



# CarbonFund

## **Salt Listed Funds Other material information**

18 October 2019

This document relates to the offer of units in the Carbon Fund (Fund). It should be read in conjunction with the product disclosure statement for the Fund (PDS).

This document contains material information that is not contained the PDS or otherwise included in the Fund's entry on the register of offers of financial products. Further information about the Fund is contained in the PDS and the Fund's register entry.

The information in this document could change in the future. Please check the offer register at

[www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz) for any updates.

See the Glossary in section 8 for the meanings of capitalised terms used in this document. Some terms are also defined in the body of this document.

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## 1. The Fund and those involved in providing the Fund

This section contains more information about the Fund, including details of the manager, supervisor, investment manager, administration manager, and unit registrar of the Fund.

### About the Scheme

The Salt Listed Funds (**Scheme**) is a registered managed investment scheme under the Financial Markets Conduct Act 2013 (**FMCA**).

The Scheme and the Fund were established on 12 October 2018. The Fund has a duration of 80 years from the date it was established unless it is wound up earlier (as described in section 6).

The Scheme is governed by a master trust deed dated 12 October 2018 (**Trust Deed**). The Fund is governed by an establishment deed dated 12 October 2018 (**Establishment Deed**).

More information on the Fund and its investment policy and objectives can be found in the statement of investment policy and objectives (**SIPO**), which is available at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

### About the Fund

The Fund invests primarily in emissions trading schemes both in New Zealand and potentially also offshore.

### What is an emission trading scheme (ETS)?

An ETS is an established market for buying and selling units which represent greenhouse gas emissions. Limits on greenhouse gas emissions by industry sectors are regulated. Participants in these industry sectors come to the ETS market to buy and sell units. This trading activity for emissions units translates into a market price. The changing demand and supply of carbon credit units changes the market price for the credits. This market price then changes the behaviour of the ETS market participants with the aim of reducing greenhouse gases emissions. Where there is increasing demand for carbon credit units over time, the price of the units is likely to increase.

### How does the New Zealand ETS (NZ ETS) market work?

The NZ ETS commenced operating in 2008. The NZ ETS trades in New Zealand Units (NZU), the primary New Zealand carbon trading unit. One NZU represents one metric tonne of carbon dioxide equivalent. NZUs do not have an expiry date.

There is no price limit on NZUs on the open market. There is, however, currently a Fixed Price Option (FPO) set at \$25 per NZU available to emitters. Emitters have the choice of either paying the latest market price for an NZU or pay the FPO per unit of emissions in place of surrendering NZUs. There is currently no cap on the amount of NZUs that may exist in market.

Prices for NZUs may be found on financial service platforms such as Bloomberg, CommTrade Carbon, and Carbon Match.

On the NZ ETS, participants can acquire NZUs in the following way:

- Earning them through removal activities (e.g. carbon storage in forests),
- Buying them from other market participants (incentivising others to reduce their emissions),

- Buying them at auction (generating government revenue), or
- Receiving them from the NZ Government for free.

Allocations of NZUs are regulated by the NZ government. They are determined under the Climate Change Response Amendment Act 2009. Allocations change depending on the participants' activities. Emissions-intensive, trade exposed (EITE) industries currently receive free allocations at a level of either 60% or 90% of their requirements. Supply is set by multiplying the output of each EITE company by the average emissions intensity of the industry. This is based on data collected between 2006 and 2009.

The obligations to report and surrender emissions emission units currently applies to the following sectors: forestry, stationary energy (electricity and heat), transport, industrial processes, synthetic GHGs and waste. Biological emissions from agriculture (e.g. methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) carry reporting obligations only. The agriculture sector is not currently required to surrender NZUs in line with their emissions profile.

The supply of units comes principally from the New Zealand Government via free allocation, and from carbon reduction activities. Carbon reducing activities primarily reside in the forestry sector. Large scale forestry plantations have the impact of removing greenhouse gasses from the environment. This is called 'sequestration'. The government recognises the process of sequestration allocating NZUs to forestry owners.

## Trading NZUs

NZU trading is done on an over-the-counter (OTC) basis. An OTC market is where financial instruments (like NZUs), are traded between two counterparties and not on a physical exchange like the New Zealand Stock Exchange. Participants in the market (e.g. OMF, Carbon Match), can act as intermediaries between parties to the transaction. Participants typically charge a fee to the buyer for their services.

A feature of OTC markets is that derivative contracts may be created between parties. An example of a type of derivatives contract that is a feature of the NZ ETS market is a forward contract. An NZU forward contract is a non-standardised contract between two parties to either buy or sell NZUs at a particular date in the future, but at a price agreed today.

Forward contracts in NZUs typically occur for two types of reasons. The following provides examples of these;

- A forest owner knows she will receive 10,000 NZUs in two years from the government as compensation for removing greenhouse gasses from the environment. She doesn't know what the price of NZUs will be in two years' time but would like to achieve price certainty today. She enters into a transaction with a party who agrees to pay her \$30 per NZU in two years' time, and in return she will transfer her units to the other party.
- An industrial emitter forecasts that they will emit 50,000 tonnes of carbon dioxide equivalent in one year's time and will need to surrender 50,000 units to satisfy their obligation to offset emissions. The emitter would like to secure the cost of this activity today and enters into a forward contract to purchase 50,000 NZU's in one years' time at a price of \$25 per NZU. In one years' time the emitter will take receipt of the NZUs from the counterparty to the forward contract, and pay \$1.25m (50,000 NZUs x \$25).

## Changes to the ETS which may have affected prices

The NZ ETS allowed trading of units to and from the international Kyoto market from 2008 to mid-2015, at which point it de-linked. It currently operates as a domestic-only system.

There was unlimited access to Kyoto units that could be used domestically from 2008. A large supply imbalance developed. The nature of large-scale supply relative to demand created strong downward pressure on the price of NZUs as participants built up their allocation of NZUs and fulfilled domestic surrender obligations via Kyoto market units.

