



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 June 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	\$22.9 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 30 June 2021

Application	1.4641
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CO2 price on NZX Main Board on 30 June 2021

NZX Close	1.52
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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 June 2021

NZ carbon credits	86.50%
Aus carbon credits	5.13%
Cash	8.37%

Fund Performance to 30 June 2021

Period	Fund Return
1 month	11.27%
3 months	11.37%
1 year	24.66%
2 years (p.a.)	24.65%
Since inception (p.a.)	15.51%

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 second quarter of 2021 was eventful. Most importantly, we saw the back of the Fixed Price Option (FPO) when the emission surrender window closed on 31st May for 2020 obligations. The Climate Change Commission tabled their final advice just before the second ETS auction, which successfully cleared the full 4.75 million tonnes on offer.

Even before the Commission's final advice was made public, momentum had gained in the secondary market. In the first auction in March, the auction cleared at \$36.00. In June, the second auction cleared at \$41.70. Following the auction, the price of NZUs continued to climb to \$43.47 by quarter-end, 35% higher than a year ago and 4% higher than the auction clearing price. The auction had 583 bids from 37 participants and was 2.3 times oversubscribed. The Carbon Fund successfully purchased 65,000 NZUs at the auction.

The Carbon Fund was an active buyer of NZUs during the quarter. Including those acquired at auction, 155,000 tonnes were purchased at an average price just under \$39.51.

During the quarter, the Australian carbon ("ACCU") price increased by a modest 5% from AU\$18.40 to AU\$19.30.

The European carbon unit ("EUA") price continued to increase during the quarter as information regarding recent EU ETS reforms leaked into the market, seeing EUAs peak at €56.65 (NZ\$96.32). Following the announcement from the EU Commission, the EU carbon price settled to €52.90 (NZ\$90.10) at the time of this report.

The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$1.32 to \$1.46 during the June quarter. The traded price of the Carbon Fund on the NZX went from \$1.33 to \$1.52.

The New Zealand Climate Change Commission's ("the Commission") final advice was released in June, and now it is over to the Government to decide whether to accept the advice. They have until 31 December 2021 to set the first three emissions budgets out to 2035, along with the country's first emissions reduction plan. Notably, the Commission recommended emission budgets to 2035 be met domestically, an increase in the auction reserve floor price to \$30 and annual increases of 5% plus inflation annually, and as soon as practical an increase the Cost

Containment Reserve (CCR) to \$70 and annual increases of 10% plus inflation. If both were enacted now, it would mean a floor of around \$40 and a CCR of around \$110 by 2026. For a full summary, [click here](#) for the latest Carbon Comment.

Looking ahead

Last week the European Commission announced several proposed changes, including a Carbon Border Adjustment Mechanism (CBAM), to revise the EU ETS in line with the EU's more ambitious target of achieving net emissions reductions of at least 55% by 2030, compared to 1990 levels. The market seemed well informed before the announcement, and while the EU ETS is different from New Zealand's, we watch with interest to see what makes it through to legislative change.

In the lead up to COP26 in November we will watch for any changes in 2030 pledges towards the Paris Agreement. Current pledges are not sufficient to achieve a 1.5° warming scenario by 2050 and are more aligned to a 3° scenario. Why does this matter for carbon markets? For many countries, including New Zealand, pledges known as Nationally Determined Contributions (NDC) will need to be met by offshore mitigation i.e. using other countries' carbon abatement.

Domestically, we stay on alert for changes to the CCR and floor price. A trigger of the CCR enables up to an additional 7 million credits to enter the market during the year. While market commentators believe these changes will not occur this year, it is only a matter of time.

We are also interested to see the outcomes of the New Zealand ETS Governance Framework consultation and the ETS industrial allocation reform consultation; consultation closes 17 September 2021.

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