



# Kernel Funds

Financial Statements

For the 7 months ended 31 March 2020

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# Directory

<b>The Manager</b>	Kernel Wealth Limited Level 9, 43 High Street Auckland, New Zealand
<b>Directors of the Manager</b>	Dean Leigh Anderson Kerry Grant McIntosh Paul Raymond Shelley Hocking
<b>The Supervisor</b>	Trustees Executors Limited (from 23 March 2020) PO Box 4197 Level 7, 51 Shortland Street Auckland, New Zealand  Heritage Trustee (up to 23 March 2020) PO Box 469 88 Shortland Street Auckland, New Zealand
<b>Administration Manager</b>	Adminis PO Box 25 555 Level 1, 125 Featherston Street Wellington, New Zealand
<b>Auditor</b>	Ernst & Young PO Box 490 Majestic Centre, 100 Willis Street Wellington, New Zealand
<b>Correspondence</b>	All correspondence and enquiries to the Supervisor about the Funds should be addressed to The Supervisor, Trustees Executors, at the above address.

## **Independent auditor's report to the Unitholders of Kernel NZ 20 Fund, Kernel NZ Level 9 Fund and Kernel NZ Commercial Property Fund**

### **Opinion**

We have audited the financial statements of Kernel NZ 20 Fund, Kernel NZ Level 9 Fund and Kernel NZ Commercial Property Fund (each a "Fund" and collectively the "Funds") on pages 6 to 19, which comprise the statements of financial position of each Fund as at 31 March 2020, and the statements of comprehensive income, the statements of changes in funds attributable to unit holders and statements of cash flows for the period then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 6 to 19 present fairly, in all material respects, the financial position of each Funds as at 31 March 2020 and its financial performance and cash flows for the period then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Unitholders of the Funds, as a body. Our audit has been undertaken so that we might state to the Unitholders of the Funds those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Funds and the Unitholders of the Funds, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Funds in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Funds.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Investments

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> <li>▶ Each Fund’s investments (being financial assets at fair value through profit and loss (“FVTPL”)) are 99.9% of that Fund’s net assets attributable to unitholders.</li> <li>▶ Market volatility can have a significant impact on the value of these financial assets, therefore the recognition and measurement of assets at FVTPL is considered a key area of audit focus. At and subsequent to 31 March 2020 financial markets were significantly impacted by the COVID-19 pandemic and during this period they have experienced greater than usual volatility.</li> <li>▶ As detailed in the Funds’ accounting policy, as described in Note 2 to the financial statements, the financial assets at FVTPL are recognised accordance with NZ IFRS 9 <i>Financial Instruments</i>.</li> <li>▶ Disclosures regarding the Funds’ investments at 31 March 2020 are included in Note 4 to the financial statements and regarding the impact of market volatility on investments subsequent to balance date are included in Note 4 section “Impact of the Coronavirus (COVID-19) outbreak” to the financial statements.</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▶ Gaining an understanding of the processes used to record investment transactions and to value the portfolio.</li> <li>▶ Receiving third party confirmations, for each investment held, directly from the custodian for the Funds of the number of securities or units held by each Fund.</li> <li>▶ Verifying a sample of investment valuations at balance date to independent pricing sources.</li> <li>▶ Assessing whether the disclosures in the financial statements appropriately reflected the Funds’ exposure to financial instrument risk with reference to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> and the COVID-19 related impacts on investment valuation.</li> </ul>

### Information other than the financial statements and auditor’s report

The Manager is responsible for the Annual Report, which includes information other than the financial statements and auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take

appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

### **Manager's responsibilities for the financial statements**

The Manager is responsible, on behalf of the Funds, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

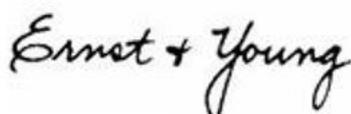
In preparing the financial statements, the Manager is responsible for assessing on behalf of the Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intend to liquidate the Funds or cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Bennett.