The NZ ETS "de-linked" from the Kyoto markets during 2015. As a result, from 2015 NZUs were primarily used to satisfy NZ ETS participants emission obligations. NZUs experienced strong price appreciation after de-linking from Kyoto.

## Proposed Changes to the NZ ETS

The Ministry for the Environment has made decisions to improve the NZ ETS.

The key proposals are:

- preparing for robust and transparent NZ ETS auctions,
- transitioning from the fixed price option to the cost containment reserve,

- enabling a potential price floor in the future,
- improving rates of compliance within the NZ ETS,
- making the scheme more transparent to participants and the public,
- establish a separate market governance work programme,
- phasing-down industrial allocation from 2021.

These decisions will form an amendment bill to the Climate Change Response Act.

For more information on proposed improvements to the NZ ETS, search for “NZ ETS improvements” at [www.mfe.govt.nz](http://www.mfe.govt.nz)

## International emissions trading schemes

The Fund can invest in international schemes. The largest offshore emissions trading scheme is the European Union Emission Trading Scheme.

### How the European Union Emission Trading Scheme (EU ETS) Works

The EU ETS is the largest ETS globally. It has the deepest liquidity and largest number of participants.

The EU ETS began in a trial phase period over 2005-2007. The formal market began in 2008, at a similar time to New Zealand’s ETS. 31 countries participate in the EU ETS. This includes the 28 EU member States, plus Iceland, Norway, and Liechtenstein.

Industries that are currently included in the scheme include industrial companies; i.e. steel, cement, oil refineries, chemicals, smelters etc, and aircraft operators. The EU ETS works by effectively placing a limit on emissions over time. The principal carbon emissions trading unit in the EU ETS is called an EUA. An EUA is similar to an NZU in that one EUA is the equivalent to one tonne of carbon dioxide equivalent emissions.

The EU ETS is different to the NZ ETS, in that it is a “cap and trade” system. This means that unlike the NZ ETS, there is a cap on total allowable emissions. This cap reduces linearly through time. Currently the emissions cap is set for 2020 for an emissions level that is 21% below 2005 emissions levels. Every year participants in the EU ETS need to surrender EUAs in exact proportion to the emissions they have produced. Should a participant not hold enough units to satisfy their obligation, they will need to purchase additional units from other market participants. If they do not surrender the appropriate amount of EUAs to satisfy their obligation, there is a fine imposed of €100 per tonne.

Supply of EUAs comes principally from the European Union Parliament, who distributes EUAs to Member States. First, the EU allocates free EUAs to Member States based on their level of emissions. Then, each Member State holds auctions within their country at which point ETS participants bid for the supply available. There is a second stream of supply into the EU ETS. These also come from the European Union Parliament and are free allocations to emissions intensive industries that are sensitive to the increase in carbon compliance costs.

Because of the amount of free allocations into the EU ETS, there has been excess supply of EUAs in the market. This has had the effect of suppressing the price of EUAs. By moving to reduce free allocations, supply has come more into balance with demand, and there is now more robust pricing for EUAs in the EU ETS.

For more information on the EU ETS go to [ec.europa.eu/clima/policies/ets\\_en](http://ec.europa.eu/clima/policies/ets_en)

### How does the Fund provide a return to investors?

Your investment in the Fund is converted into units. By purchasing units in the Fund you are pooling your investments in that Fund with other investors. Salt then invests in underlying investments like NZUs. Your units represent your proportionate holding of that Fund’s net assets (its assets like NZUs and cash less its liabilities, fees and expenses), although they do not give you legal ownership of those NZUs. Because unit values are based on the value of the Fund’s net assets including cash and NZUs, those unit values will fluctuate in line with the changing value of the underlying assets.

Returns from investing in a Fund are reflected in changes in the value of your units, and repayment of your investment when you sell your units. Although we do not currently make distributions, we may do so in the future, from the income or capital of a Fund. In that case, part of your return would be reflected in those distributions.



## About the manager and investment manager of the Fund

Salt Investment Funds Limited (we, us, and our) is the manager of the Fund and the Scheme. Our functions, responsibilities, and duties are outlined in the Trust Deed.

We are licensed under the FMCA as a manager of registered schemes for a term expiring on 30 August 2021. The conditions of the licence imposed by the Financial Markets Authority are published on [www.fspr.govt.nz](http://www.fspr.govt.nz). If you have queries about our licence, please contact us.

We are a wholly-owned subsidiary of Salt Funds Management Limited (Salt). Salt is the investment manager for the Fund.

Salt is a boutique investment management firm based in New Zealand.

Our and Salt's address is:

Level 3, The Imperial Buildings  
44 Queen Street  
Auckland

We are also the manager of the Salt Investment Funds, a registered managed investment scheme within which three funds have been established. Salt is also the investment manager of the Salt Investment Funds.

Our and Salt's directors are currently:

