



**He Kaupare. He Manaaki.  
He Whakaora.**  
prevention. care. recovery.

# **Ethical Investment Policy**

**ACC Investments**

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## 1. Introduction

ACC believes that carrying out its duty to invest requires it to consider the ethical implications of its investments as well as its fiduciary responsibilities. In considering these ethical implications, the ACC Board is guided by recent New Zealand and international laws, global ethical practices, its roles in the health sector and investment community, and its own views of ethical investing.

## 2. Legislative Requirements

ACC's investments are governed by the Accident Compensation Act 2001.

- Section 271 of the Act, says that ACC's investment statement:

***"...must include a statement relating to ethical investment for avoiding prejudice to New Zealand's reputation as a responsible member of the world community..."***

- Section 275 of the Act goes on to state that:

***"...the Corporation must invest, in the same manner as if it were a trustee..."***

In conducting its investment activities, ACC must always act in a manner that is consistent with its statement relating to ethical investment and is consistent with its obligation to invest as if it were a trustee, which implies a fiduciary obligation to maximise the long-term risk adjusted net return on reserves.

## 3. Guiding Principles

Some key principles underpin ACC's Ethical Investment Policy.

- ACC acknowledges that there can be diverse individual views on ethical investment principles. ACC therefore seeks to avoid investing in activities that would be regarded as unethical by a substantial majority of the New Zealand public. To determine this:
  - ACC takes the laws of New Zealand to reflect the principles held by a substantial majority of the New Zealand public. ACC therefore endeavours to identify activities that are contrary to New Zealand Law or would be contrary to New Zealand Law if carried out in this jurisdiction.

For instance, the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act of 1987 prohibits certain activities within New Zealand that are lawful in other jurisdictions. As a consequence, ACC does not allow direct investment in these companies – whether in New Zealand or in other parts of the world.
  - ACC also endeavours to identify activities that, while not unlawful, are otherwise likely to be regarded as unethical by a substantial majority of the New Zealand public. ACC takes into account those global ethical initiatives that it considers reflect the views of a substantial majority of the New Zealand public, especially if those initiatives are supported by the New Zealand government. For instance, ACC believes that involvement in the processing of whale meat is not consistent with the International Convention for the Regulation of Whaling, to which New Zealand is a signatory – and does not permit direct investment in such activities.
- When gauging the ethics of an activity ACC also considers its role in New Zealand society, in the health sector and in the investment community. For instance, the ACC Board believes that directly investing in tobacco companies is inconsistent with ACC's role in the health sector.

Distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective. By way of example, ACC believes that investing in supermarket companies which derive only a small proportion of their income from the sale of tobacco products may not go against our ethical considerations and that a substantial majority of the New Zealand public would not view this as unethical investing.

ACC is a signatory to the **UN-supported Principles for Responsible Investment (PRI)**.<sup>1</sup> The six principles of this initiative provide an accepted and credible framework for incorporating ESG issues into ACC's investment decision-making processes and ownership practices. As a signatory, ACC has made a public commitment to implement ESG policies, and to report on these policies and their implementation.

The PRI does not specify particular ESG standards. However, the **UN Global Compact** seeks to align business operations and strategies everywhere with ten generally accepted principles in the areas of human rights, labour, environment, and anti-corruption.<sup>2</sup> As such, the UN Global Compact provides a useful reference for considering whether companies are operating in accordance with minimum standards for responsible corporate behaviour.

### ***CFI Collaboration***

In 2009, ACC signed an agreement with the Guardians of New Zealand Superannuation and Annuitas to collaborate and share resources on ethical investing. In 2021, this was reinforced by the Crown Responsible Investment Framework (CRIF). Each Crown Financial Institution (CFI) retains responsibility for their individual ethical investment policies and decisions.

### ***Climate Change***

ACC recognises the scientific consensus, compiled by the Intergovernmental Panel on Climate Change, that humans are the main cause of global warming and acknowledges the responsibility of asset owners toward supporting the transition to a low carbon economy through the investment decisions that we make and through our interactions with our investee companies.

ACC has committed to transitioning the investment portfolio to be aligned with a net zero emissions economy by 2050 or sooner, in line with New Zealand's Climate Change Response (Zero Carbon) Amendment Act. As part of this commitment, ACC have committed to measuring and reducing financed emissions, to seeking investment in climate solutions, and engaging with companies on climate change (directly, collaboratively, or indirectly through our managers). Carbon reduction targets are approved by the ACC Board and are regularly reviewed as ACC moves towards net zero emissions.

