

**CARBON GROWTH
OPPORTUNITIES FUND**

2021 IMPACT REPORT



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AS WE SIT IN OUR AIRCONDITIONED OFFICES TALKING ABOUT POLICIES, PROGRAMS AND PLANS, THE PEOPLE OF THE DELTA SIT IN FRONT OF THE BUDDHA WHISPERING "PLEASE DON'T MAKE ME HUMAN AGAIN, BORN INTO A WORLD SO CRUEL AS THIS".

TINT THUANG, MYANMAR



Dear Investor,

The haunting plea on page 3, shared with me by one of Myanmar's conservation and community leaders, is a frequent reminder that global warming is no longer an abstract concept, a future problem. It is an unfolding human and natural tragedy, requiring real solutions, with real money, that deliver real impact, right now.

To that end, on behalf of the Carbon Growth Partners team I am pleased to present the first annual Impact Report for the Carbon Growth Opportunities Fund.

In its first six months, the Fund has committed more than US\$100 million in direct financing to climate action projects. These projects are protecting forests from the Orinoco to Borneo, improving indoor air quality in Africa, bringing clean energy to India's rural poor and more.

The Fund aims to deliver three key objectives for Fund investors and for the planet:

1. Generating financial returns

By identifying, acquiring and managing best value carbon assets that can deliver superior returns to investors.

2. Protecting and restoring nature

By investing in projects that deliver co-benefits to forests, grasslands and wetlands, and the people who rely on them.

3. Accelerating climate action

By bringing high integrity carbon offset solutions to responsible companies to complement those companies' own emissions reductions.

In compiling this report, we've aimed to reflect on the Fund's progress towards these objectives as well as some key lessons learned. We welcome your feedback on how well we have achieved that reporting goal, and what you would like to see covered in future reports.

We have elected to report on the Fund's impact on a calendar year basis (noting this first report covers the period to January 31, 2022). Reporting on impact by calendar year will allow us to focus our June 30 reporting on the Fund's full year financial performance. The carbon footprint of the Fund and the manager will be offset to zero at that date.

The Carbon Growth Opportunities Fund has quickly become one of the most successful, impactful and influential forces in the international carbon market. We feel privileged to have been given the opportunity to lead its design, implementation and management. You, as the Fund's investors, have made this impact possible. Thank you for the faith you've shown in the Fund and in Carbon Growth Partners as the Fund's manager.

We hope you enjoy the Impact Report. As always, please feel free to reach out to me or any members of the team at any time. You can contact me directly on +61 438 389 278 or at rich.gilmore@carbongrowth.com.

Thank you again.

Yours sincerely,



Rich Gilmore

CEO

Carbon Growth Partners



1. ENVIRONMENTAL AND SOCIAL IMPACT

Generating positive social and environmental impact is a key objective for the Fund. The Fund seeks to demonstrate that it is possible to deliver attractive financial returns to investors and genuine climate, conservation and community benefits. Beyond the inherent impact that carbon credits reward, investing in the highest integrity and most impactful projects is good for returns: these projects are lower risk, will attract premium sell-side prices and provide the most liquidity by appealing to the largest pools of future buyers.

The Fund's impact at a glance

23,508,975 tonnes
of verified emissions reductions



United Nations
All Sustainable Development Goals addressed



More than **\$US100 million**
in direct financing for emissions reduction projects

50% nature-based solutions
20% household devices
30% energy and industry



Projects in **25 countries**
across four continents:

17% of projects located
in Least Developed Countries

80% of projects located
in Developing Countries

3% of projects located in Developed Countries



1.1 Aligned impact – meeting the UN Sustainable Development Goals

Every carbon project in which the Fund has invested contributes, by definition, to **UN Sustainable Development Goal 13: Climate Action**. Across the portfolio the Fund's investments have contributed to all 17 of the global goals, helping to alleviate poverty, improve education, and protect and restore biodiversity on land and in the ocean. To date the Fund's SDG contributions include:



GOAL 1 **ENDING POVERTY** **EVERYWHERE**

In Colombia, the REDD+ Mataven Project is providing alternative incomes to villagers by paying indigenous forest owners to protect their forests.



GOAL 3 **GOOD HEALTH** **AND WELLBEING**

In Africa, financing from the Fund is helping to distribute 4.5 million fuel-efficient cookstoves to families. These clean cookstoves replace inefficient firewood stoves, helping to improve women's education and safety, reduce the burden of respiratory disease in children and reduce deforestation.



GOAL 4 **QUALITY** **EDUCATION**

In China, the Qianbei Afforestation Project is training local farmers in seed and seedling selection, nursery management, site preparation, planting models and integrated pest management. This had led to native species being restored across 50,000 hectares and providing jobs for 16,339 local farmers (70% of whom are women).



GOAL 8 **DECENT WORK AND** **ECONOMIC GROWTH**

In Cambodia, the Keo Seima REDD+ project has secured Indigenous Community Land Title on behalf of the Indigenous Bunong people. A total of 449 jobs have been created through the project, including law enforcement and community agents drawn from the Bunong communities.



GOAL 9 **INDUSTRY INNOVATION** **AND INFRASTRUCTURE**

In Bangladesh, one of the world's Least Developed Countries, the Titas gas leak project inspected the infrastructure at 500,000 households and fixed more than 38,000 gas leaks.



GOAL 14 **LIFE BELOW** **WATER**

In Pakistan, Indus Delta Mangrove Restoration Project is restoring 350,000 ha of coastal mangrove forest, which is helping to recover depleted local fisheries, provide food and fibre for over 34,000 local people and help protect threatened and endangered species.



GOAL 15 **LIFE ON LAND**

In Brazil, the Amazon Reforestation Consortium REDD+ Project is working with 40 families to improve land rights and develop training and agroforestry systems to protect 165,707 hectares of Amazonian rainforest including five threatened species.

1.2 Global reach

The impact of the Fund is truly global, having supported 70 projects in 25 countries across Africa, South America, India, Pakistan, China, Southeast Asia and North America.