Chartered Accountants  
Wellington  
30 June 2020

# Statements of comprehensive income

for the 7 months ended 31 March 2020

in New Zealand Dollars

		Kernel NZ 20 Fund	Kernel NZ Commercial Property Fund	Kernel NZ Level 9 Fund
	Note	2020 \$	2020 \$	2020 \$
<b>Income</b>				
Interest income - amortised cost		62	177	51
Dividend income		12,163	30,960	7,329
Net losses on financial assets at fair value through profit or loss	3	(122,776)	(469,851)	(279,899)
<b>Total loss</b>		<b>(110,551)</b>	<b>(438,714)</b>	<b>(272,519)</b>
<b>Expenses</b>				
Management fees	6	1,388	2,772	875
Transaction costs		583	1,338	437
Bank fees		-	2	-
<b>Total expenses</b>		<b>1,971</b>	<b>4,112</b>	<b>1,312</b>
<b>Net loss attributable to unit holders</b>		<b>(112,522)</b>	<b>(442,826)</b>	<b>(273,831)</b>
<b>Total comprehensive loss for the period attributable to unit holders</b>		<b>(112,522)</b>	<b>(442,826)</b>	<b>(273,831)</b>

These statements are to be read in conjunction with the notes to the financial statements.

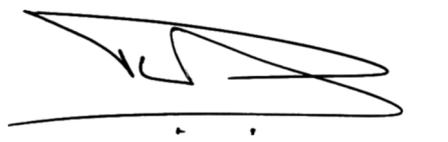
# Statements of financial position

as at 31 March 2020

in New Zealand Dollars

		Kernel NZ 20 Fund	Kernel NZ Commercial Property Fund	Kernel NZ Level 9 Fund
	Note	2020 \$	2020 \$	2020 \$
<b>Assets</b>				
Cash and cash equivalents		891	12,128	1,519
Financial assets at fair value through profit or loss	4	1,058,275	2,209,717	572,831
Other receivables	5	7,302	-	176
<b>Total assets</b>		<b>1,066,468</b>	<b>2,221,845</b>	<b>574,526</b>
<b>Liabilities</b>				
Related party payables	6	353	681	210
<b>Total liabilities</b>		<b>353</b>	<b>681</b>	<b>210</b>
<b>Net assets</b>		<b>1,066,115</b>	<b>2,221,164</b>	<b>574,316</b>
Represented by:				
<b>Net assets attributable to unit holders</b>		<b>1,066,115</b>	<b>2,221,164</b>	<b>574,316</b>

These financial statements were authorised for issue by the Manager, Kernel Wealth Limited:



Director

30 June 2020

Date



**Paul R S Hocking**



Director

30 June 2020

Date



Dean Anderson (Jul 2, 2020 16:17 GMT+12)

**Dean Anderson**

These statements are to be read in conjunction with the notes to the financial statements.

# Statements of changes in funds attributable to unit holders

for the 7 months ended 31 March 2020  
in New Zealand Dollars

	Kernel NZ 20 Fund	Kernel NZ Commercial Property Fund	Kernel NZ Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Net assets attributable to unit holders at the start of the period</b>	-	-	-
Applications	1,259,008	2,790,265	904,588
Redemptions	(76,022)	(109,690)	(53,761)
Distributions	(4,349)	(16,585)	(2,680)
<b>Net increase from unit holder transactions</b>	<b>1,178,637</b>	<b>2,663,990</b>	<b>848,147</b>
Total comprehensive loss for the period	(112,522)	(442,826)	(273,831)
<b>Net assets attributable to unit holders at the end of the period</b>	<b>1,066,115</b>	<b>2,221,164</b>	<b>574,316</b>
	2020 Units	2020 Units	2020 Units
<b>Units on issue at the start of the period</b>	-	-	-
Units issued	337,756	1,224,642	511,745
Units redeemed	(20,096)	(51,067)	(32,854)
<b>Units on issue at the end of the period</b>	<b>317,660</b>	<b>1,173,575</b>	<b>478,891</b>

These statements are to be read in conjunction with the notes to the financial statements.

