CarbonFund

Carbon Fund Fact Sheet – Quarter ending 31 December2022

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	$101.8 million
Inception Date	8 November 2018
Portfolio Manager	Paul Harrison
Total Fund Charges (p.a.)	0.96%
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 31 December2022

Application	2.2034

CO2 price on NZX Main Board on 31 December2022

NZX Close	2.19

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 31 December2022

NZ carbon credits	92.70%
Aus carbon credits	3.04%
Cash	4.26%

Fund Performance to 31 December2022

Period	Fund Return
1 month	-6.26%
3 months	-1.45%
1 year	7.38%
2 years (p.a.)	29.33%
3 years (p.a.)	26.88%
Since inception (p.a.)	20.98%

Performance is based on NTA movement and is after all fees and 28% tax.
Past performance is not a good indicator of future performance.

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Factsheet December 2022

Quarterly Fund Commentary

Dear Fellow Investor,

During the December quarter, the NZU price initially rallied in anticipation of the government accepting the Climate Change Commission's recommendations on NZ ETS unit volume limits and price control settings for 2023-2027. The advice suggested a two-tier cost containment reserve at levels of $171 and $214 for 2023, alongside a significant reduction in auction allocations.

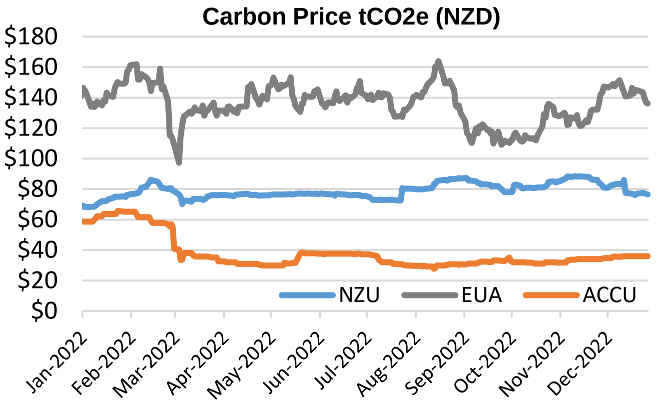
The quarterly auction held on the 7th of December cleared at $79.00. The available 4,825,000 NZUs were all purchased with just over 6.1m units bid for. No additional units in the Cost Containment Reserve (CCR) were available as the annual CCR allocation was sold in prior 2022 auctions.

Late in December, we saw the government ignore the ETS recommendations from the Climate Change Commission. The decision to only slightly increase the price of the cost containment trigger and leave the auction volumes largely unchanged surprised the market. The price of NZUs slid on a combination of traders unwinding their positions and disappointment amongst other investors. The reasoning behind this decision appears weak and will likely present difficulties in New Zealand meeting its commitments under the Paris agreement. The NZU price fell modestly from $78.00 to $76.42 over the quarter.

In Australia, the ACCU price cautiously rose from AUD$30.75 to AUD$33.80 in anticipation of a positive outcome from the Chubb review. The Chubb report has since been released and, the Australian government has accepted in principle the proposed changes to the carbon allowance market. It will see emitters trade Safeguard Mechanism Credits (SMC) between themselves depending on whether they are above or below a set baseline of emissions and ACCUs used for any shortfall of SCMs. There is also a push to improve the integrity of the qualifiable projects by reducing credits issued to projects which avoid emissions in favour of those that actually remove greenhouse gases.

The European carbon allowance market faced the overhang created by the "REpowerEU" proposal, which would see an increase in allowance auction volumes in an effort to raise EUR20 billion to help fund the transition away from Russian oil & gas. However, an improved outlook for economic growth helped support a rise in EUAs from €66.73 to €82.80

The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund decrease from $2.24 to $2.20 during the December quarter.



Looking ahead

The decision of the government to not follow the advice suggested by the Climate Change Commission on unit limits and price control settings was a blow to the credibility of New Zealand's climate action. On a positive note, there was a small price increase in the trigger price settings for the CCR which now sit at: 2023 $80.64, 2024 $91.61, 2025 $103.24, 2026 $115.84, and 2027 $129.97.

NZUs are currently trading at $72, which implies 12% upside before the CCR is triggered in 2023 and 27% to the 2024 CCR trigger price.

With the Australian government looking likely to accept the Chubb recommendations and seeking consultation on only some points, the ACCU market looks likely to consolidate its recent gains.

Europe has seen its gas and electricity prices fall back from their levels seen last year. A mild winter has meant lower than expected consumption and, therefore emissions. The lower gas demand combined with the success of Europe's attempt to build a stockpile of gas reserves has seen a significant fall in energy costs. Lower energy costs should help improve the outlook for the European economies and the demand for carbon allowances.

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