<b>Matthew Goodson</b> CFA, BA, MCA (Hons, 1st)	Matthew has more than 24 years' experience in the finance sector. Matthew is currently the Portfolio Manager for the Salt NZ Dividend Appreciation Fund, Salt Enhanced Property Fund, and Salt Long Short Fund (which are funds within the Salt Investment Funds).
<b>Managing Director</b>	<p>Matthew started his career as an Economist with Garlick &amp; Co from 1993-1995 before becoming Head of Research from 1995-1997. He then spent seven years in New York working for BZW and Goldman Sachs JB Were as Director, Wholesale Equities before returning to New Zealand in 2004 to work for First NZ Capital also as Director, Wholesale Equities until 2009. During this time Matthew also managed a long short fund for First NZ Capital from 2006-2008. Immediately prior to joining Salt, Matthew was employed for over four years as Portfolio Manager at BT Funds Management (NZ) Limited, a wholly owned subsidiary of Westpac Financial Services Group Limited.</p> <p>Matthew has a Bachelor of Arts degree and Masters in Commerce and Administration (First Class Honours) from Victoria University of Wellington and is a holder of the right to use the Chartered Financial Analyst® designation.</p> <p>Matthew is also a shareholder in Salt.</p>
<b>Paul Harrison</b> BCA, CA, MBA	Paul has more than 28 years' experience in the finance sector. Paul is currently the Portfolio Manager for the Fund.
<b>Managing Director</b>	<p>Paul started his career as an Accountant with Ernst &amp; Whinney in 1985. He then spent nine years working as an Associate Director for Southpac Investment Management and five years as Investment Manager for Goldman Sachs JB Were Asset Management. Other roles have included Director and CFO for software company EstarOnline Limited and an Institutional Adviser for share broker Doyle Paterson Brown. Immediately prior to joining Salt, Paul was employed for over five years as Portfolio Manager at BT Funds Management (NZ) Limited, a wholly owned subsidiary of Westpac Financial Services Group Limited.</p> <p>Paul has a Bachelor in Commerce and Administration from Victoria University of Wellington and a Masters of Business Administration from Auckland University. He also holds the Chartered Accountant (CA) designation.</p> <p>Paul is also a shareholder in Salt.</p>

<b>Kirsty Campbell</b> LLB (HONS), CMINSTD	Kirsty has more than 18 years experience in the finance sector. She is an independent director of Salt and also chair of the Compliance Committee.
Independent Director	<p>Kirsty has a portfolio of governance roles and is also a director of Clarity Advisory Ltd, a commercial advisory firm. She is a member of the board of Public Trust, an independent director of NZHL, Salt Funds Management Limited, Enviro-Mark Solutions Limited and New Plymouth PIF Guardians Ltd and has several other governance roles. Her previous roles include independent director of Simplicity NZ Limited, Head of Supervision at Financial Markets Authority and Senior Manager with ANZ.</p> <p>She is a Chartered Member of the Institute of Directors and an Accredited Investment Fiduciary®. Kirsty has a Bachelor of Law (Hons) and a post-graduate Diploma in Legal Practice, from the University of Edinburgh.</p>

Our directors can be contacted at our address.

The other key members of our and Salt's investment and management team are currently:

<b>Paul Turnbull</b> BBS (Hons)	Paul has more than 21 years experience in the finance sector. He is the Chief Investment Officer at Salt, with primary responsibilities including management of the investment team, model portfolio construction, sector research and ESG.
Chief Investment Officer	<p>Paul started his career as a research analyst at Ord Minnett from 1997-2001. He then spent eleven years in Melbourne with JCP Investment Partners firstly as a research analyst from 2002-2010 and then as Head of Research from 2010 to 2012. Paul returned to New Zealand to work for First NZ Capital from 2013-2019 as a Director, Research with sector responsibilities including Transport, Gaming and Equity Strategy.</p> <p>Paul has a Bachelor of Business Studies (Honours) from Massey University, Palmerston North.</p> <p>Paul is also a shareholder in Salt.</p>
<b>Roger Clayton</b> LLB, BCom (Hons), MCom	Roger has more than 20 years' experience in the finance sector. He is employed by Salt in the role of Chief Operating Officer and has overall responsibility for operations, compliance and client relationship management.
Chief Operating Officer	<p>Roger started his finance career in 1997 as a key account manager in JP Morgan's equity derivatives middle office in London. He returned to New Zealand in 2000 to work as an investment product advisor for Royal &amp; SunAlliance. Roger then spent seven years with the Westpac Group from 2004 to 2011 in several roles including Senior Product Development Manager at BT Investment Management in Sydney. He then returned to New Zealand to take a position with ASB Bank Limited in 2011 as Head of Wealth Product for seven years before leaving to join Salt.</p> <p>Roger has a Bachelor of Laws and Commerce (Honours), from the University of Otago and a Masters in Commerce from the University of Auckland.</p> <p>Roger is also a shareholder in Salt.</p>

Details on other members of Salt's investment team can be found on our website at [www.saltfunds.co.nz](http://www.saltfunds.co.nz).

## Administration Manager

We have appointed MMC Limited as the investment administration manager (**Administration Manager**) to provide unit pricing for the Fund.

## Registrar

We have appointed Link Market Services Limited to maintain the unit register (**Registrar**) for the Fund.

## Supervisor and Custodian

The supervisor of the Fund (and the Scheme) is The New Zealand Guardian Trust Company Limited (**Supervisor**). The New Zealand

Guardian Trust Company Limited is also the Fund's custodian (acting through its nominee company Salt Investment Nominees Limited). The Supervisor's functions, responsibilities, and duties are outlined in the Trust Deed.

Its address is:

Level 14  
191 Queen Street  
Auckland

You can obtain details of the Supervisor's directors at any time from the Companies Office website at [www.companies-register.companiesoffice.govt.nz](http://www.companies-register.companiesoffice.govt.nz).

The Supervisor has been granted a licence under section 16(1) of the Financial Markets Supervisors Act 2011 to act as a supervisor in respect of debt securities and registered schemes, for a term expiring on 16 March 2023.

A copy of the Supervisor's licence, including the conditions on the licence, can be obtained at the FMA's website: [www.fma.govt.nz](http://www.fma.govt.nz). If you have any queries about the licence please contact the Supervisor in the first instance.

## **Solicitors**

The solicitors for the Fund are Kensington Swan.

## **Auditor**

PricewaterhouseCoopers are the auditors for the Fund and the Scheme. PricewaterhouseCoopers and its partners have obtained auditor licences under the Auditor Regulation Act 2011. Other than in its capacity as auditor, PricewaterhouseCoopers has no relationships with, or interests in, the Fund or the Scheme.

## **Tax advisors**

Ernst & Young is the Fund's tax advisor.

