



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 31 March 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 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 generally 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.

We actively manage the Fund. 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	\$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 Ltd.
Administrator	Apex Administration (NZ) Ltd.
Custodian	Apex Administration (NZ) Ltd.
Registrar	Link Market Services Ltd.
Investment Manager	Salt Funds Management Ltd.

Net Tangible Assets (NTA) Value on 31 March 2025

Application	1.7463
-------------	--------

CO2 price on NZX Main Board on 31 March 2025

NZX Close	1.57
-----------	------

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 2024

NZ carbon credits	67.51%
Carbon Fund	28.54%
Aus carbon credits	3.90%
Cash	0.05%

Fund Performance to 31 March 2025

Period	Fund Return
3 months	-7.82%
1 year	-2.24%
2 years (p.a.)	-0.01%
3 years (p.a.)	-7.73%
5 years (p.a.)	12.85%
Since inception (p.a.)	9.11%

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

E: info@carbonfund.co.nz | www.carbonfund.co.nz

Quarterly Fund Commentary

Dear Fellow Investor,

The uncertainty experienced in global financial markets spread into the carbon markets, making it a tough quarter for carbon investors. Extensive and widespread market volatility tends to see traders significantly reduce their positions across all asset classes. Whilst efforts to decarbonise appear to have slowed, pushing up the future requirement for carbon emission credits, there was some concern around the implication for short-term emissions if economic growth/activity was to stall as a result of trade tensions.

The NTA value of the Fund finished the quarter at \$1.7463 (from \$1.895), slipping 7.8% lower as NZ and Australian carbon prices came under pressure. The NZU price dropped 10.0% to \$57.40 (from \$63.75) and Australian Units (ACCUs) moved from A\$36.80 to finish the quarter 11.1% lower at A\$32.70. The NZX traded CO2 price declined to \$1.57 (-7.65%) over the same timeframe.

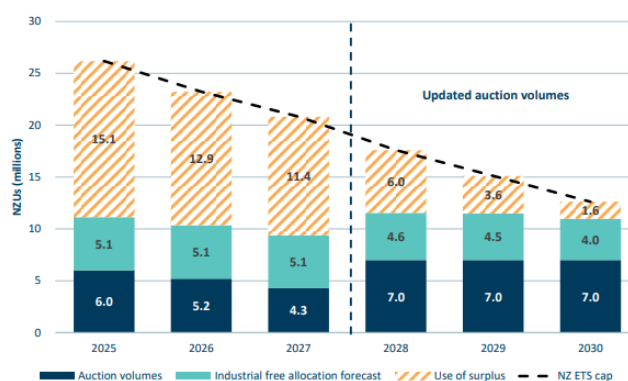
Last year, the December NZU auction saw demand for 4m NZUs at the floor price of \$64. However, there was little interest in the NZUs available at the recent NZU auction in March. With the secondary market trading NZUs at prices below the \$68 minimum/floor price, there wasn't a need to buy NZUs in the auction. The March auction is the last auction before emitters are required to surrender NZUs to cover their 2024 obligations. Emitters appear to have secured a significant portion of what they need to cover their surrenders via prior purchases or hedge contracts and others are operating a buy-as-you-go approach (for example fuel retailing), buying NZUs only as needed. The supply of NZUs into the secondary market may be coming from under pressure forestry owners who, faced with low log prices, have looked to sell NZUs to generate some cashflow. This is not sustainable over the medium term especially if some of these forest owners selling NZUs will need to buy them back in order to harvest their trees in the future.

Post the end of the quarter, the NZU volume held on the EPA register at 31 March 2025 was disclosed to be 157m NZUs. This is almost 12m NZUs lower than March 2024. There is keen interest to see the 30 June NZU holding volume, as this will show the number of NZUs that were surrendered in

May. The fall from March 2024 to June 2024 was over 24m NZUs. Some commentators are expecting a larger drop in NZUs from March to June this year. Such a reduction implies a significant reduction in the level of "surplus" NZUs and the market could face a steadily tightening supply through 2025 until the secondary price reaches \$68 where auction units can become available.

The Climate Change Commission (CCC) has also just released its latest ETS advice in April. The CCC highlighted that the NZU surplus is now estimated to be 50m NZUs (down from 68m) and that this surplus would be consumed by demand over the next five years. As shown in the chart below, the CCC predicts that 15m NZUs will need to come from existing NZUs over 2025 in order to meet demand from emitters in the scheme. This importantly assumes that another 5m NZUs will be sold into the demand via the auctions. However, the 5m NZUs are only available if the NZU price rises to \$68 over 2025. This is 30% higher than where it is currently trading in the secondary market. The auction floor price rises to \$71 in 2026, \$75 in 2027, \$78 in 2028, \$82 in 2029 and then \$86 in 2030.

The Climate Change Commission's proposed auction volumes and other volumes under the NZ ETS



Source: Climate Change Commission Advice on NZ ETS unit limits and price control settings for 2026-2030. April 2025



Paul Harrison, BCA, MBA, CA

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Investment Funds Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.