits that trade on the European Union Emissions Trading System (EU ETS), called European Union Allowances (EUA), which currently account for 77% of global carbon credit trading volume. In the future, Solactive will conduct a semi-annual review to potentially provide exposure based on carbon credits that trade on other global emissions trading systems (ETS), as they mature and offer sufficient liquidity and transparency to be included in the Index.

The Index is based on the most liquid December futures contracts and rolls the futures exposure annually over ten trading days, from the current year’s active contract into the next year’s contract. TCBN does not intend to use leverage but may incur leverage from time to time primarily due to its currency hedging strategy.

TCBN offers investors:



Access to the Energy Transition Economy

- TCBN offers investors exposure to a market that benefits from the increase in the price of carbon, which is expected with the proliferation of carbon pricing programs and as markets inherently transition from traditional carbon-emitting fossil fuels to more sustainable energy sources

Diversification and Growth Opportunities

- Carbon credits are one of the fastest growing markets in the world and has exhibited a historically low correlation to traditional asset classes such as fixed income (-0.215), equity (0.182), oil (0.311), and gold (-0.158)[2]
- The carbon credit market has seen significant growth in both trading volumes and carbon prices in recent years

Easy Access through a Low-Cost Structure

- Access a unique asset class through an ETF structure with one of the lowest management fees in North America

A Strategic Investment Approach

- Currently, TCBN will be primarily invested in European Union Allowances (EUA) futures with the ability to invest in other global carbon credit markets as they mature

[2] Source: Bloomberg Finance L.P., as of December 31, 2021. Correlation analysis of the last 10 years using monthly return data.

Emissions Trading Systems and Carbon Credits: A Primer

Governments and scientists around the globe generally agree that there is an immediate need for a transition to a lower carbon economy. Putting a price on carbon is now widely accepted as one of the most effective measures to incentivize polluters to lower their greenhouse gas (GHG) emissions, which have been shown to have negative climate consequences. In its most basic form, a carbon price places a cost on GHGs, which makes it more expensive for corporations to pollute. As carbon prices increase, emitters are financially motivated to reduce their GHG emissions. There are a couple ways that regulators can implement carbon pricing:

- Emission Trading Systems (ETS) – commonly referred to as “cap-and-trade”. TCBN will invest in markets that are involved in cap-and-trade programs,
- Carbon Tax – Directly taxing emitters of carbon dioxide (CO_2) and other GHGs

What is an ETS

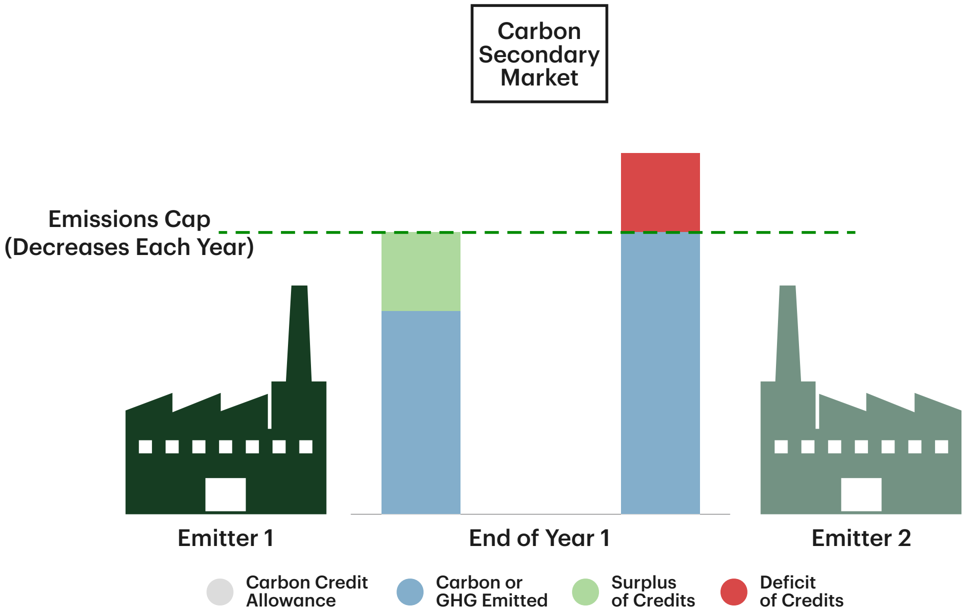
TCBN will seek exposure in carbon credits that are a product of the cap-and-trade system. This involves a regulator or government entity setting a policy objective to reduce emissions in a region and setting a cap on total allowable emissions - typically based on emissions targets. Within an ETS, the regulator splits the available cap into carbon credits, or allowances. A company regulated under a region’s ETS can either obtain carbon credits from the regulator, purchase credits through a secondary market or reduce its carbon emissions.

