Kernel

# Kernel Wealth Limited ESG Policy

| 11 April 2024

# 1. Policy

## 1.1. Purpose

Kernel Wealth Limited (Kernel) as the Managed Investment Scheme manager of the Kernel Funds operates a number of funds. Kernel also offers the Kernel KiwiSaver Plan. The Kernel KiwiSaver Plan invests into funds offered in the Kernel Funds. Some of these funds are categorised as sustainable and others, while not categorised as sustainable, adhere to certain principles as does Kernel as a fund manager, employer and corporate entity. Sustainable is also defined differently by different audiences for different purposes and as the FMA notes in their December 2020 guidance: "[terms] do not have commonly shared meaning (including the terms 'ethical', 'responsible', 'sustainable', 'green' and Environmental, Social and Governance (ESG))". This policy has been written with consideration to that FMA guidance – 'Disclosure Framework for Integrated Financial Products' available at www.fma.govt.nz/compliance/guidance-library/disclosure-framework-for-integrated-financial-products/.

The purpose of this policy is to define sustainable and ESG for the collective understanding of employees and investors. Further, to outline the principles and policies that underpin the non-financial criteria and features of sustainable funds. This policy is publicly available on the Disclose Register and the Kernel website.

## 1.2. Scope

This policy applies to all funds designated as 'sustainable' and the single sector actively managed funds by Kernel and therefore is relevant to Kernel as a corporate entity, the Board and all Kernel employees.

## 1.3. Taxonomy

Kernel aligns to the European Commission taxonomy published in 2021 for sustainable finance ("Sustainable"). The European taxonomy is first of its kind in aiming to address multiple environmental goals as well as social and governance objectives. It aims to be a common language between investors, issuers, project promoters and policy makers, helping investors to assess whether investments are meeting robust environmental standards and are consistent with high-level policy commitments such as the Paris Agreement on Climate Change.

**Sustainable (Finance)** refers to the process of taking environmental, social and governance **(ESG)** considerations into account when making investment decisions. Sustainable (finance) is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects.

**Environmental considerations** include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. The S&P Global Corporate Sustainability Assessment for the ESG Tilted index scores up to 10 criteria depending on the industry. These range from Operational Eco-efficiency to Genetically Modified Organisms (GMO) to Product Stewardship. The full list of questions and criteria can be found at https://portal.csa.spglobal.com/survey/documents/CSA_Companion.pdf

**Social considerations** include issues of equality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The S&P Global Corporate Sustainability Assessment for the ESG Tilted index scores up to 10 factors related to social factors depending on the industry. These range from Corporate Citizenship & Philanthropy to Talent Attraction & Retention to Labour practice indicators. The full list of questions can be found at https://portal.csa.spglobal.com/survey/documents/CSA_Companion.pdf

**Governance considerations** – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process. The S&P Global Corporate Sustainability Assessment for the ESG Tilted index scores up to 11 factors related to governance factors depending on the industry. These range from Corporate Governance to Tax Strategy to Cybersecurity. The full list of questions can be found at https://portal.csa.spglobal.com/survey/documents/CSA_Companion.pdf

**Climate Benchmark** - an investment benchmark that incorporates (next to financial investment objectives) specific objectives related to greenhouse gas (GHG) emission reductions and the transition to a low-carbon economy, based on the scientific evidence of the Intergovernmental Panel on Climate Change through the selection and weighting of underlying benchmark constituents.

**Paris-aligned** – The stricter of two climate benchmarks approved by the European Union, based on the 2016 Paris Agreement to follow emission pathways consistent with holding the change in global average temperature to well below +2 °C above pre-industrial levels and pursuing efforts to limit the temperature change to +1.5 °C above pre-industrial levels

**UNGC** - United Nations Global Compact Principles. Ten principles around Human Rights, Labour, Anti-corruption and the Environment. For more information, see www.unglobalcompact.org/what-is-gc/mission/principles

**GICS** – Global Industry Classification System – A numbering system used jointly by the two largest index providers globally, MSCI and S&P, to classify companies according to their business activities.

**Ethical** – we avoid the word “ethical” when referring to funds, as ethics are a complex and subjective area coloured by personal values. Kernel adheres to its corporate values published on our website. Fairness and fair dealing underpin the choice and marketing of products.

**Responsible** - we also avoid the word “responsible” when referring to funds, as Kernel currently does not believe the term has a single agreed meaning.

## 1.4. Principles

Each Kernel sustainable fund has specific criteria set by the underlying index provider (S&P Dow Jones Indices) within which Kernel will select and weight companies. For the investment strategy and permitted investments of each fund, see the Statement of Investment Policy & Objectives.

- At least monthly, Kernel's investment team will check the index composition and index announcements for changes to criteria or eligibility.
- While Kernel does not make independent verification of the eligibility of a particular company to meet index criteria, where the investment team have concerns (directly or raised by an investor or stakeholder), they will consult the index provider and/or provide information to confirm eligibility.
- Where ineligible holdings are identified in the fund, the investment team will within one month, following consultation with the Investment Committee, liquidate such holdings.
- The Investment Committee may also, in its discretion, exclude any company that is a constituent of the relevant index and report the exclusion and rationale to the Board.
- If unhappy with either the index provider or index methodology meeting the investment objective, the Investment Committee, may with the Board's approval, look to change index and/or provider.