CLEAN ENERGY

- 23 windfarm projects in China, Dominican Republic, Indonesia, Mauritania, Mongolia
- 10 solar farms in Burkina Faso and India
- 8 run-of-river hydropower plants in Côte d'Ivoire, India, Indonesia, Turkey, Uganda



NATURE-BASED SOLUTIONS

- 4 agroforestry projects in Colombia, Uruguay, Brazil
- 6 forest protection and reforestation projects in Colombia, Cambodia, Brazil, China, Indonesia
- 1 mangrove forest protection and restoration project in Pakistan



HOUSEHOLD DEVICES

- 10 clean cookstove projects in Sub-Saharan Africa, including Angola, Democratic Republic of Congo, Malawi, Mozambique, Rwanda, Tanzania, Zambia



INDUSTRIAL PROCESSES

- 1 biomass cogeneration plant in India
- 1 fugitive emissions (gas pipeline) project in Bangladesh
- 2 transition to low-warming refrigerants in United States



1.3 Ensuring quality and integrity

Integrity, quality and impact matter not only to the Fund and its investors, but increasingly matter to offset end-users, policymakers and society at large. Ensuring that local communities and the environmental benefits from carbon markets is integral to the robustness, longevity and policy certainty of the market. Quality also matters in terms of securing access to deals and premiums for sales longer term.

When selecting projects to invest in we go above and beyond the normal process of basic review of a project and auditor's reports. Carbon Growth Partners has developed its own set of assessment criteria, developed by our dedicated team of in-house staff and external associates based in Latin America, Asia and Australia (Africa is planned). This team encompasses a broad range of skills from climate negotiators and political consultants to technical experts in corporate finance, remote sensing, and carbon development. This diverse skill set gives CGP a unique edge when assessing a project for its climate, social and environmental impacts.

Our financial and carbon due diligence project criteria includes:

- **Compliance compatibility:** Assets that may become eligible for regulated markets will benefit from the floor demand/price that arise from those systems.
- **Removals:** Nature-based removals are scarce and difficult to replicate and will attract a widening price premium.
- **Policy alignment:** Future usability as an offset will be critical, so we prioritise assets in jurisdictions with greater policy certainty to reduce stranded asset risk.
- **Standardisation:** Assets able to be exchange-traded or delivered into the futures market will attract new speculative capital and provide liquidity.
- **Unimpeachable additionality:** Investments in Least Developed Countries, removals, and projects that meet anticipated evolving method and vintage additionality requirements.

Additional critical criterion for investment requires that investments:

- Are owned and operated by credible actors, with whom we have trusted relationships.
- Are supported by local, provincial and/or national host governments.
- Demonstrate that local and indigenous people own or share fairly in the benefits of the project.

The combination of detailed criteria and experienced staff ensure that we are fully aware of the risks to the reputation of the project which can affect its value to future buyers. These qualitative assessments are more nuanced, often more difficult, and arguably more important as this is where unseen risks can emerge. By taking time to undertake detailed due diligence, we provide investors and end-users with assurance that we have invested in the highest integrity carbon projects that provide the greatest climate impact while additionally bringing needed finance to advance the Sustainable Development Goals.

2. STRATEGY REFLECTIONS

The past 18 months, and in particular the past six months have seen the international market for carbon credits experience significant growth. This growth has been driven in part by surging demand for carbon credits triggered by corporate net zero emissions pledges and by the expected (and then confirmed) global endorsement at COP26 in Glasgow of the role of carbon markets as crucial component of a global climate solution.

The growth in the size of the market, as measured by traded volumes and value is just one factor influencing the way in which we are engaging - and will need to engage - in the market. The past year has seen a rapid maturing of the market as evidenced by the expansion of the type and number of participants, and increasing scrutiny and transparency of market infrastructure, rules and governance. When the Fund first launched, buyers were largely corporate end-users acquiring carbon credits for offsetting purposes.

While offset end-users are still the dominant participants in the market, we are now observing the increased involvement of:

- financial traders and investors
- governments who are seeking to use the voluntary carbon market infrastructure as a proxy for the policy infrastructure they have yet to develop
- more players looking to be involved in the development and supply of carbon projects as rising carbon prices make this an economically viable option
- new exchanges, trading platforms, intermediaries and third-party rating agencies all changing the landscape for engaging in the voluntary market.

This new and newly diverse participation has created an environment in which Carbon Growth Partners' deep carbon expertise alongside our financial and investment experience, allows us to anticipate movements in the government and corporate sectors and adjust trading strategy accordingly, providing a comparative advantage for the Fund.

Some key observations on the evolution of the market and what it means for our strategy going forward include:

- There remains an ongoing, chronic undersupply of high-quality carbon credits entering the markets (whether compliance or voluntary), particularly nature-based removal projects. The way to secure access to these credits is to engage further forward in the development pipeline.
- While the spot market is the simplest form of deployment, with the least delivery risk and the fastest exposure, high-quality, low-cost spot credits are increasingly scarce. We expect this trend to continue, and have looked increasingly to secure forward delivery contracts.
- Increasing carbon prices have improved the financial viability of carbon projects, but access to finance in the earlier stages of project development remains an impediment to the credits being brought to market. This provides an opportunity for us to secure volume at lower cost by engaging further forward in the pipeline in order to secure supply and mitigate the risk of being caught short in a rapidly rising market.
- Despite the increasing number of exchanges and more sophisticated trading infrastructure, relationships (particularly those built directly with project owners, developers and host communities) remain crucial. We have used our industry networks with the conservation community, brokers, exchanges, carbon project developers, policymakers, and corporate buyers to access, assess, execute and optimise the Fund's investment opportunities. Direct relationship management will remain crucial in securing high-quality carbon credits into the future and is a point of difference between CGP and other investors in the market.

- Scrutiny of the market has also resulted in greater demand for transparency and third-party ratings of projects. The rise of rating organisations and tools such as Sylvera and BeZero are not only a marker of an increasingly sophisticated and legitimised market, but also mean that the market will be able to more readily distinguish projects based on their quality. This reinforces and vindicates our commitment to acquiring highest quality carbon credits and investments in rigorous due diligence processes. This commitment to due diligence and highest quality carbon assets will ensure the Fund's investments continue to deliver:
 - genuine climate impact
 - sell-side premiums to responsible companies
 - lower risk

To date the Fund's strategy of deploying capital quickly to the best quality, most recent and most impactful projects has been vindicated and we expect these attributes to be even more valuable into the future.

3. IMPACT CASE STUDY: TSETSII WIND FARM, MONGOLIA

The Fund has acquired credits generated by the Tsetsii wind project in Mongolia, home to some of the world's largest, most intact and most threatened grassland ecosystems.

