



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 June 2025

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 primary investment objective is to provide investors with a total return exposure to movements in 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 generally gains its exposure to the price of NZUs 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 has 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 can also invest in Carbon-Related Businesses and buy, hold, and deal with Treasury Units.

Fund Details

| | |
|---------------------------|-----------------|
| Fund Assets | \$82 million |
| Inception Date | 8 November 2018 |
| Portfolio Manager | Paul Harrison |
| Total Fund Charges (p.a.) | 0.96% |
| NZX Code | CO2 |

Who is involved?

| | |
|--------------------|--------------------------------|
| Supervisor | NZ Guardian Trust Company |
| Administrator | Apex Administration (NZ) |
| Custodian | Apex Administration (NZ) |
| Registrar | MUFG Pension & Market Services |
| Investment Manager | Salt Funds Management |

Net Tangible Assets (NTA) Value on 30 June 2025

| | |
|-------------|--------|
| Application | 1.7414 |
|-------------|--------|

CO2 price on NZX Main Board on 30 June 2025

| | |
|-----------|------|
| NZX Close | 1.50 |
|-----------|------|

Target Investment Mix

The target investment mix for the Carbon Fund is:

| | |
|----------------|--------|
| Carbon credits | 98.00% |
| Cash | 2.00% |

Fund Allocation at 30 September 2024

| | |
|--------------------|--------|
| NZ carbon credits | 62.74% |
| Carbon Fund | 32.91% |
| Aus carbon credits | 4.15% |
| Cash | 0.19% |

Fund Performance to 30 June 2025

| Period | Fund Return |
|------------------------|-------------|
| 3 months | -0.28% |
| 1 year | 9.01% |
| 2 years (p.a.) | 9.46% |
| 3 years (p.a.) | -7.54% |
| 5 years (p.a.) | 8.20% |
| Since inception (p.a.) | 8.71% |

Performance is based on NTA movement and is after all fees and 28% tax. Past performance is not a good indicator of future performance.

SALT INVESTMENT FUNDS LIMITED

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Quarterly Fund Commentary

Dear Fellow Investor,

Financial markets remained volatile over the June quarter, with large swings in investor sentiment driven by an ever-changing whirl of news emanating out of the US regarding tariffs, Iran and the “Big Beautiful Bill”. Carbon credit markets had differing reactions. In the California-Quebec cap-and-trade program, the May auction saw units sold at US\$25.87, down 11.6% from the February auction price of US\$29.27 and marked the first time since 2021 that the minimum auction price came into play. In New Zealand, NZU prices consolidated over the quarter, rising 2.2% from \$57.40 to finish at \$58.70. Australian ACCUs recovered 7.0% from A\$32.70 to A\$35.00.

Emitters were required to meet their 2024 NZU surrender obligations during May. Subsequent to this, in July, the NZU registry holdings were published by the EPA, showing a fall of 23.7m NZUs from the previous year. This was largely in line with expectations and gave the market some confidence that the number of NZUs on issue was declining.

The June NZU auction saw no bids as emitters were able to source their requirements from the secondary market at prices below the \$68.00 minimum price required for the government to sell NZUs at the auction. The September auction will have another 1.5m NZUs made available, and when added to the unsold units from March and June auctions, there will be 4.5m NZUs available at a minimum price of \$68.00. The secondary market price is currently trading below the minimum auction floor price, and if this continues, it is unlikely that the government will sell any of the 6m NZUs allocated to the auction in 2025. Such a scenario would see another significant decline in the NZU holdings on the EPA register in June 2026. The minimum auction price for NZUs in 2026 increases to \$71.00

It is believed that there has been a significant transfer of NZUs as foresters have sold into emitter accounts. This may reflect that some of the NZUs that were classified as being held to cover future obligations by foresters (and therefore unlikely to be sold) are actually more sensitive to forester cashflow demands or their views on future NZU prices. If foresters have sold some of their NZUs they were holding to cover harvest obligations, they will need to buy back NZUs when they do start to harvest.

Concerns over the amount of farmland being converted into exotic forestry have led the government to introduce a Bill to amend the Climate Change Response Act that seeks to restrict the conversion of productive farmland into exotic forest for the purposes of registration into the ETS. The amendment Bill has a commencement date of 31 October 2025.

The demand for NZUs from now until 2030 is forecast to remain steady, with relatively small declines forecast in total emissions. With expectations that emissions from transport will remain stubbornly flat at around 19m tonnes pa, and only a gradual decline in stationary energy and industrial emissions from 13.3m down to 11.4m, the headline decline in New Zealand total emissions is heavily assisted by the reduction in forestry harvesting which results in a drop of NZU demand from 7.3m to 5.1m per annum by 2030.

The Climate Change Commission released its latest recommendations for the NZ ETS unit settings. The price settings for 2026 to 2029 were unchanged, and initial settings for 2030 were included. One surprising option given was for the government to redistribute unsold auction NZUs in the 2028 to 2030 window (at a minimum price starting at \$78.00). This was an unwelcome option and was viewed as unnecessary, given there is an existing cost containment reserve of extra NZUs available if there is a dramatic need for extra NZUs to balance the ETS. We understand that public submissions were heavily against redistributing these un-auctioned units. The government has until the end of September to announce its decision.



Paul Harrison, BCA, MBA, CA