



# Other Material Information

20 August 2019

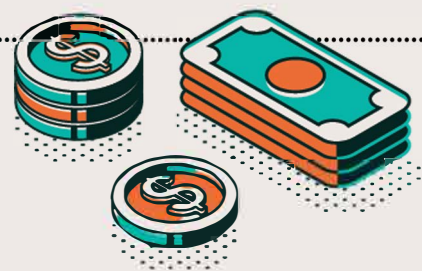
Issued by Kernel Wealth Limited



# Table of Contents

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- General.....3
- 1. Funds.....3
- 2. Who is involved .....3
- 3. Fees and expenses.....5
- 4. Taxation .....6
- 5. Risks .....7
- 6. Material contracts .....9
- 7. Investing through administration and custodial services (e.g. wrap platforms) .....10
- 8. Auditors and Other Advisers.....10
- 9. No Guarantee .....10
- 10. Glossary .....11



## General

This Other Material Information Document (**Document**) has been prepared in accordance with the Financial Markets Conduct Act 2013 (**FMC Act**) and the Financial Markets Conduct Regulations 2014 (**FMC Regulations**).

Kernel Funds is a registered managed investment scheme (**Scheme**), Scheme number 12697. Kernel Wealth Limited (**Kernel**) is a licensed fund manager formed in 2018 and is the Manager of the Scheme.

In this Document the words “you” or “your” means a person who invests in the Scheme. “We”, “us” or “our” refers to Kernel Wealth Limited as the Manager of the Scheme.

## 1. Funds

Kernel offer 3 single sector index funds that primarily provide exposure to a single asset class. Index funds are passively managed and designed to generate an investment return that reflects the return of the index being tracked by the fund.

Fund	Establishment Date
<b>NZ 20</b>	19 August 2019
<b>NZ Commercial Property</b>	19 August 2019
<b>NZ Level 9</b>	19 August 2019

Each Fund is governed by the Master Trust Deed dated 19 August 2019 and an Establishment Deed, and managed in accordance with the Statement of Investment Policy and Objectives (SIPO).

Each Fund is a separate and distinct investment fund, with separate assets and liabilities, under the Master Trust Deed. All investments of a Fund are to be held by the Supervisor as the exclusive property of that Fund, for the exclusive benefit of the investors of that Fund. No investor in one Fund will have any claim on any other Fund (and vice versa). This means that the assets of one Fund cannot be used to cover the liabilities of another Fund.

A Product Disclosure Statement (PDS) is prepared for investors and contains information on the Funds which must be read before we can accept an investor's application. You can get a copy of the PDS, SIPO, Master Trust Deed, Establishment Deed and other information about the Scheme and each Fund on the Disclose website ([www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz)) or by contacting us.

## 2. Who is involved

### The Manager

Kernel is a registered financial services provider, FSP 644609, incorporated under the Companies Act 1993 on 25 September 2018 (Company number 7050334).

We were granted a licence to act as manager of a registered scheme under the FMC Act on 19 August 2019. The licence is subject to standard licence conditions under the FMC Act and the FMC Regulations that apply to all managers of managed investment schemes. The licence, including the conditions of the licence, can be obtained on the FMA's website at <https://www.fma.govt.nz/compliance/licensed-providers/>.

As Manager we are responsible for;

- Offering and issuing Units in each Fund in the Scheme
- managing the Funds and their investments in accordance with the SIPO
- administering each Fund.

## The supervisor

The independent supervisor for the Scheme is Heritage Trustee Company Limited (**Supervisor**), who supervises the Scheme.

The Supervisor is responsible for the following functions;

- supervising the performance of our functions as Manager and our issuer obligations, including compliance with the Master Trust Deed and each Establishment Deed
- supervising the financial position of us as Manager and the Funds to ascertain their adequacy
- acting on behalf of investors in relation to us as Manager, any matter connected to the Master Trust Deed, Establishment Deed or the terms of offer of the Units, any contravention or alleged contravention of our obligations as the issuers of the Units and Manager of the Funds, and any contravention or alleged contravention of the FMC Act by any other person in connection with the Funds
- reporting to FMA any contravention, or likely contravention, of a manager or issuer obligation
- holding the property of the Funds, or ensuring that it is held, in accordance with the FMC Act
- performing or exercising any other functions, powers, and duties conferred or imposed on the Supervisor by or under the FMC Act, the Financial Markets Supervisors Act 2011 or the Master Trust Deed or Establishment Deed.