## **4. Implementation Procedures**

To satisfy the principles outlined above, ACC employs many responsible investing activities including ESG integration, monitoring, voting, engagement, observation, and exclusion.

### **Integration**

ACC incorporates ESG into its investment analysis and decision-making processes, including ACC's processes for selecting and monitoring external managers. Where ACC has a direct contracting relationship with an external manager, ACC seeks to influence the behaviour of the manager in accordance with ACC's ethical principles. On an ongoing basis, ACC also monitors and evaluates the behaviour and holdings of these managers from an ethical perspective.

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<sup>1</sup> [What are the Principles for Responsible Investment? | PRI Web Page | PRI \(unpri.org\)](#)

<sup>2</sup> [The Ten Principles | UN Global Compact](#)

## Monitoring

ACC monitors its listed entities and significant debt issuers using a specialised monitoring service to identify whether a company has breached recognised ESG standards and to identify poor practice. ACC is also alerted to breaches by peer funds and other sources. This monitoring informs ACC's engagement and exclusion practices.

## Voting

ACC has a separate voting policy that ensures that ACC will cast proxy votes in a manner consistent with ACC's fiduciary duty, with the principles of good corporate governance, and with ACC's policy on ethical investment.

## Engagement

Engagement is an important part of ACC's stewardship efforts. While all material ESG issues are in scope, a significant amount of ACC's engagement effort is focused on governance. We prioritise other ESG issues based on materiality and where we believe we are most able to influence change.

ACC is likely to engage with New Zealand and Australian companies directly or in collaboration with other Crown Financial Institutions. Engagement with companies further afield is more likely to be in collaboration with other investors, or through external engagement specialists.

Formal engagement may involve:

- writing letters to senior management or the board of the company; or
- meeting with senior management or the board of the company; or
- proposing and/or supporting resolutions at company general meetings.

Decisions on ACC's involvement on any overlay engagement activities may be made by the Chief Investment Officer. The ACC Board Investment Committee Chair and the Chief Executive Officer are to be informed of any overlay engagement on ESG issues that will be made public, or if there is a possibility that it will be debated publicly.

Any engagement activities outside this policy are to be approved by the ACC Board Investment Committee.

## Exclusion

ACC may exclude listed entities and significant debt issuers from the portfolio. Excluded entities will be included in ACC's Direct Investment Exclusion List. This is a list of those companies ACC believes should be excluded from direct investment.<sup>3</sup>

Entities may be excluded from direct investment following engagement if engagement activities are not achieving results (or considered not likely to achieve results) provided:

- there is a material breach of responsible investment standards relative to ACC's Ethical Investment Policy, with evidence from reputable sources; or
- there is a lack of response to ACC's attempts to engage and/or the difficulties of engagement with the company do not justify the level of resources required; and
- the potential collective impact of exclusions on overall risk-adjusted returns is considered.

ACC will also add to the Direct Investment Exclusion List all listed entities and significant debt issuers which:

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<sup>3</sup> "Direct investment" refers to investment held directly in ACC's name, or via a subsidiary, regardless of whether that investment is managed by an ACC employee or an external fund manager. "Indirect investments", is where ACC owns shares or units in a company or fund that in turn has investments in other companies.

- undertake activities which are contrary to New Zealand Law, would be contrary to New Zealand Law if carried out in this jurisdiction or are believed by ACC to be considered unethical by a substantial majority of the New Zealand public; or
- undertake any of the Ethical Exclusion Activities in Table 1, below.

ACC may also exclude investment in entities that have a controlling interest in such entities if they hold significant investments in entities that themselves engage in those activities. What level of investment constitutes “significant” is subjective, but as a guideline, ACC will seek to avoid investing in such entities engaged in the Ethical Exclusion Activities where those activities are more than double the weighting in the entity that such activities have in the MSCI World Index.

### Ethical Exclusion Activities

The ACC Board provides overall guidance as to the types of activity that are considered unethical. In providing guidance for ACC’s day-to-day investing, the ACC Board has highlighted that the following activities should be part of ACC Investments ethical considerations. ACC will identify companies involved in these activities, will include these companies in ACC’s Direct Investment Exclusion List and will not directly invest in those companies.

