EKD-Texte 113

# Guideline for Ethically-Sustainable Investment in the German Protestant Church

5th updated edition

english

Evangelische Kirche in Deutschland

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# for Ethically-Sustainable Investment
# in the German Protestant Church

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**Bibliographical Information of the German National Library**
The German National Library has registered this publication in the German National Bibliography; detailed bibliographical data can be found online at *http://dnb.dnb.de*.

**Imprint**

Published by
Evangelische Kirche in Deutschland (EKD)
Herrenhäuser Straße 12 | 30419 Hannover
www.ekd.de

September 2011
2nd updated version, May 2013
3rd updated version, September 2016
4th updated version, March 2019
5th updated version, February 2023 (PDF updated July 2024)

Download: www.ekd.de/en/investment
Translation: Astrid Quick
Cover image: © Fahroni/iStock
Setting: druckhaus köthen GmbH & Co. KG
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# Preliminary Remarks

People entrust their money to the Church in order to facilitate its ministry. Therefore, the Protestant Church regards its management of church funds as a responsibility before God and people. This applies to church ministry as much as it does to the financial transactions of the Church, especially to financial investments. The investments remain the property of the investor; thus, it is the investor who holds the responsibility for the outcome of the investment. The debate about this problem is not a contemporary fashion; rather, it is the churches, in particular, that have been looking at the consequences and effects of investments for some time. When making investments, church regulations take safety and economic efficiency into consideration above all else; especially since these investments predominately serve to honour payment obligations. While such economic principles remain securely in place, at the same time, it is also stipulated that the investments made should not stand in contradiction to the Church's commission. It is a particular trait of the Protestant Church that there is a broad range of at times diverging opinions in this respect.

It is for these reasons that the Working Group of Church Investors within the Protestant Church (Arbeitskreis Kirchlicher Investoren; AKI) was commissioned by the Council of the EKD to produce these guidelines, which are now issued as a fifth, completely revised edition. Compared with the fourth edition, the structure, as well as much of the contents, has been amended and updated. Chapter 1 describes the frame of reference, of which the SDGs and the EU regulations form the basis; and which is expanded by Christian norms and values. Chapter 2 contains new paragraphs relating to investment governance, sustainability indices and seals (among others). Following the introductory chapters on the definition and implementation of ethically-sustainable investment, the main chapter, chapter 3, is consistently focussed on the individual asset classes. The instruments for prevention, promotion and shaping, are directly associated with the individual asset classes. The texts of all five chapters have been revised and adapted to suit the rapid developments that have occurred regarding sustainable investment over the last years, including those that refer to climate strategy. The latter relates to the EKD guidelines for climate protection, according to which (as is also the case regarding productive investment), the effects of investments on the climate need to be taken into consideration as a necessary aspect of ethical and sustainable investment. Finally, a checklist has been added to the appendix which contains the criteria for, and indicators of, the guidelines. These can be utilised by an investor to conduct their own evaluation and weighting, and they can also be presented to service providers for use within a differentiated survey. The terms explained within the extended glossary have been marked in the text with a *.

The main aim of the guidelines is to serve as a continued compendium of standards, targeted, first and foremost, at investors from the institutional Church; however, they are also designed to be an aid for private individuals. In addition, by default, all those following the recommendations will also orientate their activities towards their respective commission. These guidelines are not a statute but, rather, a helping hand. For several reasons, it might be imperative to deviate from the findings: The suggestions given may be too restrictive or broad for some of those in positions of responsibility. Furthermore, they will be subjected to constant flux, reflecting changes over time within the practices of individuals and companies. Therefore, the Working Group will continuously update these guidelines into the future. Further information is available at any time at www.aki-ekd.de. Suggestions and recommendations are welcome: it is important to continue the exchange of knowledge regarding ethically-sustainable investments.

Heinz Thomas Striegler
Chair of the Working Group of Church Investors

# 1. What does Ethically-Sustainable Investment mean?

Private and institutional investors from the Church have always been among those who mean to act sustainably in terms of church investments, as well as in other areas, while, at the same time, respecting Christian values. The assembly of the World Council of Churches in Vancouver agreed as early as 1983 on the “Conciliar Process of Mutual Commitment to Justice, Peace and the Integrity of Creation”. An initial definition of sustainability can be found in the so-called Brundtland Report entitled “Our Common Future”. In addition, the Working Group of Church Investors (Arbeitskreis Kirchlicher Investoren; AKI), founded in 2008, published the first edition of the Guidelines for ethically-sustainable investment for the Protestant Church. Since then, the management and structuring of sustainable investment has changed considerably; and these developments are also of great importance for church investors.

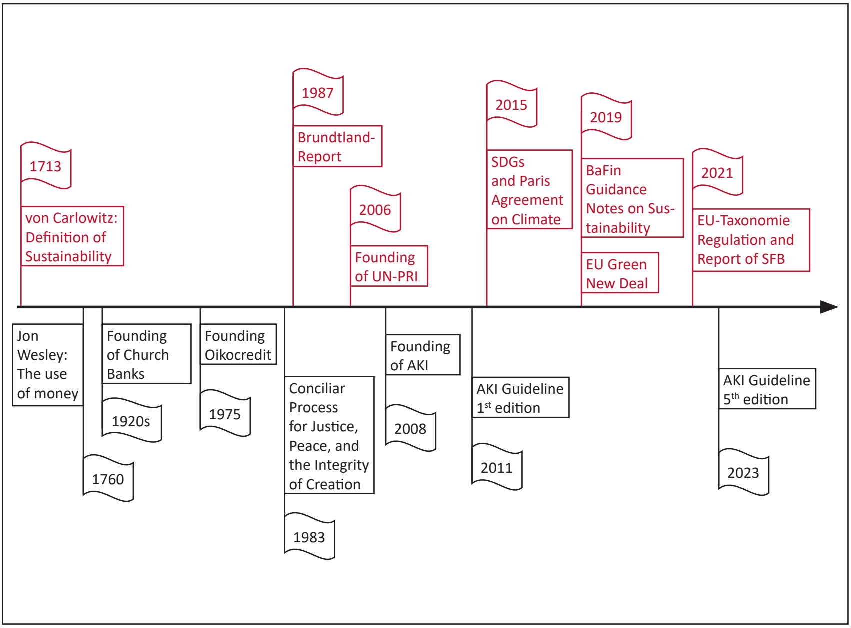


Fig. 1: Milestones of Ethically-Sustainable Investment

## 1.1 Sustainability

### 1.1.1 Frame of Reference

Since the first edition of the Protestant Church's guidelines was published in 2011, a wide range of measures have been taken at an international, as well as a national, level which have had a significant impact on sustainable investment. The United Nation's 2030 Agenda included the Sustainable Development Goals* (SDGs), which today, together with the Climate Agreement that was also adopted in Paris in 2015, form the essential frame of reference for sustainable investment. Significant parts of the European regulatory efforts, which culminate, for example, in the EU Action Plan or the fact sheet of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin), are based on these international agreements and put the development goals into practice.

**The Sustainable Development Goals**

The United Nations have provided a general definition of the concept of sustainability that is still valid today. The United Nations World Commission on Environment and Development ("Brundtland Commission") published a report in 1987 that defined sustainable development as

➔ *a development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*

The term "sustainable development", used by Gro Harlem Brundtland, was coined by the World Council of Churches (WCC) in the 1970 s and underlies the Conciliar Process forJustice, Peace and the Integrity of Creation, which was launched in 1983. Through contacts between Brundtland and the WCC, the idea of sustainable development and the term "sustainability" found their way into the Brundtland Report and have since determined the debate at UN level.

In 2015, the United Nations agreed new, more specific goals in a document entitled "Transforming our World: the 2030 Agenda for Sustainable Development". With the 17 Sustainable Development Goals (SDGs)* and their 169 targets, there are now, for the first time at international level, a set of generally recognised and concrete goals by which to implement sustainability. A key principle of the SDGs is that no one, no matter how vulnerable, will be left behind. As was already the case in the Brundtland Report*, the SDGs emphasise the need to ensure that future generations also have the opportunity to lead fulfilling lives. Many of the SDGs are linked to the Christian


Fig. 2: Sustainable Development Goals (SDGs) (Source: www.globalgoals.org)

goals of diaconal action and their dedication to work for justice, peace and the integrity of creation.

**Paris Climate Agreement**

At the UN Climate Change Conference in Paris, the nations of the world reached a climate protection agreement with general applicability for industrialised, emerging and developing countries. The increase in global warming is to be limited to significantly below 2 degrees Celsius; if possible to 1.5 degrees Celsius.

**EU Action Plan**

These two UN agreements are also the basis for the Green Deal* – the EU's growth strategy, the path on which it has set forth towards a climate-neutral, fair and prosperous society. Amongst other means, the EU intends to finance the transformation to a sustainable economy with the help of investors, which is why many of the measures that have already been approved, or are still pending, involve institutional and private investors. In addition, those who are active on the financial markets will be obliged to include sustainable aspects in their risk management systems.

**The Federal Financial Supervisory Authority**

Towards the end of 2019, the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin) published a Guidance Notice on Dealing with Sustainability Risks, in which it provides advice for the companies it supervises in regards to dealing with environmental, social or governance (ESG) risks. It includes, amongst other aspects, a systematic review of climate risks, for example, when granting loans.

### 1.1.2 The Concept and its Interpretation

Approaches to sustainability in investment have been influenced by the introduction of the Principles for Responsible Investment (UN-PRI*). Over the years, the underlying economic understanding of investment, with its goals of security, liquidity and return, has remained the same, and continues to form the basis of investment decisions as the “Magic Triangle of Investment”. All investors need to consider which framework conditions apply to their investment and how they weight the three components in relation to each other, in order to achieve their overall individual investment goal.

Ethically-sustainable investors supplement these three economic or financial goals with sustainable aspects, which are taken into account as extra-financial goals within the investment decision.

**ESG**

Since 2004, another term has been used to refer to sustainable investment: ESG-Investment (Environmental, Social, Governance). Accordingly, the consideration of sustainable goals means that, alongside the economic aspects, investors incorporate ecological (E) and social (S) aspects, as well as issues of good corporate governance (G), into the analysis and decision-making processes of their investment. Two approaches have emerged, each of which express a different understanding as to how to include ESG factors in financial investments.

**Risk-Oriented Approach**

The risk-oriented approach, also referred to as “ESG integration” or “outside-in-perspective”, goes further than classical risk management and aims to identify and manage ESG risks which were not considered in the previous risk management process; and this, in addition to managing the previous financial indicators. It is thus an extension of the economic view of the investment, which is to secure (long-term) returns. The risk-oriented approach is now widely established and recognised; a success which was significantly supported by the publication of the BaFin’s Guidance Notice on Dealing with Sustainability Risks. It is thus anticipated that the supervisory authority will refer to the physical and transitory sustainability risks, “which can have an increasing effect as they are factors of the existing risk types. The BaFin expects that the supervised companies address the corresponding risks.”

**Impact-Oriented Approach**
A different kind of motivation is at work, where investors not only consider the potential *risks* of sustainable aspects on their own investment, but also the *effects* of their investment on the environment and society (an "inside-out perspective"). Negative effects are to be avoided, while positive effects are to be achieved. One instrument for the implementation of the impact-oriented approach is the internalisation of external costs, so as to countervail the passing on of costs relating to economic activity, to third parties, the environment or even to future generations. To this end, it is paramount that the social and ecological costs previously borne by the general public are allocated to the respective polluters. Examples of costs incurred include environmental damage and increasing greenhouse gases, as well as violations of human and labour rights. Negative and positive effects therefore need to be recorded, measured and documented as fully as possible.

➔ *Both perspectives together – outside-in and inside-out – are also referred to as "double materiality".*

**Great Transformation**
In more recent times, the impact-oriented approach has been significantly expanded. The term "Great Transformation" has become established, and is understood to mean the comprehensive restructuring of technology, economy and society that is necessary to solve the social and ecological challenges of the 21st century. In its final report, the Sustainable Finance Advisory Council, appointed by the Federal Government, also calls for the redirection of the flow of finance to pay for the Great Transformation.

As a comprehensive global sustainability goal, the Great Transformation thus complements the hitherto purely economic goals of the financial system, in general, and financial investment, in particular. Its aim is to achieve a fair distribution of opportunities, as well as risks, between the economy and society.

## 1.2 Christian Values and Ethical Foundations

Different to sustainability, ethics are expressed in the selection, consideration and prioritisation of norms and values, according to individual preferences. For Protestant church investors, the principles of faith that follow from the teachings and promises in the Bible and the confessional writings, are definitive.

➔ *"And whatever you do, in word or deed, do everything in the name of the Lord Jesus, giving thanks to God the Father through him." Colossians 3:17 (NRSV)*

Martin Luther reminds us in his Small Catechism* (1529), that we are to love and trust God, and act according to his commandments. In his explanation of the seventh commandment, he states:

➔ *"We should so fear and love God as not to rob our neighbour of his money or property, nor bring it into our possession by unfair dealing or fraudulent means, but rather assist him to improve and protect it."*

In other writings, there are also statements that are fundamental to Christian action in investing. The Leuenberg Agreement* (1973) specifically states:

➔ *"They [the Christians] know that God's will, as demand and succour, embraces the whole world. They stand up for justice and peace on earth between individuals and nations. To do this they have to join with others in seeking rational and appropriate criteria and play their part in applying these criteria."*

Regarding the role of the churches, the Chair of the EKD-Council wrote the following in the Discussion Paper: "Lent to us is the Star on which we live" (2018):

➔ *"In the implementation process of Agenda 2030, of which we wish to be admonishers, mediators and drivers, our aim is to urge people to turn around; we wish to mediate in areas where there is a conflict of objectives within society and strive for fair solutions. In addition, we wish to become more sustainable and more credible in our own ecclesial practices."*

The most recent example is the EKD publication: "Towards a Sustainable and Just Financial System. An Evangelical Perspective to Guide Reform Steps Towards a Social and Ecological Transformation of the Financial Economy" (2021):

➔ *"The Church is a bearer of responsibility, and also of competence, within the financial markets. Church financial officers have, meanwhile, become pioneers in the movement for ethical investment. It is important to continue along this path."*

**In line with these writings, church investors combine sustainability with ethics, Christian norms and values, and therefore speak of ethically-sustainable investments.**

## 1.3 Ethically-Sustainable Investment

### 1.3.1 Definition

The Church's activities within the area of financial investment should not stand in contradiction, but rather, in harmony with God's commandments and the Church's commission.

The Church's commission consists in the proclamation of the gospel, in diaconal action and in our commitment to justice, peace and the integrity of creation. The Church testifies to the unity of faith, love and hope not only with its message, but also with its financial management. Being an Protestant Christian also includes the freedom to make decisions in responsibility before God and humankind.

**A Value-Based Approach**

By including Christian values in the assessment of an investment, the impact-oriented approach described above is expanded into a value-oriented approach. For church investors, this means that there are certain business areas and activities which others classify as sustainable, yet from which they are to refrain and from which they do not wish to profit.

It is from linking sustainability with Christian norms and values that the definition of ethically-sustainable investment is derived, and this has remained nearly unchanged since the first edition of the Guidelines:

- Financial investments are to be made according to economic principles.
- However, a concurrent consideration of the effects of the investment on the environment, other individuals and future generations is indispensable.
- For this reason, investments should be made in a socially and ecologically compatible manner that is fair towards other generations, taking into account Christian values.

"Socially compatible" denotes the recognition of the inviolability of the dignity of every individual, and the worldwide observance of the civil, political, economic, social and cultural rights and duties of every human being.

“Ecological” means taking responsibility for the integrity of creation by protecting the climate, the environment, biodiversity and natural resources.

“Fair towards other generations” refers to the responsibility of the present generation to live together, justly and peacefully, as well as the preservation of development opportunities for future generations.

