



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 31 March 2021

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	\$13.5 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 2021

Application	1.3147
-------------	--------

CO2 price on NZX Main Board on 31 March 2021

NZX Close	1.33
-----------	------

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 2021

NZ carbon credits	85.80%
Aus carbon credits	8.51%
Cash	5.69%

Fund Performance to 31 March 2021

Period	Fund Return
1 month	-2.97%
3 months	-0.22%
1 year	37.75%
2 years	13.95%
Since inception p.a.	12.10%

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 7276 | E: info@carbonfund.co.nz | www.carbonfund.co.nz

Quarterly Fund Commentary

Dear Fellow Investor,

The first quarter of 2021 marked the beginning of the new cap and trade Emissions Trading Scheme (ETS) in New Zealand, with the first auction on 17 March 2021. There was a lot of anticipation heading into the first auction and plenty of demand from participants. The full 4.75 million tonnes available at the auction cleared at \$36.00 and was more than two times oversubscribed. The Carbon Fund participated in the auction, acquiring 40,000 NZUs.

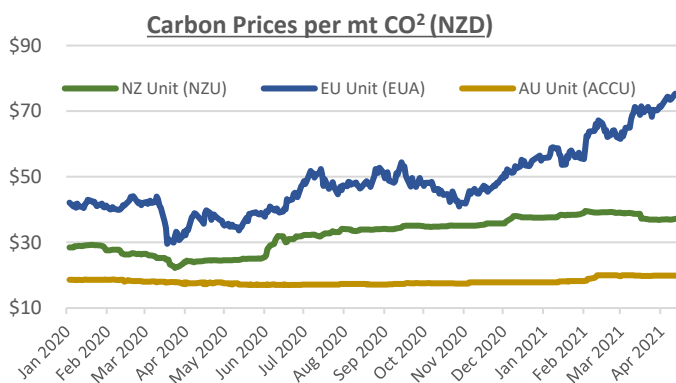
In the March quarter, the NZU price gained further momentum hitting an all-time high of \$39.20 mid-Feb as we moved closer to the first auction and the Climate Change Commission released their draft advice. The price settled back down after the auction closing 2% lower than the start of the quarter at \$36.90.

The Carbon Fund was an active buyer of NZUs during the quarter, purchasing 90,000 tonnes of NZUs at an average price of \$37.64 (including those purchased at auction).

This quarter the Carbon Fund dipped its toes into the Australian carbon market. While the Australian Carbon Credit Unit (ACCU) market is very different from New Zealand's cap and trade, we believe we are seeing the start of a slow shift of the tide from the Australian Government. Global trade partners are pushing ahead with different mechanisms like carbon border taxes to encourage emissions reductions and level the playing field, so countries do not inadvertently encourage carbon leakage. Therefore, Australia will have to get on board, and potentially the voluntary market will lead the way. In the March quarter, the ACCU price increased 11% from \$16.55 to \$18.40.

The Carbon Fund accumulated 60,000 ACCUs during the quarter at an average price of A\$17.71 (NZ\$19.13).

The upward trend continued in the European carbon market (EUA), with EUA prices increasing 24% over the quarter to €42.88 (NZ\$71.46).



The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund decrease very slightly from \$1.316 to \$1.315 during the March quarter. The traded price of the Carbon Fund on the NZX went from \$1.35 to \$1.33.

Looking ahead

During the quarter, the Climate Change Commission released its draft advice on climate action in New Zealand and recommendations for reducing emissions, and the direction of policy that New Zealand could take to get there. Consultation has closed and it is over to the Commission to share final advice with the Government by the end of May 2021.

Our biggest takeaways from their recommendations in the report that impact the ETS and NZ carbon market:

- Increase the floor price from \$20 to \$30 as soon as practical, followed by annual increases of 5% plus inflation;
- Increase the cost containment reserve trigger price to \$70 soon and then every year by at least 10% plus inflation;
- Reduce emission budgets so NZ's Nationally Determined Contribution (NDC) is compatible with global effort towards keeping warming to 1.5°C;
- Align unit volumes in ETS with emissions budgets, taking into account the need to reduce the NZU stockpile.

The emissions budgets drive the number of NZUs available in the ETS. Less supply of NZUs available from the Government means more demand in the secondary market to fulfil annual emission requirements. We look ahead to 28 June when the Commission must release their final advice publicly. By the end of the year, the Government must have set the first three emissions budgets out to 2035.

Globally, we look to the US as President Biden firms up its stance on climate change after re-entering the Paris Agreement on 19 February 2021. Next week, President Biden will host leaders from around the world (including Prime Minister Jacinda Ardern and Australia's Prime Minister Scott Morrison) to a Summit on Climate. The event is being considered by commentators as a precursor for the United Nations Climate Change Conference (COP26) later this 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