For single sector actively managed funds, Kernel will take measures to avoid investing in specific sectors and assets involved in specific business activities that could potentially cause significant social or environmental harm. Fund composition will be actively monitored to ensure alignment with this policy.

## 1.5. Policies

Each equity fund investment strategy is based on a carefully constructed methodology by S&P Dow Jones Indices to systematically assess eligibility and weighting factors. For five of Kernel's equity funds and Kernel's actively managed single sector funds, this includes non-financial factors as independently observed or assessed, and/or reported by listed companies.

# Schedule 1 - Kernel NZ 50 ESG Tilted Fund

This fund adheres for constituent selection to the S&P/NZX 50 Portfolio ESG Tilted Index. That index is part of a global series of S&P ESG Tilted Indices, with a globally standardised scoring system. Rather than just an inclusion/exclusion filter, the methodology also overweights (underweights) companies with relatively high (low) S&P DJI ESG Scores.

### Impact on Investor

The fund's investment objective is to provide a return (before tax, fees and expenses) that closely matches the return on the S&P/NZX 50 Portfolio ESG Tilted Index. The fund is not designed to achieve higher returns or lower volatility than the broader market (represented by the S&P/NZX 50 Portfolio index). There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.7. It is designed for purely non-financial motivations where the investor wishes to take advantage of the additional screening and weighting impact of the methodology as detailed below.

### Summary

- Starts with the S&P/NZX 50 Portfolio index

- Excludes companies with certain business activities (see the table outlined below) based on S&P's assessment e.g., Controversial Weapons, Thermal coal & Tobacco
- Excludes companies with low UNGC Score or Rep Risk based on Sustainalytics assessment
- Excludes companies with the GICS classification of Energy and Casinos & Gambling
- Upweight/downweight investment percentage on basis of each company's ESG score while maintaining sector balance
- Updates ESG scores annually and rebalances quarterly

### Exclusion of specific business activities

As of each rebalancing reference date, companies with the following specific business activities, as determined by S&P are excluded from the index's eligible universe:

| S&P Category of Involvement | Exclusion Description |
|---|---|
| Controversial Weapons | The company has direct involvement, or greater than 25% ownership in a company that is involved in, the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. |
| Small arms | The company has direct involvement in the manufacture or sale of assault weapons, small arms, key components of small arms. This includes the distribution or retail of these products. |
| Military contracting | The company has greater than 5% of revenue from manufacture or sale of military weapon systems or components. The company has greater than 10% of revenue from tailor made products or services to support military weapons. |
| Tobacco | The company earns any revenue from the manufacture of tobacco products, supplies tobacco-related products/services, or derives greater than 5% of revenues from the distribution and/or retail sale of tobacco products. |
| Thermal Coal | Greater than 5% of company revenues are from the extraction of thermal coal or 25% of company revenues are from the generation of electricity from thermal coal. |

This list of exclusions may change from time to time. Please refer to https://www.spglobal.com/esg/solutions/portfolio-analytics-business-involvement-analytics for more information, or to https://www.spglobal.com/spdji/en/indices/esg/sp-nzx-50-portfolio-esg-tilted-index/#overview for the full index methodology.

### Exclusion due to low UNGC Score or Rep Risk

Sustainalytics' Global Standards Screening (GSS) provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of international norms and standards. The basis of the GSS assessments are the United Nations Global Compact Principles (UNGC). Information regarding related standards is also provided in the screening, including the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions.

Sustainalytics classifies companies into the following three statuses:

- Non-Compliant: classification given to companies that do not act in accordance with the UNGC principles and its associated standards, conventions and treaties.
- Watchlist: classification given to companies that are at risk of violating one or more principles, for which all dimensions for Non-Compliant status could not be established or confirmed.
- Compliant: classification given to companies that act in accordance with the UNGC principles and its associated standards, conventions and treaties.

As of each rebalancing reference date, companies classified as Non-Compliant, according to Sustainalytics, are ineligible for index inclusion.

**Exclusions Based on GICS Sectors**. At each rebalancing reference date, companies with the GICS sector classification as Energy (10) and GICS sub-industry classification as Casinos and Gaming (25301010) are excluded from the underlying index.

**Re-weighting according to S&P DJI ESG scores**
Index constituents are initially weighted based on the constituents' weights in the S&P/NZX 50 Portfolio index, then tilted such that companies with higher or lower S&P DJI ESG scores are over or underweighted ("tilted") while maintaining sector balance in the underlying index depending on constituent count and composition.

This means that companies performing better (worse) compared to their sector peers are overweighted (underweighted) without removing entire sectors or distorting the sector diversification. In other words, industrial companies are compared to other industrial companies, not underweighted or removed because of comparisons to IT companies.