If these goals are observed, the conditions of an ethically-sustainable investment are fulfilled in accordance with the essence of these Guidelines.

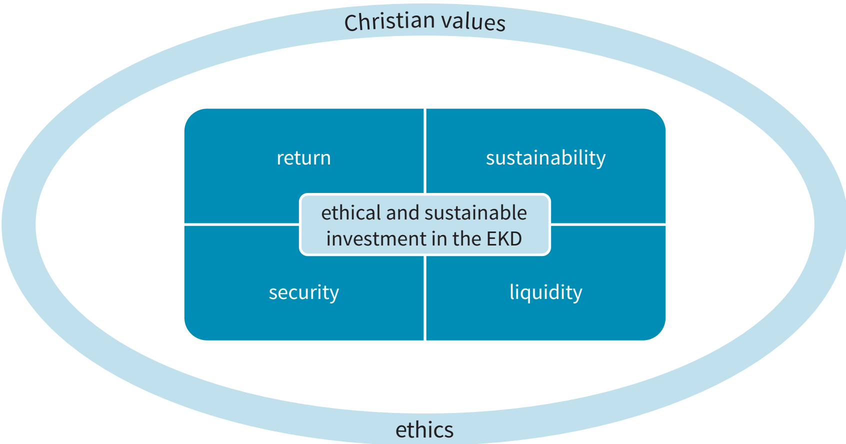


Fig. 3: Ethically-Sustainable Investment – Definition and Objectives

### 1.3.2 Achievement of Goals

The individual ethically-sustainable goals of church investors, as they are understood in the sense of the definition, as well as the economic goals of the investment, can be complementary, neutral or competing.

In the first case, the measures to achieve one goal also favour the achievement of another goal. The inclusion of ethically-sustainable aspects can have a positive economic impact through the achievement of higher returns. If the measures to achieve one goal have no influence on the achievement of another goal, then the two goals are neutral in relation to one another. If the measures to achieve one goal have a negative impact on the achievement of another goal, these goals are in competition with one another.

It is now the task of the investor to achieve an optimisation of the ethically sustainable investment, while taking into account several goals in differing dimensions. This optimisation requires individually tailored considerations and decisions.

# 2. How is Ethically-Sustainable Investment implemented?

The inclusion of Christian values in one's own financial investment, and thus the further development towards ethically-sustainable financial investment, is achieved in several steps. Firstly, all investors need to become aware of the individual priorities, in terms of values, goals and framework conditions that set the "guiding principles" for their respective investments. This determines the extent to which ethically-sustainable criteria can be taken into account, as well as the selection of asset classes to which they can be applied. These aspects also affect the choice of service providers, with whom the investor works collaboratively, as well as the possibility of achieving changes through one's own commitment. Last, but not least, the implementation also necessitates the monitoring and reporting of the success and improvements obtained through the measures taken.

## 2.1 Investor Governance

### 2.1.1 Long-Term Investment

In general, church investors invest money in long-term ventures, in line with their commitments; and these are principally used for the retirement of those working in the Church and Diaconia, as well as for the maintenance of churches and other buildings. As wise stewards, they provide for these long-term payment obligations by building up and investing assets so as not to burden future generations.

### 2.1.2 Investment Guidelines

Church investors believe that investor governance requires them to define binding investment guidelines. These are the essential basis for the documentation of the implementation of ethically-sustainable investment criteria. The investment guidelines might describe the general framework conditions as well as additionally the ethically-sustainable aspiration of the investors, or indeed their respective implementation within the investment process. They might include the following points, amongst others:

- investment strategy
- investment objectives
- portfolio structure (e. g. permissible asset classes, investment products and restrictions)
- ethically-sustainable criteria as well as the instruments and exit strategies applied
- asset and risk management (steering, measuring, definition of key facts and figures, and reporting)
- establishing an investor advisory board (including external expertise on ethically-sustainable criteria, if applicable)

Should one of the afore-mentioned exclusion criteria apply during an investment, then the investment must be adjusted, taking into account the economic consequences in relation to the existing risks and/or the severity of the violation.

### 2.1.3 Co-operation with Banks, Asset Managers and other Service Providers

Ethically-sustainable aspects should not only be included in the decision-making process of the financial investment, but rather, they should be taken into account during the initial selection of banks, asset managers or other service providers involved in this process, as well as in relation to those who manage the relevant funds, regardless of the size, legal form or field of activity. These are often long-term business relationships that can have an indirect influence on the investment itself. For this reason, the investor should regularly review the service providers that have been commissioned during the ongoing business relationship, from an ethically-sustainable point of view, to determine whether they are suitable to manage the funds.

The following key aspects can be used to check whether service providers are suitable for co-operation:

- transparency, openness and credibility of information and discussions
- orientation of business policy towards long-term business success without intending to maximise short-term profits
- integrating ethics and aspects of sustainability into the corporate culture and current business activities
- scope and consistency within the reporting on sustainability (where applicable, orientation towards international standards)

In order to gain an insight into the extent to which banks and asset managers comply with these principles and criteria, the set of questions below can be raised. The ability to provide information in such a dialogue, as well as a reference to a meaningful sustainability report, are important indicators of the significance of sustainability aspects for the respective company.

- Do social and ecological sustainability criteria (ESG criteria) have an influence on the incentive systems and remuneration principles in place?
- Is there a dedicated ESG team and/or a sustainability advisory board? Has sustainability been embedded at senior management level?
- Is there information to be had on the company's tax avoidance strategies? In the case of internationally active companies: Does the company disclose an overview of the regional breakdown of taxes that have been paid – in particular with regard to offshore* financial centres?
- Which sustainability criteria apply to lending?
- Are investment strategies based on ethically-sustainable principles offered; and which criteria are taken into account?
- Are certain business activities excluded for reasons relating to the ESG criteria? Are there examples of activities that are not undertaken for such reasons?
- Which voluntary commitments has the company made? Which principles and statements has it signed (e. g. UN Principles for Responsible Investment*, Net-Zero Banking Alliance*)?

The Protestant churches' banks and their subsidiaries have a special role to play in this context. As co-operatively organised banks, they are owned by church institutions and diaconal organisations, and have a mandate to promote Church and Diaconia. They have made these guidelines the basis of their business activities.

When assessing non-church service providers, it must be taken into account that their clientele often has a wide range of views on the subject of sustainability, and that the companies therefore have to make allowances for this in their products and services, and tend to take a neutral position. As long as they are, nevertheless, convincingly able to meet the requirements defined in the investor's investment guidelines for their ethically-sustainable investment, this does not preclude co-operation.

### 2.1.4 Measures to Promote Sustainable Investment

With the EU Action Plan* for Sustainable Growth, sustainable investment is utilised as a policy steering tool. In view of the investments needed to fulfil the Paris Climate Agreement and the UN Sustainable Development Goals, private capital is to be channelled into sustainable economic sectors, so as to fill the existing funding shortfalls.

Legislative instruments developed by the EU Commission to pursue these goals are primarily the sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy* alongside the EU Green Bond Standard that is based upon it, the benchmark regulation and the development of a label for sustainability funds.

While the benchmark regulation encourages the establishment of sustainable benchmark indices according to certain specifications, and the label for sustainability funds is primarily aimed at private investors, the Sustainable Finance Disclosure Regulation and the EU Taxonomy* form the core of the projects that have a high relevance also for institutional investors. MiFID II (Markets in Financial Instruments Directive), and, in particular, ARUG II (Law Implementing the Second Shareholders‘ Rights Directive) tie in with these legislative projects and oblige commissioned service providers to supply additional information for financial investors.

**The Taxonomy Regulation**

The EU Taxonomy classifies environmentally sustainable economic activities. Accordingly, an economic activity is sustainable if it makes a substantial contribution to one of the six environmental objectives, and, at the same time, does not harm any of the other five objectives. So far, the Taxonomy Regulation has six environmental objectives with predefined detailed criteria:

1. mitigation of climate change
2. adaptation to climate change
3. sustainable use and protection of water and marine resources;
4. transition to a circular economy
5. pollution prevention and control
6. protection and restoration of biodiversity and ecosystems

The Taxonomy Regulation feeds into the EU Green Bond Standard, as well as the EU Ecolabel for sustainability funds.

**The Sustainable Finance Disclosure Regulation**

The EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation; SFDR) contains transparency and reporting requirements for those acting within the financial market, such as asset managers and their financial products. With these regulations, the concept of risk is reinterpreted. Up until recently, risks have essentially been understood to mean the financial risks for financial market actors, however, the concept of risk is now expanded to include the risks for fellow citizens, future generations and the environment. This newly introduced "double materiality" entails adhering to previously unknown reporting obligations, e. g. for fund companies and pension funds, as well as their products such as mutual funds; and leads to significantly better information being held on sustainability characteristics.

The SFDR also introduces, for the first time, a binding definition by which funds may call themselves sustainable. So-called sustainability funds, according to Article 8 (SFDR), are required to demonstrate sustainable characteristics and, in future, those managing them are obliged to regularly report on the proportion of their investments that take sustainability aspects into account, including which sustainable characteristics are promoted. In addition, they must report on any possible negative impacts of their investments and their share. These negative impacts are defined by way of the "Principal Adverse Impacts" (PAI). Also, those managing Article 8 funds must, in future, report on the proportion of their investments that are linked with environmentally sustainable activities in accordance with EU taxonomy*.

Article 9 funds are funds that pursue explicit sustainability objectives, in addition to financial objectives. Those managing them are required to report on these objectives, as well as their achievement, using pre-determined indicators. An indicator can be, for example, the compliance of the investments with the Paris Climate Agreement, and the degree to which the indicator has been achieved must be reported annually.

| Mandatory Principle Adverse Impact for businesses under the SFDR | |
|---|---|
| Environment | CO2-Emissions, Scope 1, 2 and 3 |
| | Carbon footprint |
| | Exposure to companies that are active in the fossil fuel sector |
| | Share of non-renewable energy consumption and production |
| | Energy consumption intensity, based on net revenue |
| | Exposure to companies that are located near biodiversity-sensitive areas |
| | Tons of emissions to water |
| | Tons of hazardous waste |
| Social Matters | Share of investments that are associated with violations of UN Global Compact* Principles or the OECD Guidelines* for Multinational Enterprises |
| | Share of investments that show a lack of strategy to monitor compliance with UNGC* or the OECD Guidelines *, or that have a lack of processes and compliance mechanisms |
| | Unadjusted gender pay gap |
| | Board gender diversity |
| | Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons) |

Tab. 1: Principal Adverse Impacts (PAI)

The OECD Guidelines* mentioned in the PAI incorporate the UN Guiding Principles on Business and Human Rights (UNGP)* which are listed below. Since many of the PAI are comparable to the criteria in this guide, reports regarding the degree of their achievement can be used by church investors as a guide to ascertain the level of sustainability (in the sense of the EU definition) of an investment product, as well as the sustainability of a service provider.

For church investors, both Article 8 and Article 9 funds are generally preferable to conventional funds. However, this does not release them from the obligation to check the criteria on which the funds are based, and to compare them with their own investment guidelines or requirements.

**MiFID II (Second European Markets in Financial Instruments Directive)**
The MiFID II contains numerous requirements for financial service providers that are aimed at improving investor protection. For example, investors receive important additional information about the costs of financial services and their impact on returns. According to this directive, private investors must be asked about their sustainability preferences.

**Shareholder Rights Directive (ARUG II)**
Since it aims to improve transparency in the exercising of shareholders' rights, ARUG II is not only important for ethically-sustainable investors. According to its specifications, institutional investors must publish how they: exercise their shareholders' rights, monitor important matters relating to the portfolio companies, promote the exchange of opinions with other corporate bodies and stakeholders of the company, seek co-operation with other shareholders, as well as describing how they deal with conflicts of interest. To this end, they must publish their voting behaviour in an annual report or explain the reasons for appointing voting advisors in general.

**Development in Germany**
In Germany, the EU measures are implemented by various ministries and authorities. For example, in Guidance Notice on Dealing with Sustainability Risks, BaFin recommends that sustainability issues be dealt with strategically. The production of a more far-reaching BaFin guideline on the definition of sustainable investment funds, aimed at preventing investors from being misled by greenwashing, is planned. An expert advisory board counsels the Federal Government about further measures to promote sustainable investments.

The institutional church investors should examine whether they are subject to the afore-mentioned EU regulatory or national provisions – and thus to the sustainability criteria defined therein – or whether they are willing to adopt them voluntarily. A closer comparison with the requirements for an ethically-sustainable investment, or their investment guidelines, is recommended.

### 2.1.5 Initiatives and Associations

Another possible way to pursue ethically-sustainable goals is to support initiatives and associations that have been established regionally, nationally and internationally to promote ethically-sustainable investment goals. Examples include UN-PRI*, FNG*, CRIC* or Südwind* (explanations in the glossary). Backing schemes such as these alerts the public that the goals of the respective initiatives are also being supported by the investor. Additional benefits include making contacts, exchanging experiences and passing on information.

## 2.2 Instruments

Within the field of investment, various instruments have been established which enable church investors to implement the ethically-sustainable aspects of their investments. These instruments can be classified according to their respective effects "prevent – promote – shape".

The best-known – and most frequently discussed – are exclusion criteria which exclude companies or countries from undertaking financial investments. By means of "best-in" approaches, diverse methods are used to select the securities that most closely correspond to the relevant approaches from the existing investment universe. Investors can exert direct influence on companies by seeking direct dialogue or by exercising and explaining their voting rights.

➔ *Each church investor has to decide which instruments to use or combine with one another in order to implement his sustainability strategy, based on his individual framework conditions, as well as different objectives for the investment of his money, as laid down in the investment strategy (building block principle).*

| **Goals** | **Strategies** | **Instruments** |
|---|---|---|
| prevent | exclusions/negative screening | value- and/or standards-based exclusions<br>turnover thresholds or zero tolerance |
| promote | positive pre-selection/ positive screening<br><br>integration | best-in-class, best-in-universe, best-in-progress, best-of-class<br>thematic investments integration in evaluation |
| shape | dialogue and exercise of voting rights | dialogue with companies<br>exercise of voting rights |

Tab. 2: Goals, Strategies and Instruments of Ethically-Sustainable Investment

### 2.2.1 Preventing

**Exclusion Criteria**

Exclusion criteria are used to filter out the companies and countries, from a previously defined investment universe, that are to be excluded from the investment, on the basis of the defined values and criteria. When formulating or implementing exclusion criteria, however, falling into the trap of no longer being able to adequately consider the economic criteria of security, liquidity* and return (which still need to be taken into account) due to excessive limitation of the available investment universe, must be avoided. Exclusion criteria should also be formulated in such a way that an objective survey and evaluation process ("research process")* can take place; one which ultimately results in a list of companies and countries in which the investor then no longer invests. This type of research process is time-consuming and extensive. It is therefore usually carried out by specialised ESG rating agencies and suitable banks.

Exclusion criteria are used as a filter before deciding on an individual investment. Should grounds for exclusion be discovered during an investment, the investment must be adjusted, taking into account the economic consequences in relation to the existing risks, as well as the weight of the violation. If individual investments are sold, this is referred to as divestment or disinvestment.

### 2.2.2 Promoting

**Positive Criteria**

Among similar investment opportunities, it is the objective of positive criteria to identify and give preference to those that achieve a favourable evaluation, in terms of ethics/sustainability, and/or those that contribute to the fulfilment of the SDGs* or climate targets. This is also done through a research process, by examining companies, states and sectors, according to a certain system that is based on ethical/sustainable criteria. Such investigations result in lists that rank companies, states and industries in terms of the degree to which they fulfil the specified criteria. In practice, mixed forms of the best-of-class and best-in-class approaches have often emerged.