The Supervisor has been granted a licence under the Financial Market Supervisors Act 2011 to act as a supervisor of a managed investment scheme. The licence, including the conditions of the licence can be obtained on the FMA's website at <https://www.fma.govt.nz/compliance/licensed-providers/>.

The current names of the Supervisor's directors and their addresses may be obtained from the Companies Office website <https://companies-register.companiesoffice.govt.nz/> or by phoning the Supervisor on 09 930 9770. The directors and their addresses may change from time to time without notice to you.

## The custodian

The Supervisor holds the assets of the Scheme, or can appoint an independent third party custodian. The Supervisor has appointed Adminis NZ Limited as the Custodian for the Scheme.

As required by the FMC Act, the Supervisor and the Custodian are independent of us.

## The administration manager

We have entered into a service agreement with Adminis NZ Limited (**Administration Manager**). The Administration Manager provides a range of administrative services in respect of the Funds including;

- Unit pricing
- Member record keeping and registry

- Fund accounting
- Verification of identity
- Valuation services

## Indemnities

Subject to the limits on indemnities under the FMC Act, both we and the Supervisor are indemnified out of the Funds for all losses, costs and expenses incurred by us or the Supervisor in relation to the proper performance of our general duties in respect of the Funds and this offer.

This indemnity will take priority over the claims of any investors and extends to the costs of any litigation or other proceedings in which liability is determined. Any recoveries for matters relating to more than one Fund will be apportioned across the Funds in accordance with the Master Trust Deed.

However, neither we nor the Supervisor are entitled to be indemnified out of the assets of a Fund in respect of any liability arising out of wilful default or wilful breach of trust, or where either of us fails to properly perform certain duties set out in the FMC Act and Master Trust Deed (including the duty to exercise the degree of care and diligence required by the FMC Act and Master Trust Deed).

## 3. Fees and expenses

The current fee structure for the Funds is disclosed in the PDS, calculated as at the valuation day and charged monthly in arrears.

We do not, and at the date of this Document have no intention to, charge performance fees, entry or exit fees, fees for switching or redeeming investments, or paying trail commissions to advisers.

The fee may be varied, or new fees imposed, from time to time in accordance with the Master Trust Deed.

We may, in our discretion, from time to time waive or reduce the fee currently disclosed in the PDS in relation to a particular investor, category of investors, or particular transaction. Any such fee reduction may be effected by way of cash rebate or by the issuance of units to the relevant investor or investors, or (with the Supervisor's consent) on such other basis that we determine.

The fee is deducted from, and reflected in the value of, the units of the Funds. The fee includes costs charged by us, the Supervisor, Custodian and Administration Manager.

### *Additional costs and expenses*

Both we and the Supervisor are entitled to be reimbursed from the Funds, in addition to the fees stated above, for all other expenses, losses, costs, or liabilities where the following apply:

- in the case of the Supervisor, it has consulted with us prior to incurring the relevant expenses, losses, costs, or liabilities; and
- a prudent professional supervisor or manager (as appropriate) would consider it reasonable to incur such expenses, losses, costs, or liabilities in order to assist us or the Supervisor (as the case may be) comply with its obligations and duties under the Master Trust Deed and at law.

At the date of this Document, and for the foreseeable future, we intend to absorb these expenses within the fee.

We can change the fee (including when they are deducted from the Funds). We may change the fees and charges payable by an investor at any time. Where we increase a fee or charge, we will give you at least three months' notice of the change.

## 4. Taxation

This section sets out further information about the taxes you will pay when investing in the Scheme. It is intended to be a general summary of relevant New Zealand taxation (which may change) which may affect the returns of the fund you invest in and each of the funds may have varying tax implications. It should be read together with the PDS.

Investors may have different taxation positions and you are encouraged to seek professional tax advice if necessary before investing in the Scheme.

Neither Heritage Trustee Company Limited nor Kernel Wealth Limited accepts any responsibility for the taxation consequences of an investment in the Scheme.

### PIE

Each fund is a Portfolio Investment Entity (PIEs) as defined in the Income Tax Act 2007.