The indices employ a transparent, rules-based weighting scheme starting from companies' S&P DJI ESG scores, which are then re-standardized. The S&P DJI ESG Scores are built from the S&P Global 'Corporate Sustainability Assessment' (CSA).

A company's S&P DJI ESG score may either be calculated from data received directly by a company completing the comprehensive assessment (together with supporting documents), or – in the absence of this – by using publicly available information. S&P uses the CSA results to then calculate the S&P DJI ESG Scores that are used in the index methodology. The scores are calculated according to an industry specific weighting which can be found at https://portal.csa.spglobal.com/survey/documents/CSA_Weights.pdf.

### Controversies: Media & Stakeholder Analysis

In addition to the above, S&P Global uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening, and analysis of controversies related to companies within the indices. In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (MSA) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labour disputes, workplace safety, catastrophic accidents, and environmental disasters.

The S&P Index Committee will review constituents that have been flagged by S&P Global 's MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the S&P Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one full calendar year, beginning with the subsequent rebalancing.

# Schedule 2 - Kernel Global Green Property Fund

This fund adheres for constituent selection within the Dow Jones Global Select ESG RESI (NZD hedged) index. That index is part of global series of Dow Jones Green Real Estate Indices designed to measure the performance of publicly traded real estate securities while overweighting those companies with relatively high GRESB total scores and underweighting those with lower or zero total scores. GRESB are a global leader in measuring and assessing the ESG performance of real estate companies.

### Impact on Investor

The fund's investment objective is to provide a return (before tax, fees and expenses) that closely matches the return on the return on the Dow Jones Global Select ESG RESI (NZD) index hedged to New Zealand dollars. The fund is not designed to achieve higher returns or lower volatility than the broader market (represented by the Dow Jones Global RESI index). There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.7. It is designed for purely non-financial motivations where the investor wishes to take advantage of the additional screening and weighting impact of the methodology as detailed below.

## Summary

- Starts with Dow Jones Global Select RESI (Real Estate Securities Index) index
- Excludes companies with certain business activities (see the table outlined below) based on S&P's assessment e.g., Controversial Weapons, Thermal coal & Tobacco
- Excludes companies with low UNGC Score or Rep Risk based on Sustainalytics assessment
- Assigns GRESB Real Estate Assessment score if available
- Adjusts company weights in the index based on their scores
- Updates GRESB scores annually and rebalances quarterly

### Exclusion of specific business activities

As of each rebalancing reference date each year, companies with the following specific business activities or Product Involvement, as determined by S&P are excluded from the index's eligible universe:

| S&P Category of Involvement | Exclusion Description |
|---|---|
| Controversial Weapons | The company has any involvement in the core weapon system, or components/ services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. |
| Fossil Fuels | The company extracts thermal coal, oil sands, arctic oil & gas, or is involved in oil & gas production and generation and generates any revenue from these sources (or more than 10% of revenue from oil & gas supporting products & services). |
| Tobacco | The company generates any revenue from the manufacture of tobacco products supply of tobacco-related products/services or derives more than 5% of its revenues from the distribution |

| | |
|---|---|
| | and/or retail sale of tobacco products. This also applies if a company owns 10%+ of a company involved in these activities. |
| Gambling | The company generates more than 5% of revenues from gambling operations, or more than 10% of revenues provides gambling related equipment, products, and/or services. |
| Adult entertainment | The company generates any revenue from the production of adult entertainment or more than 10% of revenues from the distribution of adult entertainment. |
| Alcohol | The company generates more than 5% of revenues from production of alcoholic beverages or is involved in the retail distribution of, and/or more than 10% of revenues from the related products and services of alcoholic beverages. |

This list of exclusions may change from time to time. Please refer to https://www.spglobal.com/esg/solutions/portfolio-analytics-business-involvement-analytics for more information, or to https://www.spglobal.com/spdji/en/indices/equity/dow-jones-global-select-esg-resi/#overview for the full index methodology.

### Exclusion due to low UNGC Score or Rep Risk

Sustainalytics' Global Standards Screening (GSS) provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of international norms and standards. The basis of the GSS assessments are the United Nations (UN) Global Compact Principles. Information regarding related standards is also provided in the screening, including the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions.

Sustainalytics classifies companies into the following three statuses:

- Non-Compliant: classification given to companies that do not act in accordance with the UNGC principles and its associated standards, conventions and treaties.
- Watchlist: classification given to companies that are at risk of violating one or more principles, for which all dimensions for Non-Compliant status could not be established or confirmed.
- Compliant: classification given to companies that act in accordance with the UNGC principles and its associated standards, conventions and treaties.

As of each rebalancing reference date, companies classified as Non-Compliant, according to Sustainalytics, are ineligible for index inclusion.

