Kernel

ESG Policy

Issued by Kernel Wealth Limited
8 September 2026

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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. This policy aims to define where Responsible and Sustainable processes and principles are applied and to which funds.

This policy provides definitions of Sustainable, Responsible, and ESG (Environmental, Social, Governance considerations) for a collective understanding, and outlines the principles and policies that underpin the non-financial criteria and features of the applicable funds. This policy is publicly available on the Disclose Register and the Kernel website.

1.2. Definitions

- **ESG factors** – Environment, Social and Governance factors also known as non-financial factors.
- **Environmental considerations** – non-financial factors relating to impacts and dependencies on the natural environment, and the environmental risks and opportunities that may affect long-term enterprise value. These may include (without limitation) climate change mitigation and adaptation, greenhouse gas emissions, energy use, pollution and waste, water use, land use, biodiversity and ecosystem impacts, and circular economy practices.
- **Social considerations** – non-financial factors relating to workforce, customers, suppliers and communities, and the social risks and opportunities that may affect long-term enterprise value. These may include (without limitation) labour standards and worker safety, human rights, modern slavery risk, diversity and inclusion, customer welfare and product responsibility, data privacy, community impacts, and broader stakeholder management.
- **Governance considerations** – non-financial factors relating to the governance, oversight and conduct of an organisation, including the systems that support accountability, ethical behaviour and effective risk management. These may include (without limitation) board composition and independence, executive remuneration and incentives, shareholder rights, audit and controls, business ethics and anti-corruption, tax governance, regulatory compliance, cybersecurity and data governance, and management of conflicts of interest.
- **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.
- **GICS –** Global Industry Classification Standard - A numbering system used jointly by the two largest index providers globally, MSCI and S&P, to classify companies according to their business activities.
- **Sustainable Funds –** funds captured under Schedules 1 to 4 of this policy are described as Sustainable funds. These funds utilise all the elements of Responsible Investment as shown in 1.2.1, as well as positive screening and in some cases, thematic investing.
- **Actively Managed Single Sector Funds –** these are funds captured under Schedule 5 of this policy where Kernel actively selects and manages the underlying assets (primarily fixed income and cash).
- **Screened Funds** – these are funds captured under Schedule 6 and are funds where negative screening is applied. These funds do not consider any other responsible or sustainable investment methods e.g. ESG integration.

1.2.1 Responsible & Sustainable Investment Spectrum

This Responsible & Sustainable Investment Spectrum was adapted from a model developed by the Responsible Investment Association of Australia (RIAA), of which Kernel is a member. The spectrum describes different approaches to responsible investing.

Approach		Sustainable Investment							
		Responsible Investment							
	Traditional investment	ESG Integration	Exclusions/ Negative screening	Norms-based screening	Stewardship	Positive/ best in class screening	Thematic investment	Impact Investing	Philanthropy
Method	Does not consider non-financial factors when making investment decisions	Considers ESG factors within investment analysis and decision-making process with the aim to improve risk-adjusted returns.	Applies rules based on defined ESG criteria that determine whether an individual investment is not permitted in a portfolio.	Applies rules based on compliance with widely recognized ESG standards or norms that determine whether an individual investment is or is not permitted in a portfolio.	Uses investor rights to influence investees and other parties to protect and enhance long-term value for clients and beneficiaries.	Applies rules based on desirable ESG criteria that determine whether an individual investment is permitted in a portfolio.	Selects investments to access specific trends or themes e.g. low carbon.	Invests with the intention to generate positive, measurable social/ environmental impact alongside a financial return.	Giving money, time, skills, assets or lending a voice to people and communities that would otherwise receive lower quality or have less access to goods and services with no direct financial return.
Intention	Avoids Harm								
				Benefits Stakeholders					
						Contributes to solutions			

1.3. Scope

This policy applies to all funds captured under Schedules 1 to 6 of this policy. Each schedule provides greater detail about different approaches used by each fund.

Kernel Sustainable Funds - Funds captured under Schedules 1 to 4 of this policy are described as Sustainable funds. These funds utilise Positive / best-in-class screening, Norms-based screening, Exclusions / negative screening, and ESG integration. Kernel also exercises its right to vote on behalf of customers, which is a component of Stewardship, through proxy voting partner Institutional Shareholder Services (ISS).