Table 1. Ethical Exclusion Activities

Activity	Description
<b>Tobacco</b> Effective June 2006	Investment in tobacco companies that is inconsistent with government policy and ACC’s role in the health sector (ACC Board decision)
<b>Anti-Personnel Mines</b> Effective March 2007	Investment in the production of landmines that is not compliant with the Ottawa Mine Ban Treaty and the intent of the Anti-Personnel Mines Prohibition Act 1998
<b>Nuclear Explosive Devices</b> Effective May 2008	Investment in the design, testing, assembly and/or refurbishment of nuclear explosive devices that would be contrary to the South Pacific Nuclear Free Zone Treaty and of the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987
<b>Cluster Munitions</b> Effective January 2009	Investment in the development and/or production of cluster munitions, or key components, that are not compliant with the Convention on Cluster Munitions and would be contrary to the Cluster Munitions Prohibition Act 2009
<b>Whale Meat Processing</b> Effective November 2013	Investment in the processing of whale meat that is not compliant with New Zealand law and is not consistent with the International Convention for the Regulation of Whaling
<b>Cannabis</b> Effective October 2016	Investment in the production or supply of recreational cannabis, or the production or supply of unlicensed medicinal cannabis, is inconsistent with the Misuse of Drugs Act 1975
<b>Automatic or Semi-Automatic Firearms</b> Effective April 2019	Investing in the manufacture or dealing in automatic or semi-automatic firearms, magazines, parts or ammunition intended for sale to civilians that is prohibited by the Arms Act 1983 (as amended by the Arms (Prohibited Firearms, Magazines, and Parts) Amendment Act 2019)
<b>Thermal Coal Producers</b> Effective January 2020	Investing in coal mining companies with greater than 30% of revenue from the sale of thermal coal

## **Observation**

Entities may be placed on observation where there is evidence of serious unethical activities or behaviours but there is doubt as to whether the conditions for exclusion relative to ACC's Ethical Investment Policy have been met or that subsequent developments make observation appropriate.

In determining whether an entity is to be excluded or observed, ACC will consider factors such as the seriousness and extent of the breach of responsible investment standards, the source and reliability of evidence, and the connection between the entity and the unethical activity or behaviours.

## **Changes to Direct Investment Exclusion List and Entities Under Observation**

ACC will regularly assess whether the conditions for exclusion or observation still exist. Entities will only be removed from exclusion or observation once reliable information demonstrates an entity's business model has evolved to mitigate further risk of the unethical activity or behaviour continuing.

Deciding which companies are to be excluded or observed is delegated to the Head of Investment Risk and Performance in consultation with the Chief Investment Officer. The ACC Board Investment Committee and Chief Executive Officer must be informed before implementing any changes in the list of excluded or observed companies.

The Head of Investment Risk and Performance is responsible for advising of a change in the exclusion list to all internal portfolio managers and the Manager Externally Managed Funds is responsible for communicating the change to all external managers. The formal Exclusion Notices sent to external managers change the Investment Instructions under the individual Investment Management Agreements and hence need to be approved in line with the Investment Delegation Schedule.

The effective date for excluding companies must allow for reasonable time for internal and external managers to divest any holdings of securities issued by that company in their ACC portfolio.

The Head of Investment Risk and Performance is responsible for periodically monitoring compliance with these exclusions.

## **Government Exclusions**

Our ethical considerations extend to sovereign governments. ACC will not invest in the government bonds or securities of state-controlled entities of a nation state if that investment would prejudice New Zealand's reputation as a responsible member of the world community.

The New Zealand government is best placed to form official views on the impact on New Zealand's international reputation of commercial dealings with a state. The New Zealand Government is also more able to judge whether it would be better to engage with a government to improve its practices than isolate it. We exclude from investment the bonds or securities of state-controlled entities of any government where:

- There is widespread condemnation or sanctions of that government by the international community; and
- The New Zealand Government has meaningful diplomatic, economic or military sanctions aimed at that government.

Determining which governments to exclude is delegated to the Head of Investment Risk and Performance in consultation with the Chief Investment Officer. The ACC Board Investment Committee and Chief Executive Officer are to be informed before a government is added or removed from the Government Exclusion List. The relevant New Zealand Government Ministers must be notified before a government can be added to the Government Exclusion List.