As well as being a hotspot for biodiversity – including endangered snow leopards, eagles and wolves – Mongolia's grasslands are a hot spot for coal, copper and gold. A mineral-rich country as large as California, Oregon, Washington and Nevada combined, the Mongol Empire once ruled the world from Hungary to the Sea of Japan. Suffering as a Soviet satellite state for 70 years, traditional Mongolian-Tibetan Buddhism was ruthlessly purged, traditional herding regimes were altered and, when the USSR fell, Mongolia went through a period of economic hardship and instability. However, thanks to its high education and literacy rate (98%), its many foreign-educated returnees and an entrepreneurial national spirit, the country was able to make the transition to a market economy relatively rapidly.

This transition exists alongside a deep reverence for the land and for the survival of the people that it supports; almost all Mongolian people are only one or two generations descended from nomadic herding. Even today, many university-educated couples leave the capital Ulaanbaatar in favour of a life on the steppe, following their animals from summer to winter pastures, living in temporary gers (known as yurts in Russia) that can be packed up in an afternoon and pulled along by horses. These gers confer only a few concessions to modern life over what Genghis Khan may have used: solar panels to charge a couple of car batteries that can power a satellite tv connection and lights for reading at night.

Traditional livestock grazing, however, has proved insufficient to maintain the level of educational and governmental services that the Soviets had provided, so Mongolia embarked on a path to develop the nation's mineral resources. While bringing relative wealth, the exploitation of these resources has come with a cost; an abundance of cheap coal, a cold climate and inefficient infrastructure mean Mongolia is one of the world's highest per capita carbon emitters. Ulaanbaatar is one of the most polluted cities on Earth because of the antiquated coal plants in the basin in which the city sits. Fortunately, Mongolia's other great natural resource is free and abundant wind energy. Advances in wind turbine technology and falling prices have allowed for wind to be added to the nation's energy mix—a promising sign for the land as well as the sustainability of energy supplies. Wind projects have been partially publicly financed, with financing from carbon credits making clean energy competitive with the country's old and cheap coal-fired power plants.

The Tsetsii project provides 50MW of power, displacing coal to provide nearly 3% of the country's electricity. It created 200 jobs in construction, sustains 65 jobs in operations, reduces emissions by nearly 150,000 tonnes per annum and provides an alternative land use to the degradation of mineral extraction. A single clean energy project cannot deliver ecological and economic utopia, but the transition from fossil fuels is a longer-term project, vital for a country that seeks economic development alongside clean air and a safe climate. Corruption is low, education levels are high and the Mongolian people debate these issues informed by facts and science. They know the trade-offs that have to be made and are committed to a sustainable future. The modern and ancient worlds come together in Mongolia, and Carbon Growth Partners is proud to have helped to finance one step forward on the nation's path to ecological, economic and energy security.

First published: Investor Update, January 2022

4. FINANCIAL RETURNS AND IMPACT

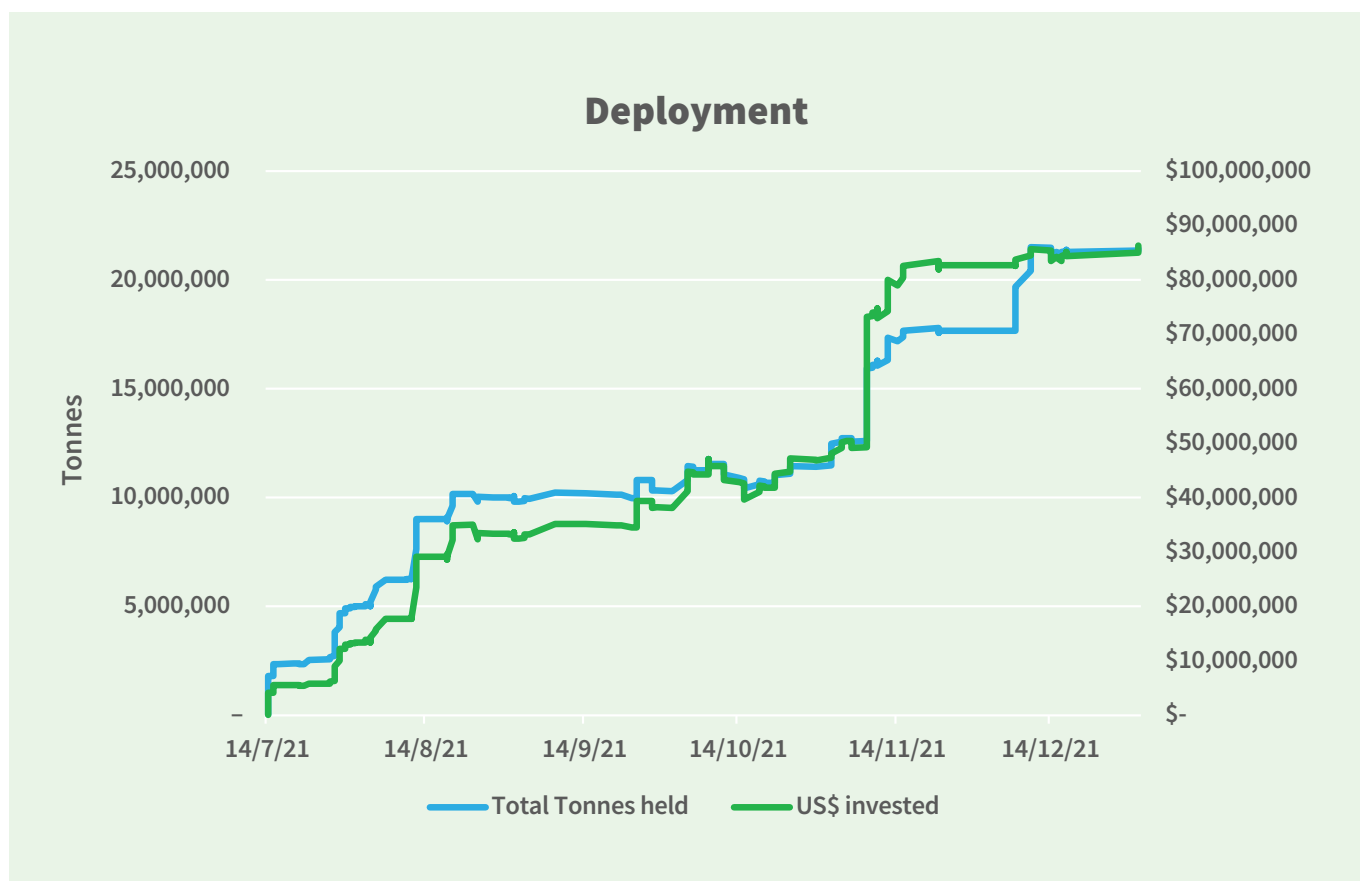
The Fund’s financial performance to date has exceeded our expectations in absolute terms and when benchmarked against other assets and the broader carbon market. As at January 31, 2021 the Fund had achieved a net return of 98.33% and had committed more than US\$100 million in direct finance to carbon emissions reduction and removals projects.