- Kernel NZ 50 ESG Tilted Fund
- Kernel Global Property (NZD Hedged) Fund
- Kernel S&P Global Clean Energy Fund
- Kernel Global ESG Fund
- Kernel Global ESG (NZD Hedged Fund)

Kernel Actively Managed Single Sector Funds – these are funds captured under Schedule 5 of this policy where Kernel actively selects and manages the underlying assets (primarily fixed income and cash). These funds utilise Exclusions / Negative screening. These funds do generally not carry the right to proxy vote due to the nature of the investments. From time to time, the Head of Investment Strategy may, at their discretion, also utilise other approaches from the Responsible Investment Spectrum.

- Kernel Cash Plus Fund
- Kernel NZ Bond Fund
- Kernel March 2027 NZ Bond Fund
- Kernel March 2029 NZ Bond Fund

Kernel Screened Funds – these are funds captured under Schedule 6 and are funds where Exclusions / Negative screening is applied. These funds do not consider any other responsible or sustainable investment methods.

- Kernel World ex-US Fund
- Kernel World ex-US Fund (NZD Hedged)
- Kernel S&P Global 100 Fund
- Kernel S&P Global 100 (NZD Hedged) Fund

1.4. Principles

Each Kernel Sustainable and Screened fund has specific criteria set by the underlying index provider 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.
- Kernel's index provider utilises specialised third-party ESG data and research providers to inform the constituent selection, weighting, and screening of its funds. These providers assess a range of industry-specific environmental, social, and governance criteria. Detailed information regarding the specific data providers, indices, and assessment frameworks applicable to each fund is contained in the relevant Schedules to this policy.

1.5. Stewardship

Kernel maintains a separate Proxy Voting Policy which sets out its approach to exercising shareholder voting rights for securities held within the Sustainable Funds (Schedules 1 to 4). Kernel has appointed Institutional Shareholder Services (ISS) as its global proxy voting partner, and the NZ Shareholders Association (NZSA) as its outsource provider for New Zealand securities. ISS and NZSA exercise voting rights on Kernel's behalf in accordance with their own respective proxy voting policies (including ISS's Socially Responsible Investing policy for global holdings, and NZSA's policy for holdings in the Kernel NZ 50 ESG Tilted Fund), subject to Kernel's right to override those decisions at its discretion.

Kernel's Investment Committee is responsible for oversight of the implementation of the Proxy Voting Policy, including a review every three years of the performance and policies of Kernel's proxy voting partners and the identification and resolution of any conflicts of interest. Records of proxy voting activity are maintained by Kernel and made available to investors upon request.

1.6. Risks

There are a number of factors that may impact investors' returns:

Non-financial impact risk

All Sustainable, Screened and 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 in the attached Schedules.

Index selection risk

Each Sustainable and Screened 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.

Performance risk

Sustainable 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 Scheme's offer documents at https://disclose-register.companiesoffice.govt.nz or at https://www.kernelwealth.co.nz.

1.7. Issues escalation and monitoring

Where an issue is identified, Kernel will conduct an initial assessment of its relevance, materiality, and potential impact. Issues considered significant or material are escalated to the Investment Committee, with an emergency meeting convened within three business days of identification. Following a decision, the Investment Committee will review the outcome at the next IC meeting, usually occurring once a month, to determine whether further action is needed.

1.8. Breaches

In the event of a breach of this policy – for example, where a company's business activities change such that it becomes excluded, or a trading error results in an excluded security being held – Kernel will undertake a comprehensive assessment to determine whether the position can be remediated or must be divested.

Where the breach arises from Kernel's own error, Kernel will remedy the position directly and as soon as practicable.

Where the breach arises because the underlying index has not yet reflected a change in a company's circumstances, correction depends on the relevant index provider's own review and rebalance process, which is outside Kernel's control. Kernel is unable to commit to a specific timeframe for remediation in these circumstances. A material breach that is not remediated within a reasonable timeframe may result in the affected fund's Sustainable or ESG status under this policy being reviewed.

Where Kernel determines a breach is material, Kernel will notify affected investors as soon as reasonably practicable via email and/or the Kernel platform, explaining the nature of the breach, whether it originates from Kernel or the index provider, and, where available, the expected timeframe for resolution.

