



CarbonFund

Carbon Fund Fact Sheet – Quarter ending 30 June 2022

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	\$100.4 million
Inception Date	8 November 2018
Portfolio Manager	Paul Harrison
Total Fund Charges (p.a.)	0.96%
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 June 2022

Application	2.2028
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CO2 price on NZX Main Board on 30 June 2022

NZX Close	2.10
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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 June 2022

NZ carbon credits	92.52%
Aus carbon credits	3.25%
Cash	4.22%

Fund Performance to 30 June 2022

Period	Fund Return
1 month	-0.90%
3 months	0.26%
1 year	50.64%
2 years (p.a.)	36.95%
3 years (p.a.)	32.72%
Since inception (p.a.)	24.20%

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,

The second quarter of 2022 saw mixed returns for carbon markets. It was a particularly quiet period for NZU's, both opening and closing the quarter at \$76.00 per unit and reaching a high of \$77.20 in late May.

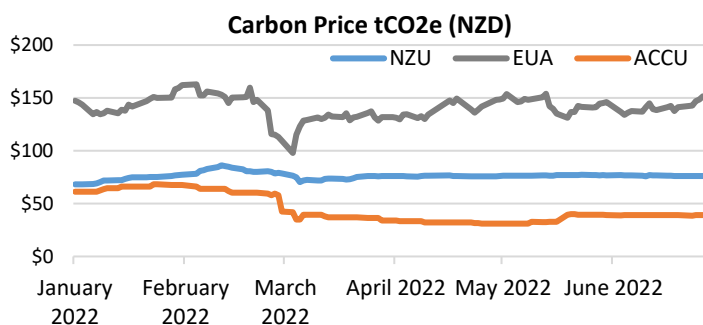
The June New Zealand ETS auction had a widely predicted outcome. The 1.3 million additional units in the Cost Containment Reserve (CCR) left over from the March Auction were quickly bought up alongside the quarterly allocation of 4.825 million units. The auction cleared at a price of \$76.00 and continued to trade around similar levels on the secondary market shortly after the auction. The Carbon Fund was a small participant in the auction, preferring to focus its investment on buying some of its own units back on the NZX. To date, the Fund has purchased just under 680,000 of its own units for an average cost of \$2.1085 per unit. At this level it is the equivalent of purchasing NZUs at circa \$72.

The release of the Emissions Reduction Plan was a notable event during the period. The plan outlined the Government's path to meet the first emissions budget for 2022–2025, and to also meet the long-term target of net-zero by 2050. Of the 300 actions outlined, the most significant for the ETS is the planned review of forestry incentives within the scheme.

In Europe, the ongoing conflict in Ukraine had a flow-on effect into the European carbon market as countries turned to favour the burning of coal for electricity supply. Over the period, the European Carbon Unit (EUA) price rose 14.9% from €78.49 (\$131.86 NZD) to €90.16 (\$151.47 NZD).

The Australian Carbon Unit (ACCU) had a positive quarter, rising 15.6% from \$30.50 (\$33.86 NZD) to \$35.25 (\$39.13 NZD). This was off the back of Anthony Albanese and the Labor Party winning the country's parliament election in May. Since coming into office, The Labor Party have doubled down on their stance on climate change by committing to a more ambitious pledge of cutting emissions 43% by 2030.

The movement in underlying assets (currently NZUs, ACCUs and cash) saw the net tangible assets (NTA) of the Carbon Fund increase from \$2.1992 to \$2.2028 during the June quarter.



Looking ahead

The September and December New Zealand ETS auctions will be of particular note as there will be no additional units available for sale in the Cost Containment Reserve. This will place an interesting dynamic on the auctions, especially if demand remains at the levels that we have seen throughout this year.

Later this month, the Climate Change Commission is expected to release advice to the Minister for Climate Change on unit limits and price control settings for the New Zealand ETS. The Minister is required to update these metrics every year to provide a five-year look ahead period.

Negotiations between the European Parliament and the European Council are set to begin in the coming months to finalise the set of proposal's named the 'Fit for 55' package that will ensure EU policies are in line with their climate goals. The package includes a comprehensive set of changes to the existing EU ETS that aims to result in an overall emissions reduction in sectors concerned of 61% by 2030. It is likely that the ETS will see a decrease in supply of units as well as the introduction of a Carbon Border Adjustment Mechanism.

Elsewhere, the California Cap-and-Trade Program will have another quarterly auction in August. The previous auction in May was positive, as both speculators and compliance entities fully subscribed to the available units. The release of the 2022 Scoping Plan draft also solidified the state's strong desire to meet their climate goals by utilising a number of tools, including the Cap-and-Trade Program.

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