Some of the companies and industries monitored by cap-and-trade systems include:

- Fossil fuels such as coal, oil, and natural gas
- Power plant and utilities
- Aviation
- Manufacturing
- Pulp and paper
- Agriculture
- Transportation

How carbon credits work

Carbon credits have emerged as an important alternative asset class as global leaders have sought a meaningful way to reduce carbon emissions in an effective, market-friendly fashion. A carbon credit is a tradeable permit allowing the holder to emit CO_2 or other GHGs. One carbon credit typically represents one tonne of CO_2 or GHGs. After each compliance period, typically 1 year, regulated companies must surrender enough carbon credits to offset their emissions or be heavily fined. If a company has a surplus of carbon credits, they can be held for future use or traded on the secondary market at market price.



The diagram above is a simplified visual of how the secondary carbon credit market works. It assumes that the entire industry only has two identically sized carbon emitting companies (emitters) expecting to emit the same amount of carbon. The regulators have put a cap on total emissions for the industry (represented by the dotted green line). Emitter 1 and 2 now have a carbon credit allowance(s) for the year. Emitter 1 produced less carbon than expected (surplus credits) and emitter 2 went above their allowance (deficit). Emitter 1 can sell these credits or save them for the next year. Emitter 2 will need to buy credits to offset the deficit in addition to paying large fines. Note: In the Europe market, if companies do not surrender enough credits, they have to both buy credits, and pay fines. Because of this, a company will never be in a situation where it is beneficial to pay the fines instead of buying credits, elevating the demand for these credits.