## **Changes to details**

The addresses and individuals disclosed above may change from time to time. You can obtain up-to-date details from the Companies Office website [www.companies-register.companiesoffice.govt.nz](http://www.companies-register.companiesoffice.govt.nz) or by calling us on 09 967 7276.

## **Indemnities**

We and the Supervisor are entitled to an indemnity out of the assets of the Fund if we or it are held personally liable in respect of any debt, liability, or obligation incurred by or on behalf of the Fund or for any action taken or omitted in connection with the Fund. The indemnity extends to the costs of any litigation or other proceedings in which liability is determined.

However, neither we nor the Supervisor are entitled to be indemnified out of the assets of the Fund if doing so would be void under the FMCA, the NZX Listing Rules (for so long as units in the Fund are quoted on the NZX Main Board), or any other applicable laws or listing rules (including where the expense or liability is caused by a failure to show the degree of care and diligence required by the FMCA).

## **No guarantee**

No person guarantees the payment of any money payable from the Fund, including the repayment of any investment in the Fund or the payment of any return on it.

## **2. Applications, switches, transfers, and withdrawals**

This section contains more information about applying for units in the Fund, transferring units, and withdrawing from the Fund.

## Applying for units

See the PDS for details regarding how you can purchase units in the Fund, including (where applicable) the minimum investment amounts and payment methods that currently apply and timeframes for issuing units. Application monies are held in the Fund's subscription bank account (a trust account established at a bank outside the Fund in our name).

We have an absolute discretion to accept or refuse to accept any application for units made to us (including through an administration service or financial adviser) in whole or in part. If we reject an application we do not need to give reasons. Our decision must be made, and any units issued, within five business days of the valuation day for which the relevant application is effective (as set out in the PDS). If we reject an application, we will promptly refund the money paid. Interest will not generally be paid on application moneys refunded.

We can also postpone the processing of an application to us pending receipt of cleared funds (or for any other reason), and are not required to give any reason or ground for doing so.

We can also redeem or treat as void any units that could or would result in the Fund losing its status as a portfolio investment entity. Where units are voided the applicant will be paid their subscription monies and (subject to maintaining equity between unit holders) any other compensation we consider appropriate.

## Making a withdrawal

The units in the Fund are quoted on the NZX Main Board, so you can sell your investment through an NZX Participant (such as a broker) or financial adviser if there are interested buyers. See 'Transfers' below for more information.

Because units in the Fund are quoted on the NZX Main Board, investments in the Fund are generally not redeemable for cash.

If we allow redemptions, you will need to provide a withdrawal notice in a form approved by us – which is irrevocable once given. If we allow redemptions, the relevant form will be available from [www.carbonfund.co.nz](http://www.carbonfund.co.nz). If you invest through an administration service, you would need to request a withdrawal by following the process the provider of that service has. They will be able to provide you with details of that process. If we allow redemptions the minimum withdrawal amounts as disclosed in the PDS will apply and withdrawals will be processed in accordance with the Trust Deed.

From time to time we can, in accordance with the NZX Listing Rules, set a minimum holding for the Fund or a unit holder. If a unit holder's holding falls below the relevant minimum, and this is not increased after notice has been provided by us, they will be deemed to have given a withdrawal notice for their remaining units.

We can also defer or suspend withdrawals directly from the Fund, and 'side pocket' assets and liabilities of the Fund (which would partially restrict withdrawals), as set out in the 'Changes that can be made' section.

## Transfers

You can transfer units to another person by properly completing and signing the appropriate transfer form. This is available from [www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz).

The transferee will receive the same number of units that the existing unit holder held.

The number of units transferred and the number of units remaining must satisfy the minimum requirements applicable in accordance with the Trust Deed and NZX Listing Rules from time to time. Contact us for details of these requirements.

We may suspend transfers from time to time. We cannot suspend transfers for more than 30 working days in a calendar year without the Supervisor's agreement, and cannot suspend transfers if doing so would breach the FMCA or NZX Listing Rules.

We may also decline a transfer, including where the transfer would or could result in the Fund losing its status as a portfolio investment entity.

Before a transfer can occur, the existing unit holder must pay all duties, taxes, and other commissions, fees, and charges in respect of that transfer.



### 3. Fees and expenses

This section contains more information about the fees and expenses for investing in the Fund.

#### Additional information about fees in the PDS

Set out below is additional information about the amounts making up the annual fund charges disclosed in the PDS.

##### *Management fee*

We are paid the management fee for managing the investments of the Fund, plus GST. The current fee is set out in the PDS. We may increase (up to a maximum of 2% of the GAV of the Fund) the management fee in respect of the Fund after giving at least one month's prior notice to affected unit holders and the Supervisor.

##### *Other management and administration charges*

Out of our management fee, we currently pay the fees and costs charged by the Supervisor, custodians, investment manager, administration manager, and unit registrar, as well as other expenses incurred in operating the Fund (other than transaction costs). If this changes we will give one month's notice to affected unit holders.

##### *GST*

All fees are disclosed on a before-tax basis. GST will be added to fees and may be included in some expenses where applicable. GST at the standard rate of 15% currently applies to our fees. It is currently only charged on 10% of our fees based on an industry agreement with Inland Revenue. The proportion of fees on which GST is charged may change.

#### Individual action fees

##### *Contribution and withdrawal fees*

The information in this sub-section forms part of the PDS.

We do not currently charge contribution or withdrawal fees, or buy / sell spreads, and do not intend to do so. However, we may charge the following amounts in the future:

Fee / description	Minimum / maximum	How and when payable
<b>Contribution fee</b>	Up to 5% of the cash or other consideration forwarded for units.	Paid on the issue of units in the Fund by deduction from the application amount and payment to us.
<b>Withdrawal fee</b>	Up to 5% of any amount withdrawn from the Fund.	Paid on the redemption of units by deduction from the amount realised and paid to us.
<b>Buy / sell spread</b>	None.	The spread would be deducted from the relevant amount at the time you invest into or withdraw from the Fund. The spread is retained in the Fund and ensures other unit holders entering and exiting the Fund do not adversely affect the returns on your investment.