In the so-called *best-of-class approach,* sectors are compared with one another. An investor then invests in securities that belong to the sectors which most align with ethically-sustainable aspects. However, this approach can lead to a concentration of individual investments in just a small number of sectors, which is not sensible from the point of view of financial risks.

The *best-in-class approach* avoids this cluster risk. Here, all securities within a sector are compared with, and ranked against, one another, according to ethically-sustainable aspects. An investor invests his money in the best ethically-sustainable stocks from several sectors and is thus able to satisfactorily diversify his investment.

A similar method is taken by the *best-in-progress approach*, which gives a particularly positive weighting to stocks that have achieved outstanding successes in their improvement of their sustainability indicators, either in the past, or it is expected that they will do so in the future.

Less common is the *best-in-universe approach*, which analyses and ranks all available stocks according to certain indicators, regardless of sector. In so doing, it is then often difficult to form a diversified and risk-adjusted portfolio, and this should be duly noted. This approach is therefore less suitable for cautious investors.

**Thematic Investment**

With thematic investments, thematic focuses can be set. Investors can thus invest in topics that are particularly important to them. The principle of diversification of investments and the avoidance of cluster risks are therefore shifted into the background. Examples of such topics are climate change, urbanisation, disruption, energy transition or innovations within the health sector.

**Direct Investments**

Direct investments are often shares in companies, or investments in tangible assets (real estate, infrastructure, raw materials and agricultural investments). The investments can be made directly or through holding companies. The risks can be significantly higher than in other forms of investment. These investments require a substantial amount of work and control, as well as an intensive study of the underlying products.

### 2.2.3 Shaping

Shaping instruments include impact investments, engagement and the use of investor initiatives. In contrast to hindering and promoting instruments, engagement only comes into play following the decision to make an individual investment. The decision to become a member or to (co-)sign initiatives is made independently of specific investments.

**Impact Investments**

With the increasing implementation of the EU Action Plan, so-called impact investing is becoming more and more relevant. Increasing numbers of asset managers are gearing their investment strategies towards impact aspects in order to make a direct and particularly positive contribution to improving an ecological and/or social situation, in addition to making a financial return. Due to this explicit orientation towards positive impact effects – an emphasis which is also expected to be both transparent and verifiable, impact investments go much further than ESG investments which, principally, serve to reduce risk or take into account ESG criteria as well as financial aspects, whilst not primarily aiming to achieve an impact.

The provisions of Article 9 of the SFDR are to be observed by church investors as the minimum standard for impact investments. Conversely, not all products designated as Article 9 funds are to be equated with impact products, however.

Impact investments can have both a direct and indirect effect, as well as a measurable positive and immediate influence on the environment, fellow human beings or future generations. One may assume that an investment has an **indirect** impact if the selection of individual securities in the portfolios is aligned with external goals, and that these goals are strengthened accordingly through the investment (goal-based or impact investments). Such goals include, for example, the SDGs, the Paris Climate Agreement, the EU's Green Deal* or the EU Taxonomy*. This form of investments is found, in particular, in liquid asset classes, and has long been practised by church investors.

Impact investments achieve a **direct** effect if they immediately generate new, positive effects (impact-effective investments) and thus actively contribute to improving the social or ecological situation, as well as bringing major transformation. Examples include: job creation, sustainable agriculture, health, education and training, waste prevention, gender equality, climate improvement and resource consumption etc.

Thus, investments in emerging markets can be made in the same way as in developed countries. Similarly, impact investments are possible in various asset classes. Not only do investors achieve impact through the direct or indirect financing of corresponding goals, projects or measures, but also through involvement in corporate investments (from the exercising of voting rights and corporate dialogue to announced divestment). This form of impact investment is often found in rather illiquid asset classes such as real estate, infrastructure and direct investments in companies, as well as in the financing of projects and ideas.

At present, however, there are still no consistently recognised methods for measuring the effects of impact investments. In particular, the availability and depth of the necessary data is still insufficient. Therefore, many measurement methods are based on assumptions, estimates or model calculations which, in turn, carry the risk of "impact washing", which is when investments claim to generate impact without actually demonstrating or proving positive impact effects.

Therefore, complying with the regulatory requirements of the EU (SFDR, Taxonomy*) is not easily done, since they not only demand transparency about the concrete positive effects of investments, but are also expected to show – and avoid – negative external costs ("DNSH": Do No Significant Harm). Impact investments require a large amount of work and control, as well as an intensive study of the underlying products and effects.

**Engagement**
Engagement is the investor's active exertion of influence on companies in the form of appeals, dialogue and the exercise of voting rights. In addition, engagement takes place through communication with a number of service providers and other stakeholders within the investment process (e. g. regulators, legislators, service providers). In both cases, the aim is to actively address perceived deficits in the companies' handling of ESG issues, and to demand improvements.

Dialogue with Companies
The priority is to enter into a constructive dialogue with the companies in order to achieve the necessary improvements towards ethically-sustainable corporate governance. As a first step, this first phase of the dialogue should take place through the exchange of ideas, opinions and information, in writing or in personal conversations, without the involvement of the public. The objectives of the commitment, if all those involved are willing, can best be achieved through a non – public corporate dialogue.

Under certain circumstances, a public debate can be counterproductive for both the company and the investor, and thus for the entire issue. This does not exclude the possibility of continuing the dialogue in public, if necessary. A substantial amount of time is required to prepare and conduct such dialogues. By merging or contracting service providers, the effort can be significantly reduced without necessarily diminishing the impact. The AKI conducts such business dialogues with the participation of its members, and reports these in detail on its homepage (www.aki-ekd.de).

However, should companies refuse to engage in a dialogue with investors, or even negate the goals of the investors, the last resort is to sell the relevant shares, which should then be published (where appropriate). This requires an exit strategy, which should be described in greater detail in the investment guidelines.

Exercise of Voting Rights

With the acquisition of voting shares in companies (e.g. shares or co-operative shares), the investor has the right to vote on company matters. This right is given additional weight through company dialogue conducted in advance. If merely the voting right is exercised, the company cannot see, for example, why a proposal might not be approved at the general meeting, or about any changes needed. In this respect, it is advantageous if, in addition to the actual exercise of voting rights, it is explained to the respective company why the voting right is being exercised, and what is hoped to be achieved by the vote. The voting right can be exercised:

- on existing proposals, as well as to obtain information
- to make one's own shareholder proposal (new items on the agenda).

Depending on the legal provisions in individual countries, this may be very difficult to implement, since there are different hurdles involved in submitting a proposal at the annual general meeting.

As with company dialogue, the time required to exercise voting rights is also rather substantial. Various service providers therefore offer so-called "proxy voting" services. They pool the voting rights of several investors; and then vote at relevant opportunities according to a voting policy that is announced in advance.

## 2.3 External Data Providers/ESG Rating Agencies

For the inclusion of ethically-sustainable aspects in financial investments, as well as for the comprehensive application of some instruments, detailed information on the individual companies or countries is necessary, in order to help decide whether certain investments can or cannot be made. Since individual investors usually have neither the resources nor the expertise to do this, the use of ESG rating agencies may prove helpful. These analyse and evaluate the diverse business areas and activities of companies and countries, across the world, with regard to a wide range of criteria.

It should be noted that it is entirely possible for the analysis of the very diverse information and the individual weighting of the various indicators and risk assessments undertaken by several ESG rating agencies to lead to different results and statements regarding the same companies or countries. In this respect, the approach and focus of the respective agency should be clarified, as well as co-ordinated with the investors' own requirements for ethically-sustainable investment.

Often, the mandated managers of special or mutual funds either work together with one or more ESG rating agencies, or offer investments in line with corresponding criteria. Even then, critical monitoring is required so as to avoid the unintentional greenwashing of one's own investments.

## 2.4 Sustainability Indices

It is institutional investors who particularly like to use indices to describe a certain investment universe, or to measure the success of investments. With the increasing establishment of ethically-sustainable investments, a growing number of sustainability indices are being created and published. Due to the resulting diversity, an analysis of the criteria (according to which such indices are constructed) is indispensable for sustainability-oriented investors, so that they can align their sustainability criteria with the investors' own requirements, criteria and necessities.

One configuration of indices excludes only those companies from an existing investment universe that do not meet certain criteria. Other indices use various "best-in" approaches for index construction and thus differ significantly from the first approach. In line with the increasing spread of impact investments, the number of target-oriented sustainability indices that are constructed in accordance with climate criteria (Paris alignment, 1.5 degree Celsius target, $CO_2$ neutrality) or the SDGs, is also growing.

Within this context, the EU's push for climate benchmarks is worth highlighting. A set of European standards for climate benchmarks is one of the first tangible outcomes of the EU's Action Plan published in March 2018: "Financing Sustainable Growth". Thus, the legal basis for climate benchmarks was already created in December 2020.

Principally, there are two types of climate benchmarks to be discerned:

- EU Paris-aligned Benchmarks (PAB): These indices are in line with the Paris Agreement's goal of limiting the global temperature increase to 1.5 degrees. In addition to strict exclusion criteria, the $CO_2$ intensity of these indices must be 50 per cent lower than that of conventional indices, and must decrease by at least 7 per cent annually.

- EU Climate Transition Benchmarks (CTB): These indices allow for greater sectoral diversification and aim to facilitate a more gradual transition towards a carbon neutral economy. In contrast to the PABs, business activities in the fossil energy sector are not excluded and the $CO_2$ intensity is only 30 per cent lower than conventional indices.

Since there is still room for interpretation in certain areas of the regulatory requirements, the concrete implementation differs between different index providers; though the implementation practice should converge over time.

Due to the individual framework conditions laid down in the investment guidelines and the different associated objectives, sustainability indices designed by service providers according to general principles and for many investors usually deviate (to a greater or lesser degree) from their own sustainability objectives. Church investors who wish to use indices such as these that are already available, can check them, for example, with regard to the exclusion criteria applied and any "best-in" approaches, as well as inspecting their voting rights policy or whether climate criteria are employed.

Of course, investors can also commission a service provider to construct a sustainability index that is tailored to their individual investment guidelines, in order to ensure a precise definition of an investment universe, as well as a detailed measurement of a manager's performance.

However, due to the fact that individual framework conditions and objectives differ depending on the relevant investor, as well as on account of the modular structure of this guide, the AKI itself does **not** grant licences to index providers or service providers, even if they are able to guarantee that the respective index concept they are purporting corresponds to this guide (e. g. "is compliant with the guideline" or else "is in accordance with the EKD-guideline").

## 2.5 Sustainability Seals/Labels

Seals and labels are already used in many areas – for example with regards to food – to support consumers, especially, in their purchasing decisions. However, seals intended to provide orientation for investors in sustainable capital investment, with regards to individual funds, are still new. One reason they are offered is that, so far, there has not been a binding standard for the creation of sustainability funds; which implies that substantial effort is needed on the part of investors as they search for funds that are suited to individual requirements.

As a first step, it is important for investors to be able to see for themselves (having put in a reasonable amount of effort) whether a fund meets their specific ethically-sustainable criteria. This is the point at which the first group of seals – the **transparency** seals – comes into play. They are awarded to funds that create a comparatively high degree of transparency regarding the sustainability strategies and criteria used, thus enabling investors to make an informed investment decision. This category includes, for example, the transparency logo of the European industry association, Eurosif (European Sustainable Investment Forum). However, these seals do not define the content requirements for the construction of a fund.

These differ from **quality seals** which are awarded to funds that meet certain content requirements. For example, funds that are to attain the seal of the Forum Sustainable Investments (Forum Nachhaltige Geldanlagen; FNG) must apply certain exclusion criteria and, amongst other things, exclude companies that produce nuclear power, are involved in mining or in coal-fired power generation, or produce weapons and armaments, from an investment. Investors who use the FNG seal as a guide can therefore assume that any funds carrying this seal comply with specified ESG requirements.

Another example of a quality label is the Austrian Ecolabel. It was established in 2004 by the Austrian Ministry of the Environment. Award-winning investment funds are examined by independent experts with regard to investment criteria, the research process and transparency, amongst other measures, before they are approved as being sustainable. Awards can also be given by fund rating providers like the Scope Award, the Telos Sustainability Rating and the Morningstar Sustainability Rating.

With some seals/labels, it must be remembered that the providers need to pay a fee for the assessment and labelling of their fund. This implies that only a portion (not all) of the sustainability funds available on the market are checked and analysed. In addition to the funds that are awarded the respective seal, other funds are available that might meet the sustainability criteria of church investors, yet which do not have a seal/label. The AKI, does not award a seal/label for funds that comprehensively correspond to the ethically-sustainable values which guide the Protestant church.

Within the framework of the EU Action Plan, the intention is to extend the already existing EU Ecolabel to include investment products. Should no European initiative on the part of the EU Commission emerge, a plan has been made for the German Federal Government to develop options for the introduction of a “sustainability traffic light”.

## 2.6 Screening of Portfolios

Alongside seals and labels, there is an option to screen entire portfolios, including the portfolios of special funds, with regard to their compatibility against a predefined list of sustainability criteria. This involves the compilation of the proportion of the portfolio that complies with the specified criteria (on a certain date), as well as a list of companies for which this is not the case. Retrospectively, this provides the investor with information regarding the extent to which the entire portfolio meets the list of criteria. If this review is carried out regularly, it is possible to monitor the portfolio’s development towards a greater or lesser degree of conformity with the criteria. In this process, it must be noted that companies for which no data is available from the respective screening provider, are classified as being non-compliant. The list of non-compliant companies thus consists of companies that do not meet the criteria, and companies for which the relevant information has not been ascertained. In order to assess the degree of conformity, or the status of a company, it is therefore also necessary to take into account the information regarding the grounds on which a particular title has been assessed as being non-compliant.

## 2.7 Key Figures

Currently, the most widely used indicator is the so-called **ESG Score**. This assigns a risk measure to the companies denoting the extent to which they violate ESG criteria, and whether there are any resultant risks for investors. Frequently, it is not only the overall score that is shown, but also the individual subscores E, S and G. The ESG scores of different providers are usually difficult, or impossible, to compare due to a lack of standardisation.

Some asset managers provide information about the **carbon footprint,** or the $CO_2$-footprint of portfolios. The $CO_2$ footprint is calculated through an emissions calculation or $CO_2$ balance. It denotes the amount of greenhouse gases that are released by an activity, process or action. A small number of pioneering asset managers also provide information on the **water footprint**, i. e. the water consumption of companies that can be attributed to a portfolio.

# 3. Important Asset Classes for Ethically-Sustainable Investment

In recent years, the range of ethically-sustainable investment options on offer has grown steadily and now covers a wide range of liquid and illiquid asset classes.

## 3.1 Corporate Investments

### 3.1.1 Shares

With the acquisition of shares, a financial investor becomes party to the equity capital of a company and thus becomes a co-owner of a public limited company. In this ownership, he acquires rights (e. g. profit participation in the form of dividends, information and voting rights at the general meeting), and, at the same time, he also takes on the obligations of an owner.

### 3.1.2 Corporate Bonds

Through the purchasing of corporate bonds, the investor provides the issuer with money to finance his company. The inclusion of ethically-sustainable criteria prevents the money from being invested in business purposes that the investor does not wish to finance.

The acquisition of **subordinated capital** (e. g. subordinated bonds, profit participation rights) is a special form of corporate bond. The profit participation in this is often higher than with shares (which might also be privileged), but this benefit is bought by waiving the voting right. In addition, in the event of insolvency, different conditions apply to this kind of corporate bond than those for shareholders. When acquiring subordinated capital, the terms and conditions of the contract should, therefore, be carefully examined.

### 3.1.3 Private Equity

Usually, direct investments in companies are made through the purchase of shares or company shares, as well as through so-called silent participation. In particular, investors that are especially orientated towards long-term gain, as well as being experienced, have the possibility of making money available as equity capital, in order to finance newly-founded or fast-growing companies. These companies are usually not (as yet) listed on the stock exchange (private equity*).

