



# CarbonFund

## Carbon Fund Fact Sheet – Quarter ending 31 March 2022

### 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	\$99.7 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 31 March 2022

Application	2.1971
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### CO2 price on NZX Main Board on 31 March 2022

NZX Close	2.08
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### 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 March 2022

NZ carbon credits	90.41%
Aus carbon credits	2.71%
Cash	6.82%

### Fund Performance to 31 March 2022

Period	Fund Return
1 month	-4.62%
3 months	7.07%
1 year	67.14%
2 years (p.a.)	51.74%
3 years (p.a.)	29.47%
Since inception (p.a.)	26.10%

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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## Quarterly Fund Commentary

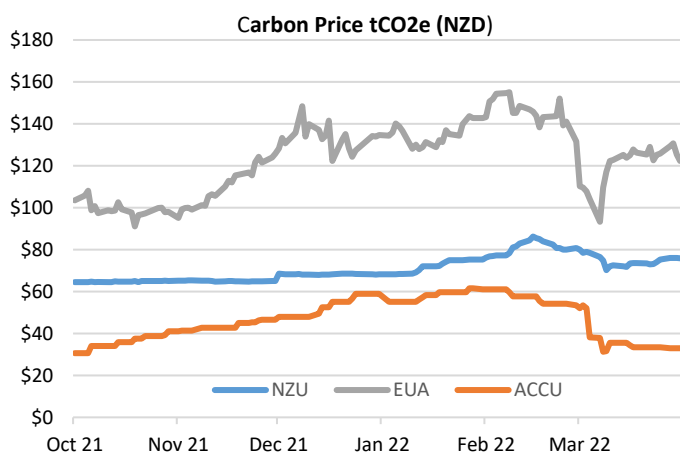
Dear Fellow Investor,

The first quarter of 2022 has proven eventful for global carbon prices. It was a volatile quarter for NZUs, starting the period trading at \$68.20 a unit and then an all-time high of \$86.25 in mid-February. A subsequent pull-back meant the NZU price ended the quarter at \$75.90, up 11.21% for the period.

During the March New Zealand ETS auction, the NZU price cleared at the auction reserve price of \$70.00, triggering the additional cost containment reserve (CCR). Of the possible 7 million extra units, just over 5.69 million were bought by auction participants, on top of the 4.825 million quarterly allocation. The Carbon Fund was an active participant in the March auction having built up its cash holding in the preceding weeks on the view that the carbon markets had run too far too fast and that a better opportunity was likely to occur in the auction.

Outside of New Zealand, we saw the ongoing conflict between Russia and Ukraine significantly impact the European carbon market. The European Carbon Unit (EUA) price fell 8.96% in the quarter, from €84.01 to €76.48. During this period, prices reached a high of €96.93 per unit, and a low of €58.30 before rebounding. Much of the price increase early in the quarter was off the back of encouraging discussions at COP26 late last year, but significant levels of uncertainty bought on by the current conflict created subsequent volatility in the unit price.

The Australia Carbon Credit Unit (ACCU) experienced a large fall in price of -40.2%, from \$51.00 to \$30.50. This was largely due to a surprising governmental policy change that allowed units earned by land-based offset projects to be sold on the open market rather than directly back to the government, creating a large influx of potential supply into the scheme. The Carbon Fund is a small holder of ACCUs having been cautious about its exposure given the lack of political clarity surrounding Australia's approach to pricing carbon emissions.



The movement in underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$2.0582 to \$2.1971 during the March quarter.

### Looking ahead

In the upcoming three NZ ETS auctions this year, there will be just over 1.3 million additional available units in the CCR, leaving just under 15.8 million units available for the remainder of the year, with the next auction being held on June 15th. The CCR trigger price is fixed at \$70.00 for rest of the year, meaning if we see the NZU spot prices continue to trade above this price as it currently is, it is likely that we will see the remaining CCR units bought up in the June auction. This would place an interesting dynamic on the final two auctions later this year.

Noteworthy upcoming events include the Government publishing their emissions reduction plan by 31st May, followed by the Climate Change Commission's advice on unit limits and price control settings in July. The latter is set to give recommendations that will address the growing stockpile of NZUs and advise the Minister for Climate Change on the trajectory of auction trigger prices for upcoming years.

Given the current Australian government has taken a back seat in the global fight against climate change, we watch with interest as the Australian federal election campaign builds towards the May election and what a potential change in Government would mean for Australia's climate change commitments and any subsequent policy changes to the Australian carbon market.

In global markets, the ongoing conflict in Ukraine is likely to continue to influence the price movement of EUAs, particularly as oil, gas and economic sanctions continue to be enforced. Other markets, such as the Western Climate Initiative (California and Quebec) have responded similarly to recent macro events but are trading at comparably cheaper prices. The Californian market will have a pivotal month in May, with an update of the 2022 Scoping Plan due to be released addressing the state's progress towards mid-century carbon neutrality. The next auction will also be in May.

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