1.9. Review

This policy will be reviewed at least every three years by the Chief Distribution Officer or their delegate and approved by the Investment Committee. Should any material changes to this policy or Kernel's ESG strategy occur customers will be notified either by email and/or via the Kernel platform as soon as reasonably practicable.

Schedules

Schedule 1 - Kernel NZ 50 ESG Tilted Fund

This fund adheres 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 Global 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 1.6. 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.
- Excludes companies with low UNGC Score or Rep Risk based on Sustainalytics assessment.
- Excludes companies with the GICS classification of Energy and Casinos & Gaming.
- Upweight/downweight investment percentage on basis of each company's ESG score while maintaining sector balance.
- Updates ESG scores and rebalances annually (effective after the close of the last business day of April), with quarterly eligibility reviews (removals only) and share updates in between.

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. The exclusion criteria in the table below are current as of the date of this policy. Please refer to the S&P/NZX 50 Portfolio ESG Tilted Index on the S&P website to check for more recent updates.

S&P Global Business Involvement	Category of Involvement and Description	Exclusion threshold – directly involved	Exclusion threshold – owns subsidiary with involvement
Controversial Weapons – Customized Weapons	The screen covers companies involved in the manufacturing of the components of a weapon. These components are intended solely for use in the production and are essential for the functioning of Anti Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons and Nuclear Weapons.	>0%	≥25%
Controversial Weapons – Related Products and Services	The screen covers companies that supply products and/or services such as stockpiling and transferring, and sales for Anti-Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons and Nuclear Weapons.	>0%	≥25%
Small Arms – Production of Small Arms Weapons for Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for civilian use.	>0%	≥25%
Small Arms – Production of Small Arms Weapons for Non-Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for non-civilian use.	>0%	≥25%
Small Arms – Production of Key components	The screen covers companies involved in the manufacturing of key components for assault weapons.	>0%	≥25%
Small Arms – Retail and Distribution of Small Arms Weapons	The screen covers companies involved in the retail or distribution of small arms weapons for civilian customers	≥5%	N/A
Military Contracting – Integral Military Weapons	The screen covers companies involved in the manufacturing, assembling, sale and transportation of integral military weapons.	≥10%	N/A
Military Contracting – Weapon-related	The screen covers companies involved in the manufacturing and sales of weapon-related products.	≥10%	N/A
Coal – Thermal Coal Mining	The screen covers companies that own/and or operate coal mines that engage in thermal coal mining.	≥5%	N/A
Thermal Coal – Generation	The screen covers companies involved in electricity generation using coal power plants.	≥5%	N/A
Oil Sands – Extraction and/or Production	This screen covers companies involved in the extraction and/or production of fossil fuels from oil sands/tar sands.	≥5%	N/A

Tobacco – Production	The screen covers companies involved in the manufacturing of tobacco.	>0%	≥25%
Tobacco – Related Products and Services	The screen covers companies that supply essential products/services for the tobacco industry.	≥5%	N/A
Tobacco – Retail and Distribution	The screen covers companies involved in the retail and/or distribution of tobacco as part of their offerings.	≥5%	N/A

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 Cooperation 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 Global 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 Global 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 Global ESG scores, which are then re-standardized. The S&P Global ESG Scores are built from the S&P Global 'Corporate Sustainability Assessment' (CSA).

A company's S&P Global 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 Global ESG Scores that are used in the index methodology. The scores are calculated according to an industry specific weighting which can be found on the S&P website.

Controversies: Media & Stakeholder Analysis

In addition to the above, S&P Global uses Sustainable1, 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 Property (NZD Hedged) Fund

This fund adheres to the Dow Jones Global Select ESG Tilted 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 of the Dow Jones Global Select ESG Tilted RESI (NZD) index hedged to New Zealand dollars. The fund is not designed to achieve higher returns or lower volatility than the broader market index. There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.6. 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 Sustainalytics' assessment.
- 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 Sustainalytics are excluded from the index's eligible universe. The exclusion criteria in the table below are current as of the date of this policy. Please refer to the Dow Jones Global Select ESG Tilted RESI index on the S&P website to check for more recent updates.