Generally, private equity investments have a long-term investment horizon and are characterised by a high degree of temporary non-disposability (non-fungibility*). When subscribing to participation shares, the entire promised investment sum is not paid out immediately; rather, it is only called in following the conclusion of each new participation contract. Due to the longer-term investment phase of these participation shares, in the first few years, the investor receives either nothing, or only small distributions. At times, the value of the investment can fall below the cost value, especially during the investment phase. An ethically-sustainable orientation of private equity investments is still rare, and requires an intensive study of the investments that have already been made – if necessary, with the help of further expertise.

### 3.1.4 Private Debt

Private debt is direct lending to companies in a way that is not based on the stock market, in order to make investments (corporate private debt) or to finance construction measures (real estate debt). This form of financing is thus a debt capital measure for companies; one that is positioned between equity (equity capital) and bond investments (debt capital) due to the possibilities of collateralisation. Private debt tends to be an illiquid form of investment for a longer-term investment horizon.

### 3.1.5 Investment Opportunities

The observance of ethically-sustainable criteria is easily possible with the **direct purchases** of shares, or with corporate bonds that are in one's own portfolio. The goals of ethically-sustainable investing must always be observed.

The direct purchase of company shares is not always sensible due to the lack of diversification options. There are, however, a large number of sustainably oriented **mutual funds*** (open-ended investment funds) and **index products** (e. g. ETF* or index certificates) available, which usually collect smaller individual amounts from a number of investors, then bundle them and invest them in larger sums, in a targeted manner. These products already take sustainability criteria into account in their investment portfolio. However, they may not necessarily be consistent with their own formulated criteria. Before purchasing fund units, an analysis should therefore be carried out, in order to select the funds in which the focus is most in line with the investor's objectives. In addition, sufficient transparency of the investment strategies and research processes should be ensured.

In the case of investments in **special funds*/asset management**, specifying ethically-sustainable criteria for the attention of the respective fund manager is not usually controversial.

With a thematic orientation of their investment (**thematic funds**), investors focus on the success of a certain industry or technology; one which is selected according to ethically-sustainable criteria. Examples of such thematic investments include participation shares in companies with a focus on business areas that, for example:

- promote or develop regenerative energy production (solar, wind, hydroelectric power)
- deal with water as a resource in a forward-thinking way (supply/disposal, water supply, water treatment, water consumption)
- develop and produce technologies to reduce emissions
- are committed to the principles of fair trade
- support a circular economy and/or recycling

Many thematic funds can be considered to be impact investments if they directly improve sustainable business practices. However, a thematic focus of a fund is not *per se* to be considered an impact investment. Wherever the available investment universe is restricted, it should be noted that there may be an increased risk due to a lack of diversification.

### 3.1.6 Exclusion Criteria

The exclusion of a company from the investment universe is not necessarily the consequence of rejecting the entire company in principle. Rather, an exclusion indicates that the investor does not wish to participate in the profit generated, in the form of dividends, interest or price gains, due to his ethically-sustainable convictions.

The aim of an exclusion of corporate bonds belonging to certain issuers* is to avoid the investment of money towards business purposes that the investor does not wish to finance for ethically-sustainable reasons.

The companies that are excluded are those that accrue more than 5 percent turnover in one of the following business areas:

- companies that are involved in the development, production and trade of armaments and, irrespective of their share of turnover, in the development, production and trade of banned weapons and nuclear weapons
- companies that produce spirits (minimum alcohol content 20 percent by volume)
- companies that manufacture tobacco products
- companies that produce cannabis and cannabis products for nonmedical purposes
- companies that engage in controversial forms of gambling
- companies that manufacture products that violate human dignity through denigrating and degrading portrayals of persons
- companies that produce genetically modified seeds
- companies that produce nuclear energy
- companies that produce coal and/or account for more than 1 percent of global coal production
- companies that produce unconventional oil and gas

The following are also excluded due to controversial business practices:

- companies that themselves, or through their suppliers, systematically violate human rights (as defined by the UN Guiding Principles on Business and Human Rights)
- companies that systematically violate global standards, the principles in the Global Compact* or the OECD Guidelines for Multinational Enterprises*

Further exclusion criteria for companies may be set by investors, including those:

- that conduct stem cell research using cells from human embryos
- that extract oil, produce gas by conventional means or generate electricity on the basis of these sources of energy
- that produce substances which are banned under the Stockholm Convention on Persistent Organic Pollutants

Companies that are listed on the stock exchange are usually broadly diversified. This means that there may be individual business areas within a company that are rejected by an investor for certain reasons. As long as this business area does not account for more than 5 percent of the company's total turnover, the company should not be excluded, for reasons of proportionality. Rather, in such a case, direct company dialogue (see 3.4 and 4.4 Engagement) is preferable to exclusion. In the case of controversial business practices, the investor does not base his evaluation on the turnover share, but needs to clarify whether serious violations are involved.

In relation to the individual criteria, the following explanations can be used for the implementation of the above-specified guidelines.

**Armament**

Weapons and armaments are not only used for defence, but also for offensive purposes. This contradicts the peace mission of the churches. The appendix to the War Weapons Control Act* provides a comprehensible list of the weapons and equipment that are to be understood as armaments. These include, amongst others:

- autonomous weapons
- combat aircraft and helicopters, warships, submarines, tanks
- missile weapons and their launchers
- small arms (except hunting and sporting weapons)
- howitzers, land mines, naval mines, high explosive bombs, ammunition

Companies that develop, manufacture or trade banned weapons (i. e. weapons defined as prohibited in UN conventions), weapons with a restricted use, or nuclear weapons should always be excluded, including where the turnover is below 5 percent. Such conventions are the following: Biological Weapons Convention, Chemical Weapons Convention, Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons, the Ottawa Convention on the Prohibition of Anti-Personnel Mines and the Oslo Convention on the Prohibition of Cluster Munition – in each case, including the corresponding protocols.

**Spirits**

Although the consumption of high-proof alcoholic beverages is the responsibility of each individual, there is an increased risk of addiction, especially in the case of excessive or long-term consumption. The limit mentioned in the criterion excludes the production of alcoholic beverages obtained through the distillation of fermented grain, fruit or vegetables. These excluded beverages have an alcohol content of at least 20 percent by volume. This is a change to the previous edition of the guideline, and was made due to feedback on the practicability of this criterion.

**Tobacco and Cannabis Products**

Although the recreational use of tobacco and cannabis products is the personal responsibility of each individual, there are considerable risks of addiction and health hazards associated with these substances if they are used excessively or continuously.

**Gambling**

Gambling is controversial, not least, since it can cause or foster a gambling addiction. This is especially apparent where there is little time between the placing of a stake and the outcome, and thus little time to reflect upon one's own actions, and to become aware of losses in a timely manner. In the sense of this exclusion criterion, the following forms of gambling are therefore considered to be controversial: slot machines, online casinos and certain forms of sports betting. This does not include state lotteries or social lotteries.

In addition to the classic forms of gambling that are mentioned above, certain computer games are also regarded to be a potentially addictive form of media. However, there are not currently enough research results on this topic for it be included in this exclusion criterion.

**Violation of Human Dignity/Pornography**

From the belief that God created human beings in his image, we deduce the concept of human dignity, and thereby the responsibility to protect this dignity from degrading, denigrating or humiliating depictions. Whilst assessing this criterion, it is not only pornographic products that should be taken into account, but also the producers of violent videos and corresponding computer games that glorify violence.

**Genetically Modified Seeds**

Due to different potential applications (e. g. genome analysis*, marker-assisted selection*), the use of genetic engineering in plant cultivation is not generally excluded. This particular exclusion criterion, therefore, is relevant for companies that produce a significant number of plants using genetic engineering methods. This includes both Agro-Genetic Technology (AGT), as well as New Genomic Techniques (NGT). In addition, other factors are also taken into account including those of a socio-economic nature (problems of extreme market concentration, increasing pooling of the value chain in a small number of companies and the awarding of biological patents), and ecological risks (danger of contamination of conventional plants), as well as health risks (resistances). This also involves the production of genetically modified woody plants (e. g. wood for paper production, fruit trees). Green genetic engineering poses great risks to biodiversity, the environment and health. Since the potential applications of genetic engineering are highly dynamic, the criterion needs to be continually adapted and reviewed.

**Nuclear, Coal, Oil, Gas**
Oil sand, oil shale and coal are the fossil fuels with the worst $CO_2$ and environmental balance. Some of the world's largest coal producers are so widely diversified that they cannot always be identified through a revenue hurdle that is related to coal. Nuclear power is excluded due to its great risk to the environment, fellow human beings and future generations, as well as due to the unsolved problem of nuclear disposal, which contradicts the concept of generational justice. The respective share of global coal production can be analysed both in terms of turnover and volume.

**UN-Guiding Principles on Business and Human Rights**
The UN Guiding Principles on Business and Human Rights (UNGP), adopted by the United Nations Human Rights Council in 2011, set out the responsibility of business enterprises to respect human rights. Accordingly, states are responsible for protecting and promoting human rights by ensuring appropriate legislation, as well as its implementation. Businesses have an obligation to respect human rights within their sphere of responsibility. The UNGP define this responsibility in terms of its content and scope. With regards to content, it encompasses all rights, i. e. the rights of employees, including those who work in the supply chain, the rights of consumers and the rights of communities. The UNGP thus also contain the ILO core labour standards and the right to free, prior and informed consent of indigenous peoples.

The scope of this responsibility is divided into three levels. The highest level of responsibility is found wherever a company might be directly causing the violation of human rights, i. e. within its own company. The second level occurs wherever companies could be contributing to human rights violations, for example through a direct supplier relationship. The third level relates to companies that might be linked to human rights violations that are part of the extended supply chain, for example, in the procurement of raw materials.

A company should comply with due diligence obligations that relate to all three levels. These include the following five points:

1. a public policy statement that specifies an intent to respect human rights, as well as a strategy to implement them
2. the continuous identification of risks to human rights with the involvement of affected stakeholders
3. effective counter-measures to remedy or redress shortcomings
4. a grievance mechanism
5. communication about these measures

The German Act on Corporate Due Diligence Obligations in Supply Chains (Lieferkettensorgfaltspflichtengesetz, LkSG) adheres to this approach of the UN Guiding Principles, by covering these five steps and applying them to German companies, as well as to companies that have branches in Germany where more than 3,000 people are employed (from 2023), and where there are more than 1,000 employees from 2024. A plan has been made for the introduction of significantly lower thresholds in a European supply chain law: 500 employees and a turnover of more than 150 million Euros; or even 250 employees and a turnover of more than 40 million Euros, should the company belong to a risk sector such as mining. The draft of the European Due Diligence Act also stipulates that companies can be held liable if human rights violations occur and appropriate counter- measures have not been installed.

**The UN Global Compact**

Established in 2000, the UN Global Compact (UNGC) is a global forum for companies to initiate change and exchange ideas, based on ten principles. The ten principles include compliance with human and labour rights, taking environmental responsibility and implementing anti-corruption measures. The members of the UNGC undertake to submit annual reports on these principles. If these reports are not submitted, such companies will be excluded from the UNGC.

**Environmental Protection**

The preservation of creation is an essential element of the Christian value system. Fellow creatures and their habitats are not only considered from the perspective of their utilisation and exploitation, but rather, their intrinsic value is to be respected. This means respecting the ecological limits of the earth and preserving biodiversity. The SDGs and the Paris Climate Agreement provide guidance on dealing with environmental resources such as soil, air, water, biodiversity and global climate. The responsibility for taking the necessary measures for nature and climate protection also lies with companies. When designing financial instruments, the taxonomy* serves the EU Commission as a guideline to define the economic activities that can be classified as sustainable. In this, climate protection has priority. Such instruments are being developed for other areas such as water and biodiversity.

**Corruption**

Corrupt business practices have a negative impact on all parts of the economy, as this always leads to the detriment of other economic agents and, ultimately, disadvantages consumers. Under the Corporate Sustainability Reporting Directive (CSRD) companies within the EU are obliged to report on their measures to prevent corruption and bribery. All companies must also create the means by which to report relevant information about malpractices within their structures.

**Aggressive Tax Policy**

Taxes are an important source of government revenue and are central to fiscal policy, as well as the macro-economic stability of countries. The United Nations recognise that they play a crucial role in achieving the SDGs.

Taxes are also considered to be a crucial means by which to reduce inequality in societies and thus contribute to the goal of economic, social and territorial cohesion. Aggressive tax avoidance practices as described in the OECD Guidelines also pose an increased litigation and reputational risk.

**Implementation**

ESG rating agencies analyse companies with regards to violations of international standards. They refer to the OECD Guidelines for Multinational Enterprises and the UN Global Compact. Depending on their severity, violations of environmental social and governance standards are indicated, for example, by yellow, orange or red flags. Not only is a company marked for exclusion if it knowingly violates the principles of the UNGC, but also if it does not attempt to remedy the violations about which it has become aware, including any within the supply chain.

In addition, it is assessed which measures are taken by companies to reduce any negative environmental and social effects that arise from their business activities. The results are used to create an overall score so that the company can be compared with other companies within its sector (ESG ranking according to the best-in-class approach).

Data availability can vary greatly depending upon the investment universe and the data provider. Not all criteria are necessarily available to the depth of detail described. Therefore, given the available data, it should be the endeavour of every investor to present the best possible representation of the criteria described above whilst, at the same time, working towards expanding the range of data available from the data providers. It cannot be guaranteed, however, that all criteria are available to the described depth of detail, or can be obtained with reasonable effort.

### 3.1.7 Positive/Negative Criteria

In order to support those companies that recognisably try to anchor sustainability aspects within their business policy, positive criteria should also be incorporated into investment decisions.
Investments should also be made in a manner that is compatible with social standards, as well as with environmental and intergenerational justice, taking into account our Christian values.

**Compatibility with Social Standards**

Preference is given to companies that:

- providing products and services for disadvantaged groups of people, thus promoting their equitable participation in social, economic and political life
- share responsibility for the working conditions within supplier businesses worldwide, as defined by the ten core labour standards (ILO), across the globe and/or those that have established anti-discrimination programmes
- ensure full and effective participation of women. This might be done, for example, through the “gender pay gap” and “board gender diversity” indicators listed in the SFDR, about which companies and fund managers must submit reports
- create formal work places and/or promote training for all employees
- have formulated policies on the freedom of association and collective bargaining working hours and a living wage

**Ecological**

Preference is given to companies that:

- formulate ambitious environmental guidelines and implement them through corresponding management systems within the company
- have made demonstrable progress in the reduction of raw material, water and energy consumption and/or pollutant and waste emissions, as well as reducing the use of raw and auxiliary materials
- continue to further develop and promote the use of renewable energy sources
- have committed to climate targets that are aligned with the scientific consensus and the Paris climate targets, using the Science Based Target Initiative or the Transition Pathway Initiative as the basis to determine compatibility with the Paris climate targets
- implement circular economy approaches and/or provide technological solutions towards these
- contribute to sustainable tourism that creates jobs and/or promotes local culture and local products

Companies are underweighted that:
- are involved in the production and supply of energy that uses conventional fossil fuels
- show poorer climate characteristics ($CO_2$ footprint and/or $CO_2$ intensity), when compared to the rest of the sector
- do not have scenario-based plans for climate neutrality and/or plan to use offsetting as the main way of achieving climate neutrality
- have not implemented a policy to protect biodiversity in their value and supply chains
- are underperforming in terms of resource efficiency, when compared to the rest of the sector
- consume a particularly large amount of conventional energy in the production of steel or cement, and/or produce an above-average level of greenhouse gas emissions through steel or cement production

**Intergenerational Justice**
Preference is given to companies that:
- facilitate improved compatibility of career and family and/or offer provision for old age
- actively promote measures to develop infrastructure in all regions, such as the construction of social housing, schools, health care facilities and/or the construction of water and electricity supply systems and digital infrastructure
- implement circular economy approaches and/or provide technological solutions to this, for example, through the use of sustainably sourced raw materials or the biodegradability of components and ingredients
- ensure affordable health care within a society and/or engage in the research of diseases that are barely recognised today and which particularly affect developing countries
- minimise the impact of their activities on climate change
- through their own practices, support developing countries as they seek to improve their national capacities to collect taxes and other levies

### 3.1.8 Engagement

Another important instrument that an investor with ethically-sustainable priorities has to hand, is their pro-active influence on companies, since they bear responsibility for the use of the invested capital, for example, as shares or bonds. Suitable ways of so doing include dialogue with companies, the exercise of voting rights and participation in committees (advisory boards, etc.).

