CarbonFund

Carbon Fund Fact Sheet – Quarter ending 31 December 2025

Manager Profile

Salt is an active fund manager. Our investment philosophy centres on the belief that share markets have characteristics that lead to market inefficiencies 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	$61 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 31 December 2025

Application	1.3461

CO2 price on NZX Main Board on 31 December 2025

NZX Close	1.15

Target Investment Mix

The target investment mix for the Carbon Fund is:

Carbon credits	98.00%
Cash	2.00%

Fund Allocation at 31 December 2024

NZ carbon credits	48.27%
Carbon Fund	45.32%
Aus carbon credits	6.24%
Cash	0.17%

Fund Performance to 31 December 2025

Period	Fund Return
3 months	-19.48%
1 year	-28.94%
2 years (p.a.)	-18.43%
3 years (p.a.)	-15.15%
5 years (p.a.)	0.43%
Since inception (p.a.)	4.25%

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,

New Zealand Unit (NZU) prices experienced a sharp correction over the final quarter of 2025 and into January 2026. Following policy announcements in November that unsettled market confidence, NZU prices fell materially from around $55/NZU in early November to approximately $39.95/NZU by the end of December. This represented a significant divergence from auction floor pricing and reinforced the disconnect between secondary market pricing and long-term ETS fundamentals. Demand has returned to the market in February and NZU prices have recovered and currently trading above $44.

Australian Carbon Credit Units (ACCUs) by comparison were relatively steady, drifting slightly lower over the quarter from A$37.30 to A$36.10. ACCUs have made a modest recovery during January despite typically subdued summer liquidity. Compliance demand linked to the Safeguard Mechanism remained supportive, and prices traded to their highest levels since early November, reflecting tightening baselines and continued compliance buying ahead of the March surrender deadline.

In a clearly positive move, the NZ Government maintained its earlier position not to reintroduce unsold NZUs from prior auctions into future supply windows. Units that fail to clear the auction floor price, remain cancelled. However, the market was taken by surprise and reacted negatively to the review of the Climate Change Response Act, overshadowing this positive structural signal on NZU supply.

Secondary market pricing remained well below the 2025 auction floor price of $68.00, and no NZUs cleared at the December 2025 auction, leaving the 6 million 2025 auction allocation unsold and these will now be cancelled. Looking ahead, the minimum auction price for 2026 will rise to $71.00, with 5.2 million NZUs available across four quarterly auctions (1.3 million per auction), although current pricing levels imply that auction supply is unlikely to be accessed unless sentiment materially improves.

While 2026 marks a mandatory emissions return period for forestry, the three-year reporting window is expected to smoother issuance compared with prior five-year cycles, limiting the near-term supply impact. Offsetting potential forestry issuance is the impact of recent forestry conversion restrictions, which will likely make carbon forestry development more expensive and therefore raise the carbon price required to justify new planting. Some market participants were unsettled by the volume of ETS registration applications submitted in 2025 ahead of legislative changes restricting exotic forestry conversions. This behaviour was anticipated, and the long-dated nature of these assets suggests limited impact on near-term NZU supply. Applications submitted ahead of the October 2025 legislative deadline are understood to largely relate to very young forests or bare land, meaning their contribution to NZU supply is long-dated rather than immediate.

Emitters appear comfortable drawing down their NZU inventory or purchasing NZUs only as needed. High hydro lake levels have seen significant fall in the requirement for fossil fuel generation of electricity and may have prompted some adjustments to NZUs held to cover emissions.

Despite recent price weakness, the medium-term supply-demand balance continues to tighten structurally. It remains clear that a significant proportion of NZUs required for the May 2026 surrender will come from existing issued NZUs. In April 2025, the Climate Change Commission (CCC) estimated that circa 50 million NZUs are "surplus", with the balance either strategically held or matched against future industrial and forestry liabilities. With nil supply added from auctions, registry data shows only a modest increase in the total privately held NZU over the second half of 2025 (135.9m versus 133.4m in June), reflecting limited new issuance outside forestry removals. This total of NZUs held is close to the level back in March 2021 and well down on the peak of 173.8m held in March 2022. Market expectations are for the total and consequently the "surplus" to fall significantly again post the surrender requirements in May.

Current modelling continues to show the market undersupplied by approximately 55 million NZUs through to 2029, exceeding the CCC's estimated "surplus." This forecast assumes that 15.2 million NZUs are sold at auction between 2026 and 2029 at prices ranging from $71 to $82. Given prevailing spot prices, that assumption appears increasingly unlikely, implying that the structural shortfall could expand toward 70 million NZUs if auction volumes fail to clear.

We remain aligned with leading market commentators, who continue to emphasise that recent price weakness reflects nervousness over policy uncertainty. In our view, the market continues to underestimate the scale and persistence of the structural shortfall emerging over the remainder of this decade.

Paul Harrison, BCA, MBA, CA