# Statements of cash flows

for the 7 months ended 31 March 2020

in New Zealand Dollars

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Cash flows from operating activities</b>			
<b>Cash was provided from</b>			
Sale of investments	4,244	-	1,048
Interest received	62	177	51
Dividends received	4,861	30,960	7,153
<b>Cash was provided to</b>			
Purchase of investments	(1,185,295)	(2,679,568)	(853,778)
Operating expenses	(1,035)	(2,093)	(665)
Transaction costs	(583)	(1,338)	(437)
<b>Net cash outflow from operating activities</b>	<b>(1,177,746)</b>	<b>(2,651,862)</b>	<b>(846,628)</b>
<b>Cash flows from financing activities</b>			
Applications	1,254,740	2,784,951	902,386
Redemptions	(76,022)	(109,690)	(53,761)
Distributions	(81)	(11,271)	(478)
<b>Net cash inflow from financing activities</b>	<b>1,178,637</b>	<b>2,663,990</b>	<b>848,147</b>
<b>Net cash inflow</b>	<b>891</b>	<b>12,128</b>	<b>1,519</b>
<b>Net cash and cash equivalents at the beginning of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cash and cash equivalents at the end of the period</b>	<b>891</b>	<b>12,128</b>	<b>1,519</b>

These statements are to be read in conjunction with the notes to the financial statements.

# Notes to the financial statements

## 1. GENERAL INFORMATION

Reporting entity	<p>The following are the Kernel Funds, unit trusts registered in New Zealand, that are included in these financial statements (together, "the Funds"):</p> <ul style="list-style-type: none"><li>- Kernel NZ 20 Fund</li><li>- Kernel NZ Commercial Property Fund</li><li>- Kernel NZ Level 9 Fund</li></ul> <p>The Funds are governed by a Master Trust Deed dated 19 August 2019 between Kernel Wealth Limited (the "Manager") and Heritage Trustee and an Establishment Deed dated 19 August 2019 (together, the "Trust Deed"). On 23 March 2020, Heritage Trustee was replaced by Trustees Executors (the "Supervisor") as Supervisor of the Funds. The Funds are for-profit entities.</p> <p>The Funds commenced operations on 28 August 2019 and the financial statements are for the 7 month period ended 31 March 2020, with no comparatives.</p>
Separate funds	<p>The purpose of the Funds is to provide access for investors to specific investment markets whilst achieving an adequate and cost effective diversification of assets. The Trust Deed provides that each Fund is a separate and distinct Fund with separate assets and liabilities governed by the terms and conditions of the Trust Deed. The Funds each have their own objectives as set out in the Statement of Investment Policy and Objectives ("SIPO"). The Manager sets the investment policy and investment guidelines for each Fund and obtains the Supervisor's approval to any material changes.</p> <p>The Kernel NZ 20 Fund's investment objective is to provide a return (before tax, fees and other expenses) that closely matches the return of the S&amp;P/NZX 20 Index.</p> <p>The Kernel NZ Commercial Property Fund's investment objective is to provide a return (before tax, fees and other expenses) that closely matches the return of the S&amp;P/NZX Real Estate Select Index.</p> <p>The Kernel NZ Level 9 Fund's investment objective is to provide a return (before tax, fees and other expenses) that closely matches the return of the S&amp;P/NZX Emerging Opportunities Index.</p>

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation	<p>The financial statements have been prepared in accordance with the Trust Deed, the Financial Markets Conduct Act 2013 and with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to Tier 1 for-profit entities. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.</p> <p>The financial statements have been prepared under the historical cost basis, as modified by the revaluation of financial instruments at fair value through profit or loss. The methods used to measure fair value are discussed further below. The accrual basis of accounting has been applied, as has the going concern assumption.</p> <p>The assets and liabilities in the financial statements have been presented in order of their liquidity. All assets and liabilities either have a maturity of less than a year or have no fixed maturity and are therefore considered current assets/liabilities.</p>
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