Under the PIE regime, each Fund's taxable income is attributed to you in proportion to the number of Units you hold in the Fund. An investor may elect, under the Income Tax Act 2007, their Prescribed Investor Rate (PIR) to calculate their tax obligations on the income allocated to them by a PIE. The Fund pays tax on the income attributed to you at your selected PIR and may undertake any necessary adjustments to your interest in a Fund in order to comply with the PIE tax requirements.

We may ask you to provide information to enable us to determine whether a Fund continues to meet the PIE eligibility requirements. We will ask you to get that information to us promptly.

The funds are not subject to tax on gains that they derive from the sale of shares in most New Zealand resident companies. Dividends from such shares are usually taxable to the funds, with a credit allowed for any imputation credits attached.

### PIR and taxation of distributions to NZ resident investors

At the date of this Document, if you are a natural person investor and a New Zealand tax resident, you will have a PIR of 10.5%, 17.5% or 28%. To qualify for a 10.5% or 17.5% PIR, you must supply a valid IRD number and meet the following criteria in relation to either of the previous two tax years\*:

Your taxable income is	Your taxable income plus PIE income is	Your PIR rate is
\$0-\$14,000	\$0-\$48,000	10.5%
\$0-\$48,000	\$0-\$70,000	17.5%

\* tax years generally commence on 1 April in any year and end on 31 March in the following year.

If you are a natural person investor and do not qualify for the above 10.5% or 17.5% PIR, you will have a PIR of 28%.

The PIR of a company, a managed investment scheme and charity investors will be 0% unless that investor does not provide a valid IRD number or notify its PIR to us in which case a PIR of 28% will apply.

New Zealand resident trustees (other than trustees of managed investment schemes and charitable trusts) will have a PIR of 0% unless the trustees elect a 17.5% or 28% PIR. A

testamentary trust (i.e. a trust created through a will) may also elect a 10.5% PIR. If a trust fails to provide a valid IRD number or notify its PIR to us it will default to a 28% PIR. If a 0%, 10.5%, or 17.5% PIR applies, the trust must account for PIE income within its own tax return (at the appropriate rate of tax depending upon whether taxable income is treated by the trust as trustee or beneficiary income) and claim a credit for any tax already paid by a Fund.

If the trust elects a 28% PIR this will be a final tax and the trust will not include the income in its tax return. We recommend trustees seek independent tax advice before electing a PIR rate.

If you are a joint investor you will be taxed at the highest of the joint PIRs.

If you do not notify us of your PIR, then the default rate of 28% will apply. The Commissioner of IRD can require us to disregard the PIR notified to us by you and apply a PIR notified by the Commissioner.

If you advise the correct PIR, income, dividends or distributions from the Fund will not be included in your tax return. If you advise a PIR that is higher than your applicable rate, then you will generally not be able to claim back the excess tax paid. Additionally, if you have advised us that you are eligible for a lower PIR, and this is incorrect (i.e. you are only eligible for a higher rate), you may be liable to the IRD for further tax and penalties and have to file a tax return.

You should advise us of your PIR when you make an application to become a unit holder in a Fund. You should also advise us of any changes to your PIR. If you do not advise a PIR or do not provide a valid IRD number, we will apply the higher tax rate.

You should review your rate each year to ensure it is correct and notify us of any changes. For more information about PIRs and to determine your correct PIR rate please refer to the Inland Revenue Department website <http://www.ird.govt.nz/toii/pir/> or contact your professional tax adviser.

## **Taxation of distributions to non-resident investors**

If you are a New Zealand non-resident for tax purposes, you will have a PIR of 28%. You will not be able to elect for a lower PIR to be applied. Dividends or distributions from the Fund will not need to be included in a New Zealand income tax return. If you are a non-resident investor you are advised to seek your own professional tax advice.

## **5. Risks**

All investments involve some level of risk and you should only invest in the Scheme if you understand and are willing to undertake the risks involved. This is a summary of risks that we believe to be the most important.

The PDS sets out the general risks to your investment in the Scheme. There may be other risks that are not detailed here or in the PDS.

You should seek advice from an authorised financial adviser before investing in the Scheme.

### **Market risk**

The risk that there is a decline in the value of a market, or a sector of a market. Markets can fall for many reasons as a result of developments in economic conditions, government regulations, local and international political events, and investor confidence. The performance of individual assets can impact returns.