The focus of many shareholder engagement processes has been, so far, to fulfil corporate governance* criteria. Likewise, the engagement of church investors is also geared towards social compatibility, the environment and intergenerational justice. ESG engagement serves to improve and maintain the value creation of the company in the long term, and supports it in its fulfilment of its social responsibility.

In general, listed companies have such a high level of capitalisation that individual church investors, on their own, can only bring their interests to bear to a very limited extent. Therefore, it is helpful to coordinate and pool the engagement.

### 3.1.9 Impact

Shares and bonds (Green and Social Bonds) are asset classes that can be considered for impact-aligned investments. Private equity and private debt are predestined for impact-generating investments.

An example of a target-oriented impact measurement is the companies' support of the SDG-goals. This involves analysing the share of the companys' total sales that are included in a fund account for products and services that make a positive contribution to achieving the SDGs (while, often at the same time, considering negative effects). A higher overall share of turnover is considered as a greater contribution towards the achievement of the SDGs. In the case of impact-aligned investments, however, such sustainability goals should be flanked by engagement and voting, and transparent reporting should be implemented in order to make the achievement of sustainability goals measurable.

## 3.2 Government Bonds

In contrast to equity securities, where an investor becomes a co-owner of a company, an investor in government bonds lends his money to a government, which then collects the funds and puts them towards fulfilling the agenda of its general budget, without earmarking them for a specific purpose (unless it is a "green bond" or "social bond"). Government bonds also include other bonds issued by the public sector (states, federal states, special funds etc.).

### 3.2.1 Exclusion Criteria

A buyer of government bonds makes his money available to the issuing government. In the case of new issues, the money is transferred directly to the state in question; in the case of a purchase of government bonds from another seller, the investor makes the money available indirectly (at the very least), since the state in question can continue to make transactions with this money. As a matter of principle, the money of church investors should not flow into the budgets of states that significantly violate church investment principles, in particular those that:

- are involved in warmongering
- violate human rights
- endanger creation

A conflict of objectives can arise when applying exclusion criteria to states. The formulation of individual criteria can generally only cover individual aspects of state action. An overall assessment is scarcely possible due to the diversity of state action. The opposite is true of companies, since they generally pursue a clearly defined business purpose, thus making an overall assessment possible.

Exclusion criteria for states:
- whose state of peace is classified as very low
- that practise the death penalty
- that are classified as “not free”
- that are perceived as being particularly corrupt
- with deficiencies in combating money laundering, tax evasion, the financing of terrorism and weapons of mass destruction
- that have not ratified the Paris Agreement and/or are not complying with the resulting obligations

**Peacebuilding/Global Peace Index**
A state should not engage in warmongering, but promote non-violence and peace. The Global Peace Index (GPI) of the non-profit organisation Institute for Economics and Peace, for example, aims to propagate a concept of peace and make it measurable; one which is more than the mere absence of war. Peace is therefore considered within the context of democracy, education and the common good, and is generally understood to be the absence of violence.

The GPI compares and evaluates the absence of violence in 162 states. The index comprises 22 indicators, ranging from a country’s military expenditure to an assessment of its relationships with neighbouring states, as well as the proportion of prison inmates per population. The data is collected from a wide range of international sources, including various UN agencies, the World Bank and peace institutes such as the Stockholm International Peace Research Institute (SIPRI).

**Death Penalty**
In the eyes of the Protestant Churches in Germany, the death penalty is to be strictly rejected. The strongest argument against the death penalty comes from Christian ethics, especially from Reformation ethics: the distinction between the individual and their deeds. This idea of inviolable human dignity has found its way into European legal systems. The death penalty is therefore, in principle, incompatible with the preservation of human dignity.

While the number of death sentences carried out is increasing worldwide, the number of countries that carry out the death penalty is decreasing. Approximately 80 per cent of all death sentences are carried out in China, Iran, Iraq and Saudi Arabia. In many other countries that practice the death penalty, its acceptance by the population is dwindling.

The worry that is often expressed, that the exclusion of the US's and Japanese government bonds disproportionately limits the investment universe, can be counteracted by the acquisition of appropriate surrogates, such as bonds from some US states (not all!), as well as from national and supranational institutions, state-affiliated or state-like institutions (World Bank etc.), and also from development banks.

**Classified "not free"**
The research organisation Freedom House produces an annual report "Freedom in the World", in which it assesses the degree of democracy and freedom in nations around the world. Political rights and civil liberties (including religious freedom) are rated on a scale of 1 to 7. The states are divided into three categories: "free", "partly free" and "not free".

**Corruption**
Corruption is not only perceived as being unethical from a church perspective. Transparency International defines corruption as the abuse of entrusted power for private gain or advantage, and regularly publishes an index that reflects the extent of perceived corruption within the public sector of a country (CPI = Corruption Perceptions Index). The scale ranges from 0 (highly corrupt) to 100 (very clean). Countries with a score below 40 are seen as non-investable.

**Money Laundering, Financing of Terrorism, Weapons of Mass Destruction, Taxes**
Enabling money laundering, the financing of terrorism and weapons of mass destruction not only expose investors to risks, but also cause harm to other states as such investments promote war and terrorist activities. The most important international body for combating this is the "Financial Action Task Force" (FATF), which sets global standards and reviews the measures taken to combat threats to the international financial system. A list of high-risk states is regularly published by BaFin.

In addition, no investments should be made in bonds from countries that are non-transparent or not co-operative with regards to taxes. The relevant EU or OECD lists could serve as a basis here.

**Ecological Incompatibility/Climate Damage**
Regarding the preservation of creation, the protection of biodiversity and climate are deemed to be the most important state activities. The ratification of the Paris Agreement of 2015, and compliance with the ensuing commitments, provide information on how a country is dealing with the climate crisis. It is the goal of the Paris Agreement to limit global warming to well below 2 degrees, preferably to 1.5 degrees Celsius, above pre-industrial levels. Nationally Determined Contributions (NDCs) are a critical measure to achieving this goal. They embody each country's efforts to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement requires each country to develop, communicate and maintain the successive NDCs that it intends to achieve. Countries must take mitigating action on a national scale to meet the targets of these contributions. As a means of increasing determination over time, the Paris Agreement stipulates that successive NDCs represent progress when compared to the previous NDC, and reflect its highest possible level of ambition.

### 3.2.2 Positive Criteria

Many countries – especially in Asia, Latin America and Africa – are not (yet) at the level of developed countries in terms of education and environmental standards, or in terms of the civil society structures. Therefore, the criteria that apply the same standards to developing and emerging countries as are applied to OECD countries cannot be just and equitable for all countries. Thus, the trends and developments over several years are more meaningful than comparing the absolute ranking positions and indicators of a particular year. As soon as such trends are consolidated, they result in suitable relative criteria for states.

In the case of continuous improvements, supporting such states in a targeted manner and giving particular consideration to their bonds in investment decisions, is most in line with Christian values. Corresponding positive criteria are also provided by ESG rating agencies.

Taking into account our Christian values, investments should also reflect social and environmental compatibility, as well as intergenerational justice – whereby the latter includes the promotion of peace.

**Social Compatibility**
Preference should be given to states that are equitable, free, democratic and governed by the rule of law.

An increase in the level of common good can be determined by an improvement in the following aspects:

- the degree of democracy and freedom, including in areas such as freedom of religion and freedom of the press
- the degree to which corruption is detected among public officials and politicians
- the level of human development in areas such as life expectancy at birth, educational attainment and income *per capita*
- the measure of inequality of income distribution within a state (Gini index)
- the income growth of the bottom 40 percent of a country (Shared Prosperity Index of the World Bank)
- the state of democracy within a country

**Ecological**
Preference should be given to states that work for the integrity of creation. Here, the following aspects can serve as a decision-making aid:

- climate protection performance
- deforestation and biodiversity
- protection of health from environmental degradation and protection of ecosystems

**Intergenerational Justice**
Preference should be given to states that take responsibility for future generations and safeguard peace. An improvement in the situation can be determined, for example, with the help of the following aspects:

- progress in the implementation of educational objectives based on indicators such as the literacy and numeracy rates of primary school leavers
- preventive measures against violence in countries
- the weight and importance of a country's military apparatus in relation to society as a whole

### 3.2.3 Engagement

Engagement is generally not very effective for states.

### 3.2.4 Impact

Target-oriented (impact-aligned) portfolios can be geared to specific goals (e.g. energy use, freedom from corruption). Green bonds issued by states can be acquired as impact-generating investments.

### 3.2.5 Reporting and Key Figures

In the case of data collected, analysed and published by NGOs, whether or not the data may also be used free of charge for guidance in the investment should be checked as a matter of course. In some cases, NGOs charge license fees for the use of the data. This is not usually the case with national and international public organisations (OECD, EU, UN, as well as their sub-organisations).

## 3.3 Real Estate

The sustainability aspects of real estate differ from those of liquid asset classes such as government bonds and corporate investments (see 3.1 and 3.2). They are mainly based on SDGs 11 (sustainable cities and communities) and 13 (climate action). SDG 11 mainly refers to social aspects such as access to adequate housing, affordable transport and safe public spaces, whereby, in particular, the needs of low-income households must be taken into consideration. In relation to SDG 13, the real estate sector is strongly impacted by regulatory efforts and greenhouse gas emission reduction targets; the real estate sector is affected by the EU-taxonomy*. It is clearly evident that, in the long term, a sustainable real estate that complies with the guidelines on energy efficiency, water and electricity consumption, as well as other requirements, has a better potential for development and profit.

Real estate is subject to various climate risks. Through the use of energy-intensive building materials, such as steel and cement, as well as through the consumption of energy and resources during operation, the building industry makes a significant contribution to $CO_2$ emissions in Germany. Alongside the physical risks, where climate change directly affects properties in the form of ever more extreme weather events (such as floods, heavy rain, storms, warming or rising sea levels in coastal areas), there are other transitory risks for all parties involved in a real estate event (owners, tenants, buyers) that result from stricter regulations aiming to decarbonise the economy.

An essential prerequisite for the sustainable orientation of a property is that the various systems are digitally networked. Not only does this serve to record the energy consumption data of individual users (smart metering), it also allows for the effective control of lift, heating and lighting systems, or for efficiency within building technology that exists for cooling, air conditioning or lighting.

Ethically-sustainable aspects can be included in the entire life cycle of a property, whereby the principle that the refurbishment of existing properties is better than the construction of new buildings applies from the point of view of sustainability. If demolition is unavoidable, comprehensive recycling should be considered. Therefore, the use of recyclable building materials should also be taken into account in the construction of new buildings.

As a rule, real estate investments are long-term investments. From an investor's point of view, real estate investments can be made both directly (property developments, purchases), as well as indirectly (fund investments). In order to ensure future viability, real estate investments should also be suitable for making cities and residential areas inclusive, safe, resilient and sustainable.

However, the economic and non-economic objectives of real estate investment – similar to investments in liquid asset classes – are complementary, neutral or compete against one another, and need to be weighed against each other when deciding on an investment. In addition to the requirements for appropriate profitability, both the limited availability of sustainable real estate, as well as the ever-increasing demands on the sustainability of a real estate investment, play an important role.

### 3.3.1 Investment Opportunities

Real estate investments are often made by investors in **mutual funds** or **special funds**, in which case they also co-operate with other investors. Large investors can invest **directly** in real estate, or they can work together in so-called **club deals** to finance large projects (which they often do). The restrictions described in the chapter on corporate investments apply accordingly.

### 3.3.2 Exclusion Criteria

The definition of exclusion criteria is intended to bar tenant groups from leasing who are active in the controversial business areas that have already been listed in the chapter on corporate investments. These include, for example, gambling houses and arms dealing, or other tenants whose objectives are not compatible with the investor's own values.
The sale of real estate to companies or persons who operate controversial businesses in line with the criteria described in chapters 3.1 and 3.2, or who pursue a controversial use of these properties, should also be avoided.

### 3.3.3 Positive Criteria

Meanwhile, in the different phases of a real estate cycle, there are many examples that can accommodate ethically-sustainable aspects. In principle, however, the focus should be on the refurbishment of a property rather than on demolition and/or new construction.

- New construction and refurbishment of a property:
  - eligible uses (affordable housing, social infrastructure, etc.)
  - use of recyclable building materials
  - provision of facilities to increase e-mobility
  - respect for biodiversity
  - requirements for inclusion*
  - efficient use of resources in new buildings
  - orientation towards long-term, low resource consumption (renewable energies, thermal insulation, water conservation, waste management, storage technology, etc.)
  - accessibility and integration into the residential environment
  - certification of properties (see also reporting/key figures)
  - financing by sponsors with a sustainable orientation
  - commissioning regional partners and ensuring fair payment
  - consideration of tenant income when apportioning refurbishment costs

- Utilisation:
  - measure and reduce resources used (energy, water, waste, etc.)
  - increase the recycling rate
  - modernisation of lights and heating
  - networked and intelligent control of building technology
  - accessibility/security
  - regular maintenance and modernisation
  - ease of cleaning
  - sustainable tenant structure (fair employer, social or charity organisations, training companies, etc.)
  - socially responsible lease management
  - green lease tenancy agreements
  - promotion of sustainable mobility (job tickets, car sharing, e-charging stations, etc.)
  - commissioning sustainable service providers
  - creation of social spaces and facilities, such as childcare, community spaces, social advice

### 3.3.4 Engagement

Real estate investments are often made in public funds or in special funds and involve several investors whose sustainability goals do not always match. If it is not possible to enforce exclusion criteria, an attempt can be made to implement as many aspects as possible through dialogue with real estate companies, fund managers and co-investors.

### 3.3.5 Impact

Investors can achieve a positive and sustainable impact by explicitly selecting and financing real estate projects. Examples of such impacts include affordable housing, social participation, climate neutrality in construction, etc.

An increasingly important aspect of impact-generating investing is the alignment of investments with SDG 11 – sustainable cities and communities.

### 3.3.6 Certification

The sustainability of properties is often documented with certificates. Examples include BREEAM*, LEED*, DGNB* and GRESB*. GRESB offers the possibility to assess the sustainability of all parties involved in the project: developers, financiers, planners, architects and construction companies, as well as those who use the property.

Other environmental management systems for real estate include EMAS (known in the Protestant sector in Germany as "Grüner Gockel/Grüner Hahn" – the green rooster) and EMASplus*.

## 3.4 Green/Social Bonds

Through the use of green bonds and social bonds, two requirements for sustainable investments are fulfilled at the same time which, up until now, could only be realised through different instruments. Green/social bonds have a risk-reward ratio that is largely identical to that of conventional bonds, and the proceeds from the issuance are invested in projects that meet certain ecological or social criteria.

Many green/social bonds comply with a framework that allows the proceeds of the issuance to be accounted for and used separately (unlike conventional bonds). Prior to an issuance, the issuer already specifies (in the bond prospectus) the category of projects where the money is to be used. In the case of green bonds, these categories include renewable energy, energy efficiency measures or waste disposal. Social bonds, on the other hand, invest in areas such as health or education. Accordingly, "sustainability bonds" finance both environmental and social projects.