## 5. Implementation Guidelines under Different Types of Management

ACC has more control over how investment decisions are made when ACC manages assets directly or utilises external managers on a segregated account basis. This is generally ACC's preferred form of management. However, ACC also recognises that there may be circumstances in which precluding investment in collective investment vehicles would compromise risk adjusted returns and therefore be inconsistent with its fiduciary obligations.

ACC considers the form of investment as follows.

### a. Approach where ACC invests directly in entities

In this case ACC:

- i) Requires purchases and sales of investments to be transacted in accordance with ACC's Ethical Investment Policy.
- ii) Provides instructions to avoid investing in entities which are on ACC's Direct Investment Exclusion List (see Section 3).
- iii) Instructs ACC's portfolio managers and (if practical) may instruct external managers to avoid making any other investments that are contrary to the principles underlying ACC's approach to ethical investment (see Section 3).
- iv) Engages, where appropriate, with companies whose securities are (or could be) held in ACC portfolios which have serious ESG issues relative to the standards specified in the UN Global Compact, and which ACC believes would be regarded as unethical corporate behaviour by a substantial majority of the New Zealand public.
- v) Encourages internal and external managers to cast proxy votes in a manner that is consistent with principles of good governance and with ACC's Ethical Investment Policy. The responsibility for proxy voting is not centralised and remains with the fund managers.

### b. Approach where ACC invests directly in unlisted collective investment vehicles

In this case:

- i) When considering whether to initiate or retain a direct investment in an unlisted collective investment vehicle, ACC must consider the extent to which the manager of the collective investment vehicle invests in a manner that aligns with the principles underlying ACC's approach to ethical investment (see Section 3).
- ii) Factors that should also be considered include:
  - whether or not the manager is a signatory to the PRI or any other responsible investment organisation; and
  - whether or not the manager has its own ethical standards and policies and the extent to which these align with the principles underlying ACC's approach to ethical investment; and
  - whether ACC can determine the holdings of the manager through time; and
  - the nature of the investment strategy and the reason it utilises exposure to entities that have been excluded by ACC for direct investment; and
  - the materiality of the exposure to entities that have been excluded by ACC for direct investment.
- iii) For each unlisted collective investment vehicle in which ACC invests:

- a) Where ACC has a direct contracting relationship with the manager of the collective investment vehicle, ACC will provide the manager with:
  - ACC's Ethical Investment Policy and any subsequent amendments; and
  - ACC's Direct Investment Exclusion List for the case of direct investment (or where ACC uses an external investment manager on a segregated account basis) and any subsequent updates.
- b) The ACC Board Investment Committee will be updated on the exposure in an unlisted collective investment entity to entities that have been excluded by ACC for direct investment. When the Chief Investment Officer and Head of Investment Risk and Performance consider the change in exposure to be material, the Chief Investment Officer must recommend to the ACC Board Investment Committee whether ACC should continue to invest in the collective investment vehicle.

**c. Approach where ACC invests directly in exchange traded funds**

In this case ACC:

- i) Monitors such holdings at least annually and regularly reports these to the ACC Board Investment Committee; or
- ii) where any such exchange traded funds or other listed collective investment vehicles are inconsistent with ACC's Ethical Investment Policy, they are to be added to the ACC Direct Investment Exclusion List; or
- iii) in evaluating whether exchange traded funds or other listed collective investment vehicles are inconsistent with ACC's Ethical Investment Policy, ACC must take account of the total proportion of exchange traded assets that contravene ACC's Ethical Investment Policy.

## 6. Responsibilities and Reporting

The Ethical Investment Policy is owned by the ACC Board. The Board has delegated responsibility for investment decisions to the ACC Board Investment Committee.

The Board Investment Committee is to be kept informed on the implementation of the ACC's Ethical Investment Policy. It also receives regular updates on progress to achieving carbon targets.

The Chief Investment Officer with the support of the management team is responsible for embedding policy requirements into risk management, strategy, investment decisions and for reporting to the BIC. The management team has established the Investments Climate Steering Group with responsibility for the climate change related elements of the Policy.

The Ethical Investment Policy is noted in ACC's Statement of Intent and it is reported in detail in ACC's Service Agreement with the Minister for ACC.

ACC will maintain:

- A list of entities that have been excluded from direct investment.
- A list of nation states for which ACC will not invest in securities or non-index derivatives referencing the nation state being excluded or its government.

The exclusion lists will be published on the ACC website and will be updated at least every 6 months.

**Policy Approval:**

Approved By:	ACC Board
Approval Date:	24 April 2024