What drives the price of carbon credits

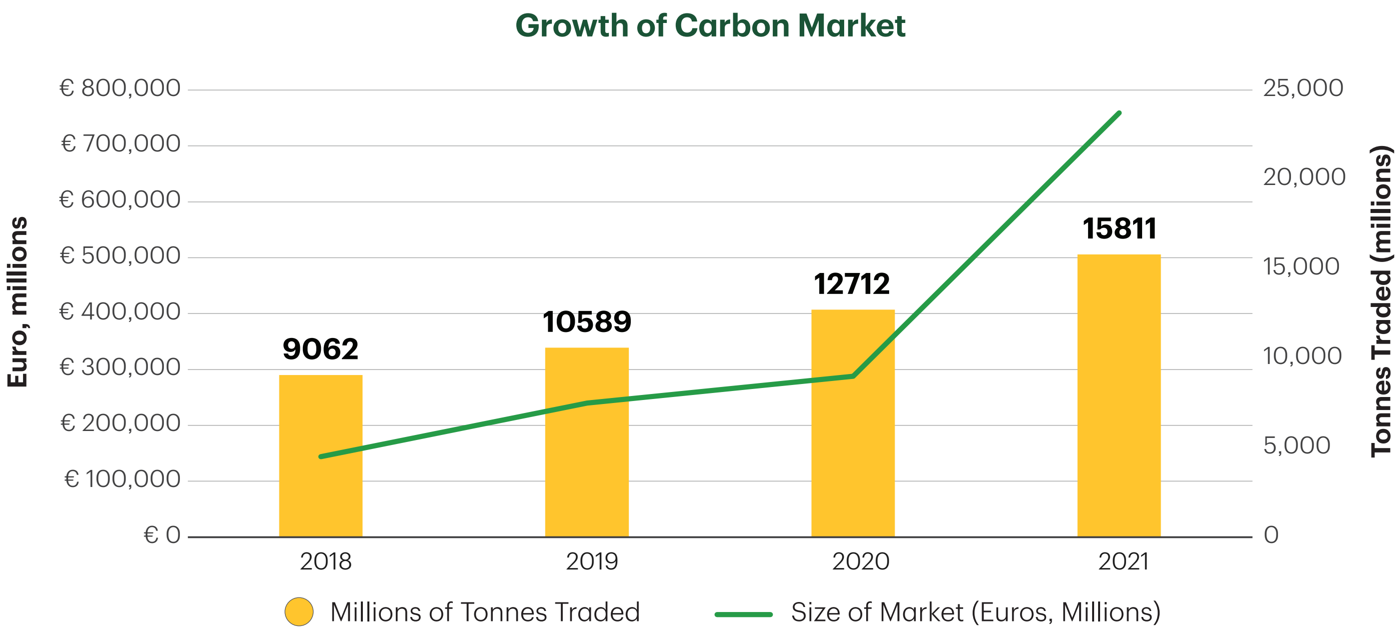
The supply and demand of carbon credits, like other securities, is the main driver of the market price. What is interesting about carbon credits, specifically in the EUA, is that the supply is set to decrease on a yearly basis to help achieve carbon emission targets. If we assume the demand will be relatively constant and supply is decreasing, this is a tailwind for a rising carbon credits price.

Supply	Demand
Cap on allowable emissions	Energy prices
Carbon offsetting	Business activity
Technology based emission removal	Innovation and technology
Credits carried forward from previous periods	Weather conditions

As countries across the globe recognize the challenge of climate change, there is a growing recognition that putting a price on carbon emissions is both important and necessary. At TD Asset Management Inc. (TDAM), we believe it is becoming increasingly clear that investors should both measure and mitigate the carbon exposure in their portfolios.

With the proliferation of carbon programs such as cap-and-trade or carbon taxing, and the expected increases in future carbon prices, we see value in calculating this footprint and mitigating the risk associated with higher carbon prices on equity and fixed income valuations by taking a long exposure to carbon. The chart below[3] illustrates the rapid growth of the global carbon credit market.

That's why we created TCBN, which takes a forward-thinking approach for investors interested in diversifying their portfolio with a historically low correlated asset while getting exposure to the energy transition economy.



[3] Source: Refinitiv – An LSEG Business. "Carbon Markets Year in Review 2021".
Included markets in the chart include, Europe, UK, North America (WTI and RGGI), China, South Korea and New Zealand.

Portfolio Managers

Michael Craig, CFA

Managing Director, Head of the Asset Allocation and Derivatives Team, TDAM

- Head of the Asset Allocation and Derivatives Team
- Serves as a Portfolio Manager for all fund of fund solutions at TDAM as well as for the TD Global Conservative Opportunities and the TD Global Balanced Opportunities funds
- Previously gained experience as a Portfolio Manager at an alternative asset management firm responsible for unconstrained fixed income mandates
- Member of the TD Wealth Asset Allocation Committee

Hussein Allidina, CFA

Managing Director, Head of Commodities, TDAM

- Head of commodity and inflation strategies within the Asset Allocation Team
- Provides expertise for concerns relating to commodity markets
- Served as Director responsible for commodity value-add and inflation-sensitive commodity mandates at a major Canadian pension plan, and as the Global Head of Commodity Research at a major global investment bank

For more information, visit **www.td.com/etfs**
or contact your **investment professional**.

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