### Controversies: Media & Stakeholder Analysis

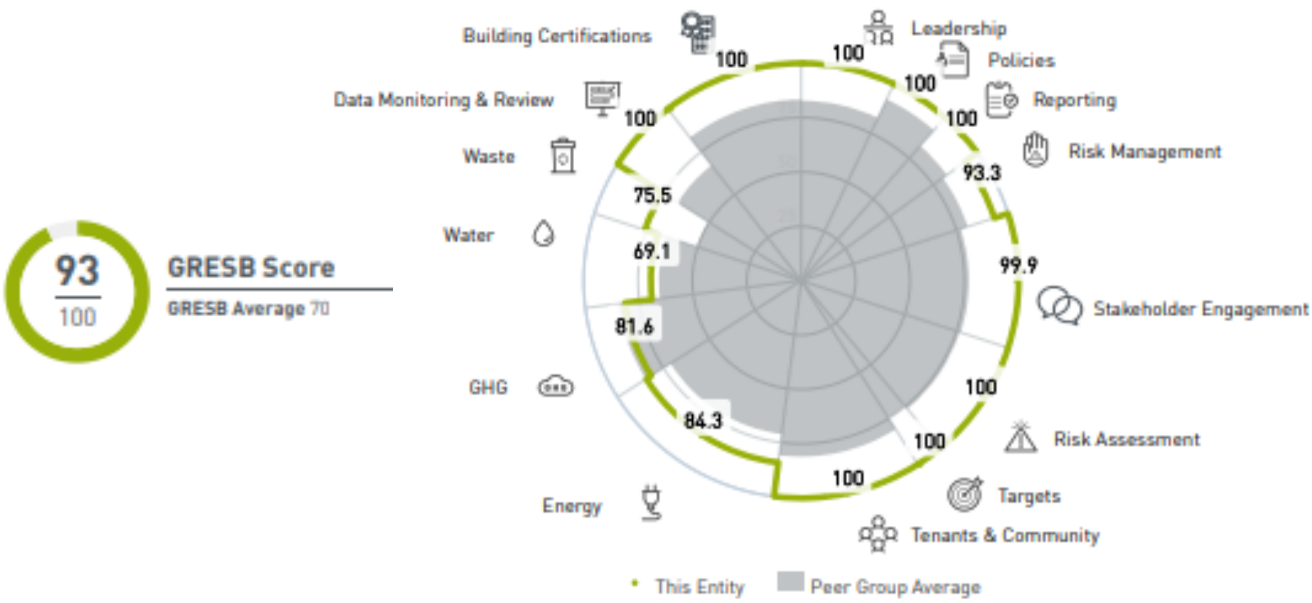
In addition to the above, S&P Global uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening, and analysis of controversies related to companies within the indices. In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (MSA) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labour disputes, workplace safety, catastrophic accidents, and environmental disasters.

The S&P Index Committee will review constituents that have been flagged by S&P Global 's MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the S&P Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one full calendar year, beginning with the subsequent rebalancing.

### GRESB Total Score

All listed companies that are both an equity owner and operator of commercial and/or residential real estate, are assigned an ESG total score from GRESB annually, if available. The GRESB Real Estate Assessment is structured around seven aspects and contains approximately 50 indicators. The assessment evaluates performance against seven sustainability aspects, including information on performance indicators such as energy, GHG emissions, water and waste management.

The methodology is consistent across different regions, investment vehicles, and property types, and aligns with international reporting frameworks such as GRI and PRI. The GRESB total score is an overall measure of ESG performance – represented as a percentage.




Sample Real Estate assessment graphics ©2021 GRESB

As of the rebalancing reference date, constituent's weights are adjusted to improve the overall ESG profile of the index. Specifically, all companies in the index are ranked by GRESB Total Score from highest to lowest with unscored companies assigned a score of 0.

# Schedule 3 - Kernel S&P Global Clean Energy Fund

This fund adheres for constituent selection within the S&P Developed Ex-Korea Clean Energy Index (NZD). Companies in the index must be listed in developed markets and meet the eligibility criteria for specific practices related to clean energy. Companies are identified by S&P as producing Clean Energy or providing of Clean Energy Technology & Equipment.

### Impact on Investor

The fund's investment objective is to provide a return (before tax, fees and expenses) that closely matches the return on the S&P Developed Ex-Korea Clean Energy (NZD) Index. The fund is not designed to achieve higher returns or lower volatility than the broader market (represented by the S&P Global BMI). There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.7. It is designed for purely non-financial motivations where the investor wishes to take advantage of the additional screening and weighting impact of the methodology as detailed below.

## Summary

- Identify all developed listed companies that derive at least 25% in aggregate revenue from their involvement in the production of Clean Energy or provision of Clean Energy Technology & Equipment, as defined by RBICS, and companies from "Renewable Utilities" and "General Utilities" (that generate 20% of their power from renewable sources) as defined by the GICS Sub-Industry sectors.
- Carbon intensity screened by assigning an exposure score of 0, 0.5, 0.75 or 1 based on business's primary activities.
- Weight according to free-float market capitalisation and exposure score, subject to liquidity and maximum weights
- Ensures weighted average exposure score is greater than 0.85
- Updates Carbon scores annually and rebalances quarterly

For more information on RBICS, please see here.