Investors can decide whether the sustainability targets set for the green/social bond meet their criteria and thus, whether an investment is possible. This requires the information on the investment categories to be unambiguous and transparent; and the same is also preferable regarding the intended projects. A "Second Party Opinion" (SPO), commissioned by the issuer, may be helpful here.

As a minimum, the following questions should be answered:

- Which categories of projects are covered by the investor's sustainability criteria?
- What is the expectation regarding information on the projects that are financed?
- What kind of guarantee does the company provide that the proceeds of the issuance will be used in the intended, earmarked way?

A special feature are EU Green Bonds, which must only be invested in projects that comply with the EU Taxonomy*. In order to be classified as a green project, the proceeds of the green bond must be used to finance, or refinance, economic activities that make a significant contribution to achieving at least one of the environmental objectives set out in the EU Taxonomy* without significantly compromising any other of these environmental objectives. At the same time, a company that is an issuer must comply with the UN Guiding Principles on Business and Human Rights* and the OECD Guidance for Multinational Enterprises* (other regulations apply to banks as issuers).

The preparation of a Green Bond Framework, describing the implementation of the requirements set by the EU Green Bond Standard (EU-GBS) and the form in which this is achieved, as well as the regular annual reporting on the use of funds and the external verification of compliance with the EU-GBS in the use of funds, are further essential features for qualification as a green bond according to the EU-GBS. For sustainably-minded investors, even with well-documented green bonds, the fundamental question arises as to whether they should buy bonds from issuers that are on their own list of excluded companies. Should, for example, a green bond be purchased from a nuclear power plant operator that credibly assures us that the proceeds will only be used for renewable energies?

The sustainability assessment of green and social bonds is more complex than that of other securities, as both the issuer and the specific project financed with the bonds needs to be evaluated. Accordingly, for investors with ethically-sustainable objectives, the following are possibilities:

1. To focus solely on the sustainability rating of the issuer and buy bonds from issuers that meet their criteria, regardless of whether they are green bonds or conventional bonds.

2. To focus on the sustainability ratings of the issuer and the project financed with the bonds. The investor should therefore only buy bonds from issuers that meet their criteria. If such an issuer issues green or social bonds, these are preferred.

3. To focus exclusively on the sustainability rating of the project being financed with the bonds. This makes it possible to buy green bonds from issuers who do not meet the criteria of the investors and whose conventional bonds are otherwise avoided.

If church investors decide to opt for the third possibility, they should weigh up the advantages and disadvantages of the ecological or social impact of green or social bonds in each individual case.

## 3.5 Infrastructure

Infrastructure refers to the economic and organisational foundations that are necessary for the functioning and development of an economy. Investors with a long-term investment horizon can participate in infrastructure projects, including those in developing and emerging nations. From a sustainability point of view, social infrastructure such as schools, hospitals, public transport, water, sewage and sanitation, as well as communication systems and the supply of renewable energy are particularly suitable for investment. Similar to private equity* investments, the money invested here is tied up for many years.

An investment in infrastructure projects, which makes sense from an ethically-sustainable point of view, requires a high degree of expertise, since both the sustainability analyses and the risk assessments differ from those in the liquid asset classes.

**Investment Opportunities**
Participation in infrastructure investments can be undertaken in concrete (regional) projects – for example, the construction of a wind power plant, a local senior citizens' housing facility, or a local biomass or solar power plant – as well as through fund investments.

When investing in **mutual funds** (also by means of **theme funds)** or **special funds**, the restrictions described in the chapter on corporate investments apply accordingly. In the case of an investment **in closed-end funds***, a limited number of shareholders participate in specific projects (for example, offshore wind farms*, storage power stations, communication networks). The specific framework conditions and risk assessments need to be taken into account.

## 3.6 Microfinance

Microfinance refers to the provision of basic financial services such as loans, savings accounts, money transfers or insurance in regions, as well as to people who do not have recourse to reputable financial service providers. The idealistic objective or sustainability goal is financial inclusion*.

Microcredit refers to the granting of very small loans by microfinance institutions (MFI) to deprived population groups that, traditionally, cannot provide collateral, or whose

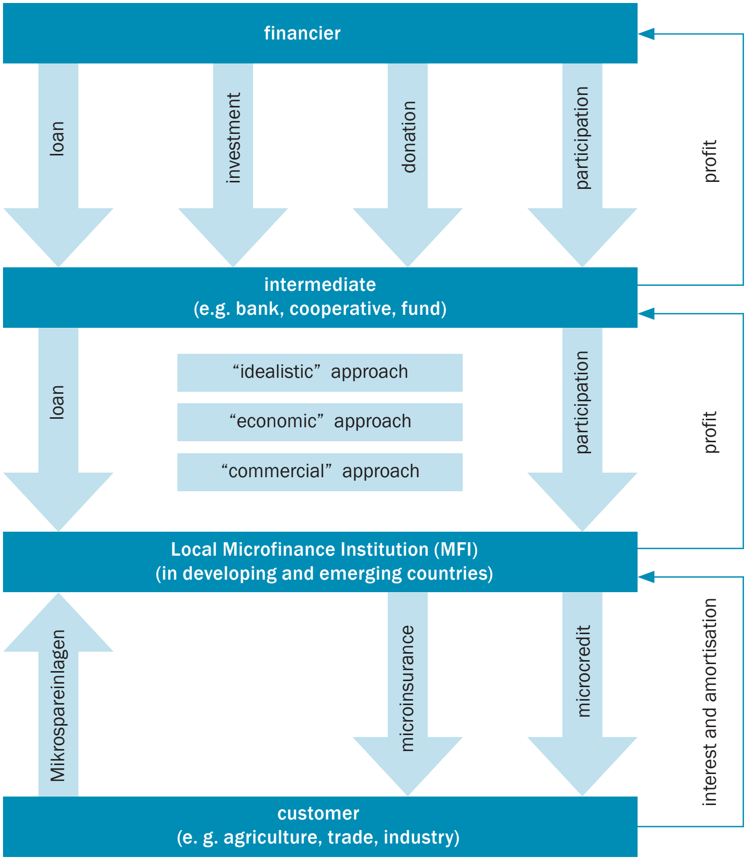


Fig. 4: Schematic Representation of Microfinance Investors

incomes are too low and overly insecure. This, typically, gives the borrowers the opportunity to improve their individual situation regarding income, e. g. by starting or expanding a micro-business. A frequent criticism of microcredit is the often excessively high interest rates which the end users have to pay; these must be considered in relation to the domestic interest rate level.

From an investor's point of view, the attractiveness of microfinance products has been justified in the past by the repayment rates of microloans, which are often higher than the repayment rates involved in the conventional lending business of local banks, as well as the independence of the returns which are not influenced by the economic cycles on the global financial markets. Microfinance crises and the high default rates associated with them (e. g. in the Indian state of Andhra Pradesh in 2010) have, however, put this view into perspective.

A growing number of microfinance institutions offer not only loans, but also the possibility to save money. A market for microinsurance is emerging that will, for example, insure individuals against crop failure or illness.

The spectrum of microfinance banks is very broad; ranging from very small, rural non-governmental organisations to listed banks with branches in several countries. Many of them serve not only self-employed individuals, but also small and medium-sized enterprises.

### 3.6.1 Investment Opportunities

As an investor, it is not usual to invest directly with MFIs (microfinance institutions), but rather to appoint an intermediary*. This might be a co-operative or microfinance fund, for example. The intermediary forwards the funds transferred to locally active MFIs, that then award the actual microloans. The financiers tend to invest these sums of money in the form of loans, while private equity participation is also a possibility. Worldwide, there are several tens of thousands of MFIs; in general, Western intermediaries maintain business relationships with just a few hundred of the ones that meet Western standards in terms of their structure and the documentation of their business activities.

### 3.6.2 Exclusion Criteria

The selection of the intermediary – and indirectly, also that of the local microfinance institution – needs to be undertaken with great care. Microfinance institutions that grant loans for consumption purposes should be excluded.

## 3.7 Commodity Investments

From an ethically-sustainable perspective, commodities are a problematic investment. They are natural resources which are either consumed directly, or used as a base material for further processing stages in production. The extraction of raw materials always involves intervening in nature. In addition, chemical and physical methods are often used that are harmful to the environment. Furthermore, the working conditions and the impact on the surrounding communities of the site of extraction of the raw materials are repeatedly criticised.

### 3.7.1 Investment Opportunities

Commodity investments can be divided into three categories according to the type of acquisition: direct acquisition, acquisition via futures markets* and indirect acquisition via funds and certificates. In all three, there is hardly any inherent revenue; the desired added value is usually achieved by correctly assessing a price trend.

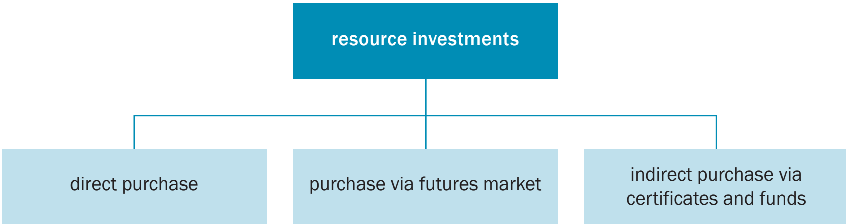


Fig. 5: Categories of Commodity Investments

The **direct** purchase of commodities: Since the delivery and storage of commodities involves a high degree of expenditure, the purchase of physical goods primarily concerns precious metals. One incentive for investing in precious metals is to protect against the devaluation of a currency.

Acquisition of commodities via **futures markets***: The relevant financial instruments belong to the group of derivatives that are based on an underlying asset*. Buyers and sellers of derivatives base their decisions on the presumed future development of this underlying asset, e. g. the spot price* of an individual commodity, or the commodities in a commodity index.

Indirect acquisition via **commodity certificates and funds**: Both commodity funds and certificates are also offered as exchange traded products known as ETF* (Exchange Traded Funds) or ETC (Exchange Traded Commodities). As purely passive investments, their aim is to replicate the performance of an underlying asset as closely as possible. If the underlying asset upon which a commodity certificate or fund is based, is a basket of different commodities, or an index, an analysis of the individual values contained should be carried out before the investment decision is made, to ensure that the financial product meets the investor's objectives.

### 3.7.2 Exclusion Criteria

It is often difficult to take ethically-sustainable aspects into account, since proof of the origin of the commodities is not generally provided.

From an ethically-sustainable perspective, if financial investors were to cause price distortions regarding foodstuffs, it would cause great harm and contribute to an aggravation of famines worldwide. Inflated prices make it more expensive for consumers to buy food; artificially lowered prices reduce profits, especially in the case of smallholder producers. In the academic debate, the effects of financial speculation with foodstuffs is controversial. As long as the concern that negative consequences might arise cannot be dispelled, financial investment in the food futures markets should be ruled out from an ethically-sustainable point of view.

The same applies to indirect financial products. As long as the concern that food prices might be influenced through trading with the relevant commodity certificates and funds cannot be ruled out, such indirect products cannot be considered for investment from an ethically-sustainable point of view.

### 3.7.3 Positive Criteria

Where available, fair trade practices can be adhered to, and e.g. “Fairtrade and Fairmined” gold can be purchased. In general, it is desirable for the processing industry to consider the suppliers’ certificates of origin, as well as working conditions, when procuring raw materials.

## 3.8 Agricultural Investments

Agricultural investments are investments in agriculture and forestry. With this form of investment, the investor profits from rising land prices, as well as from income from annual harvests or management (sale of timber). Consequently, the risks are high due to the possibility of a drop in the price of land or harvests, as well as that of crop failures caused by weather conditions (storms, hail, drought periods) or pest infestation.

In the churches, a high degree of expertise has existed for a long time, both through the leasing of agriculturally cultivated land and through the management of church-owned forest land. The holding period of such an investment is usually lengthy. If investors wish to invest in this area, it is advisable to consult further expertise.

### 3.8.1 Exclusion Criteria

From an ethically-sustainable perspective, such investments are questionable if they foster exploitation, monocultures, or deforestation; if they achieve high yields through the disproportionate use of fertilisers; or if they generate high profits in a short space of time through increases in the value of the land. Since many of these investments are undertaken in emerging or developing countries, there is, in addition to the general political risk, the danger that large, monopoly-type agricultural enterprises will form; ones that prevent the cultivation of agricultural land by family farms, or even make it entirely impossible for the local population to access it (land grabbing*). Such investments might also involve working conditions that violate the ILO core labour standards. In addition, large-scale irrigation systems can lead to problems with the drinking-water supply, or cause the groundwater level to drop. Investments are also problematic if the land is used to produce crops for energy instead of food, or even if it is repurposed.

### 3.8.2 Positive Criteria/Impact

On the other hand, an agricultural investment can make a positive contribution, for example, in stopping the clearing of forest areas, securing forest land through reasonable management, or creating infrastructure that is helpful and necessary for the general public (for example, a better drinking water supply, investment in irrigation systems, or enabling the participation of small farmers with the provision of agricultural technology).

### 3.8.3 Reporting

Various certifications can be used to prove that agricultural investments comply with ethically-sustainable standards. For example, the seal of the FSC (Forest Stewardship Council) has proved to be successful in the case of forest investments.

## 3.9 Hedge Funds/Absolute Return

An investment in hedge funds or absolute return products is often problematic from an ethically-sustainable perspective. Hedge funds try to achieve profits through flexible investment methods, as well as through the possibilities of leverage or short selling. In principle, hedge funds have considerable investment freedom. Due to the diversity of hedge fund strategies on the market, however, which range from extremely conservative to highly speculative, a universal statement about potential investment would not be suitable. The use of the term “absolute return” varies greatly. This is often understood to mean products that endeavour to generate a steady increase in value, in any market conditions. Unlike many other investment strategies, they are usually oriented towards absolute earning targets. Similar to hedge funds, absolute return products can utilise various instruments such as derivative transactions, short sales or hedging strategies. Therefore, from an ethically-sustainable perspective, an investment is often questionable due to the simultaneous use of undesirable derivatives strategies (see the chapter on derivatives). Therefore, before deciding on a financial investment, a specific examination of the individual strategy should be undertaken.

The following aspects should be assessed before an investment decision:

- transparency of the investment process and consideration of ethically-sustainable aspects
- traceability of investment decisions
- adequacy of the debt-to-equity ratio
- domicile and tax treatment of the hedge fund

## 3.10 Derivatives

Over the last 10 to 20 years, the deployment of derivative financial instruments has become increasingly important in the management of financial investments. This applies, in particular, to investors whose finances are managed by external managers (in asset management companies or in the form of special fund mandates*). Against the backdrop of the increased volatility* on the stock and bond markets in recent years, market participants use derivative financial instruments, amongst other things, as part of risk management and for allocation and hedging purposes. Through the use of such instruments, asset structures, as well as the associated market risks, can be adjusted quickly and cost-effectively to suit the respective market conditions. Derivative financial instruments have become very important for asset managers in terms of managing the market risks.

The trading of derivatives is a trade of rights and obligations that takes place separately from the trading of underlying assets. This means that not only does a buyer assume price risks, but also a counterparty risk*. This is particularly true in exchange-traded transactions; however, derivatives can also be used flexibly in liquid trading. Although derivatives are not direct investments (for example, in an asset), in an economic sense, they represent a contract, the value of which is derived from the fair value of a reference value, and should be assessed in relation to ethically-sustainable aspects when included in portfolio management.

### 3.10.1 Exclusion Criteria

To avoid exclusion, the sum of the existing investments plus the countervalue of purchased forward transactions* should not exceed the sum of the existing investments plus existing liquidity (investment limit of 100 percent).

In addition, uncovered short selling should not be undertaken. When concluding derivative transactions, the corresponding underlying asset, the underlying payment stream, or the corresponding liquidity – to the full settlement amount – should be available, at the latest, by the time of maturity.