New accounting standards and interpretations not adopted	No standards and amendments to existing standards and interpretations that are not yet in effect are expected to have a material impact on the financial statements of the Funds.
Significant accounting estimates and judgements	<p>The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgment in the process of applying the Funds' accounting policies.</p> <p>The Manager has not made any material accounting estimates or judgements in these financial statements.</p>
Functional and presentation currency	The financial statements are presented in New Zealand dollars, which is each Fund's functional currency. All amounts have been rounded to the nearest dollar.
Financial instruments	<p><b>(a) Classification</b></p> <p><i>Financial assets and liabilities at fair value through profit or loss</i></p> <p>The Funds classify their investments in listed equities as financial assets at fair value through profit or loss. The Funds classify their investment securities based on both the Funds' business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Funds' investment strategies, policies and guidelines are established by the Manager. The portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Funds' investment strategies.</p> <p>The Manager is primarily focused on fair value information and use that information to assess the assets' performance. The Funds have not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income.</p> <p><i>Financial assets and liabilities at amortised cost</i></p> <p>The Funds' cash and cash equivalents and other receivables are classified as financial assets at amortised cost based on the Funds' business models for managing those financial assets and the contractual cash flow characteristics.</p> <p>Financial liabilities at amortised cost comprise distributions payable, related party payables and other payables.</p> <p><b>(b) Recognition</b></p> <p>Purchases and sales of investments are recognised on the trade date, the date on which the Funds commit to purchase or sell the investment. Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value and, subsequent to initial recognition, measured at fair value. Gains and losses arising from changes in fair value are recognised in the Statements of Comprehensive Income when they arise. Interest, dividend and distribution income are separately recognised in the Statements of Comprehensive Income. Transaction costs are expensed as incurred in the Statements of Comprehensive Income.</p> <p><b>(c) Fair Value Measurement</b></p> <p>'Fair Value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Funds had access at that date. The fair value also includes non-performance risk.</p> <p><i>Fair value in an active market</i></p> <p>The fair value of investments traded in active markets is based on their quoted market prices at the balance date without any deduction for estimated future selling costs. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume. The quoted market price used for listed equities is the current last sale price and the quoted market price used for fixed income securities is the current bid price.</p> <p><b>(d) Derecognition</b></p> <p>Financial assets and liabilities are derecognised upon maturity or disposal of the asset or liability. Any gain or loss arising on derecognition of the asset or liability is recognised in the Statements of Comprehensive Income in the year the item is derecognised. Gains or losses are calculated as the difference between the disposal proceeds and the carrying amount of the item.</p>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Fair value hierarchy	<p>Fair value measurements are categorised into a three level hierarchy that reflects the significance of the inputs used in making the measurements. Transfers between levels of the fair value hierarchy (if any) are deemed to have occurred at the beginning of the period.</p> <p><i>Level one - fair value in an active market</i> The fair value of financial assets and liabilities traded in active markets for the same instruments based on their quoted market prices at balance date without any deduction for estimated future selling costs. Generally, a level one category asset or liability will have the most independent, reliable basis for measurement.</p> <p><i>Level two - fair value in an inactive or unquoted market using valuation techniques and observable market data</i> The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques for which all significant inputs are based on observable market data.</p> <p><i>Level three - fair value in an inactive or unquoted market using valuation techniques without observable market data</i> The fair value of financial assets or liabilities that are not traded in an active market is determined using valuation techniques for which any significant input is not based on observable market data.</p>
Income recognition	<p>Interest income is recognised in the Statements of Comprehensive Income as the interest accrues using the effective interest rate method. Interest income is earned on short term deposits and bank balances.</p> <p>Dividend income is recognised in the Statements of Comprehensive Income when the Funds' right to receive payment is established.</p> <p>Dividend and interest income is disclosed net of any withholding taxes deducted at source, as these tax credits are allocated to unit holders under the PIE regime.</p> <p>Any unrealised gains or losses arising from the revaluation of investments and any realised gains or losses from the sale of investments during the year are included in the Statements of Comprehensive Income.</p>
Expenses	<p>Expenses comprise management fees, transaction costs and bank fees. Management fees are accrued for weekly, based on the Fund's gross asset value ("GAV"). All other expenses are recognised when incurred. Transaction costs are incurred to acquire and dispose of assets at fair value through profit or loss. Transaction costs are immediately recognised in the Statements of Comprehensive Income as an expense. All other expenses of the Funds are paid by the Manager and not passed through the Funds.</p>
Cash and cash equivalents	<p>Cash and cash equivalents comprise cash balances and short term deposits with an original maturity of three months or less and are initially measured at fair value. Subsequent to initial recognition, all cash and cash equivalents are measured at amortised cost.</p>
Other payables	<p>Other payables include liabilities and accrued expenses owed by the Funds that are unpaid at balance date. Purchases of investments that are unsettled at balance date are included in other payables. Payables are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.</p>
Related party payables	<p>Payables to related parties include accrued expenses owed to related parties which are unpaid at balance date. Related party payables are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.</p>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Taxation	<p>The Funds are Portfolio Investment Entities ("PIEs"). Under the PIE regime income is effectively taxed in the hands of the unit holders and therefore the Funds have no tax expense. Accordingly, no income tax expense is recognised in the Statements of Comprehensive Income.</p> <p>Under the PIE regime, the Manager attributes the taxable income of the Funds to unit holders in accordance with the proportion of their interest in the overall Funds. The income attributed to each unit holder is taxed at the unit holder's prescribed investor rate ("PIR") which is currently capped at 28%. Any PIE tax payable/refundable on full withdrawals is paid/received by the Manager on behalf of unit holders and deducted from or added to the withdrawal proceeds paid. Units are cancelled/issued to the value of the tax paid/refunded upon determination of the unit holders' annual PIE tax liabilities/assets at 31 March each year.</p> <p>At 31 March each year, the unit holders' net tax position is accrued and the value of unit holders' funds is adjusted to reflect the impact of tax payable/receivable on the value of the unit holders' interest in the Funds. Unit holders' PIE tax amounts disclosed in the Statements of Changes in Funds Attributable to Unit Holders include withdrawals to meet unit holder tax liabilities and application representing unit holder tax refunds under the PIE regime.</p> <p>The PIE tax attributable to unit holders at balance date is calculated on the basis of the tax laws enacted or substantively enacted at balance date.</p>
Goods and Services tax	<p>The Funds are not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.</p>
Statements of cash flows	<p>Definitions of the terms used in the Statements of Cash Flows are:</p> <p>(a) Operating activities comprise all transactions and other events that are not financing activities and includes purchases and sales of investments.</p> <p>(b) Financing activities are those activities that result in changes in the size and composition of unit holders' funds. This includes elements of unit holders' funds not falling within the definition of cash. Distributions paid in relation to unit holders' funds are included in financing activities.</p>
Distributions	<p>In accordance with the Funds' Trust Deed, the Manager has full discretion as to whether to distribute any net income of the Funds. Income that is not distributed is invested as part of the assets of the Funds or may also be used to make later distributions to unit holders.</p>
Applications and redemptions	<p>Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of the units redeemed. Units are issued and redeemed at the holder's option at the unit price for that day. The unit price for each Fund is determined as the net asset value ("NAV") divided by the number of units on issue.</p>

