



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 September 2020

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees. We are active managers. Our shared investment philosophy is centred on the belief that market inefficiencies exist that can be exploited over time to deliver superior risk-adjusted returns.

Further, the consideration of environmental, social and governance (ESG) factors is integral to the research we carry out. Salt analysts consider the potential for ESG factors to influence long term returns on invested capital (positively and negatively).

Investment Strategy

The Fund's aim is to provide investors with a total return exposure to the price of carbon credits. The Fund has the ability to buy carbon credits in emissions trading schemes in New Zealand and offshore.

The Fund gains its exposure to the price of carbon credits in the NZ ETS through purchasing and holding carbon credits on the NZ ETS. We may also use swaps or other derivatives to gain exposure to the NZ ETS.

The Fund will also have the ability to buy carbon credits in international emission trading schemes, as well as futures, swaps or other derivatives that provide exposure to international schemes. As a result, the Fund may also provide exposure to the price of carbon offshore.

The Fund is actively managed by us. This means we buy and sell carbon credits on emission trading schemes, or hold cash based on our own analysis and assessment of the market. This includes our assessment of the price of carbon credits relative to the demand and supply of carbon credits and other factors including technological advancements, politics, regulation, fuel prices and even global weather and climate change.

Fund Details

| | |
|---------------------------|-----------------|
| Fund Assets | \$7.4 million |
| Inception Date | 8 November 2018 |
| Portfolio Manager | Paul Harrison |
| Total Fund Charges (p.a.) | 0.97% |
| NZX Code | CO2 |

Who is involved?

| | |
|------------------------|--|
| Supervisor | The New Zealand Guardian Trust Company Limited |
| Custodian | The New Zealand Guardian Trust Company Limited |
| Administration Manager | MMC Limited |
| Unit registrar | Link Market Services Limited |
| Investment Manager | Salt Funds Management Limited |

Net Tangible Assets (NTA) Value on 30 September 2020

| | |
|-------------|--------|
| Application | 1.2506 |
|-------------|--------|

CO2 price on NZX Main Board on 30 September 2020

| | |
|-----------|------|
| NZX Close | 1.25 |
|-----------|------|

Investment Guidelines

The guidelines for the Carbon Fund are shown below:

| | |
|----------------|-----------|
| Carbon credits | 0% – 100% |
| Cash | 0% – 100% |

Target investment Mix

The target investment mix for the Carbon Fund is:

| | |
|----------------|--------|
| Carbon credits | 98.00% |
| Cash | 2.00% |

Fund Allocation at 30 September 2020

| | |
|----------------|--------|
| Carbon credits | 98.85% |
| Cash | 1.15% |

Fund Performance to 30 September 2020

| Period | Fund Return |
|----------------------|-------------|
| 1 month | 1.85% |
| 3 months | 6.48% |
| 6 months | 31.05% |
| 1 year | 26.80% |
| Since inception p.a. | 12.52% |

Performance is based on NTA movement and is after all fees and 28% tax.

SALT INVESTMENT FUNDS LIMITED

Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143

P: +64 9 967 2726 | E: info@carbonfund.co.nz | www.carbonfund.co.nz

Quarterly Fund Commentary

Dear Fellow Investor,

During the quarter, the Government confirmed the first auction for NZUs would be held on 17 March 2021, followed by auctions throughout the year on 23 June, 1 September, and 1 December. There will be 4.75 million units available each auction and a Cost Containment Reserve (CCR) of 7 million units accessible if the auction unit price hits \$50. Unsold units will roll over to the next auction, until the fourth auction, where unsold units will be cancelled, along with any units remaining in the Cost Containment Reserve (CCR).

In addition to the \$20 floor price, the market expected the inclusion of a technical reserve price to stop the sale of NZUs below the prevailing secondary market price, technically as low as \$20 (the floor price). The omission of the technical reserve price is considered an unhelpful quirk in the system by commentators but attributable to an issue in the development of the Act. The Government has communicated that it “will monitor the first auctions and consider whether to set a technical reserve price in the future.” This quirk, combined with the \$35 FPO still in play for the first auction, will make it an interesting auction to observe, along with the flow-on impact to the secondary market.

In the September quarter, the NZU price climbed 9% from \$32.25 to over the \$35 Fixed Priced Offer (FPO) by the end of the quarter. Day to day volatility aside, the overall NZU price trend was upwards, which continued into October with an all-time high of \$35.15 at the time of this update.

At quarter-end, the NZU price closed 23% higher than the start of the 2020 year, driven by greater certainty of the Government implementing the new ETS and the FPO increase from \$25 to \$35. The NZU price has more than bounced back from the COVID-influenced low of \$22 in March, trading 59% higher at the end of the September 2020 quarter.



The movement in the underlying assets (currently NZUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$1.18 to \$1.25 (+6.5%) during the September quarter. The traded price of the Carbon Fund on the NZX went from \$1.17 to \$1.25.

The Carbon Fund was an active buyer of NZUs during the quarter, purchasing 28,000 tonnes of NZUs at an average price of \$33.80.

The outlook for NZUs

The first auction of 2021 will be the last for the \$35 Fixed Price Offer, so there will be no FPO for 2021 emissions and beyond. As seen with other Cap and Trade schemes, after removing the FPO, we can expect more volatility as emissions are capped, and units must either be purchased at ETS auctions or on the secondary market. For example, the European ETS is a Cap and Trade like New Zealand’s new ETS, and the European ETS unit (EUA) has fluctuated between €15 and €30 throughout the year (due to fears around the impact of Covid-19), sometimes swinging 20% within weeks.

Unlike other exchange-traded products, the Cap and Trade market means buyers with annual emissions to fulfil must buy, but sellers don’t have to sell, which can put upward pressure on the price at certain times of the year.

Thank you for your interest in the Carbon Fund. We look forward to bringing you more developments in the New Zealand and International carbon markets in the future.



Paul Harrison, BCA, MBA, CA