Carbon Fund Fact Sheet – Quarter ending 31 March 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	$4.8 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 March 2020

Application	0.9544

CO2 price on NZX Main Board on 31 March 2020

NZX Close	0.95

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 2020

Carbon credits	97.01%
Cash	2.99%

Fund Performance to 31 March 2020

Period	Fund Return
1 month	-6.76%
3 months	-11.53%
6 months	-3.24%
1 year	-5.21%
Since inception p.a.	-3.29%

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

SALT INVESTMENT FUNDS LIMITED
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@carbonfund.co.nz | www.carbonfund.co.nz

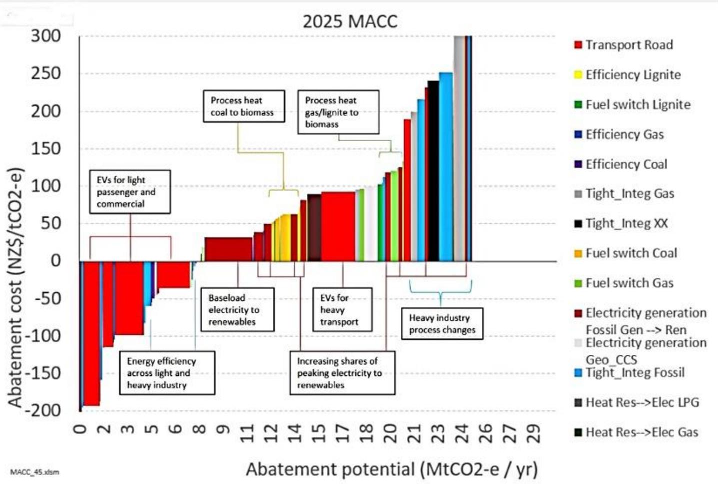
Factsheet March 2020

Quarterly Fund Commentary

Dear Fellow Investor,

The excitement generated by the proposed improvements to the climate change policies in New Zealand was briefly overwhelmed by the Covid-19 outbreak.

The March quarter started in an orderly fashion as investors mulled over the proposed changes to the New Zealand Emissions Trading Scheme (ETS) and the period for consultation closed as expected at the end of February. During this time, the New Zealand government published details of its marginal cost abatement curve (MACC) report showing the cost of carbon required to drive change across various sectors in New Zealand including identification of the reduction of gross emissions in New Zealand at “moderate” emissions prices under $50/tonne. We have included below the MACC chart as it was presented in the briefing to the Minister of Climate Change.



Source: Ministry for the Environment

The NZU price rose to over $29 in January but slid away over the quarter as some emitters sold NZUs with the intention to pay the $25 Fixed Price Offer “FPO” in cash to the Government for their 2019 obligations, and this was followed later by forest owners seeking some cash. The pressure on the NZU price was increased with the outbreak of Covid-19 in China as log exports all but stopped. Further pressure was exerted on the NZU price as the virus spread to Europe and the USA. Carbon pricing began to fall internationally as investors expected global GDP to fall – a global industrial production slow down, less travel and transport activity and weak oil & gas prices suggested a perfect storm for carbon pricing.

However, as we saw in other financial markets, the carbon price bottomed out in late March at around $22 which was down 8% from its January high of $29.25. The price for EU carbon bounced from its 21-month low of EUR14.34. As at publication, the NZU price stood at $24.45 and the EU price at EUR21.70.

The outlook for NZUs

We now await the New Zealand government’s response to the submissions on its proposed changes to the NZ ETS and the Cabinet approval of the new policy decisions. Some commentators expect the Government to stick closely to its proposals as the ETS needs to be made “fit for purpose” to achieve the desired goals set out in the previous Climate Change Response Act 2002 amendments already passed. Supportive of this outcome, we have seen the NZ Climate Commission suggest higher prices sooner for NZUs is required and the Commission to the European Parliament propose to increase the European Union’s greenhouse gas emission reductions target to between 50% and 55% from 1990 levels.

While it is difficult to quantify the consequences of Covid-19 for global CO_2 emissions in real time, Coronavirus is set to cause the largest ever annual fall in CO_2 emissions, more than during any previous economic crises or period of war. Based on current datasets, Climate Change publisher, Carbon Brief estimates the decline in 2020 to date is equivalent to around 5.5% of the global total in 2019, compared to the pre-crisis estimates for 2020 of a CO_2 output rise of 1%1. However, governments globally are moving to stimulate their economies post the Covid-19 crisis. As we saw with the GFC, fiscal responses focused on stimulating those parts of the economy that were energy intensive industries, like construction, and as a result, CO_2 emissions rebounded strongly. This was known as “carbon revenge”.

Paul Harrison, BCA, MBA, CA