



Small Managers - BIG ALPHA - Report 20



World Carbon Fund outperforms as carbon markets heat up

Bailey McCann, Opalesque New York for [New Managers](#):

Carbon markets have rallied in recent months and that could continue as negotiators edge closer to new carbon trading rules at the upcoming COP26 climate summit. The rally has been a boon for Carbon Cap's flagship World Carbon Fund. The fund ended September up 18.43% and is up 37.70% year to date.

The strategy was launched in February of last year and ended 2020 up 9.46%.

The fund invests in multiple liquid and regulated carbon markets on an absolute return basis. Alongside the absolute return strategy, the fund seeks a positive environmental impact by tying a percentage of fund investment to carbon sequestration. The fund invests into and trades liquid carbon allowance certificates, carbon futures, and carbon options. 20% of fund performance fees are used to purchase and permanently cancel carbon allowances and offsets.

In a letter to investors reviewed by Opalesque, Carbon Cap noted that it benefitted from the upward price movement in several carbon markets. European carbon gained 1.6%. The UK market spiked more than 40% on the abrupt rise in energy prices there. In the USA, the California market increased by +9.6% in September. In New Zealand, new policy announcements led to a gain of more than 24%.

Carbon Cap's "Core Long" strategy was diversified across all five carbon markets with overweight positions in the USA markets. The strategy has opted to take profits here, reducing exposure and repositioning, so that the fund can take advantage of any additional upside in the market while staying within risk limits.

More upside could be possible. Many European countries are dealing with energy price spikes which could lead to additional upward price movement in the carbon market. Next week world leaders also come together in Glasgow for the COP26 climate summit where they will discuss the creation of a global carbon market. As part of the Paris Climate Accords, countries agreed - at least in theory - to the creation of such a market but have yet to come to an agreement on how it would be built and supervised.

According to [a recent Bloomberg piece](#), Brazil has softened its stance on potential rules for the market. Negotiations with Brazil fell apart at previous talks in Madrid, but the business

community in Brazil and abroad has put some pressure on the country to come back to the table. Brazil is a key player in these talks because the rainforest accounts for one of the world's largest carbon sinks.

A recent UN report suggesting that the world is on a path toward 2.7 degrees of warming instead of the 1.5-2 degrees sought by world leaders is setting up COP26 to be a make or break summit. Creating a cap and trade carbon market for the world could help keep warming below three degrees. Above three degrees, it is believed that hundreds of millions of people will be displaced as a result of sea level rise.

Michael Azlen, Founder and CEO of Carbon Cap Management, will be speaking about carbon trading and his fund at the upcoming **Small Managers - BIG ALPHA Episode 5** webinar on Tuesday, November 30th 10:30 am ET. Opalesque readers can [register here for free](#).

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[Next webinar:](#)

Small Managers - BIG ALPHA Episode 5

When: Tuesday, November 30th 10:30 am ET

Free registration: www.opalesque.com/webinar/

With larger quantities of capital chasing the same Alpha strategies and continuing to erode Alpha, savvy investors are turning to smaller and/or emerging managers as they look for alternative sources of return.

We are proud to present Episode 5 of this groundbreaking webinar series with the following carefully screened panel of investment managers:

- Wayne Ferbert, Alpha DNA Investment
- Dennis Jean-Jacques, Ocean Park Investments LP
- Nico Cordeiro, Strix Leviathan
- Michael Azlen, Carbon Cap Management LLP