Companies are assessed by their primary activity and S&P Dow Jones Indices assign a score as follows:

| Exposure Scores | | | |
|---|---|---|---|
| 0 | 0.5 | 0.75 | 1 |
| Eliminated, no exposure | Moderate clean energy exposure | Significant clean energy exposure | Maximum clean energy exposure |

All companies with a score of 1 are added, then 0.75 then 0.5 until there are 100 companies.

For all companies selected in the prior steps, those with an S&P Trucost Limited (Trucost) carbon-to-revenue footprint standard score greater than three are excluded from index inclusion. Companies without Trucost coverage are eligible for index inclusion. If there are 100 stocks selected in the previous step, those excluded stocks with a carbon-to-revenue footprint standard score greater than three are replaced with the next highest ranked stocks in order to reach the index's target constituent count of 100. Replacement stocks must have a carbon-to-revenue footprint lower than those being replaced to qualify for index addition.

### Carbon-to-Revenue Footprint

The carbon-to-revenue footprint data used in the methodology is calculated by Trucost and is defined as the company's annual GHG emissions (direct and first tier indirect), expressed as metric tons of carbon dioxide equivalent (tCO2e) emissions, divided by annual revenues for the corresponding year, expressed in millions of US dollars. Trucost's annual research process evaluates the environmental performance of a given company with one output of this process being its annual greenhouse gas emissions profile. For more information on Trucost, please refer to www.trucost.com.

Finally, constituents are weighted at the semi-annual reference date based on the product of each constituent's free-float market capitalisation and exposure score, subject to liquidity and maximum weights. If the index's weighted average exposure score (being the sum of the product between each constituents' exposure score and its final optimized weight) falls below 0.85, the lowest ranking stock with an exposure score of 0.5 is removed until the index's weighted average exposure score reaches 0.85. Therefore, it is possible for the final index constituent count to be below 100 so that overall, the portfolio has significant clean energy exposure.

### Exclusion of specific business activities

As of each rebalancing reference date, companies with the following specific business activities, as determined by Sustainalytics are excluded from the index's eligible universe:

| Sustainalytics Category of Involvement | Exclusion Description |
|---|---|
| Controversial Weapons | The company has direct involvement, or greater than 25% ownership in a company that is involved in, the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. |
| Small arms | The company has direct involvement in the manufacture or sale of assault weapons, small arms, key components of small arms. This includes the distribution or retail of these products. |
| Military contracting | The company has greater than 5% of revenue from manufacture or sale of military weapon systems or components. The company has greater than 10% of revenue from tailor made products or services to support military weapons. |
| Tobacco | The company earns any revenue from the manufacture of tobacco products, supplies tobacco-related products/services, or derives greater than 5% of revenues from the distribution and/or retail sale of tobacco products. |
| Thermal Coal | Greater than 5% of company revenues are from the extraction of thermal coal or 25% of company revenues are from the generation of electricity from thermal coal. |
| Oil sands, shale energy, Arctic oil & gas exploration | Greater than 5% of company revenues are from the extraction of oil sands, exploration and/or production of shale energy, and/or the exploration of oil & gas in the Arctic region. |

This list of exclusions may change from time to time. Please refer to https://www.spglobal.com/esg/solutions/portfolio-analytics-business-involvement-analytics for more information, or to https://www.spglobal.com/spdji/en/indices/esg/sp-developed-ex-korea-clean-energy-index/#overview for the full index methodology.

### Exclusion due to low UNGC Score or Rep Risk

Sustainalytics' Global Standards Screening (GSS) provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of international norms and standards.

The basis of the GSS assessments are the United Nations (UN) Global Compact Principles. Information regarding related standards is also provided in the screening, including the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions.

Sustainalytics classifies companies into the following three statuses:

- Non-Compliant: classification given to companies that do not act in accordance with the UNGC principles and its associated standards, conventions and treaties.
- Watchlist: classification given to companies that are at risk of violating one or more principles, for which all dimensions for Non-Compliant status could not be established or confirmed.
- Compliant: classification given to companies that act in accordance with the UNGC principles and its associated standards, conventions and treaties.

As of each rebalancing reference date, companies classified as Non-Compliant, according to Sustainalytics, are ineligible for index inclusion.

### Controversies: Media & Stakeholder Analysis

In addition to the above, S&P Global uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening, and analysis of controversies related to companies within the indices. In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (MSA) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labour disputes, workplace safety, catastrophic accidents, and environmental disasters.

The S&P Index Committee will review constituents that have been flagged by S&P Global's MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the S&P Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one full calendar year, beginning with the subsequent rebalancing.

# Schedule 4 - Kernel Global ESG Fund and Kernel Global ESG (NZD Hedged) Fund

The Kernel Global ESG Fund adheres for constituent selection within the S&P World Net Zero 2050 Paris-Aligned ESG Ex Non-Pharma Animal Testing NZD Index. The Kernel Global ESG (NZD Hedged) Fund is identical other than using currency hedging to minimise the impact of currency fluctuations. Companies in the index must be listed in developed markets and meet the eligibility criteria based on ESG scores and climate alignment. Companies are selected and weighted to be collectively compatible with a 1.5°C global warming climate scenario at the index level.