Benchmarking the performance of the Fund is challenging in a still nascent and relatively opaque and inefficient market. This is especially true given that the vast majority of transactions are still executed over-the-counter, some trades can take weeks or months to settle and prices diverge significantly by vintage, project type, geography and quality. This means that while we can accurately value the credits in the portfolio, a universally accepted volume-weighted benchmark for the international carbon market remains elusive.

To overcome these limitations for this report, we set about creating a comparison with three guiding principles: authenticity, transparency and simplicity.

A key measure of our effectiveness is our ability to deploy capital well in a thinly traded, rising market. In other words, how long did the capital take to deploy and how effectively was that deployment executed?

To start, we laid out our deployment progress across time as shown in the following graph. It charts the credits settled into our account (or with signed purchase agreements in place) as well as the associated cash outlays.



As seen in the chart, the initial deployment made steady progress through mid-July to late August with the balance dragging into September/October. This drag was primarily related to transactions already secured but with delayed settlement, usually due to process bottlenecks at Verra.

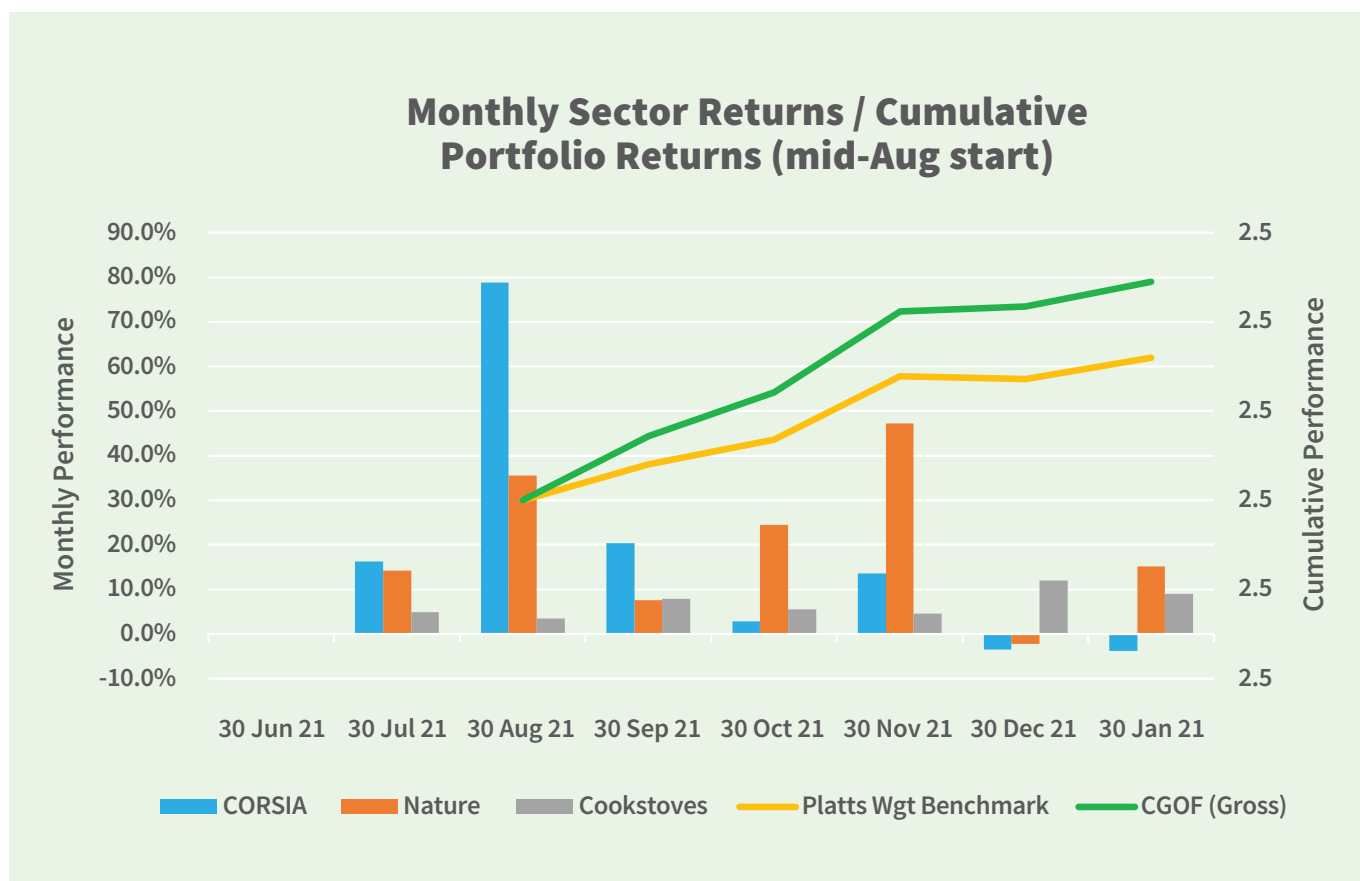
In October we raised additional capital for immediate opportunities and were able to quickly deploy that into the market. The lag in the final tonnage into December was secured at prices reflected at time of the raise and did not drag on performance (rather it benefited performance). Overall, we are pleased with the speed and effectiveness of the Fund's deployment.

Next we set up a proxy pricing benchmark to compare against our actual portfolio weightings. To do this we took our current portfolio weightings and calculated a blended index of the renewable projects (35.4%), nature-based projects (41.6%, excluding significant forward commitments) and household devices (23%) from S&P Platts daily price references.

To select a fair timeframe against which to compare ourselves against we used two approaches:

- First, we took the weighted average time of our deployment. This yielded a mid-August date (Aug 17th). We've used this as the reference date to benchmark our returns.
- The second approach worked backwards. Based on performance to date (Jan 31) what day would we have had to have been deployed to achieve such a performance? That method yielded Aug 6th.