#### Transaction costs

In addition to the above, transaction costs are reflected in the Fund's unit price and could therefore affect returns.

#### Basis of estimates of annual fund charges in the PDS

The annual fund charges included in the PDS are our best estimates of the amount we expect to charge in respect of the Fund. As we pay the fees and costs incurred in operating the Fund (other than transaction costs), out of our management fee, the annual fund charges are made up of our management fee.

We charge the management fee each day based on the GAV of the Fund. The annual fund charges in the PDS are an estimate based on the net asset value of the Fund. We have estimated the management fee in the PDS based on the Fund's GAV (as defined in the Trust Deed), and converted to an annualised percentage of average Net Asset Value (NAV). The difference between the Fund's NAV and GAV is the aggregate of any accruals for fees and expenses. The only fees accrued in the Fund is the management fee as the manager pays all fees and expenses from this fee.

## 4. How Portfolio Investment Entity (PIE) tax works for the Fund

Tax will affect your returns. Tax laws are complex and can have different or further consequences than those described in this section. In addition, the information in this section is based on tax laws currently in force and is subject to change. You should seek independent professional tax advice before investing or withdrawing.

### *Portfolio investment entity tax*

The Fund is a listed PIE. All of the Fund's taxable income (or loss) will be allocated between unit holders based on their proportionate interest in the Fund. As a listed PIE, the Fund will pay tax on taxable income derived or deemed to be derived by the Fund at a rate of 28%. As a result, even if the rate of tax payable by the Fund is higher than your marginal rate, you will not get a refund of any of the tax paid by the Fund. Tax is then paid as described in this section.

To the extent distributions from the fund (if any) do not have imputation credits attached, distributions are not taxable (excluded income) in the hands of the investor. A New Zealand resident individual or trustee are not taxable on distributions from the fund that have imputation credits attached but can choose to treat these distributions from the fund as being taxable income. Other investors are taxable on distributions from the fund that have imputation credits attached.

### *Tax on investments made by the Fund*

Capital gains or losses made by the Fund on most holdings of New Zealand resident companies and Australian resident listed companies with franking accounts are not taxable or deductible, although distributions from these holdings are taxable. Subject to limits, imputation credits or foreign withholding tax credits may be used to offset against tax payable on those taxable distributions.

Other foreign shares (including shares in Australian resident companies not listed above) and funds held by the Fund will generally be subject to the Foreign Investment Fund (FIF) rules and are generally taxed under the fair dividend rate (FDR) method. Under this method, the Fund will be deemed to have derived taxable income equal to 5% per annum of the average daily market value of the shares for the relevant tax year. Dividends or other distributions received from investments taxed under this method are not taxable, although foreign tax credits may be available to offset fair dividend rate tax payable. Foreign currency hedges of shares and funds subject to fair dividend rate tax may also be taxed using a version of those rules (rather than under the financial arrangement rules).

Foreign shares and funds held by the Fund are generally taxed under the FIF comparative value method (that is, on the basis of the annual change in market value plus distributions and any disposal gains) if they are considered to be non-ordinary shares for tax purposes, which generally consist of foreign shares that:

- offer guaranteed or fixed rate returns; or
- are non-participating redeemable shares; or
- are 80% or more invested in financial arrangements or fixed rate shares that are denominated in or hedged to New Zealand dollars; or
- involve an obligation to provide more than the issue price of the share and are non-contingent or subject to a contingency sufficiently remote to be immaterial; or
- are otherwise determined by Inland Revenue to be shares to which the FDR method cannot be used.

Debt securities and other financial arrangements held by the Fund directly are taxed under the financial arrangements rules using the IFRS taxpayer method, which reflects financial reporting. Foreign exchange gains and losses may instead be taxed under a method similar to the FDR rules in some cases.

Generally, income and gains or losses from other investments held by the fund will be taxable. This will include income and gains or losses from trading in carbon credits.

## 5. Risks

All investments involve some degree of risk that can affect your ability to recover the full amount of your investment or impact on the level of return.

Risk and return are related. Generally, the greater the level of risk, the greater the expected return over the longer term. As an investor, you need to determine your own level of risk tolerance before investing. You should seek advice from an authorised financial adviser to determine your risk tolerance level.

No person guarantees the payment of any money payable from the Fund, including the repayment of any investment in the Fund or the payment of any return on it. In addition, due to the unique risks associated with an investment in the Fund, the Fund will not be appropriate for all investors.

The risks disclosed in the PDS are divided into general investment risks and other specific risks. This section sets out more detail on investment return risk and outlines other general risks that will apply to your investment in the Fund.