Sustainalytics Product Involvement	Category of Involvement and Description	Exclusion threshold – directly involved	Exclusion threshold – owns subsidiary with involvement
Controversial Weapons – Tailor Made and Essential	The company 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.	>0%	≥10%
Controversial Weapons – Non-Tailor Made or Non-Essential	The company provides components/services for the core weapon system which are either not considered tailor-made or not essential to the lethal use of the weapon.	>0%	≥10%
Tobacco Products – Production	The company manufactures tobacco products.	>0%	≥10%
Tobacco Products – Related Products/Services	The company supplies tobacco-related products/services.	≥5%	N/A
Tobacco Products – Retail	The company derives revenues from the distribution and/or retail sale of tobacco products.	≥5%	N/A
Thermal Coal – Extraction	The company extracts thermal coal.	>0%	N/A
Thermal Coal – Generation	The company generates electricity from thermal coal.	>0%	N/A
Oil Sands – Extraction	The company extracts oil sands	>0%	N/A
Shale Energy – Extraction	The company is involved in shale energy exploration and/or production.	>0%	N/A
Arctic Oil & Gas Exploration – Extraction	The company is involved in oil and gas exploration in Arctic regions.	>0%	N/A
Oil & Gas – Production	The company is involved in oil and gas exploration, production, refining, transportation and/or storage.	>0%	N/A
Oil & Gas – Generation	The company generates electricity from oil and/or gas.	>0%	N/A
Oil & Gas – Supporting Products/Services	The company provides tailor-made products and services that support oil and gas exploration, production, refining, transportation and storage.	≥10%	N/A

Gambling – Operations	The company owns and/or operates a gambling establishment.	≥5%	N/A
Gambling – Specialized Equipment	The company manufactures specialized equipment used exclusively for gambling.	≥10%	N/A
Gambling – Supporting Products/Services	The company provides supporting products/services to gambling operations.	≥10%	N/A
Adult Entertainment – Production	The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments.	>0%	N/A
Adult Entertainment – Distribution	The company is involved in the distribution of adult entertainment materials.	≥5%	N/A
Alcoholic Beverages – Production	The company manufactures alcoholic beverages.	≥5%	N/A
Alcoholic Beverages – Retail	The company derives revenues from the distribution and/or retail sale of alcoholic beverages.	≥10%	N/A
Alcoholic Beverages – Related Products/Services	The company is a supplier of alcohol-related products/services to alcoholic beverage manufacturers.	≥10%	N/A

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 Sustainable1, 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 3 - Kernel S&P Global Clean Energy Fund

This fund adheres to 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 index. There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.6. 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.

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. This selection step is applied to the eligible universe remaining after the carbon exclusion screen described immediately below.

Before this selection step, all companies in the eligible universe 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 S&P are excluded from the index's eligible universe. The exclusion criteria in the table below are current as of the date of this policy. Please refer to the S&P Developed Ex-Korea Clean Energy Index on the S&P website to check for more recent updates.

S&P Global Business Involvement	Category of Involvement and Description	Exclusion threshold – directly involved	Exclusion threshold – owns subsidiary with involvement
Controversial Weapons – Customized Weapons	The screen covers companies involved in the manufacturing of the components of a weapon. These components are intended solely for use in the production and are essential for the functioning of Anti-Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons, and Nuclear Weapons.	>0%	≥25%
Controversial Weapons – Related Products and Services	The screen covers companies that supply products and/or services such as stockpiling and transferring, and sales for Anti-Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons, and Nuclear Weapons.	>0%	≥25%
Small Arms – Production of Small Arms Weapons for Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for civilian use.	>0%	N/A
Small Arms – Production of Small Arms Weapons for Non-Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for non-civilian use.	>0%	N/A

Small Arms – Production of Key components	The screen covers companies involved in the manufacturing of key components for assault weapons.	>0%	N/A
Small Arms – Retail and Distribution of Small Arms Weapons	The screen covers companies involved in the retail or distribution of small arms weapons for civilian customers.	>0%	N/A
Military Contracting – Integral Military Weapons	The screen covers companies involved in the manufacturing, assembling, sale and transportation of integral military weapons.	≥5%	N/A
Military Contracting – Weapon-related	The screen covers companies involved in the manufacturing and sales of weapon-related products.	≥5%	N/A
Tobacco – Production	The screen covers companies involved in the manufacturing of tobacco.	>0%	N/A
Tobacco – Related Products and Services	The screen covers companies that supply essential products/services for the tobacco industry.	≥5%	N/A
Tobacco – Retail and Distribution	The screen covers companies involved in the retail and/or distribution of tobacco as part of their offerings.	≥5%	N/A
Coal – Thermal Coal Mining	The screen covers companies that own/and or operate coal mines that engage in thermal coal mining.	≥5%	N/A
Thermal Coal – Generation	The screen covers companies involved in electricity generation using coal power plants.	≥25%	N/A
Oil Sands or Tar Sands – Extraction and/or Production	The screen covers companies involved in the extraction and/or production of fossil fuels from oil sands/tar sands.	≥5%	N/A
Shale Oil and Gas – Extraction and/or Production	The screen covers companies involved in the extraction and/or production of shale oil and gas.	≥5%	N/A
Arctic Drilling – Extraction and/or Production	The screen covers companies involved in the extraction and/or production of fossil fuels via the method of arctic drilling.	≥5%	N/A