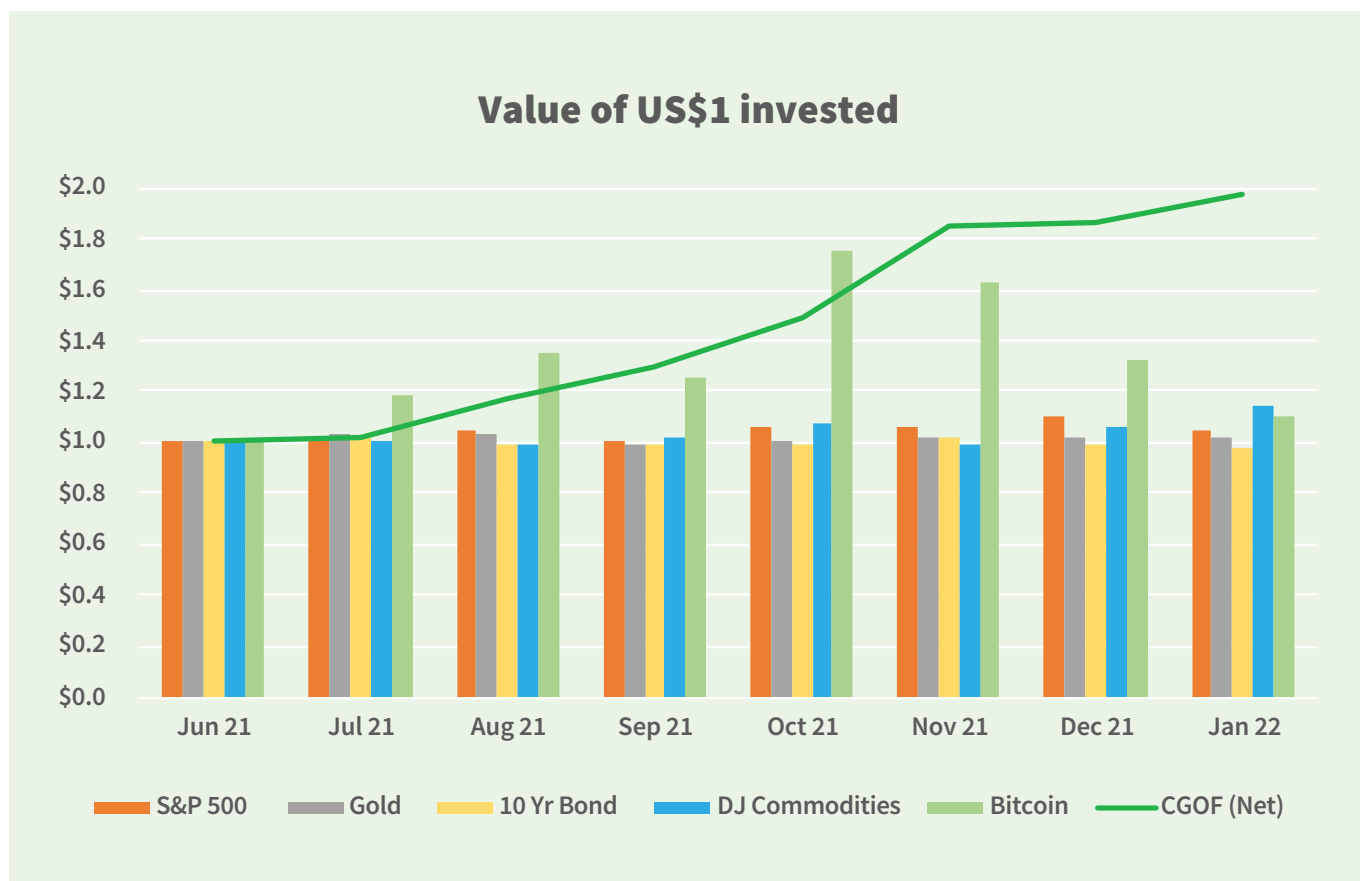
In other words, our ability to deploy capital well at prices secured early, allowed to the Fund to pick up, on average, around two months of gains that would otherwise have been missed in a thinly traded, quickly rising market.



We feel that, despite the market immaturity, these comparisons give a fair measure of our success against a benchmark. Average deployment of five weeks means that we were effectively fully deployed by the second week of September. Given we had the equivalent of one month's of market issuances to acquire in the quiet northern summer months this seems a very good result. Backing out our cumulative performance to a start date within four weeks of launch is even more positive.

Both of these methods are approximations, and the reality was probably more nuanced. We believe our actual deployment took a bit longer but our ability to source large products at good prices more than offset this. As noted above the second deployment was executed swiftly at pre-negotiated prices.

It's also worth noting that we believe we have constructed a premium portfolio in terms of project quality, newness of vintages and diversification. As we shared in our October webinar, we value our portfolio each month using visible reference prices wherever possible. That gives us confidence that our realised gains will be even better and we look forward to what the next six months and beyond hold for the international carbon markets.





5. IMPACT CASE STUDY: BUGOYE, UGANDA

The Fund directly acquired 100% of the carbon credits generated by the Bugoye run-of-river hydro project, which will provide 7% of Uganda's energy needs.

As one of the United Nations 45 Least Developed Countries, Uganda is one of the world's poorest nations. Almost 40% of the population lives on less than \$1.25 a day and fewer than one-third have access to grid-connected electricity. Located at the foot of the Rwenzori Mountains in the Kasese District of Western Uganda, the Bugoye project uses the flow of water from the Mubuku River to turn two seven-megawatt turbines, which are connected to the national grid via a six-kilometre-long transmission line.

Small-scale, run-of-river hydropower is a fast-to-deploy and clean energy solution that is less financially, environmentally, and technically demanding than the construction of large dams. The Bugoye project created 150 local jobs during construction and employs five permanent technicians. In partnership with the French company Aera Group, financing from carbon credits ensures the economic viability of the project and supports education and medical services in the surrounding communities, demonstrating how local-scale clean hydropower can improve the energy security, air quality, and economic opportunity of the people and places that need it most.

First published: Investor Update, July 2021



6. AN OVERVIEW OF COP26

The United Nations Climate Change Conference of the Parties in Glasgow (COP26) provided an important pathway for countries and companies alike to meet their climate commitments and agreed the foundations of the long-delayed framework for global carbon markets.

In the lead up to Glasgow, it was clear that global commitments were insufficient to prevent catastrophic climate change. The Glasgow meeting provided a significant step up in climate ambition, highlighted through updated national climate targets (Nationally Determined Contributions) and announcements from key countries like China (the world's largest emitter) who announced its intention to reach carbon neutrality by 2060 and India (the third largest emitter globally) who delivered a new promise of net zero by 2070.

For the first time, analysis by the International Energy Agency now shows that if all pledges are fully implemented, global temperature rise can be kept below 2C by 2100 (tracking towards 1.8C). While criticised for not going far enough, these updated commitments are not insignificant. COP also secured agreement to accelerating the timelines for climate action with countries asked to come back in a year with more ambitious plans to cut emissions, rather than the originally envisaged five years. We are cautiously optimistic that these promises can be turned into real action, though much work remains to be done.

