CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 September 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	$79 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 September 2025

Application	1.6718

CO_2 price on NZX Main Board on 30 September 2025

NZX Close	1.39

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	57.29%
Carbon Fund	37.69%
Aus carbon credits	4.84%
Cash	0.19%

Fund Performance to 30 September 2025

Period	Fund Return
3 months	-3.99%
1 year	-9.79%
2 years (p.a.)	-7.53%
3 years (p.a.)	-9.23%
5 years (p.a.)	5.98%
Since inception (p.a.)	7.74%

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 NZU prices oscillated in a reasonably tight range over the September quarter but ultimately gave back the previous quarter's gains, falling -3.1% from $58.70 to finish at $56.85. Australian ACCUs continued their recovery, rising 6.6% from A$35.00 to A$37.30.

In a positive move, the NZ government resisted the temptation to follow the Climate Change Commission recommendation to redistribute unsold auction NZUs into the 2028 to 2030 window (at a minimum price starting at $78.00). The unsold NZUs will remain cancelled.

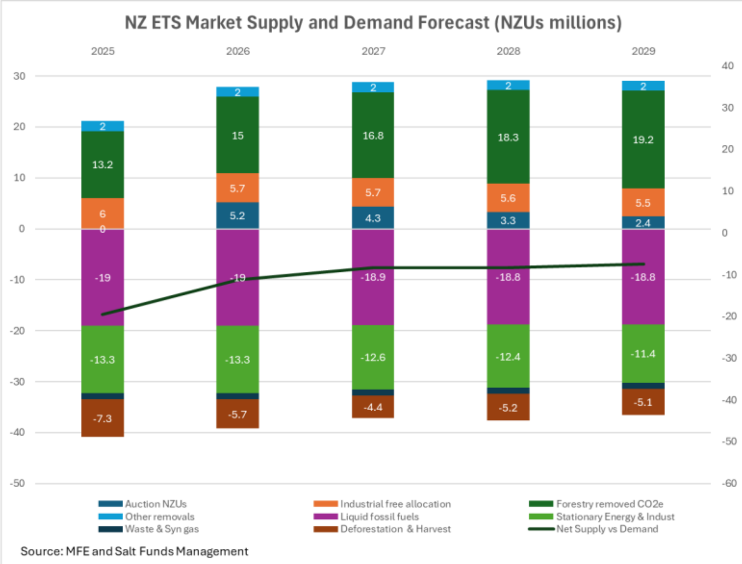
Despite the positive announcements from the government, the secondary market price for NZUs remains well below the minimum auction price of $68.00. As a result, the September auction did not see any NZUs sold and with the December auction only a few weeks away, the full 6m NZUs allocated to be auctioned in 2025 appear unlikely to be sold. The minimum price required to release NZUs at auction in 2026 will be $71.00 and there will only 5.2m will be available (1.3m at each quarterly auction)

With no NZUs sold at the September auction, there was only a small increase in the holdings on the privately held register from 30 June (133.4m NZUs) to 30 September (135.7m NZUs) with most of this coming from a 2.3m increase in forestry generated NZUs. Out of the 135m NZUs on issue, the Commerce Commission estimates 50m are "surplus" with the balance considered to be held by long term holders or held to match liabilities due to future harvesting or industrial emissions. Next year is a mandatory reporting emission period for forestry. This could see a slightly higher than normal supply of forestry NZUs being issued. However, as this is a 3-year period, the impact is not expected to be high as the previous 5-year time frame. Offsetting this is the fact that the new forestry conversion laws may require higher carbon pricing to generate appropriate investment returns.

The supply and demand profile continues to tighten as supply from auctions fails to eventuate. Emitters currently appear to be comfortable to sit back and use up their accumulated NZU inventory or just buying NZUs as they need them. It is quite clear that a significant portion of the NZUs required to be surrendered in May 2026 will have to come from currently issued units.

The market is forecast to be undersupplied by 55m tonnes up to 2029. This is greater than the Commerce Commission estimate of a 50m "surplus". The 55m shortfall forecast also assumes that there are 15.2m tonnes sold at auction across the time frame at prices ranging from $71.00 to $82.00. Current market pricing would imply that this auction supply is unlikely to happen, resulting in the shortfall increasing to 70.2m NZUs.

The shortfall in NZU supply versus demand is shown in the chart below with the black line representing the net shortfall.



Source: MFE and Salt Funds Management

Some participants may have been unnerved by the rush of applications so far in 2025 attempting to be included in the ETS before the 31 October deadline for the changes to the Climate Change Response Act, which will restrict the conversion of productive farmland into exotic forest for the purposes of registration into the ETS. This rush was expected, and we believe that the vast majority of these applications are for very young trees or bare land. Their potential impact on NZU supply therefore is long dated.

Thank you for your continued support of the Carbon Fund. We are not alone in our belief that the secondary market is significantly underestimating the demand versus supply imbalance over the next few years. Leading commentators, Marex and Jarden, are unequivocal that the market is heading into a structural shortfall.

Paul Harrison, BCA, MBA, CA