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Unit holders' funds	<p>The units issued by the Funds are puttable instruments and meet the definition of an equity instrument, defined as:</p> <p>(a) unit holders are entitled to a pro rata share of the Funds' net assets in the event of the Funds' liquidation.</p> <p>(b) it is in the class of instruments that is subordinate to all other classes of instruments.</p> <p>(c) all units have identical rights and are puttable.</p> <p>(d) apart from the contractual obligation of the issuer to redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability.</p> <p>(e) the total expected cash flows attributable to the instrument over its life is based substantially on the profit or loss, the change in the recognised net assets or the change in fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.</p> <p>The Funds issue redeemable units which are redeemable at the holder's option and are classified as equity and reported as unit holders' funds.</p>
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Related parties	<p>A party is related to the Funds if:</p> <p>(a) directly or indirectly through one or more of its intermediaries, it controls, is controlled by, or is under common control with, the Funds;</p> <p>(b) it is a parent, subsidiary or fellow subsidiary of a party defined in (a) above;</p> <p>(c) it has an interest in or relationship with the Funds that gives it significant influence or control over the Funds;</p> <p>(d) it is controlled by or may be significantly influenced by another party which also has control or significant influence over the Funds;</p> <p>(e) the Funds have an interest in or relationship with the party that gives significant influence over the party; or</p> <p>(f) it is an entity or member of a group which provides key management personnel services to the Funds.</p>
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**3. NET LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Financial assets at fair value through profit or loss</b>			
Listed equities	(122,776)	(469,851)	(279,899)
<b>Total net losses on financial assets at fair value through profit or loss</b>	<b>(122,776)</b>	<b>(469,851)</b>	<b>(279,899)</b>

**4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Financial assets at fair value through profit or loss</b>			
Listed equities	1,058,275	2,209,717	572,831
<b>Total financial assets at fair value through profit or loss</b>	<b>1,058,275</b>	<b>2,209,717</b>	<b>572,831</b>

Fair value hierarchy                      Listed equities are valued using quoted market prices in an active market and are therefore classified as Level 1 in the fair value hierarchy.

