Carbon Fund Fact Sheet – Quarter ending 31 March 2026

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	$76 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 March 2026

Application	1.3786

CO2 price on NZX Main Board on 31 March 2026

NZX Close	1.183

Target Investment Mix

The target investment mix for the Carbon Fund is:

Carbon credits	98.00%
Cash	2.00%

Fund Allocation at 31 March 2026

NZ carbon credits	47.20%
Carbon Fund	46.44%
Aus carbon credits	6.30%
Cash	0.05%

Fund Performance to 31 March 2026

Period	Fund Return
3 months	2.41%
1 year	-21.06%
2 years (p.a.)	-12.15%
3 years (p.a.)	-7.57%
5 years (p.a.)	0.96%
7 years (p.a.)	4.51%
Since inception (p.a.)	4.44%

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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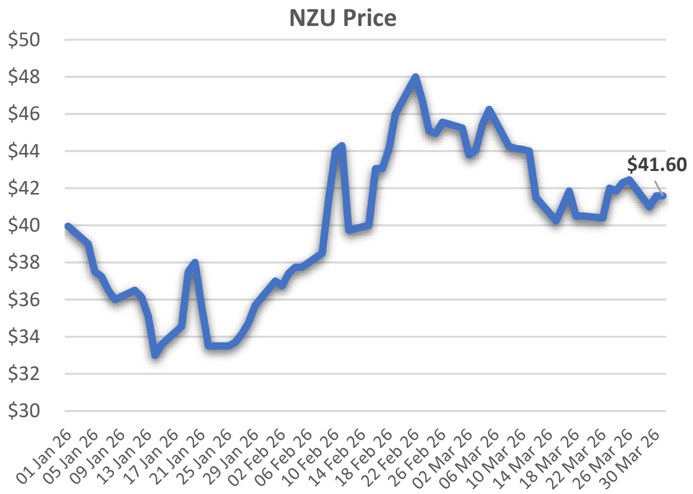
Quarterly Fund Commentary

Dear Fellow Investor,

New Zealand Unit (NZU) prices remained under pressure through the quarter ending 31 March 2026, as market participants continued to price in elevated policy uncertainty and near-term supply. After the sharp repricing late in 2025 to finish the year at $39.95, trading over the March quarter was characterised by thin liquidity and a cautious compliance stance; NZUs ended the quarter at $41.60.



In Australia, Australian Carbon Credit Units (ACCUs) initially traded up over the first half of the quarter but then drifted down into the 31 March compliance deadline under the Safeguard Mechanism. ACCUs ended the quarter at $36.25, up slightly from December's closing price of $36.10.

In New Zealand, sentiment continued to be shaped by the Government's recent legislative and policy signalling, including debate around the role of offshore mitigation and the broader framework underpinning the NZ ETS. The quarter highlighted how sensitive NZU pricing is to confidence in the long run integrity and ambition of the scheme: when the policy path is unclear, participants tend to defer buying and instead rely on existing inventories and lower priced sources of supply.

Auction dynamics reinforced this caution. Following a year in which auctions did not clear at the $68.00 floor price, secondary pricing remained well below the minimum 2026 auction price of $71.00. The first auction of 2026 (3 March 2026) produced no bids, and all available were left unsold and were rolled over to the June 2026 auction. At current pricing levels, it appears unlikely that meaningful auction volumes will be accessed unless market confidence and sentiment improve materially.

Recent data continues to point to the likely reduction in the privately held stockpile of NZUs over time. Early in the year is usually when forestry owners receive NZUs and many sell them. This year, that selling pressure has been smaller so far. In March, the registry showed a net increase of about 9 million NZUs, which was less than the market expected. We are interested to watch the EPA's new monthly updates on NZU holdings to see whether more forestry units start flowing into the market, or whether supply stays tight.

Forestry remains an important swing factor for NZU supply. Early year issuance associated with forestry return periods can add to liquidity at times when secondary market demand is subdued, while recent changes to forestry conversion settings and registration requirements are expected to reduce the incentive for new large scale exotic conversions. To the extent that additional registrations were lodged ahead of late 2025 rule changes, we continue to view much of that potential supply as long dated rather than immediate.

Despite weak spot pricing, our assessment is that the medium-term supply demand balance remains structurally tight. With the May 2026 surrender approaching, we continue to expect a meaningful portion of required units to be sourced from already issued stock rather than from auctions, given the large gap between secondary prices and the auction floor.

Our current modelling continues to indicate the market demand will exceed new supply by approximately 55 million tonnes through to 2029, which exceeds the Climate Change Commission'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. With spot prices well below those levels and auctions currently failing to attract demand, the risk is that auction volumes do not clear, in which case the shortfall could expand toward 70 million NZUs.

With the June quarter well underway, NZU prices have firmed up as we get closer to the May deadline for emitters to surrender their 2025 obligations. As existing inventories are gradually worked down and auction volumes remain unattractive at current secondary prices, the NZ ETS is likely to require a materially higher clearing price over time to restore balance through the rest of the decade.

Paul Harrison, BCA, MBA, CA

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