### Additional information on risks

Risk	Additional information
<b>Investment return risk</b>	<p>As discussed in the PDS, investment risk is the risk that returns from the Fund's investments will be negative or lower than expected, affecting the value of your investment in the Fund, and different asset classes have different levels of risk. More information on the risks associated with each asset class the Fund is expected to be exposed to is set out below.</p> <ul style="list-style-type: none"><li>• Cash risk- Cash is suitable for short term requirements, but inflation may erode its value. Investment returns from cash investments are generally expected to be lower than for other assets (such as shares and property) and accordingly tend to be lower risk. However, where cash assets are placed on bank deposit there is a small risk of the bank defaulting, meaning it may not be able to pay interest or repay principal and resulting in some or all of the cash being lost.</li><li>• Carbon risk- The price of carbon is set by an emissions trading scheme. The price is affected by the demand for carbon credits from emitters of greenhouse gases and entities that earn carbon credits by removing greenhouse gases from the atmosphere. The carbon price is affected by weather, commodity prices, fuel switching and storage and also public sentiment. Economic factors can also influence the price of carbon as higher production can mean more emissions. Alternatively, technological advances could lead to lower emitting manufacturing processes in the future.</li></ul>
<b>Fund regulatory risk</b>	<p>Regulatory risk is the risk of future changes to laws or regulations (including tax or managed fund legislation) that could affect the operation of the Fund or your investment in it. In addition, there is the risk that the Trust Deed could be amended in a manner permitted by law that adversely affects your interests.</p>
<b>Taxation risk</b>	<p>Changes in taxation rates, policies, regulations and laws or tax treatment of an investment in the Fund may impact your investment returns and the effectiveness of the Fund's investment strategy (e.g. gaining exposure to carbon credits through derivatives). We recommend you seek advice from a tax adviser before making an investment into the Fund.</p>
<b>Fund liquidity risk</b>	<p>There is a risk of the Fund being unable to meet monetary obligations in a timely manner, which arises where there is a mismatch between the maturity profile of investments and the amounts required to pay benefits (although the Fund's investments are managed with a view to ensuring its cashflow requirements are met).</p>
<b>Insolvency risk</b>	<p>There is a risk of the Fund becoming insolvent and being placed into receivership, liquidation, or statutory management, or being otherwise unable to meet its financial obligations during the term of your investment in it.</p>
<b>Administration risk</b>	<p>There is a risk of technological or other failures impacting on the operation of the Fund or financial markets in general.</p>
<b>Loss of PIE status risk</b>	<p>There is a risk of the Fund losing its PIE status and losing the benefits of that status (although we have processes in place to manage compliance with the PIE eligibility requirements).</p>
<b>Risk of changes to Fund</b>	<p>There is a risk of the Fund being wound-up or changes to the way the Fund operates being made while you invest in it.</p>

There may also be risks that are currently unknown that may affect your investment in the Fund at a future point in time.

However, unit holders do not incur any liabilities (including contingent liabilities) in relation to the Fund other than the purchase price for units and a requirement to indemnify us and the Supervisor in respect of any tax paid or payable in respect of you and your units.

## Additional information on the risk indicator methodology and calculation

The risk indicator in the PDS has been calculated using a mix of the historical price of carbon credits in NZ and actual Fund returns because the Fund has not been in existence for a period of five years. The historical price of carbon credits has been used for the period from 30 September 2014 to 8 November 2018 (when the Fund was launched).

To calculate risk, we measure the standard deviation of monthly returns over a five year period to 30 September 2019. Standard deviation is a statistical measure of the dispersion of a series of data relative to its mean. In financial theory it is typically used to form a view of the historical volatility of an asset's returns. In its simplest form, the greater the standard deviation measure, the greater the variance between an asset's mean return and its historical return series.

To calculate the five year standard deviation of weekly returns, we used 214 weeks of NZU returns data to 8 November 2018 and 47 weeks of Fund returns to 30 September 2019. We then compute the weekly standard deviation over the time period and annualise this by multiplying by the square root of 12. The outcome is a historical five-year annualised standard deviation of 21.4%. Applying the same methodology over a one-year period returns 5.5%.

The key contributor that may help explain the large variance in the two measures is that the NZ ETS market experienced a meaningful change in policy settings within the defined period. In the 2008 NZ ETS market design, NZ participants had both buy and sell linkages with the international Kyoto market. There was no restriction to the amount of units that could be purchased from the Kyoto market and surrendered in the NZ ETS to cover emissions obligations. Given there was unlimited access to amounts of Kyoto units that could be used domestically, there was a large supply demand imbalance. The nature of large scale supply relative to demand created strong downward pressure on the price of NZUs as participants "banked" their allocation of NZUs and fulfilled obligations via Kyoto market units.

The NZ ETS de-linked from the Kyoto markets during 2015. As a result, from 2015 primarily NZUs were used to satisfy NZ ETS participants emission obligations. After an initial period of NZU over supply, caused by the banking of NZUs when Kyoto market units were available, the NZU price experienced strong price appreciation.

## 6. Changes that may be made

The table below describes the key changes that we and the Supervisor can make to the way the Fund operates.

Key change	How changes may be made
<b>Trust Deed</b>	<p>We and the Supervisor may at any time make any alteration, modification, variation or addition to the provisions of the Trust Deed (by means of a deed executed by us and the Supervisor) in either of the following cases:</p> <ul style="list-style-type: none"> <li>• if the Supervisor is satisfied that the change does not have a material adverse effect on the unit holders; or</li> <li>• if the change is approved by, or contingent on approval by, one or more special resolutions (as defined in the Trust Deed) of the unit holders that are or may be adversely affected by the change (or, if applicable, of each separately affected class of unit holders in the Fund).</li> </ul> <p>Certain procedural requirements also need to be complied with.</p>