Outside the formal political negotiations of the Glasgow Pact, there were several complementary announcements from countries:

- More than 100 countries representing 85% of the world's forests have promised to end and reverse [deforestation by 2030](#)
- More than 40 countries (including 23 new countries) have pledged to phase out coal, the most polluting fossil fuel.
- More than 100 countries representing 70% of the global economy have committed to reducing their overall methane emissions by 30% by 2030 – which alone would reduce global warming by at least 0.2C by 2050.

The Glasgow agreement, alongside these announcements, provides the foundations required to continue increasing and enhancing ambition moving forward and will drive the development and expansion of carbon markets as the implementation of country and company pledges come under greater scrutiny globally.

6.1 The future of carbon markets

After six years of ongoing negotiations, an agreement was finally reached on the rules (Article 6) relating to carbon markets, making the Paris Agreement fully operational and legitimising carbon credit trading schemes and their importance in emissions reductions.

This agreement reflects the reality on the ground that more 60 countries have already decided that pricing carbon is the way forward, that taxes or cap and trade systems work, and that carbon markets must be developed rapidly. This is a case of the UN catching up with taxes and markets in countries like China, New Zealand, Colombia, Korea and Australia as well as the regional cap-and-trade systems of the European Union and California. It also acknowledges that more than half of the country signatories to the Paris Agreement will not be able to meet their pledges without carbon markets.

The rules embrace country to country markets, the establishment of a centralised carbon market for governments to meet with Paris Agreement goals, explicitly endorse the role of voluntary markets for corporate offsets and channels much-needed finance to developing countries. As expected, the outcome reflects a compromise and many crucial aspects of the accounting, governance and implementation details have been referred to technical committees or deferred to COP27, but it has provided important guidance to resolve double counting and double claiming issues which had been holding back the development of compliance and voluntary markets alike.

Alongside the decisions at COP26, we are seeing the increasing formal endorsement of the voluntary carbon market within and alongside national compliance markets. Australia, for example, is proposing through the Indo-Pacific Offsets Scheme to use the voluntary market (Verra's Voluntary Carbon Standard and Gold Standard accreditation systems in particular) as the basis for allowing credits issued within the Indo-Pacific (Fiji and PNG are the first countries to have signed onto the scheme) to be used by Australian corporates in meeting their carbon neutral and offsetting claims. By only endorsing some international standards, Australia will be sending a signal to the market around the quality and integrity of project types and registries. It will be interesting to see how the market responds to this leadership.

The Singaporean government also recently announced in its 2022 budget that it would introduce, and progressively increase, a carbon tax to \$50-\$80 by 2030 (and starting with an increase from \$5 to \$25 a tonne in 2024). Singapore will accept international carbon credits for up to 5% in lieu of paying the tax. While relatively small economy, announcements like Singapore's send strong demand signals, legitimate the interactions between voluntary markets and compliance markets and set a strong floor price which will continue to drive up prices for voluntary carbon credits into the future.

6.2 Where to from here

Resolving the rules for carbon markets is expected to translate into the development of more carbon projects, and alongside the increase in country and company climate ambition, also drive significantly more demand for carbon credits.

In the immediate term there are minimal impacts on our Portfolio and investment approach, but going forward these rules will continue to shape the development of the voluntary market and our allocations strategy in a few ways:

- **Countries remain in control:** COP leaves countries with significant discretion to determine the terms on which they want to participate in markets (domestic, bilateral, centralised international markets and voluntary markets). Understanding government policies and regulatory regimes will provide important insight into the quality of, and ability to trade, carbon credits from particular countries.
- **Vintages matter:** Vintages will continue to matter and be treated differently. Although some grandfathering of credits generated through the Clean Development Mechanism (under the Kyoto protocol) has been allowed, there will continue to be a push for alignment with Paris Agreement 5-year crediting periods. In addition to markets distinguishing between pre-2016 (pre-Paris) vintage credits, credits issued from 2021 onwards will be treated differently to old vintages.
- **A bifurcated market may emerge:** There is discretion about when accounting rules apply to the voluntary market. We expect that this may lead to the development of a two-tier market for credits generated after 2021 where ‘adjusted credits’ (accounted for by national governments in their inventories) may be considered higher quality than those where an adjustment has not taken place.
- **Kyoto credits will have a minimal impact:** As we had anticipated, credits generated under the old Clean Development Mechanism after 2013, have been grandfathered into the market and can be used by national governments in meeting their climate targets. We expect this to have a minimal impact on voluntary markets, given only around 120-175 million tonnes of credits are likely to be captured through this grandfathering and they are expected to be used by governments for retirement rather than being actively traded or used by corporates.

- **Voluntary market infrastructure provides important foundations:** Many governments lack the accounting, verification and trading infrastructure required to support carbon markets and are looking to use voluntary market infrastructure to allow markets to quickly scale rather than to develop entirely new infrastructure. This can be seen in Australia’s announced Indo-Pacific Carbon Offset Scheme and partnerships with Fiji and PNG.
- **Progress has been made on governance structures:** Alongside the UN-led processes to implement Article 6, there has also been significant movement in the governance structures for the voluntary market. These processes including the Taskforce on Scaling Voluntary Carbon Markets, the Science Based Targets standard (SBTi) and the Voluntary Carbon Markets Integrity Initiative. These have focused on quality and integrity in the voluntary carbon market both in its infrastructure, self-regulation and at the project level. As these frameworks and standards including the Core Carbon Principles are finalised, we expect there to be greater consensus within the market around the highest integrity and quality carbon credits and on the legitimacy of climate claims by businesses. The market is already beginning to distinguish based on quality, which has been integral to the value of our portfolio given our focus on the quality of the assets which we’ve acquired. We expect this trend to continue as there is greater clarity in the market. We will be following these processes closely to ensure that we are refreshing the Fund’s investments and evolving our own internal quality processes in line with these emerging standards.

6.3 A final word on Glasgow

Like most United Nations processes, every announcement made during the two weeks of COP will be followed by months of negotiation on the fine print and the design of detailed implementation arrangements. Some will be deferred to UN technical committees which will be slow, cumbersome and complicated.

It is not expected, for example, that the centralised carbon market will be operational before 2024 and some issues will be settled on the run through civil society, the finance sector and individual governments unwilling to wait to deliver globally consistent outcomes.