### Impact on Investor

The funds' investment objectives are to provide a return (before tax, fees and expenses) that closely matches the return on the S&P World Net Zero 2050 Paris-Aligned ESG Ex Non-Pharma Animal Testing and S&P World Net Zero 2050 Paris-Aligned ESG Ex Non-Pharma Animal Testing (NZD Hedged) Index. The funds are not designed to achieve higher returns or lower volatility than the broader market (represented by the S&P Developed BMI). There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.7. It is designed for purely non-financial motivations where the investor wishes to take advantage of the additional screening and weighting impact of the methodology as detailed below.

### Summary

- Starts with the S&P World Index as the "parent" index
- Excludes companies with certain business activities (see the table outlined below) based on S&P's assessment e.g. Controversial Weapons, Thermal coal & Tobacco, non-pharma animal testing
- Excludes companies with low UNGC Score or Rep Risk based on Sustainalytics assessment
- Upweight/downweight investment percentage on the basis of each company's ESG score and climate metrics while maintaining overall sector balance compared to the parent S&P World Index, using an optimisation model
- Updates ESG scores annually and rebalances quarterly

### Index climate weighting highlights

The index incorporates a variety of specified decarbonization targets and aligns with certain specified criteria through the use of optimisation with multiple model constraints, including:

- alignment to a 1.5°C climate scenario using the S&P Trucost Limited (Trucost) Transition Pathway Model
- reduced overall greenhouse gas (GHG expressed in CO2 equivalents) emissions intensity compared to the respective underlying index by at least 50%.
- minimum self-decarbonization rate of GHG emissions intensity in accordance with the trajectory implied by Intergovernmental Panel on Climate Change's (IPCC) most ambitious 1.5°C scenario, equating to at least 7% GHG intensity reduction on average per annum

- increased exposure to companies with Science Based Targets from the Science Based Target Initiative (SBTI) that are credible and consistent with the above decarbonization trajectory
- improved S&P DJI ESG Score compared to the parent index
- exposure to sectors with high impact on climate change at least equivalent to the parent index
- managed exposure to potential climate change opportunities through controlled green-to-brown revenue share in order to align with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- capped exposure to non-disclosing carbon companies
- constituent-level weight capping to address liquidity and diversification
- reduced exposure to physical risks from climate change using Trucost's Physical Risk dataset
- improved exposure to potential climate change opportunities through substantially higher green to-brown revenue share compared to the parent index
- reduced exposure to fossil fuel reserves compared to the parent index All indices feature the exclusion of companies from the underlying index with:
- involvement in specific business activities
- non-compliant United Nations Global Compact (UNGC) principle violations
- involvement in relevant ESG controversies
- companies whose revenues from coal, oil, or natural gas exploration or processing activities exceed defined thresholds
- electricity generation companies that exceed a stated revenues threshold.

### Exclusion of specific business activities

As of each quarterly rebalance companies with the following specific business activities, as determined by S&P are excluded from the index's eligible universe:

| S&P Category of Involvement | Exclusion Description |
|---|---|
| Controversial Weapons | The company has direct involvement, or greater than 25% ownership in a company that is involved in, the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. |
| Small arms | The company has direct involvement in the manufacture or sale of assault weapons, small arms, key components of small arms. This includes the distribution or retail of these products. |
| Military contracting | The company has greater than 5% of revenue from manufacture or sale of military weapon systems or components. The company has greater than 10% of revenue from tailor made products or services to support military weapons. |
| Tobacco | The company earns any revenue from the manufacture of tobacco products, supplies tobacco-related products/services, or derives greater than 5% of revenues from the distribution and/or retail sale of tobacco products. |
| Thermal Coal | Greater than 5% of company revenues are from the extraction of thermal coal or 25% of company revenues are from the generation of electricity from thermal coal. |

| | |
|---|---|
| Oil sands, shale energy, Arctic oil & gas exploration | Greater than 5% of company revenues are from the extraction of oil sands, exploration and/or production of shale energy, and/or the exploration of oil & gas in the Arctic region. |
| Non-pharma animal testing | Companies that are known, or suspected, to be undertaking animal testing in the practices, excluding the pharmaceutical sector as assessed by Sustainalytics. |

This list of exclusions may change from time to time. Please refer to https://www.spglobal.com/esg/solutions/portfolio-analytics-business-involvement-analytics for more information, or to https://www.spglobal.com/spdji/en/indices/esg/sp-world-net-zero-2050-paris-aligned-esg-ex-non-pharma-animal-testing-index/#overview for the full index methodology.

In addition, companies in fossil fuel operations and power generation are excluded based on revenue thresholds:

- Coal exploration or processing: companies with revenue greater than 1%
- Oil exploration or processing: companies with revenue greater than 10%
- Natural gas exploration or processing: companies with revenue greater than 50%
- Power generation: companies with revenue greater than 50% that utilise coal power, petroleum power, natural gas and biomass for power generation

### Exclusion due to low UNGC Score or Rep Risk

Sustainalytics' Global Standards Screening (GSS) provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of international norms and standards.