Should the pricing of forward transactions not be transparent and plausible, they should be avoided, as should participation in seconds trading*.

### 3.10.2 Engagement

The underlying assets or indices on which the transactions are based should, as far as possible, correspond to the ethically-sustainable principles of the investor. (Engagement) dialogue should be held with the contract partners to encourage them to offer assets or indices that are more ethically-sustainable.

# 4. Climate Strategy for Ethically-Sustainable Financial Investment

With the implementation of the EU's Green Deal* advancing, in particular of the Taxonomy and Disclosure Regulations, climate strategies are becoming increasingly commonplace within the real and financial economy. Within the area of financial investments, the BaFin Guidance Notice on Dealing with Sustainability Risks has widely disseminated the approach relating to physical and transitory climate risks. Transition risks arise from changes in policy, technology and the market environment that facilitate a transition to a lower-carbon economic order.

A climate-sensitive investment strategy for church investors (in short: climate strategy) follows Christian values in an impact-oriented approach. In such a strategy, investments need to be made in a socially-responsible manner that is compliant with social standards, as well as ecological and intergenerational justice, taking into account our Christian values. Slowing down the climate crisis is, therefore, of particular importance, since all ethically-sustainable goals are equally affected: It is not only the respect and conservation of all non-human life that applies here, but also the responsibility towards the people who suffer the most through climate change, even though they contribute the least; so too is the responsibility towards future generations.

A climate strategy is ethically-sustainable if the overall portfolio of an investor is aligned with the Paris climate goal, i. e. limiting the increase in the average global temperature to well below 2 degrees Celsius compared to pre-industrial times. At the same time, a climate strategy also serves economic goals, since it reduces the risk of having to write off certain assets as having depreciated. or even having become worthless "stranded assets".

Similar to ethically-sustainable investments as a whole, preventive, promotive and shaping instruments can be used for the implementation of climate strategies. Climate-related key figures, indicators and benchmarks are important tools for analysis and management. After all, the climate strategies of church investors should not be considered separately from the churches' various climate protection undertakings or concepts, should they already exist within an organisation, or are being developed.

The EKD's climate protection guidelines also refer to this, stating that the climate impact of investments needs to be taken into account as a necessary component of an ethically-sustainable investment.

## 4.1 Preventing

Exclusion criteria are used to filter out any companies and countries from a specified investment universe, should they possess securities that are excluded from the investment.

With regards to the exclusion criteria of companies, the following decisions need to be made within any climate strategy:

1. Which fossil energy sources or raw materials are to be excluded?
2. Which sectors are affected?
3. Which business activities are affected?
4. Which threshold values should be applied?

In response to these questions, the following exclusion criteria are currently recommended as part of a climate strategy:

1. **Companies** that produce coal (those with more than 5 percent turnover in the relevant business sector) and/or account for more than 1 percent of global coal production.
2. **Companies** that produce unconventional oil and gas (with more than 5 percent turnover in one of the business areas mentioned).
3. **States** that have not ratified the Paris Agreement and/or are not complying with their resulting obligations.

## 4.2 Promoting

Promoting instruments within the framework of the climate strategy are investments that are geared towards the attainment of the Paris climate targets. Examples of liquid **thematic investments** are green bonds und equity funds that have a focus on renewable energies; examples of illiquid investments are those that finance infrastructure for the development of renewable energies, storage technologies or grids, and investments for energy efficiency measures or energy-efficient building renovations. In order to promote the global expansion of renewable energies, reliable regulatory frameworks are especially important.

On the other hand, **positive criteria** might prove to be helpful, as they can be used to identify and give preference to investment objects that have better climate characteristics than comparable investments. In this way, the investment can be aligned with climate goals. Within this context, positive criteria can be based on ratings that are derived from the carbon footprint and/or the $CO_2$ intensity.

Climate ratings are particularly helpful if they set absolute climate targets of companies and their implementation in a context that establishes a connection between the sector- or country-specific $CO_2$ budgets. Alternatively, the positive criteria might also stipulate that investments are largely to be made in companies with externally validated and scientifically based climate targets that are in line with the goals of the Paris Agreements ("well below 2 degrees Celsius"). Other related concepts are developed by the Science Based Target Initiative or the Transition Pathway Initiative, amongst other groups.

When aligning investments with specific topics and implementing positive criteria in an investment strategy, suitable **indices** should be selected as benchmarks. Consequently, the climate indices introduced as part of the EU Action Plan should also be used as a benchmark for investment strategies that are geared towards climate targets; doing so will enable a fair and transparent comparison. In order to select the appropriate climate indices for the respective level of ambition displayed in the climate targets of the investment strategy, a distinction can be made between EU Climate Transition Benchmarks (CTB), and EU Paris-Aligned Benchmarks (PAB). The goal of the CTB is a successive, but less ambitious decarbonisation of the economy, whereas the stricter PABs are geared towards the goals of the Paris Climate Agreement.

## 4.3 Shaping

As part of **engagement activities**, investors work with companies to reflect upon their climate risks and to identify potential for improvement. One way of measuring such improvements is through achieving better ratings, such as those collected by the investor initiative CDP (formerly Carbon Disclosure Project). As an individual investor, it is beneficial to participate in initiatives relating to ESG engagement (collaborative engagement). In addition, co-operation with other stakeholders can increase the effectiveness of investor engagement. There are several such **investor initiatives** that have a focus on the climate, for example the AKI, Working Group of Church Investors, in Germany and the CIG, Church Investors Group in UK or the Interfaith Center on Corporate Responsibility (ICCR) in the US . Initiatives such as the Climate Commitment of the German Financial Sector, the Net-Zero Asset Owner Alliance or Climate Action 100+, are exclusively concerned with the climate.

In addition, institutional investors can use **investor statements** such as the "Global Investor Statement to Governments on the Climate Crisis" to bring their views to the attention of politicians, and to jointly advocate for improved political framework conditions and measures in the fight against the climate crisis.

## 4.4 Reporting and Key Figures

On the whole, key figures such as the **CO2 footprint** and $CO_2$ intensity are used to measure companies' climate-relevant data. The Greenhouse Gas Protocol (GHG) divides the greenhouse gas emissions of companies into three different **levels or scopes**. Scope 1 comprises of all emissions generated in a company's own facilities; Scope 2 includes emissions associated with purchased energy (e. g. electricity, district heating); and Scope 3 encompasses all other emissions, e. g. those generated by inputs that are provided and purchased by third parties, including within the supply chain, as well as emissions resulting from the life cycles of products. While the data for Scope 1 and 2 can be collected and compared with relative reliability, the data for Scope 3 is based on many different conjectures, and this can significantly limit the quality and comparability of data.

For investors, it is the measure of **CO2 intensity** that is of particular importance. It sets the amount of greenhouse gases emitted in relation to a fixed reference value, e. g. the turnover or market capitalisation of a company, the gross social product, or the population of a state. One advantage of calculating $CO_2$-intensity is that ethically-sustainable portfolios can be compared with one another, or with conventional portfolios under certain conditions. The decisive advantage, however, is the possibility of assessing the development of one's own portfolio over time, regardless of its size. Once selected, it is important to maintain the settings, so as to be able to record and document improvements in the climate impact of one's own portfolio. The carbon footprint and $CO_2$ intensity indicate a status that applied on a particular reference date, or a particular piece of data corresponding to a time in the past. This information is increasingly based on the mandatory and the voluntary reporting of the companies relating to the EU Taxonomy*, the CSRD and the SFDR, as well as on the databases of CDP*, GRI* or UNPRI*. For ethically-sustainable investment decisions, historical data should be supplemented by future-oriented reporting, as recommended by the **TCFD (Task Force on Climate-related Financial Disclosures*)**.

When specifying **degree targets**, methods are used that place the expected emissions in relation to emission budgets. Generally on a sector-specific basis, scenarios are used to calculate the emissions that can be emitted on the path to climate neutrality without jeopardising the Paris climate target. Such scenarios are provided by the International Energy Agency and the Federal Environment Agency of Germany (Umweltbundesamt), amongst others. The reported company targets are then set in relation to the emissions that are "still permissible", in order to assess companies according to the climate path they are currently taking. By aggregating this data, the $CO_2$ intensity of entire portfolios can be determined.

Slowly, companies, asset managers and institutional investors are becoming increasingly willing to report on reliable interim targets, according to standardised key figures, thereby making it transparent as to which paths they wish to take in order to reach the climate goal of the Paris Climate Agreement.

## 4.5 Communication and Context

It is helpful to support a climate-sensitive investment policy with suitable **communication measures** – both within one's own organisation, as well as externally. The extreme complexity involved in determining the climate impacts of one's own investment strategy is a particular challenge; as is the fact that seemingly exact key figures often conceal assumptions and different calculation methods, making it difficult to compare them with the statements of other investors. Therefore, every communication strategy should primarily be aimed at clarifying one's own investment goals and explaining the degree to which the climate goals of one's own portfolio have been achieved.

Climate protection is a **cross-sectional task** that is not only given to church investors, but to Church and Diaconia as a whole. In church climate protection concepts, the categories of properties, mobility and procurement are analysed, and measures to reduce $CO_2$ emissions are designed. For example, Diaconia Germany aims to be climate neutral by 2035, and the Protesant Church in Germany, as well as its member churches, are also developing climate strategies that include annual milestones, with binding monitoring and adaptation mechanisms. The climate strategies of church investors should also be seen within the context of these efforts.

# 5. Proportionality and Assessment of Ethically-Sustainable Investment

The inclusion of ethically-sustainable aspects in financial investments, as well as the implementation of the possibilities described in detail in these guideline, are always associated with commitments in terms of staff and finances. For church investors, it is therefore important to set priorities and to find solutions for the implementation of ethically-sustainable investments that match the resources available. This is relevant when it comes to identifying the products and investment opportunities which would be suitable for the investment, and again, when it comes to realising the intensity and depth of detail that is involved in the implementation of ethically-sustainable aspects.

Time and time again, a conflict between the objectives described above, as well as the fact that the implementation processes are not always easy, leads to decisions about the extent of the implementation of sustainable aspects. Although striving for perfection is understandable, some pragmatism might also be necessary. At times, solutions that are faster but less perfect are the better options.

It has previously been proven, in many instances, that the consideration of ethically-sustainable aspects in financial investments does not have any disadvantages in terms of returns, but, on the contrary, offers opportunities for additional returns, as well as reducing risks. Therefore, doing nothing is not an option. Even within the domain of the financial markets, which, for a long time, were dominated exclusively by economic goals, church investors are testifying to the credibility of, and consensus with, the Conciliar process for Justice, Peace and the Integrity of Creation, as they take Christian values into account and consistently orient their investments towards ethically-sustainable criteria.

# Appendix

| Checklist for the Guideline for Ethically-Sustainable Investment within the Protestant Church | | | | |
|---|---|---|---|---|
| Criteria and indicators for ethically-sustainable investment | requirements of the investor | | binding statement of the bank/the asset manager/ the financial services provider | |
| | own preferences (e. g. turnover thresholds) | not applicable | will comply and explain further | will not or not fully comply, and therefore explain |
| 1. Liquidity – criteria for the assessment of the bank in which the liquidity is invested | | | | |
| 1.1 **Quality of the Reporting on Sustainability**<br>Has the sustainability report been certified? How long have there been such reports? How conclusive is the report? | | | | |
| 1.2 **Share of Lending Volume following ESG Criteria**<br>Which proportion of the lending volume is allocated according to ESG criteria? Which proportion of assets under management is conducted in line with ESG criteria? | | | | |
| 1.3 **Self-Commitments and Policies**<br>Are certain business transactions excluded for ESG reasons? Are there examples of business transactions that were not undertaken for these reasons? | | | | |
| 1.4 **Selbstverpflichtungen und Policies**<br>Which self-commitments has the company entered into? Which principles and statements has it signed (UN Principles for Responsible Investment, Net-Zero Banking Alliance etc.)? | | | | |
| 1.5 **Information on Tax Avoidance Strategies**<br>Is there information on the company's tax avoidance strategies? In the case of internationally active companies, is there an overview of the regional distribution of taxes paid – in particular with regard to offshore financial centres? | | | | |
| 1.6 **Do social and ecological sustainability criteria (ESG criteria) inform the incentive systems and remuneration principles?**<br>ESG-KPIs (Key Performance Indicators) in remuneration (of executives, in particular) | | | | |

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| 2. Government Bonds and Green/Social Bonds – Positive Criteria and Indicators | | | | |
| 2.1 **Freedom House**<br>Compares and evaluates states according to the degree of democracy and freedom, including in areas such as freedom of religion and of the press | | | | |
| 2.2 **Corruption Perceptions Index**<br>by Transparency International – compares and evaluates states according to the degree to which corruption is recognised among public officials and politicians | | | | |
| 2.3 **Human Development Index**<br>of the United Nations Development Programme – compares and evaluates states according to the degree of human development in areas such as life expectancy at birth, educational attainment and per capita income | | | | |
| 2.4 **Gini Coefficient**<br>Measures the degree of inequality in a state | | | | |
| 2.5 **Shared Prosperity Index**<br>of the World Bank – measures and compares the income growth of the bottom 40 percent of a country | | | | |
| 2.6 **Degree of Democracy and Freedom in a State,**<br>in particular in areas such as freedom of religion and of the press | | | | |
| 2.7 **Climate Protection Performance**<br>Evaluated according to the Nationally Determined Contributions (NDCs) of the Paris Climate Agreement | | | | |
| 2.8 **World Development Indicator Deforestation and Biodiversity**<br>of the World Bank – compares and rates states in relation to deforestation and biodiversity | | | | |
| 2.9 **Protecting Health from Environmental Damage and Protecting Ecosystems** | | | | |

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| 2. Staatsanleihen und Green/Social Bonds – Positivkriterien und Indikatoren | | | | |
| 2.10 **Implementation of Educational Objectives**<br>As determined by the literacy and numeracy performance of primary school leavers | | | | |
| 2.11 **Global Peace Index**<br>Preventive measures against violence in countries and the weight and importance of a country's military apparatus in relation to society as a whole. The Global Peace Index of the Institute for Economics and Peace – compares and assesses the absence of violence in countries and provides respective information | | | | |
| 3. Government Bonds and Green/Social Bonds – Exclusion Criteria | | | | |
| 3.1 **Low Peace Status**<br>States whose peace status is classified as "very low" according to the Global Peace Index (GPI) of the Institute for Economics and Peace | | | | |
| 3.2 **Death Penalty**<br>States that practise the death penalty | | | | |
| 3.3 **Not Free**<br>States classified as "not free" (in the sense of "Freedom in the World" by "Freedom House" | | | | |
| 3.4 **Particularly Corrupt**<br>States that are perceived as particularly corrupt (in the sense of the Corruption Perceptions Index (CPI) of Transparency International, with a rating of <40) | | | | |
| 3.5 **Money Laundering and Tax Evasion**<br>States with deficiencies in combating money laundering, tax evasion, the financing of terrorism and of weapons of mass destruction. A list of the relevant high-risk states is published regularly by the BaFin | | | | |
| 3.6 **Non-Compliance with the Paris Agreement**<br>States that have not ratified the Paris Agreement and/or do not comply with their resulting obligations (NDCs) | | | | |

