



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 September 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	\$102.9 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 30 September 2022

Application	2.2359
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CO2 price on NZX Main Board on 30 September 2022

NZX Close	2.20
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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 30 September 2022

NZ carbon credits	93.21%
Aus carbon credits	2.84%
Cash	3.95%

Fund Performance to 30 September 2022

Period	Fund Return
1 month	-7.62%
3 months	1.50%
1 year	15.28%
2 years (p.a.)	33.71%
3 years (p.a.)	31.36%
Since inception (p.a.)	22.94%

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,

During the third quarter of the year the NZU price increased 2.63% from \$76.00 to \$78.00. In late July, the Climate Change Commission released their advice to the Government on recommended NZ ETS unit 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 market viewed this as positive for the NZU price and alongside auction anticipation, NZU's reached the quarter's high of \$87.30 in early September.

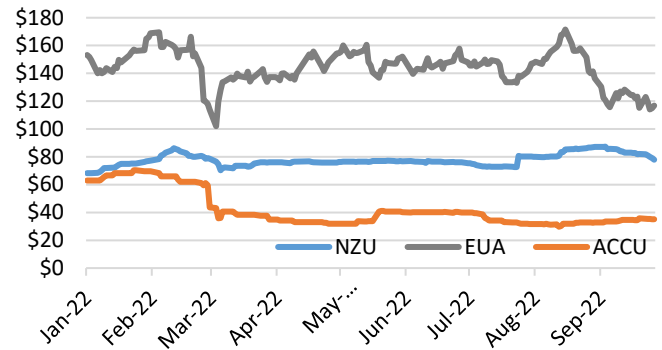
The September quarterly auction continued the secondary market's positive sentiment, clearing at \$85.40. This was the first auction of the year in which there were no additional units in the Cost Containment Reserve (CCR) available, with the yearly allocation of 7 million units having been bought up in the first two auctions.

The ACCU price declined -12.14% during the quarter from AUD\$35.00 (NZD\$40.01) to AUD\$30.75 (NZD\$35.15). The Labor Government continues to solidify their stance on Climate Change, with their Climate Change Bill passing parliament in September. This bill officially commits to new targets, including a 43% reduction in emissions from 2005 levels by 2030 and net-zero by 2050. It also places the Climate Change Authority in the position to provide advice for future targets.

European carbon allowances (EUA's) experienced another volatile quarter, falling -22.03% from €85.58 (NZD\$149.77) to €66.73 (NZD\$116.78). This was largely due to the ongoing energy crisis and the European Union's planned intervention to separate power pricing from gas, ending reliance on Russian fossil fuels. Part of this plan involves releasing around 250 million EUA allowances (approx. €20 billion) into the market from the supply-managing Market Stability Reserve. This would be a material influx of supply as there is approximately 1.5 billion units currently in circulation.

The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$2.19 to \$2.24 during the September quarter.

Carbon Price tCO₂e (NZD)



Looking ahead

The decision of the Government to follow the advice suggested by the Climate Change Commission on unit limits and price control settings is due by the end of the year. If they opt not to follow the advice, the Minister for Climate Change must present a report outlining their reasoning. The last ETS auction for the year is on December 7th.

It remains to be seen what new policy and regulation becomes embedded in the European carbon market. Negotiations are continuing between the European Council on the 'Fit for 55' reform package, with the draft expected to be passed in October. As the pressure on energy supply continues to mount, it is foreseeable that European countries will need to continue burning coal for energy security, especially heading into the winter months.

Elsewhere, the California Cap-and-Trade Program will have another quarterly auction in November. The latest auction provided a surprise, clearing well below the secondary market levels at USD\$27.00. An update of the price floor settings for 2023 is due in December, with regulation mandating an increase of the local CPI Urban rate for the last year plus 5%.

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