The basis of the GSS assessments are the United Nations Global Compact Principles (UNGC). For more information, see www.unglobalcompact.org/what-is-gc/mission/principles. Information regarding related standards is also provided in the screening, including the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions.

Sustainalytics classifies companies into the following three statuses:

- Non-Compliant: classification given to companies that do not act in accordance with the UNGC principles and its associated standards, conventions and treaties.
- Watchlist: classification given to companies that are at risk of violating one or more principles, for which all dimensions for Non-Compliant status could not be established or confirmed.
- Compliant: classification given to companies that act in accordance with the UNGC principles and its associated standards, conventions and treaties.

As of each rebalancing reference date, companies classified as Non-Compliant, according to Sustainalytics, are ineligible for index inclusion.

### Index Weight Optimisation Hierarchy

The index methodology utilises an optimisation model in calculating constituent inclusions and weights. If the optimisation fails to find a solution, the optimizer partially relaxes each constraint in the order listed below, and repeats, if necessary, until a solution is found. In each attempt at optimisation the constraints are further relaxed in the stated order, however, the S&P Index Committee may revise the order of relaxation hierarchy if a particular constraint prevents the optimizer from finding a solution.

- Weighted-average S&P DJI ESG Score
- Weighted-average Physical Risk Score
- Weight of Non-Disclosing Carbon Companies
- Diversification Absolute Max Stock Weight
- Diversification Relative Stock Weight
- Liquidity Max Stock Weight
- Fossil Fuel Reserves
- Physical Risk Max Stock Weight
- Green-to-Brown Revenue Share
- 1.5°C Climate Scenario Transition Pathway Budget Index Alignment

The following constraints are considered hard constraints and will not be relaxed:

- Weighted-average Carbon Intensity (WACI) Target
- 7% Decarbonization Trajectory WACI Target
- High Climate Impact Sectors Revenue Proportion
- Weight of Eligible Science Based Targets Companies

### Controversies: Media & Stakeholder Analysis

In addition to the above, S&P Global uses RepRisk, a leading provider of business intelligence on environmental, social, and governance risks, for daily filtering, screening, and analysis of controversies related to companies within the indices. In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (MSA) which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labour disputes, workplace safety, catastrophic accidents, and environmental disasters.

The S&P Index Committee will review constituents that have been flagged by S&P Global's MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the S&P Index Committee decides to remove a company in question, that company would not be eligible for re-entry into the index for one full calendar year, beginning with the subsequent rebalancing.

## Schedule 5 - Kernel Actively Managed Single Sector Funds

Kernel actively manages several funds, including the Kernel Cash Plus fund, and several NZ Bond funds.

The funds are captured under the ESG Policy as Kernel makes active decisions in these funds and this policy covers the additional screens that are applied by Kernel.

### Impact on Investor

The Kernel Cash Plus Fund aims to achieve returns comparable to the Bloomberg NZ Bond Bank Bill Index.

The Kernel NZ Bond Fund aims to equal or exceed the return (before fees and taxes) of the Bloomberg NZ Bond Composite 0+ Yr Index by investing mostly in New Zealand fixed interest-bearing assets.

The Kernel March 2027 NZ Bond Fund aims to achieve a return comparable to a S&P (or equivalent rating agency) A-rated investment grade corporate bond maturing near the Fund's Fund Maturity Date in March 2027.

The Kernel March 2029 NZ Bond Fund aims to achieve a return comparable to a S&P (or equivalent rating agency) A-rated investment grade corporate bond maturing near the Fund's Fund Maturity Date in March 2029.

### Summary

Kernel strategically allocates investments in fixed income financial products to meet the specific goals of each fund. While these funds do not implement a strategy of positive tilt or overweighting based on ESG scores, due to market limitations, they do utilise negative screening processes. This approach is adopted to exclude assets that could potentially cause significant social or environmental harm.

Each fund aims to exclude companies and issuers involved in certain business activities based on S&P's assessment and specific GICS classification e.g., Thermal coal (10102050) & Tobacco (30203010).

### Exclusion of specific business activities

Kernel will aim to actively assess issuers and companies to identify any involvement with the following specific business activities, as defined by S&P DJI through GICS. If any involvement thresholds are met, the issuers and companies in question will be excluded from the funds' eligible universe.

