



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 September 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	\$62.3 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 September 2021

Application	1.9394
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CO2 price on NZX Main Board on 30 September 2021

NZX Close	2.00
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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 September 2021

NZ carbon credits	93.82%
Aus carbon credits	2.81%
Cash	3.38%

Fund Performance to 30 September 2021

Period	Fund Return
1 month	17.71%
3 months	32.47%
1 year	55.07%
2 years (p.a.)	40.23%
Since inception (p.a.)	25.70%

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

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,

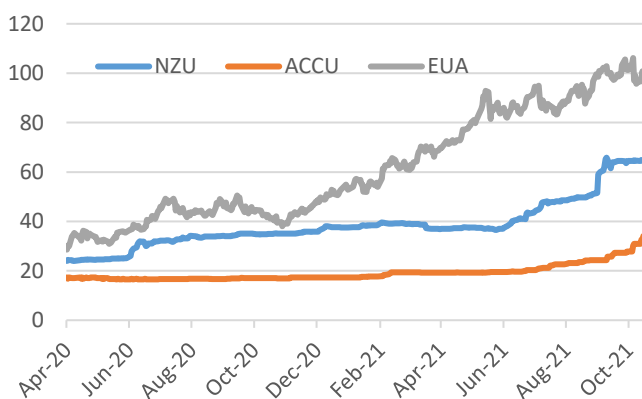
During New Zealand's September ETS auction, the NZU price breached \$50.00, triggering the extra units available from the Cost Containment Reserve (CCR). The level of demand for NZUs in the auction resulted in the standard 4.75m NZUs being sold, as well as the entire 7million unit reserve in the CCR. Outside of New Zealand, we saw the European carbon units trade over NZ\$100.00 equivalent for the first time and the Australian "ACCU" units traded towards A\$30.00.

NZUs started the September quarter at \$44.00, sold at \$53.85 in the ETS auction on the 1st of September, and had reached \$64.50 at the quarter close, a 47% increase from the start of the quarter. The increase is partly explained by the removal of the Fixed Price Offer and emitters attempting to meet their 2021 obligations at the lowest price, but also communication by the Government that it intended to increase the CCR trigger price to \$70.00 (from \$50.00) in 2022. Genesis Energy have also subsequently disclosed that they had been a significant participant in the September auction, buying enough NZUs to cover their extra obligations arising from an arbitration decision on the Kupe Gas field emissions and topping up enough NZUs to cover their expected emissions into their 2029 financial year.

During the quarter, the Australian carbon ("ACCU") price increased by 37.3% from AU\$19.30 (NZ\$20.30) to AU\$26.50 (NZ\$27.83).

The European carbon unit ("EUA") price continued to increase during the quarter, rising 7% from €57.65 (NZ\$ 94.55) to €61.74 (NZ\$101.25) by quarter-end.

Carbon Price tCO₂e (NZD)



The movement in the underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$1.315 to \$1.940 during the September quarter. The traded price of the Carbon Fund on the NZX continued to trade at a premium to its NTA and went from \$1.51 to \$2.00.

Looking ahead

The final auction for this calendar year will occur on the 1st of December, and with the 2021 CCR 7 million tonne reserve already sold, the maximum number of units available is 4.75 million. It will be interesting to see where the auction clears, particularly with the imminent increase of the CCR trigger price to \$70.00 next year and rising at a rate of 12% p.a. to \$110.15 in 2026.

The much-anticipated COP26 will start on 31 October in Glasgow and run until 12 November. COP stands for Conference of Parties and will be attended by countries that signed the United Nations Framework Convention on Climate Change. According to a pre-COP26 meeting held two weeks ago, the focus is how we keep the 1.5 degrees target in reach. Resolving 'Article 6', enabling cross-jurisdiction trading without double counting, will also be on the agenda and the progress of every nation's following the commitments of COP25. Countries will likely increase their ambition by strengthening their Nationally Determined Contribution (NDC), and NZ is expected to unveil a more ambitious target.

It is important to note that even in the unlikely event that Article 6 is resolved, New Zealand's first three emission budgets through to 2035 must be met using domestic units.

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