Impact of the Coronavirus (COVID-19) outbreak                      In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and the response of Governments in dealing with the pandemic interfered with general activity levels within the community, the economy and the operations of businesses the Funds invest in. The Funds correspondingly suffered a significant fall in the fair value of assets in March 2020. It is not possible to estimate the impact of the outbreak's longer-term effects or Governments' varying efforts to combat the outbreak and support businesses. The financial statements have been prepared based upon conditions existing at 31 March 2020 and considering these events occurred prior to that date, no subsequent adjustments have been made to financial statements for the impacts of COVID-19.

**5. OTHER RECEIVABLES**

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
Dividends receivable	7,302	-	176
<b>Total other receivables</b>	<b>7,302</b>	<b>-</b>	<b>176</b>

All other receivable balances are current assets. Other receivables are classified as financial assets at amortised cost under NZ IFRS 9.

**6. RELATED PARTIES**

Related parties comprise the Manager, the Supervisor and their related entities.

Management fees                      The Manager is entitled to a fee, payable out of the Funds, in relation to the services it provides as the manager of the Funds of up to 0.39% (including GST) of the gross asset value of each fund. The fee is calculated weekly and is paid monthly in arrears. Total fees paid to the Manager for the year were \$5,035.

Supervisor fees                      As outlined in the Trust Deed, Trustees Executors Limited is entitled to a fee for the services it provides as Supervisor of the Fund. Up to 23 March 2020, this fee was payable to Heritage Trustees. Total fees paid to Heritage Trustee for the year were \$15,055. No fees were paid to Trustees Executors Limited for the reporting period. Supervisor fees are paid by the Manager and accordingly have not been recognised in these financial statements.

**6. RELATED PARTIES (continued)**

Fees payable to related parties at balance date are as follows:

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
Management fees payable	353	681	210
<b>Total related party payables</b>	<b>353</b>	<b>681</b>	<b>210</b>

All related party payable balances are current liabilities. Related party payables are classified as financial liabilities at amortised cost under NZ IFRS 9.

**7. AUDIT FEES**

Auditor fees

Ernst & Young is entitled to a fee for the services they provide as auditor of the Funds. Auditors' fees were paid by the Manager. The fee for the audit of the financial statements totalled \$20,700 and the fee for the audit of the Funds' registry totalled \$5,750.

**8. RECONCILIATION OF NET LOSS ATTRIBUTABLE TO UNIT HOLDERS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Net loss attributable to unit holders</b>	<b>(112,522)</b>	<b>(442,826)</b>	<b>(273,831)</b>
<b>Adjustments for:</b>			
Net losses on financial assets and liabilities at fair value through profit or loss	122,776	469,851	279,899
<b>Movements in working capital items</b>			
Increase in other receivables	(7,302)	-	(176)
Increase in related party payables	353	681	210
Net purchases of investments	(1,181,051)	(2,679,568)	(852,730)
<b>Net cash outflow from operating activities</b>	<b>(1,177,746)</b>	<b>(2,651,862)</b>	<b>(846,628)</b>

**9. FINANCIAL RISKS**

Financial risk factors

The Funds' activities expose them to a variety of financial risks: market risk (including market price risk, currency risk and interest rate risk), credit risk and liquidity risk

The Funds are passively managed. This means securities are bought and sold to track an index. Active investment decisions are not made, and securities will not be sold because the issuer is in financial trouble, unless that asset is removed from the index being tracked by the relevant Fund. There is a risk that this could result in lower returns.

The Product Disclosure Statement ("PDS") and Other Material Information documents describe these risks in further details.

All securities investments present a risk of loss of capital. The maximum loss of capital on long equity securities is limited to the fair value of those positions.

**9(A). MARKET RISK**

**Price risk** Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Funds are directly exposed to price risk of listed equities. The Funds trade in financial instruments taking positions in trading instruments to attempt to perform in-line with benchmarks mandated by each Fund. The Funds overall market positions are monitored on a weekly basis by the Manager.

**Price risk - Sensitivity analysis** At 31 March, the net fair value of financial instruments exposed to price risk and the sensitivity of the Fund's net assets attributable to unit holders and net profit/(loss) to a 10% increase or decrease in prices was as follows:

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Financial assets at fair value through profit or loss</b>			
Listed equities	1,058,275	2,209,717	572,831
<b>Sensitivity analysis</b>			
10% increase in prices	105,828	220,972	57,283
10% decrease in prices	(105,828)	(220,972)	(57,283)

**Currency risk** Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Funds do not hold financial instruments denominated in currencies other than New Zealand dollar, the functional currency. They are therefore not exposed to currency risk.