First published November 2021



7. IMPACT CASE STUDY: SELVA DE MATAVEN, COLOMBIA

The Fund acquired more than 2 million credits from the Indigenous-led Selva de Mataven in the Orinoco River watershed. Carbon Growth Partners team member John Myers ventured into remote Colombia to complete additional diligence on the project and help build an enduring partnership. John is a noted conservationist, journalist and academic who's worked and lived in Latin America for 20 years.

The Matavén carbon project generates USD 5 million a year for the indigenous community. During his ten-day trip, John travelled some 700 kilometers with a film crew along Matavén's rivers, visiting over a dozen indigenous communities to learn more about the project. One of Matavén's Indigenous Elders, Cacique (Chief) Matsulu hosted John personally, providing unique cultural insights into the project. Charles Bedford caught up with John by phone as he emerged from the jungle...

Q: Tell me about Matavén...

Myers: The place is unbelievable, totally spectacular. Pristine rivers, flooded gallery forests, tall Terra Firme jungles, savannas. The communities had never been visited by a journalist before, and certainly haven't seen much evidence of government. But they were incredibly warm and welcoming and keen to learn more about how people view their role in saving the climate by preserving the forest that we all depend upon.

Cacique Matsulu is thoughtful and focused about the project and appreciates the before and after impacts of the project over the last ten years. You can tell he cares about making this work, from the perspectives of the community, and the whole forest carbon model.

I've been fortunate to visit many special places in Colombia and the rest of the Americas, including hundreds of protected areas and indigenous reserves, but I've never seen anything like the Selva de Matavén.

Q: How's the access?

Myers: We were deep in the middle of nowhere. Just getting there is an adventure in itself. After driving from Bogotá to Villavicencio, we boarded a twin-prop Piper 31 Navajo light plane for the two-and-a-half-hour flight to the town of Cumaribo. The rest of the trip was by boat. After being met by Cacique Matsulu and Gustavo Muriel, from project developer Mediamos, we visited the offices of ACATISEMA, the Indigenous collective that manages the project, as well as the community's new, multi-level health clinic. Both were funded by the carbon project and are unlike anything I've seen in a small rural area in Colombia. I met with the ACATISEMA team including the organisation's CFO, a young indigenous woman from Cumaribo who has just finished her MBA thanks to funding from the carbon project.

Q: What's life like in the forest?

Myers: It's pretty much a subsistence lifestyle. Everything comes from the forest or the river. Very few people speak Spanish, mostly native languages only; almost none of the women I met spoke Spanish. The poverty in this part of Colombia is harsh, and the existing options for economic activity are generally limited to wildlife poaching, illegal timber harvesting, small-scale gold mining and drug crop cultivation. That's why the income from the carbon project is so vital to the wealth of the community and the health of the forest.

Q: There was a press article recently questioning if the threat and rate of deforestation at Matavén was accurate. What does Cacique Matsulu say about this?

Myers: He and the whole community are concerned about these questions and upset by the fact that the people criticising the project have never bothered to come and see it with their own eyes. The Indigenous people living in Matavén see the pressure to harvest logs, poach wildlife and dig for gold and oil on a daily basis. They think that the bargain that they've struck – to forego those economic opportunities in favour of a more sustainable local and global future – is a reasonable one. They know that

they won't get rich from carbon credits, or achieve a western standard of living anytime soon, but they are hopeful that their efforts can continue to improve their lives while they play their part in stabilising the climate. Without carbon finance that won't happen.

Q: What does the future look like for the people of Matavén?

Myers: Creating civil society in remote country amongst six separate tribes is hard work, but the funding provided by the project reinforces their commitment to each other and to the land. I can see benefits already accruing: kids are getting schooling, elders have better access to health care, and important economic development projects are being carried out thoughtfully; while I was there, I saw expert-led workshops about sustainable fishing to meet the significant market demand as well as cacao farming projects that are already yielding strong harvests.

Before the forest carbon project started, these communities had barely seen or heard from the Colombian government. Now, thanks to the carbon project, the nearly 18,000 Indigenous people living in the reserve are making progress towards their development goals, on their terms.

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8. COMMENT: THE MORAL IMPERATIVE OF THE VOLUNTARY CARBON MARKET

The Guardian's George Monbiot – an esteemed climate advocate highly respected by the Carbon Growth Partners team – recently published an article critical of the current role of carbon offsets in addressing climate change and sounded a warning of market-led 'collapse'. You can read George's article online [here](#). Charles Bedford tackles some of the main criticisms of carbon offsets and explains why there's more to the story...

The main criticism of the international carbon market revolves around the perceived issue of 'greenwashing' and concerns over impact integrity. That is, that the use of carbon offsets allows companies to continue polluting, which has the perverse effect of holding back climate action.

Before we discuss why we disagree with that position, let's begin with where we do agree. It is inarguable that carbon markets – like all markets for public good outcomes – must:

- Be robust, with high levels of integrity and accountability
- Be additional to business-as-usual activities
- Respect Indigenous rights and sovereignty with Free, Prior and Informed Consent as a minimum
- Complement, rather than replace, polluters' internal decarbonisation actions
- Take action to ensure actual or potential breaches of those minimum standards are addressed quickly and transparently

That is, by and large, the path the carbon market is on, and these are the commitments that most market participants – including large companies – have already made. There are no examples we are aware of in which large, listed companies have committed to using offsets without also committing to reduce their own emissions.

A world without markets

Climate finance pays for climate impact, period. Markets for carbon are designed to make this exchange of money for impact bigger, faster and more transparent. As a thought experiment, imagine for a moment a world without carbon markets or emissions offset projects. The only path to net zero emissions would be the direct decarbonisation of Earth's energy, transport, food and industrial systems. It is essential that this happens, but current technologies are not yet able to make that transition at the speed and scale necessary to get to zero. Aviation, ground transport, manufacturing, agriculture and other hard-to-decarbonise sectors may take decades to transition.

Carbon markets offer a vital bridge between the technical and financial realities of today, and the aspirations of tomorrow.

In the counterfactual, without climate finance small businesses in Burundi would shut down their clean cookstove factories, Indigenous people in the Orinoco watershed could no longer afford education and medical care, swaths of forests in Central Africa, Indonesia and the Amazon would be cleared and renewable energy projects in Laos and Cambodia would be shelved in favour of cheaper fossil fuels.