Key change	How changes may be made
<b>Suspensions</b>	<p>If as a result of:</p> <ul style="list-style-type: none"> <li>• a decision to wind-up one or more of the funds established within the Scheme;</li> <li>• the suspension of trading on any exchange;</li> <li>• financial, political, or economic conditions in any financial market;</li> <li>• the nature of any investment; or</li> <li>• the occurrence or existence of any other circumstance or event relating to the Fund or generally,</li> </ul> <p>We form the opinion in good faith that it is not practicable, or would be materially prejudicial to the interests of unit holders generally for us to give effect to withdrawal notices or switching notices (although switching is currently not possible, as there is only one fund established within the Scheme), we may suspend withdrawals and switches from the Fund by giving a notice to that effect to the Supervisor and any unit holder of the Fund that gives or has given a withdrawal or switching notice that has not been given effect to.</p> <p>A suspension may last up to three months, or longer if the Supervisor agrees to an extension. We must cancel a suspension if the circumstances that gave rise to the suspension cease to apply. There is no limit on the period that a suspension can be extended for with the Supervisor's agreement.</p>
<b>Large withdrawals</b>	<p>If a withdrawal or switching notice, or a series of withdrawal and/or switching notices have been received within three months and those notices in aggregate relate to more than 5% of the units on issue in the Fund at the time of the last notice (or any other percentage we specify by at least 30 days' prior notice to unit holders and the Supervisor), we can defer the redemption of those units.</p> <p>We will give notice to the Supervisor and affected unit holders of any deferral, and that notice will set out the intended dates of redemption of units. We are able to redeem affected units progressively by instalments with effect from one or more valuation days falling in a period we specify, and/or in total at the expiry of a period we determine. In each case, the period cannot be longer than 90 days unless the Supervisor approves, and the Supervisor cannot unreasonably withhold its approval. The withdrawal value of affected units will be calculated on the valuation days on which they are redeemed</p>
<b>Side-pocketing</b>	<p>Subject to relevant law and the Trust Deed, we can, with the prior written approval of the Supervisor, create a 'side-pocket' of assets of the Fund if we consider that it is in the interests of the unit holders in the Fund generally to do so. We will give affected unit holders notice of any side-pocketing as soon as reasonably practicable after we exercise this power.</p> <p>Side-pocketing is designed to separate the Fund's illiquid assets from more liquid assets (for example, in situations where withdrawals might otherwise need to be suspended). This usually involves restricting your ability to access the units in the Fund that relates to those assets, without affecting your ability to access the non-quarantined assets.</p>
<b>Sale of Minimum Holding</b>	<p>We have the right to sell or redeem units if:</p> <ul style="list-style-type: none"> <li>• a unit holder holds less than a Minimum Holding (as defined in the NZX Listing Rules);</li> <li>• we give at least three months' prior notice to that unit holder of our intention, at the expiry of that period, to sell or redeem the unit holder's units; and</li> <li>• when that period expires, the unit holder still holds less than the Minimum Holding.</li> </ul>



Key change	How changes may be made
<b>New funds and amalgamating funds</b>	<p>The Trust Deed allows us and the Supervisor to establish new funds within the Scheme by entering into an establishment deed which sets out the terms of the new fund.</p> <p>We can also, after giving the Supervisor and all affected unit holders at least two months' written notice and subject to relevant law, amalgamate any funds together or divide any fund into separate funds, by way of a deed amendment. We cannot do this during the period of any suspension.</p>
<b>Investments</b>	<p>The Fund is invested in 'authorised investments'. The Fund's particular authorised investments are set out in the SIPO.</p> <p>We can change the authorised investments and investment strategy for the Fund by amending the SIPO, after giving notice to the Supervisor in accordance with the Trust Deed. We will give affected unit holders one month's notice of any material changes to the SIPO.</p>
<b>Distributions and bonus units</b>	<p>Although we do not currently intend to, we can distribute amounts from the Fund at any time in accordance with the Trust Deed, which may be made up of all or part of the income or capital of the Fund.</p> <p>We can also, if the Supervisor accepts our recommendation, capitalise the whole or part of the income or capital of the Fund and apply it to issuing new units to be distributed as fully paid bonus units.</p>
<b>Borrowing</b>	<p>Subject to the limits set out in the Establishment Deed, the Supervisor may, and must if we direct, borrow and raise money for the purposes of the Fund on any terms we and the Supervisor think fit. We can give security from the Fund for borrowings.</p> <p>We do not intend to borrow in respect of the Fund unless for settlement purposes. This may occur if we settle a unit holder's withdrawal notice prior to receiving clear funds. This will overdraw the Fund temporarily. This will only be used in rare circumstances. Borrowing is limited for the Fund to a maximum of 25% of its net asset fund value unless otherwise agreed with the Supervisor.</p>
<b>Winding up</b>	<p>The Fund will be wound up if:</p> <ul style="list-style-type: none"> <li>• we resolve to wind up the Fund and give notice in writing of that resolution to the Supervisor;</li> <li>• a special resolution of the unit holders of the Fund is passed resolving to wind up the Fund;</li> <li>• the Scheme is wound up as set out below;</li> <li>• the Supervisor is removed or retires and a new supervisor is not appointed within two months of the vacancy occurring; or</li> <li>• eighty years has passed since the commencement date for the Fund.</li> </ul> <p>The Scheme as a whole will be wound up if:</p> <ul style="list-style-type: none"> <li>• we resolve to wind up the Scheme and give notice in writing of that resolution to the Supervisor;</li> <li>• a special resolution of all unit holders of the Scheme is passed resolving to wind up; or</li> <li>• the Scheme's registration under the FMCA is cancelled or the Scheme is required to be wound up under the FMCA.</li> </ul>

## 7. Material contracts, conflicts of interest, and market indices

This section sets out information on material contracts, conflicts of interest, and the market indices against which we measure the Fund's performance. It contains information for the purposes of clause 52 of Schedule 4 to the Financial Markets Conduct Regulations 2014.

### Material contracts

The following is a summary of the contracts that we consider to be material in respect of the Fund:

#### Registry agreement

We have entered into a registry customer agreement in respect of the Fund dated 12 October 2018 with the Registrar.

The agreement specifies the registry services to be provided by the Registrar in respect of the Fund, including the processing of applications, transfers, and redemptions from the Fund.

#### Administration services agreement

We have entered into a replacement administration services agreement (including service level agreement) in respect of the Fund and the Salt Investment Funds dated 11 May 2016 with the Administration Manager and Salt. The Administration Manager and Salt agreed that the Fund became subject to this agreement on 20 September 2018.

The agreement replaces the original administration contract between us and the Administration Manager dated 19 May 2014, and re-documents the terms on which we have delegated various administrative functions to the Administration Manager, including the provision of unit pricing services.