**Interest rate risk** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Interest rate risk - sensitivity analysis** The following table details the interest rate re-pricing profiles of the financial assets held by the Funds. The table also details, based on exposures at 31 March, the effect of an interest rate increase or decrease by 1% (which is the Manager's assessment of a reasonable movement with regard to historical volatility) with all other variables held constant, on the fair value of financial assets, and the impact on cash flows of cash and cash equivalents, and the related change in net assets attributable to unit holders and net profit/(loss):

	Kernel NZ20 Fund	Kernel New Zealand Property Fund	Kernel Level 9 Fund
	2020 \$	2020 \$	2020 \$
<b>Re-pricing profiles</b>			
<b>Cash and cash equivalents</b>			
Up to 90 days	891	12,128	1,519
<b>Sensitivity analysis</b>			
<b>Impact on cash flow to changes in interest rates</b>			
<b>Cash and cash equivalents</b>			
Interest rates increase by 1%	9	121	15
Interest rates decrease by 1%	(9)	(121)	(15)

**9(B). LIQUIDITY RISK**

Liquidity risk is the risk that the Funds will not be able to meet their financial obligations as they fall due.

The Funds are exposed to weekly redemptions of redeemable units. They therefore invest the majority of their assets in investments that are traded in an active market and can readily be disposed. The Funds listed securities are considered readily realisable, as they are listed on recognised exchanges. The Funds will generally retain sufficient cash and cash equivalent balances to satisfy its accrued expenses as they fall due.

The Funds' financial liabilities consist of related party payables which are short term in nature and classified as current liabilities at balance date. The current fair value represents the estimated cash flow that may be required to dispose of the positions. Future cash flows of the Funds and realised liabilities may differ from current liabilities based on future changes in market conditions.

**9(C). CREDIT RISK**

Credit risk represents the risk that counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Funds to incur a financial loss. Financial instruments that subject the Funds to credit risk are cash and cash equivalents and other receivables.

With respect to credit risk arising from the financial assets of the Fund, the Funds' exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statements of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold against payment received and payment for purchases against securities received occur at the same time via an automated clearing system. The trade will fail if either party fails to meet its obligation.

The probability of default relating to dividends receivable is considered to be close to zero as the receivables have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the short term. As a result, no loss allowance has been recognised based on the expected credit losses as any such impairment would be wholly insignificant to the Funds.

There is no material risk of default relating to applications receivable by the Funds as this receivable has arisen only due to timing between the date of receipt of the funds and when the units are allocated and the receipts processed.

The Funds do not use credit derivatives to mitigate credit risk.

The Funds' cash and cash equivalents balances are held with institutions with a minimum credit rating of AA-.

At 31 March 2020, all cash and cash equivalents are held with counterparties with high credit ratings and all financial instruments measured at amortised cost are short-term in nature (i.e. no longer than 12 months) and of high credit quality. The Manager considers the probability of default to be close to zero as the counterparties have strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month ECLs as any such impairment would be wholly insignificant to the Funds.

As at 31 March 2020 there were no financial assets past due or impaired.

**9(D). CAPITAL RISK MANAGEMENT**

Each Fund's capital is represented by net assets attributable to unit holders. The Manager's objectives when managing capital are to provide returns for unit holders. The Funds do this by investing in listed securities with diverse exposure. Investment decisions are guided by the SIPO.

The Funds strive to invest the subscriptions of unit holder funds in investments that meet the Fund's objectives while maintaining sufficient liquidity to meet weekly unit holder redemptions.

The Funds do not have any externally imposed capital requirements. Units may be redeemed on a weekly basis, or such other date as the Manager shall from time to time determine.

**10. CONTINGENT LIABILITIES & COMMITMENTS**

The Funds have no material commitments or material contingencies at 31 March 2020.

**11. EVENTS SUBSEQUENT TO BALANCEDATE**

There are no significant subsequent events that require adjustment to or disclosure in these financial statements.

# 2020 Kernel funds audited financial statements

Final Audit Report

2020-07-02

Created:	2020-07-02
By:	Cat Emerson ()
Status:	Signed
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