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 Sustainable1, 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 to the S&P World PAB 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 PAB ESG Ex-Non-Pharma Animal Testing and S&P World PAB 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 index. There is a risk that it achieves lower returns or has higher volatility than that broader market index. For other risks, see section 1.6. 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.
- 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 1.5ºC 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 1.5ºC 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 Global 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 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. The exclusion criteria in the table below are current as of the date of this policy. Please refer to the S&P World PAB ESG Ex-Non-Pharma Animal Testing (NZD) Index on the S&P website to check for more recent updates.

S&P Global Business Involvement	Category of Involvement and Description	Exclusion threshold – directly involved	Exclusion threshold – owns subsidiary with involvement
Controversial Weapons – Customized Weapons	The screen covers companies involved in the manufacturing of the components of a weapon. These components are intended solely for use in the production and are essential for the functioning of Anti-Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons, and Nuclear Weapons.	>0%	≥25%
Tobacco – Production	The screen covers companies involved in the manufacturing of tobacco.	>0%	≥25%
Tobacco – Related Products and Services	The screen covers companies that supply essential products/services for the tobacco industry.	≥10%	N/A
Tobacco – Retail and Distribution	The screen covers companies involved in the retail and/or distribution of tobacco as part of their offerings.	≥5%	N/A

Small Arms – Production of Small Arms Weapons for Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for civilian use.	>0%	N/A
Small Arms – Production of Small Arms Weapons for Non-Civilian Use	The screen covers companies involved in the manufacturing of small arms weapon for non-civilian use.	>0%	N/A
Small Arms – Production of Key components	The screen covers companies involved in the manufacturing of key components for assault weapons.	>0%	N/A
Small Arms – Retail and Distribution of Small Arms Weapons	The screen covers companies involved in the retail or distribution of small arms weapons for civilian customers.	>0%	N/A
Military Contracting – Integral Military Weapons	The screen covers companies involved in the manufacturing, assembling, sale and transportation of integral military weapons.	>0%	N/A
Military Contracting – Weapon-related	The screen covers companies involved in the manufacturing and sales of weapon-related products.	≥5%	N/A
Thermal Coal – Generation	The screen involves companies involved in the electricity generation using coal power plants.	≥5%	N/A
Oil Sands or Tar Sands –	The screen involves companies involved in the extraction and/or production of fossil fuels from Oil Sands/Tar Sands.	≥5%	N/A
Shale Oil & Gas –	The screen involves companies involved in the extraction and/or production of Shale oil and gas.	≥5%	N/A
Gambling –	The screen covers companies that own and/or operate a gambling establishment.	≥10%	N/A
Alcohol – Production	The screen covers companies involved in the production of alcoholic beverages.	≥5%	N/A
Alcohol – Related Products/Services	The screen covers companies that supply essential products/services for the alcoholic beverage industry.	≥10%	N/A
Alcohol – Retail	The screen covers companies involved in the retail and/or distribution of alcoholic beverages as part of their offerings.	≥10%	N/A