## Liquidity risk

The risk that we are potentially unable to buy or sell some assets of a Fund in a timely manner or at fair value, which could result in a loss to that Fund, because there are insufficient assets available for sale or purchase in a market or the market is disrupted.

## Passive management and tracking difference risk

The risk of a Fund incurring a loss because of a change in the value or performance of an asset. Passive management means investments are made to match the composition of a specific index and therefore we do not sell an asset because the issuer is in financial trouble, unless that asset is removed from the index tracked by a Fund, and neither do we form an opinion on the future performance of an asset.

Tracking difference risk is the risk that a Fund achieves a return that is less than the relevant index it aims to track. This may occur if the prices we pay or receive for assets do not exactly match the prices used to adjust the index.

Taxes, fees and costs, operational errors and the amount held in cash by a Fund may also result in tracking difference.

## Risks not outlined in the Product Disclosure Statement

### Operational risk

The Funds may be exposed to operational risk from business interruptions through key personnel changes, human error, insufficient operational funding, technology (including business system failures) or infrastructure failure, fraud or misconduct, non-compliance with legal and regulatory obligations, counter-party performance under outsourcing arrangements, legal risk, data integrity risk, security risk and other external events (including pandemics). This risk may impact on the operation or performance of the Scheme or a Fund within the Scheme. Internal policies, procedures and controls, a compliance assurance program, and effective monitoring of outsourced operations are in place to mitigate these risk.

### Concentration risk

Where a Fund's assets are concentrated in a particular country, market, sector (such as a particular industry), asset class, or asset, the Fund may be particularly impacted by adverse events affecting that specific country, market, sector, asset class or asset.

### Suspension or deferral of withdrawals

The risk that withdrawals (including switches, which are processed as a withdrawal from one Fund and investment into another), which are allowed under the Master Trust Deed subject to certain procedural requirements, out of a Fund are deferred or suspended at a time when you want to redeem your investment.

This could happen if a Fund was unable to buy or sell underlying investments, or as a result of markets not being open for trading.

We can defer or suspend withdrawals in certain limited circumstances and we may also separate out certain assets within a Fund's portfolio and make special arrangements for those assets ('side-pocketing'). This may affect you accessing part of your investment. We can restrict or defer withdrawals and switches in the following situations:



<b>Suspensions</b>	<p>In some circumstances, including where we determine that giving effect to withdrawals or switches from a Fund is not practicable, we can:</p> <ul style="list-style-type: none"> <li>• suspend withdrawals and switches from the Fund for up to 90 days (or longer, if the Supervisor agrees); or</li> <li>• pay out withdrawals requested by one or more investors in instalments over a period of up to 90 days (or longer, if the Supervisor agrees) or in a lump sum at the end of that period.</li> </ul>
<b>Side-pocketing</b>	<p>Subject to relevant law, we can create a 'side-pocket' of assets of a Fund. Side-pocketing is designed to separate a Fund's illiquid assets from more liquid assets, and usually involves restricting your ability to access the units that relate to those assets without affecting your ability to access the non-side-pocketed assets.</p>

We will notify affected investors if we ever exercise any of the above powers.

## Regulatory and legal risk

The risk of changes in legislation or regulation, or their interpretation or application of these, including taxation rates, taxation laws and corporate regulatory laws that may adversely affect the Scheme or your investment in a Fund.

Legal risk is the risk that we do not correctly Document or comply with our legal obligations.

## PIE status risk

The risk that a Fund may lose its PIE status under the PIE regime, which may have an adverse effect on the tax position of the Fund and/or the after-tax returns that you receive. We mitigate this risk by implementing processes that are designed to ensure that our funds comply with the PIE requirements.

We may ask you to provide information to enable us to determine whether a Fund continues to meet the PIE eligibility requirements. We will ask you to get that information to us promptly.

## 6. Material contracts

In addition to the PDS, SIPO, Master Trust Deed and Establishment Deeds (as disclosed on the Disclose website at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)), the following contract details are material.

### Administration Services Agreement

We have entered into an Administration Services Agreement with Adminis NZ Ltd (Adminis). Adminis is the administration manager for the Funds.

The Administration Services Agreement sets out the administration and registry services that Adminis has agreed to provide to us in respect of the Funds, together with the service levels Adminis must comply with in providing those services.