| S&P Category of Involvement | GICS sector codes to assess/exclude | Exclusion Description |
|---|---|---|
| Adult entertainment | Movies & Entertainment (50202010) | The company generates any revenue from the production of adult entertainment or more than 10% of revenues from the distribution of adult entertainment. |
| Alcohol | Brewers (30201010)<br><br>Distillers & Vintners (30201020) | The company generates more than 5% of revenues from production of alcoholic beverages or is involved in the retail distribution of, and/or more than 10% of revenues from the related products and services of alcoholic beverages. |
| Cannabis | Pharmaceuticals (35202010) | The company earns any revenue from the manufacture of cannabis products, supplies cannabis-related products/services, or derives greater than 5% of revenues from the distribution and/or retail sale of cannabis products. |
| Controversial Weapons | Aerospace & Defense (20101010) | The company has direct involvement, or greater than 25% ownership in a company that is involved in, the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. |

| | | |
|---|---|---|
| Fossil Fuels | Oil & Gas Drilling (10101010)<br><br>Oil & Gas Equipment & Services (10101020)<br><br>Integrated Oil & Gas (10102010)<br><br>Oil & Gas Exploration & Production (10102020)<br><br>Oil & Gas Refining & Marketing (10102030)<br><br>Oil & Gas Storage & Transportation (10102040) | The company extracts oil sands, arctic oil & gas, or is involved in oil & gas production and generation and generates any revenue from these sources (or more than 10% of revenue from oil & gas supporting products & services). |
| Gambling | Casinos & Gaming (25301010) | The company generates more than 5% of revenues from gambling operations, or more than 10% of revenues provides gambling related equipment, products, and/or services. |
| Military contracting | Aerospace & Defense (20101010) | The company has greater than 5% of revenue from manufacture or sale of military weapon systems or components. The company has greater than 10% of revenue from tailor made products or services to support military weapons. |
| Small arms | Aerospace & Defense (20101010) | The company has direct involvement in the manufacture or sale of assault weapons, small arms, key components of small arms. This includes the distribution or retail of these products. |
| Thermal Coal | Coal & Consumable Fuels (10102050) | Greater than 5% of company revenues are from the extraction of thermal coal or 25% of company revenues are from the generation of electricity from thermal coal. |
| Tobacco | Tobacco (30203010) | The company earns any revenue from the manufacture of tobacco products, supplies tobacco-related products/services, or derives greater than 5% of revenues from the distribution and/or retail sale of tobacco products. |

This list of exclusions may change from time to time at our discretion. Please refer to https://www.spglobal.com/esg/solutions/portfolio-analytics-business-involvement-analytics and https://www.spglobal.com/spdji/en/landing/topic/gics/ for more information.

### Controversies

Kernel will regularly keep track of the portfolios of its actively managed funds, and its internal and external channels, to monitor and identify for any ESG issues or controversies (see 1.7.1.).

## 1.6. Reporting

As part of monthly fact sheets for all equity funds categorised as sustainable, Kernel will at minimum publish the applicable non-financial metrics for the index upon which the fund is based.

- **Carbon Footprint** – The aggregation of operational and first-tier supply chain carbon footprints of index constituents per USD 1 million invested.
- **Weighted Average Carbon Intensity** – The weighted average of individual company intensities (operational and first-tier supply chain emissions over revenues), weighted by the proportion of each constituent in the index.
- **Drops or Exclusions** – Any companies that have been dropped or excluded in the previous 3 months and a short description of the reason.
- **Percentage deviation from the broader market index** – For the NZ 50 ESG Tilted Fund and the Global ESG Fund, a measure of the number and size of deviation from the relevant broader market index.

## 1.7. Risks

There are a number of factors that may impact investors' returns.**Non-financial impact risk**

The NZ 50 ESG Tilted, Kernel Global Green Property, Kernel Global ESG, Kernel Global ESG (NZD Hedged), Kernel S&P Global Clean Energy, and the Kernel actively managed Funds consider non-financial factors. These criteria are partially based on qualitative, forward-looking or self-reported data which may not meet the desired non-financial outcome. For each fund, the non-financial factors do differ slightly, as detailed above.

### ESG selection risk

Each ESG Fund replicates an index which has a methodology to determine the eligibility and weighting of companies. There is a risk that these criteria especially around non-financial factors are different to an investor's expectation or that the data used is imperfect.

### ESG fund performance risk

ESG Funds are not designed to achieve higher returns or lower volatility than an equivalent broader market index. There is a risk that these funds achieve lower returns or have higher volatility than the broader market index.

For more information about risks, see the Product Disclosure Statement and the OMI documents on the Scheme's offer register entry at https://disclose-register.companiesoffice.govt.nz or at http://www.kernelwealth.co.nz.

### 1.7.1. ESG issues escalation and monitoring

To help with identifying and managing ESG-related risks, Kernel regularly monitors internal and external channels for any potential ESG issues or controversies that may pose a risk to Kernel or its funds, in line with our ESG Escalation and Monitoring Framework.

## 1.8. Breaches

The Kernel investment team and Investment Committee maintain processes and controls to monitor compliance with this policy and the funds' broader mandates detailed in the SIPO.

Kernel ESG funds track indices which are screened and/or tilted based on non-financial metrics. As manager of the funds, Kernel's controls are designed to ensure investments are confined to this index. In the event of a breach of this policy (for example, a company's business activities change rendering them excluded) or an operational error occurs where an excluded security is traded in error, our standard procedures will apply, and the breach will be remedied as soon as practicable.

Where a breach occurs a review of the relevant processes and controls and where appropriate the implementation of process improvements to mitigate the risk of recurrence will be undertaken.

## 1.9. Review

This policy will be reviewed at least annually by the Investment Committee.