Animal Welfare (Non Pharmaceutical) – Household, Cosmetics and Personal Care Animal Testing	The screen covers companies that conducts or commissions animal testing for the final product or ingredients of household, cosmetic and personal care products.	>0%	≥25%
Animal Welfare (Non Pharmaceutical) – Food and Beverage Animal Testing	The screen covers companies that conducts or commissions animal testing for the final product or ingredients of food and beverages	>0%	≥25%
Animal Welfare (Non Pharmaceutical) – Chemicals Animal Testing	The screen covers companies that conducts or commissions animal testing for the final product or ingredients of chemicals.	>0%	≥25%
Animal Welfare (Non Pharmaceutical) – Animal Testers and Breeders	The screen covers companies that conduct animal testing on behalf of other companies, and/or operates animal breeding facilities for animal testing.	>0%	≥25%
Animal Welfare (Non Pharmaceutical) – Animal Testing Suspected	The screen covers companies that are suspected to be involved in animal testing due to their product offering.	>0%	N/A
Gambling – Specialized Equipment	The screen covers companies that manufacture specialized equipment used exclusively for gambling.	≥10%	N/A
Gambling – Supporting Products and Services	The screen covers companies that provide supporting products/services to gambling operations.	≥10%	N/A

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 the United Nations Global Compact website. 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 Global 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,
- 1.5ºC 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 Sustainable1, 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

Funds covered:

- Kernel Cash Plus Fund
- Kernel NZ Bond Fund
- Kernel March 2027 NZ Bond Fund
- Kernel March 2029 NZ Bond Fund

Summary

Kernel actively manages several funds which are captured under this Policy. Kernel strategically allocates investments in fixed income financial products to meet the specific goals of each of these funds. While these funds do not implement a strategy of positive tilt or overweighting based on ESG scores, due to market limitations, they do utilise a negative screening process based on GICS classifications.

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. This list of exclusions may change from time to time at our discretion.

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) 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 & Defence (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) Oil & Gas Equipment & Services (10101020) Integrated Oil & Gas (10102010) Oil & Gas Exploration & Production (10102020) Oil & Gas Refining & Marketing (10102030) 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 & Defence (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% revenue from tailor-made products or services to support military weapons.
Small arms	Aerospace & Defence (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 5% 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.

Schedule 6 – Screened Funds

Funds covered:

- Kernel World ex-US Fund
- Kernel World ex-US Fund (NZD Hedged)
- Kernel S&P Global 100 Fund
- Kernel S&P Global 100 (NZD Hedged) Fund

Overview

These funds track specific indices. They are not designated as Sustainable funds and do not apply any ESG tilting, climate-alignment weighting, or positive ESG selection methodology. However, the underlying index incorporates specific, rules-based non-financial screens. These funds are therefore captured within this policy as Screened Funds.

Summary

- Starts with the appropriate parent index (refer to the Statement of Investment Policy & Objectives).
- Excludes companies with certain business activities (see table below) based on S&P's assessment.
- Does not apply UNGC screening, ESG tilting, climate weighting, or Reputational Risk controversy monitoring.
- Rebalances in line with the underlying index schedule.

Exclusion of specific business activities

As of each rebalancing reference date, companies with the following specific business activities, as determined by S&P Dow Jones Indices, are excluded from the index's eligible universe. This list of exclusions may change from time to time. Please refer to the S&P website for more information, or for the full index methodology.

Fund	Exclusion Applied
Kernel World ex-US Fund	Controversial Weapons, Tobacco
Kernel World ex-US Fund (NZD Hedged)	Controversial Weapons, Tobacco

Kernel S&P Global 100 Fund	Controversial Weapons – Customized Weapons
Kernel S&P Global 100 (NZD Hedged) Fund	Controversial Weapons – Customized Weapons

S&P Global Business Involvement	Category of Involvement and Description	Exclusion threshold – directly involved	Exclusion threshold – owns subsidiary with involvement
Controversial Weapons – Customized Weapons	This screen covers companies involved in the manufacturing of the components of a weapon. These components are intended solely for use in the production and are essential for the functioning of Anti-personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium, Incendiary Weapons, and Nuclear Weapons.	>0%	≥25%
Controversial Weapons – Related Products and Services	This screen covers companies that supply products and/or services such as stockpiling and transferring, and sales for Anti-Personnel Mines, Biological and Chemical Weapons, Blinding Laser Weapons, Cluster Munitions, Depleted Uranium and Incendiary Weapons, and Nuclear Weapons.	>0%	≥25%
Tobacco – Production	The screen covers companies that are involved in the manufacturing of tobacco.	>0%	≥25%
Tobacco – Related Products and Services	The screen covers companies that supply essential products/services for the tobacco industry.	≥10%	N/A
Tobacco – Retail and Distribution	The screen covers companies involved in the retail and/or distribution of tobacco as part of their offerings.	≥10%	N/A

Kernel

www.kernelwealth.co.nz