### Supervisory Agreement

There is a Supervisory Agreement between Kernel and Heritage, the Scheme's supervisor.

The Supervisory Agreement sets out the arrangements between Kernel and Heritage in relation to certain reporting and other operational matters relating to the Scheme.

### Index Licence Agreement

Kernel has in place licensing agreements with S&P DJI for the various uses of indices and index data in the provision of its services.

## **7. Investing through administration and custodial services (e.g. wrap platforms)**

The Funds may be made available through certain administration and custodial services approved by us. These include "wrap platforms". When you invest through an administration and custodial service then it is the custodial service, not you, that we recognize as the investor and you will not hold Units in the Funds directly. Instead, your Units are held in the name of a custodial entity for the wrap platform on your behalf. This means many of the legal rights attaching to those Units are held by that custodial entity rather than by you, and so your ability to exercise those rights is subject to the terms and conditions agreed between you and the provider of the service. You are encouraged to familiarise yourself with those terms and conditions as set out in service provider's marketing and legal documentation.

The administration and custodial service may specify a different minimum investment amount or minimum holding.

To make a withdrawal from the Funds or request a switch between Funds, you will need to apply to your administration and custodial service provider.

### ***Fees***

Your administration and custodial service provider may also charge fees in respect of your investment in the Funds.

Pursuant to the Master Trust Deed, we have the power to look through administration and custodial service providers to underlying investors with their consent for the purpose of charging fees (including for the purpose of effecting any fee reduction or waiver). This means your eligibility for any fee reduction or waiver may be assessed based solely on your Units in the Funds, rather than based on the administration and custodial service provider's total Unit holdings. Your administration and custodial service provider will confirm whether this applies to you.

## **8. Auditors and Other Advisers**

### **Auditor**

As at the date of this Document, EY is the appointed Auditor of the Funds. EY is a registered audit provider under section 87 of the Auditor Regulation Act 2011.

### **Other Advisers**

Our solicitors are Kensington Swan.

Our financial advisers are BDO.

## **9. No Guarantee**

No person, including Kernel, Kernel's Directors, employees, the Custodian, the Administration Manager or the Supervisor, guarantees or promises the repayment of, or returns on, your investment in the Scheme.

## 10. Glossary

**“Administration Manager”** means Adminis NZ Limited.

**“Custodian”** means Adminis NZ Limited.

**“Document”** means this Other Material Information document which has been prepared to meet the requirements of the FMC Act and the FMC Regulations.

**“Establishment Deed”** means the establishment deed for each Fund.

**“FMA”** means the Financial Markets Authority, the government agency responsible for regulating capital markets and financial services in New Zealand.

**“FMC Act”** means the Financial Markets Conduct Act 2013.

**“FMC Regulations”** means the Financial Markets Conduct Regulations 2014.

**“Funds”** means the investment funds set out in the section titled “Funds”, and “Fund” has a corresponding meaning.

**“Manager”**, “we”, “us” and “our” means Kernel Wealth Limited, the manager of the Scheme.

**“Master Trust Deed”** means the Kernel Funds Master Trust Deed.

**“PIE”** means a portfolio investment entity for the purposes of the Tax Act.

**“PIE income”** means the income attributed to a person by the PIEs in which the person has invested, less any losses attributed to the person by PIEs.

**“PDS”** means a product disclosure statement under the FMC Act. A PDS is a document containing information about that Fund intended to assist a prudent but non-expert person to decide whether to invest in that Fund. A retail investor must be given a copy of the relevant PDS before investing. The PDSs for the Funds can be obtained from the offer register on the Disclose website at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

**“PIR”** means the Prescribed Investor Rate as that term is defined in the Tax Act.

**“Scheme”** means the Kernel Funds, a registered managed investment scheme.

**“SIPO”** means the statement of investment policy and objectives for the Funds. In broad terms, the SIPO is a document setting out the parameters pursuant to which each of the Funds will be invested. The SIPO for the Funds can be obtained from the scheme register on the Disclose website at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

**“Supervisor”** means Heritage Trustee Company Limited, the supervisor of the Scheme.

**“Tax Act”** means the Income Tax Act 2007.

**“Unit”** means an undivided interest in the relevant Fund as more fully defined in the Trust Deed.

**“You”** or **“Your”** refers to a person who invests in the Funds.