#### Management agreement with Supervisor

We have entered into a management agreement with The New Zealand Guardian Trust Company Limited (Supervisor) dated 7 September 2016, as subsequently amended on 30 March 2017 and 12 October 2018, that sets out the arrangements between us and the Supervisor in relation to certain operational matters relating to the Fund and the Salt Investment Funds.

The management agreement specifies the reporting and information to be provided by us to the Supervisor, the requirements for operating each relevant fund's bank account, and record keeping requirements.

Nothing in the management agreement limits or alters the powers of the Supervisor or our duties under the governing document for a relevant fund and applicable law. In the event of any inconsistency between the management agreement and a relevant fund's governing document, the governing document will prevail.

#### Management support agreement with Salt

We have entered into a management support agreement with Salt dated 15 September 2016, as amended on 12 October 2018.

Under this agreement, we effectively outsource investment management functions in respect of the Fund and the Salt Investment Funds to Salt, and Salt provides us with support and resources (including people, operational and financial resources), in respect of those funds, in order for us to perform our functions, discharge our duties, and otherwise conduct our business.

### Conflicts of interest

A conflict of interest occurs when a staff member, senior manager, director or any other person we engage (referred to in this section as an employee) has a personal interest in a matter or action connected with our activities. In relation to investment decisions for the Fund, a conflict of interest is a financial or any other interest, a relationship, or any other association of a relevant person that would, or could reasonably be expected to, materially influence the investment decisions that we or Salt (or both) make in respect of the Fund.

A 'relevant person' means us, Salt, or:

- a director, senior manager, or employee of ours who has a significant impact on the investment decisions that are made in respect of the Fund; or
- an associated person (as defined in the FMCA) of ours (or a director or senior manager of that associated person).

Details of conflicts of interest that currently exist at the date of this document, or that are likely to arise in the future, are as follows:

Nature of conflict	Influence on investment decisions
<b>We are a subsidiary of Salt, who is the investment manager of the Fund.</b>	As a subsidiary of Salt, we may have an incentive to appoint Salt over a third party investment manager.
<b>Directors and employees of ours and Salt's may from time to time hold units in the Fund.</b>	Decisions made by affected directors and employees may be influenced by their personal interest in the Fund.

We have taken, and will continue to take, the following steps to manage the above conflicts:

- Complying with the requirements of the FMCA for related party transactions. The FMCA prohibits transactions with related parties, unless the transaction falls within an exception (for example, transactions on commercial arm's-length terms) or the Supervisor consents to the transaction (which it can only do if it considers the transaction to be in the best interests of unit holders, or the transactions are approved by (or contingent on approval by) a special resolution of unit holders).
- Adopting our own Conflicts of Interest and Related Party Transactions Policy (separate from Salt's policy). This policy sets out our process for identifying and managing any conflicts of interest and related party transactions. It requires employees to raise any potential conflict of interest with one of our directors, who will escalate that conflict to the full Board if the director decides a potential adverse conflict of interest exists. The Board will then determine measures to address any conflict identified. Our policy also addresses trade execution, personal investments of employees, gifts and hospitality, and board memberships. We have also adopted a Code of Conduct, Trade Execution Policy, Soft Dollar Policy, and Internal Trades Policy.

In addition, as we are the manager of a registered scheme under the FMCA, we are subject to duties under the FMCA, including duties to act honestly and in the best interests of unit holders. Our directors and senior managers are also subject to duties, including a duty prohibiting them from making use of information acquired through their position in order to gain an improper advantage for themselves or any other person, or cause detriment to unit holders.

## Market indices

We do not believe there is an appropriate broad-based securities index in terms of assessing the performance of the returns from the carbon credits held by the Fund. This Fund is the first fund, listed or unlisted, to invest in carbon credits in New Zealand. Therefore, there is no peer group index for carbon credits in NZ. Nor do we believe there is an appropriate peer group index that is useful in assessing the performance of the Fund. The price of carbon credits on the NZ ETS has a correlation to other major asset classes of close to zero. On this basis we will not be assessing performance of the Fund against a market index in reliance on the Financial Markets Conduct (Market Index) Exemption Notice 2018.

## 8. Glossary

In this document, unless the context otherwise requires, each term listed below has the meaning set out in the following table:

<b>Administration Manager</b>	MMC Limited, the administration manager for the Fund.
<b>currently</b>	As at the date of this document.
<b>Establishment Deed</b>	The establishment deed for the Fund.
<b>GAV</b>	The Fund's gross asset value, which is its net assets, ignoring the aggregate of any accruals for fees and expenses (including our fees and the Supervisor's fees), calculated in accordance with the Trust Deed.
<b>FMCA</b>	The Financial Markets Conduct Act 2013.
<b>Fund</b>	The Carbon Fund.
<b>Net asset value</b>	The Fund's gross asset value less the aggregate of any accruals for fees and expenses (including our fees and the Supervisor's fees).
<b>NZX Listing Rules</b>	The NZX Main Board / Debt Market Listing Rules, which govern the operation of the NZX Main Board.
<b>NZX Main Board</b>	The equities market operated by NZX Limited and known as the NZX Main Board.
<b>PIE</b>	Portfolio investment entity, a special type of investment vehicle for income tax purposes.
<b>Registrar</b>	Link Market Services Limited, the unit registrar for the Fund.
<b>Salt</b>	Salt Funds Management Limited, our parent company and the investment manager of the Fund.
<b>Supervisor</b>	The New Zealand Guardian Trust Company Limited, the supervisor of the Fund and the Scheme.
<b>SIPO</b>	The statement of investment policy and objectives for the Fund.
<b>Trust Deed</b>	The master trust deed governing the Fund and, unless the context requires otherwise, also includes the Establishment Deed.
<b>we, us, and our</b>	Salt Investment Funds Limited, the manager of the Fund and the Scheme.
<b>you or your</b>	A person or entity that invests in the Fund, whether directly or indirectly.

SALT

Funds Management

Salt Listed Funds Other Material Information