In addition to their role as a decarbonisation bridge, carbon markets directly finance activities that provide significant benefits to millions of the world's most climate-exposed species, people and places. Right now, carbon finance is helping to protect the peat forests of Borneo, replacing millions of deadly wood stoves across Africa, bringing clean, reliable electricity to India's rural poor and restoring degraded mangroves along the tropics. The registered, verified and audited carbon credits that result from these activities are purchased by countries and companies who have committed to offset their residual emissions in addition to decarbonising their internal operations.

A world without effective carbon markets would see the path to net zero become narrower, cost more and take longer.

'Voluntary' and compliance actions

Regulated, or compliance markets such as the EU Emissions Trading System are, in short, a licence to pollute. Companies can emit GHGs up to an agreed cap, with the cap reducing over time. Go over the cap, and the company has allowances it needs to buy. Stay under the cap, and the company has allowances it can sell. This has been highly effective in reducing emissions and carbon pricing cap-and-trade schemes should be implemented at scale around the world. The international or 'voluntary' market provides a way for companies inside and outside the regulated markets to go further by buying verified emissions reduction credits. It is, in effect, a self-imposed carbon tax in which the market determines the level of the tax. As market prices rise, more projects become viable to generate additional emission reductions and companies are more incentivised to decarbonise to avoid paying the 'tax'. It is a virtuous cycle, sustained by the increased stickiness of the emissions reduction commitments being made.

The main culprit in the insufficient pace and scale of climate action is not the presence of a market to enable that action. Rather, it is the lack of will and leadership amongst our politicians, and an aversion to sacrifice amongst we who elect them. If we want to make it mandatory to turn off coal, oil, and gas, we can do so today with laws and regulations. The carbon market does not prevent that from happening. Carbon offsets are, by their very definition, additive to the necessary laws and regulations we need in place now. Offsetting and the carbon market can't be blamed for ineffective government action, rather, they should be celebrated, scaled, scrutinised, refined and improved as an insufficient but necessary piece of a bigger puzzle.

A moral obligation

The climate policy failures of the past 25 years and the resulting lack of action to halt deforestation, prevent air pollution, and provide clean energy and jobs have most afflicted those least responsible for the climate problem and with the most to lose from its devastating effects. Billions of dollars have been committed by the developed world, but have not been paid, promises of emissions reductions repeatedly broken, and desperate pleas from climate impacted countries ignored. And yet the people of the global south, the 20% of people who care for 80% of Earth's species and habitats, continue to toil unpaid, protecting the assets that protect us all.

The global north should and must pay a fair price for these services, rather than demanding they be provided for free, or shaming developing countries when they seek to improve their standards of living. Paying people in the developing world to protect their forests that benefit us all, to restore degraded farmlands, to build clean energy and to improve air quality is a moral obligation we can no longer shirk. Is it a substitute for corporate decarbonisation in the comfortable developed world? No, of course not. But it is a vital additional commitment that brings forward the pace and scale of the path to zero.

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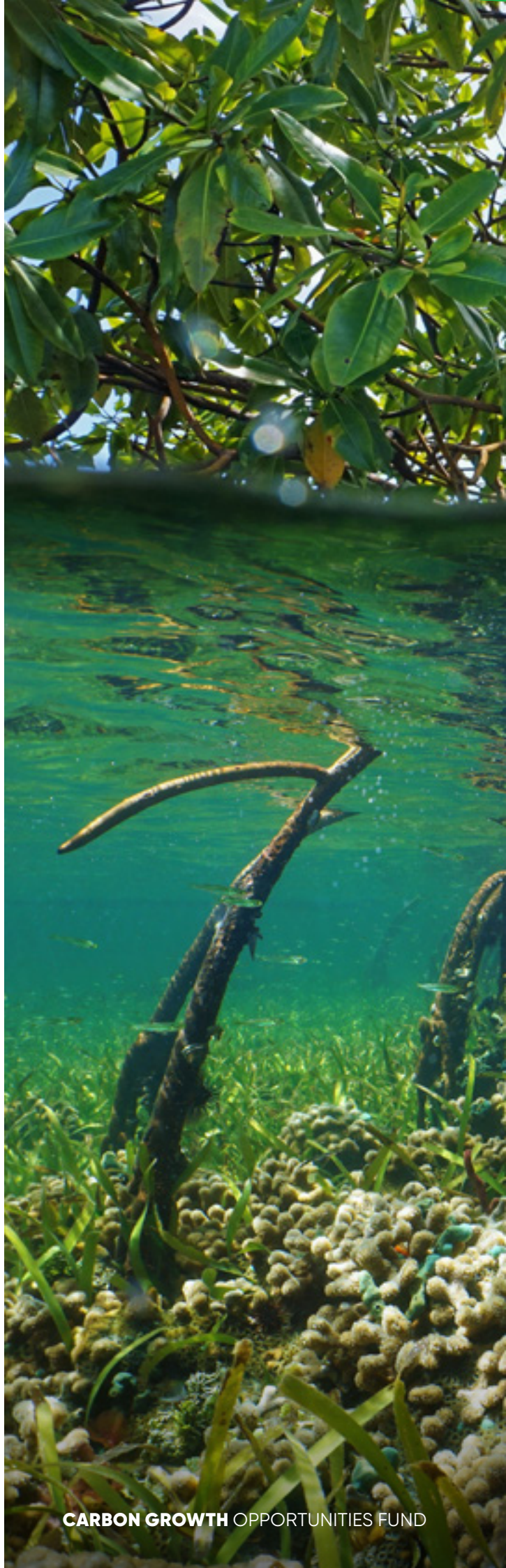
KEY FUND INFORMATION

Name	Carbon Growth Opportunities Fund
Structure	Australian Unit Trust
Investment Manager	Carbon Growth Partners (Australia) Pty Ltd
Inception date	July 9, 2021
Management fee	2%
Performance fee	20%
Hurdle rate	8% net of fees and charges
High water mark	Yes
Administrator	Apex Group Ltd
Trustee	Carbon Growth Opportunities Pty Ltd
Auditor	EY
Legal Advisor	Ashurst

IMPORTANT INFORMATION

The information contained in this report is general information only about The Carbon Growth Opportunities Fund (the Fund) and does not take into account any person's objectives, financial situation or needs and you should seek appropriate professional advice specific to your circumstances. You should otherwise make your own independent investigation and analysis regarding any information contained in this report. This report may include forward looking statements which involve known and unknown risks, uncertainties and factors beyond the control of the Fund's trustee, its officers, employees and agents that cause the actual results or outcomes to be materially different from those expressed or implied by such forward looking statements. Past performance is no indication or guarantee of future performance. The information provided in this report is private and confidential and should not be provided to third parties without the consent of the Trustee.

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