



# CarbonFund

## Carbon Fund Fact Sheet – Quarter ending 31 December 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	\$79.8 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 December 2021

Application	2.0521
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### CO2 price on NZX Main Board on 31 December 2021

NZX Close	2.08
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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 31 December 2021

NZ carbon credits	91.15%
Aus carbon credits	4.36%
Cash	4.50%

### Fund Performance to 31 December 2021

Period	Fund Return
1 month	4.04%
3 months	5.81%
1 year	55.07%
2 years (p.a.)	37.93%
3 years (p.a.)	27.12%
Since inception (p.a.)	25.66%

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,

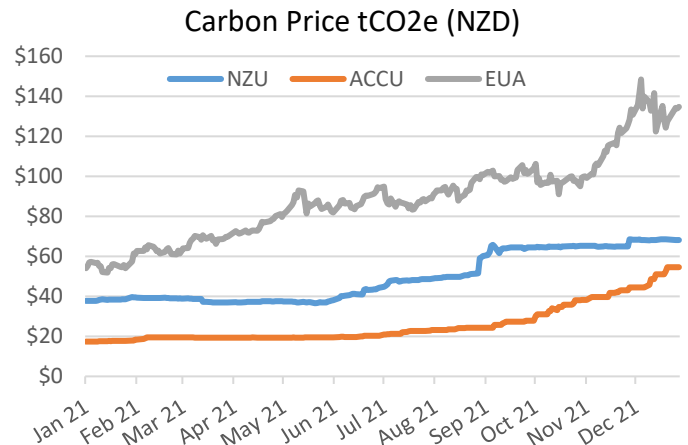
During the December quarter, the highly anticipated COP26 occurred, the world's largest meeting of Governments to collectively address climate change. During that event, New Zealand increased its Nationally Determined Contribution (NDC) 2030 commitment to a 50% reduction in net greenhouse gas emissions. While many were disappointed with the progress, it was still progress (read our detailed Carbon Comment on COP26) and has triggered continued global carbon price increases. Notably, Article 6 was resolved to enable a pathway for global trading of carbon units.

The New Zealand units (NZUs) started the quarter at \$64.50 and continued to trade around that level until the last ETS auction of the year on the 1st of December. The auction was always going to be a test for the market with the total 7 million tonnes of Cost Containment Reserve (CCR) sold at the previous auction in September, leaving only the quarterly allocation of 4.75 million units available this time around. There were 18 successful participants clearing the December auction at \$68.00, 26% higher than the last auction. The NZU price settled around this clearing price for the remainder of the year.

Going into 2022, the CCR trigger price (the price where the extra volume is released into the auction) moves to \$70.00 for 2022. The secondary market has already breached that level and is currently trading at \$74.95. The quarterly allocations increase slightly to 4.825 million per auction over 2022, with an additional 7 million tonne CCR also available. It remains to be seen if the secondary market is correctly predicting the auction clearance price in March because at current levels it is suggesting that the whole of the cost containment reserve volume will be consumed in March.

The Australian carbon ("ACCU") market continues to be tightly held and units hard to come by; this translated to strong pricing in the quarter. During the quarter, the ACCU price increased by 50.0% from AU\$26.50 (NZ\$28.19) to AU\$51.00 (NZ\$54.25).

The European carbon unit ("EUA") price moved around during the first half of the quarter, starting at €62.04 (NZ\$103.79), dropping down to €54.55 (NZ\$91.26), and closing the year at €80.65 (NZ\$143.93), up 30.0% from the start of the quarter. The surge started during COP26 in the first half of November and has continued into this year, with EUAs last traded at €84.47 (NZ\$142.65).



The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$1.94 to \$2.05 during the December quarter. The traded price of the Carbon Fund on the NZX continued to trade at a premium to its NTA and went from \$2.00 to \$2.08.

### Looking ahead

With no Fixed Price Offer for the most recent emission year, emitters will be submitting their emission returns by March 31 and surrendering units by May 2022, simultaneously starting to think about their liabilities for the 2022 emissions year. With NZU's already trading above the CCR trigger price, emitters need to consider that the CCR reserve could be cleared out during the first auction, putting tension on the remaining three auctions this year.

The Government will publish the emissions reduction plan by 31 May 2022, setting out how NZ will meet our targets. The emissions reduction plan will set the direction for climate action for the next 15 years and require action across various areas, including energy, transport, waste, agriculture, construction, and financial services.

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