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| 4. Shares and Corporate Bonds – Positive Criteria and Indicators | | | | |
| 4.1 **Equitable Participation of those who are Disadvantaged**<br>Companies that provide products and services for disadvantaged groups of people, thus promoting their equitable social, economic and political participation | | | | |
| 4.2 **Responsibility for the Supply Chain**<br>Companies which share responsibility for working conditions within supplier businesses worldwide, as defined by the ten ILO core labour standards, and/or those that have established anti-discrimination programmes | | | | |
| 4.3 **Equitable Participation of Women**<br>Companies which ensure the full and effective participation of women; measured, for example, by the gender pay gap and board gender diversity (Disclosure Regulation) | | | | |
| 4.4 **Quality of Employment**<br>Companies which create formal workplaces and/or promote training for all employees | | | | |
| 4.5 **Living Wage**<br>Companies which have laid down guidelines on the right of collective bargaining and freedom of association and on working hours and/or a living wage | | | | |
| 4.6 **Climate Targets**<br>Companies which have committed to climate targets that are aligned with the scientific consensus and the Paris climate targets, using the Science Based Target Initiative or the Transition Pathway Initiative as the basis for determining compatibility with the Paris climate targets | | | | |
| 4.7 **Reducing Consumption and Emissions**<br>Companies that make demonstrable progress in reducing the consumption of raw material, water and energy, and/or pollutants and waste emissions, as well as the use of raw and auxiliary materials | | | | |

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| 4. Shares and Corporate Bonds – Positive Criteria and Indicators | | | | |
| 4.8 **Use of Renewable Energy**<br>Companies that further develop and promote the use of renewable energy sources | | | | |
| 4.9 **Environmental Policies**<br>Companies that have laid down ambitious environmental guidelines and implemented them through a corresponding management system within the company | | | | |
| 4.10 **Sustainable Tourism**<br>Companies which contribute to sustainable tourism that creates jobs and/or promotes local culture and local products | | | | |
| 4.11 **Compatibility of Career and Family**<br>Companies that facilitate improved compatibility of career and family and/or offer provision for old age | | | | |
| 4.12 **Joint Development of Infrastructure**<br>Companies that actively promote measures to develop the infrastructure in all regions, such as the construction of social housing, schools, health care facilities and/or the construction of water and electricity networks, as well as digital infrastructure | | | | |
| 4.13 **Circular Economy**<br>Companies that implement circular economy approaches and/or provide technological solutions to this end, e. g. through the use of sustainably sourced raw materials, the biodegradability of ingredients etc. | | | | |
| 4.14 **Medical Care for the Disadvantaged**<br>Companies which ensure affordable medical care within a society and/or engage in research for diseases that are barely recognised today, and which particularly affect developing countries | | | | |

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| 4. Shares and Corporate Bonds – Positive Criteria and Indicators | | | | |
| 4.15 **Paris-Compliance (“well-below-2-degrees-Celsius” target)**<br>Companies which minimise the impact on climate change within their operations | | | | |
| 4.16 **No Tax Evasion in Developing Countries**<br>Companies that, through their own practices, support developing countries to improve their national capacity to collect taxes and other levies | | | | |
| 5. Shares and Corporate Bonds – Negative Criteria and Indicators | | | | |
| 5.1 **Energy Production and Supply using Conventional Fossil Fuels** | | | | |
| 5.2 **Poorer Climate Characteristics in Cross-Sectoral Comparison**<br>(Carbon footprint and/or CO2 intensity) | | | | |
| 5.3 **Climate Neutrality**<br>Companies that do not have scenario-based plans for climate neutrality and/or that plan to achieve climate neutrality mainly through offsetting | | | | |
| 5.4 **Biodiversity**<br>Companies that have not implemented a policy to protect biodiversity in their value and supply chains | | | | |
| 5.5 **Resource Efficiency**<br>Companies that are underperforming in terms of resource efficiency, when compared to the rest of the sector | | | | |
| 5.6 **Steel and Cement Production**<br>Companies that consume a particularly high amount of conventional energy in steel and cement production and/or produce an above-average amount of greenhouse gas emissions | | | | |

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| 6. Shares and Corporate Bonds – Exclusion Criteria and Indicators | | | | |
| 6.1 **Armaments**<br>Companies that are involved in the development or production of armaments (as defined in the annex to the War Weapons Control Act) to the extent that it exceeds 5 percent | | | | |
| 6.2 **Banned Weapons**<br>Companies involved in the development or production of banned weapons and nuclear weapons (0 percent of their turnover) | | | | |
| 6.3 **Liquor**<br>Companies producing beverages with an alcohol content of 20 or more percent alcohol by volume (spirits) to the extent that it exceeds 5 percent of their turnover | | | | |
| 6.4 **Tobacco Products and Cannabis Products**<br>Companies that manufacture tobacco products and cannabis products to the extent that it exceeds 5 percent of their turnover | | | | |
| 6.5 **Gambling**<br>Companies that engage in controversial forms of gambling to the extent that it exceeds 5 percent | | | | |
| 6.6 **Degrading Portrayal of People**<br>Companies which manufacture products that violate human dignity through denigrating and degrading portrayals of persons, to the extent that it exceeds 5 percent of their turnover | | | | |
| 6.7 **Genetically Modified Seeds**<br>Companies that produce genetically modified seeds to the extent that it exceeds 5 percent) | | | | |
| 6.8 **Nuclear Energy**<br>Companies that produce nuclear energy to the extent that it exceeds 5 percent | | | | |
| 6.9 **Coal Mining**<br>Companies that produce coal to the extent that it exceeds 5 percent of their turnover and/or have a share of more than 1 percent in global coal production | | | | |

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| 6. Shares and Corporate Bonds – Exclusion Criteria and Indicators | | | | |
| 6.10 **Unconventional Oil and Gas Production**<br>Companies that extract oil from oil sands and oil shale and/or hold significant reserves of these commodities, such that they exceed 5 percent of their turnover | | | | |
| 6.11 **Systematic Violation of Human Rights**<br>Companies that themselves, or their suppliers, systematically violate human rights (as defined by the UN Guiding Principles on Business and Human Rights), to the extent that it exceeds 5 percent | | | | |
| 6.12 **Global Standards**<br>Companies that systematically violate global standards, the principles in the Global Compact or the OECD Guidelines for Multinational Enterprises to the extent that it exceeds 5 percent | | | | |
| 7. ESG Engagement by Investors, Funds and Asset Managers – Positive Criteria | | | | |
| 7.1 **Policy and Reporting**<br>Transparency regarding the fund's own engagement policy, as well as regular reporting on engagement activities | | | | |
| 7.2 **Corporate Dialogue**<br>Engagement: the active exertion of influence on companies by investors since they are responsible for the use of their invested capital, e. g. as shares or bonds. Suitable ways of so doing include: dialogue with companies and exercising voting rights, as well as active participation in committees (advisory boards etc.). The focus of many engagement processes, so far, has been on meeting corporate governance* criteria. Above and beyond this, the engagement of church investors is also oriented towards social and ecological compatibility, as well as intergenerational justice. ESG commitment serves to improve and maintain the value creation of the company in the long term and supports it in fulfilling its social responsibility. In general, listed companies have such a high level of capitalisation that individual church investors on their own can only bring their interests to bear in a very limited way. Therefore, it is helpful to co-ordinate and pool the engagement. | | | | |

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| 7. ESG Engagement by Investors, Funds and Asset Managers – Positive Criteria | | | | |
| 7.3 **Exercise of Voting Rights**<br>It is only with the acquisition of voting shares in a company (e. g. shares or co-operative shares) that the investor gains the right to vote on company matters. This right is given additional weight through company dialogue that is conducted in advance. If only the voting right is exercised, the company might not understand why a proposal is not approved at the general meeting, and which changes are therefore needed. Thus, it is advantageous if, in addition to the actual exercise of voting rights, the respective company receives an explanation as to why, and towards which goal, the voting right is exercised. Voting rights can be exercised on existing motions to obtain information, as well as to submit new motions of one's own (new agenda items) | | | | |
| 8. Microfinance (Indirect or Direct Investment) – Negative Criterion | | | | |
| 8.1 **No Commercial Microcredit for Consumption Purposes**<br>The selection of the intermediary – and thus indirectly, also the local microfinance institution – must be done with great care. Microfinance institutions that grant loans for consumption purposes are excluded | | | | |
| 9. Real Estate (Indirect or Direct Investment) – Exclusion Criterion | | | | |
| 9.1 **Tenants**<br>Tenant groups affected by the exclusion criteria for companies include those that have dealings with the production of armaments, spirits, tobacco products, as well as those that operate gambling halls, etc. | | | | |

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| | own preferences (e. g. turnover thresholds) | not applicable | will comply and explain further | will not or not fully comply, and therefore explain |
| 10. Real Estate (Indirect or Direct Investment) – Positive Criteria | | | | |
| 10.1 **Refurbishment before Demolition and New Construction**<br>In principle, refurbishment is preferable to demolition and new construction | | | | |
| 10.2 **New Construction and Refurbishment**<br>Eligible types of use are f. ex. affordable housing, social infrastructure, use of recyclable building materials, facilities for e-mobility, respect for biodiversity, requirements for inclusion, efficient use of resources, orientation towards long-term low resource consumption, sustainability certification, financing through financiers who are guided by sustainability, commissioning of regional partners, ensuring fair payment, consideration of tenants' income when allocating refurbishment costs, accessibility and integration into the residential environment | | | | |
| 10.3 **Use**<br>Measuring and reducing the use of resources, increasing the recycling rate, modernisation of lights and heating, intelligent control of building technology, regular maintenance, ease of cleaning, sustainable tenant structure (social and charity organisations, training companies), socially responsible lease management, green lease tenancy agreements, promotion of sustainable mobility, commissioning sustainable service providers, creation of social spaces and facilities | | | | |
| 11. Investments in Land and/or Agriculture (Indirect or Direct Investment) – Exclusion Criterion | | | | |
| 11.1 **Land Grabbing, Violation of ILO Core Labour Standards and Causing Environmental Problems**<br>There is a risk of the formation of large, monopolistic agricultural enterprises that prevent the cultivation of agricultural land by family farms or even completely remove it from the access of the local population (land grabbing)<br>Uses associated with violations of ILO core labour standards and environmental problems are excluded | | | | |

| Criteria and indicators for ethically-sustainable investment | requirements of the investor | | binding statement of the bank/the asset manager/ the financial services provider | |
|---|---|---|---|---|
| | own preferences (e. g. turnover thresholds) | not applicable | will comply and explain further | will not or not fully comply, and therefore explain |
| 12. Investments in Land and/or Agriculture (Indirect or Direct Investment) – Positive Criterion | | | | |
| 12.1 **Securing of Forests and Creation of Infrastructure**<br>examples: stopping deforestation and investing in irrigation systems | | | | |
| 13. Infrastructure (Indirect or Direct Investment) – Positive Criterion | | | | |
| 13.1 **Contribution to the Fulfilment of the SDGs***<br>An active involvement in infrastructure projects such as schools, hospitals, public transport and renewable energy supply, which might be beneficial from an ethical-ly-sustainable perspective, requires a high degree of expertise, since both sustainability analyses and risk assessments are different from those in liquid asset classes | | | | |
| 14. Commodities (Indirect or Direct Investment) – Exclusion Criterion | | | | |
| 14.1 **No Derivatives on Food**<br>As long as the concern that food prices might be influenced through trade with the relevant commodity certificates and funds cannot be ruled out, such cannot be considered for investment from an ethically-sustainable point of view | | | | |
| 15. Commodities (Indirect or Direct Investment) – Positive Criterion | | | | |
| 15.1 **For Direct Purchase of Gold: Fairtrade and Fairmined**<br>If available, fairtrade procedures can be followed and e. g. “fairtrade and fairmined” gold purchased. In general, it is desirable that the processing industry considers the suppliers’ certificates of origin, as well as working conditions when purchasing raw materials | | | | |

| Criteria and indicators for ethically-sustainable investment | requirements of the investor | | binding statement of the bank/the asset manager/ the financial services provider | |
|---|---|---|---|---|
| | own preferences (e. g. turnover thresholds) | not applicable | will comply and explain further | will not or not fully comply, and therefore explain |
| 16. Derivatives – Exclusion Criteria | | | | |
| 16.1 **Investment Limit of 100 %**<br>The sum of existing investments plus the countervalue of any forward transactions that have been purchased shall not exceed the sum of the existing investments plus the existing liquidity (investment limit of 100 percent) | | | | |
| 16.2 **No Uncovered Short Selling**<br>When concluding derivative transactions, the relevant underlying asset, the underlying payment stream or the corresponding liquidity to the full settlement amount, shall be available at the time of maturity, at the latest | | | | |
| 16.3 **No Seconds Trading**<br>Should the pricing of forward transactions not be transparent and plausible, they should be avoided; as should participation in seconds trading | | | | |
| 17. Hedge Funds/Absolute Return – Positive Criterion | | | | |
| 17.1 **Consideration of ethically-sustainable (ESG)-aspects**<br>These include: transparency of the investment process, traceability of investment decisions, adequacy of the ratio of debt to equity, domicile and tax treatment of the hedge funds | | | | |

| Criteria and indicators for ethically-sustainable investment | requirements of the investor | | binding statement of the bank/the asset manager/ the financial services provider | |
|---|---|---|---|---|
| | own preferences (e. g. turnover thresholds) | not applicable | will comply and explain further | will not or not fully comply, and therefore explain |
| Sustainability Preferences according to the MiFID Target Market | | | | |
| Principal Adverse Impact Indicators (PAI; Art. 4 Disclosure Regulation) | | | | |
| Avoiding significant negative impacts on sustainability with a focus on | | | | |
| – greenhouse gas emissions | | | | |
| – biodiversity | | | | |
| – violations of human and labour rights | | | | |
| – water pollution | | | | |
| – waste | | | | |
| – or no specification of individual aspects | | | | |
| Sustainable Investments (as defined in Art. 2 para. 17 Disclosure Regulation) | | | | |
| Achievement of an environmental or social objective<br>For example, through alignment with the SDGs | | | | |
| Ecologically Sustainable Investments (Art. 1 Taxonomy Regulation) | | | | |
| Assessment of the “degree” of ecological sustainability | | | | |

* SDGs – the 17 Sustainable Development Goals (SDGs) are political objectives of the United Nations (UN), that are intended to ensure sustainable development at an economic, social and ecological level worldwide

## Glossary

**Allocation** – the allocation of scarce goods for different uses. In asset investment, this means the allocation of assets to different asset classes.

**BaFin** – the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin) combines the supervision of banks and financial service providers, insurers and securities trading under one roof. It is an independent institution under public law and is subject to the legal and technical supervision of the Federal Ministry of Finance.

**BREEAM** – the Building Research Establishment Environmental Assessment Method is a certification method for buildings and covers a wide range of aspects surrounding the environment and sustainability. It was developed in Great Britain in 1990 and comprehensively revised in 2008.

**Brundtland Report** – in 1987, the Report of the World Commission on Environment and Development was published. The former Norwegian Prime Minister, Gro Harlem Brundtland, was Chair of this Commission.

**CDP** – formerly Cabon Disclosure Project; an investor initiative that aims to publish environmental data such as greenhouse gas emissions and water consumption. Once a year, the CDP uses standardised questionnaires to collect data and information from companies on a voluntary basis, assessing $CO_2$-emissions, climate risks, targets and strategies for the reduction of harmful effects on the environment.

**(Corporate) Governance** – responsible corporate management and control.

**Counterparty risk** – non-payment risk of the contracting party, especially the issuer.

**CRIC e. V.** – CRIC is an association for the promotion of ethics and sustainability in investment.

**Derivative** – financial instruments, the price or rate of which is derived from the (price) development of the underlying asset on which they are based.

**DGNB** – (Deutsches Gütesiegel für Nachhaltiges Bauen) a certification system that is used to describe and evaluate the sustainability of buildings and neighbourhoods. The quality is assessed, in a comprehensive sense, over the entire life cycle of the building.

**EMAS** – (Eco Management and Audit Scheme), a voluntary instrument of the European Union that supports companies and organisations of all sizes and sectors to continuously improve their environmental performance. **EMASplus** is a sustainability management system based on EMAS and extended to include the social and economic perspective, which also involves the compilation of a standardised sustainability report.

**Emittent** – an issuer of securities.

**EU-Taxonomy** – the EU taxonomy is a classification system for defining sustainable economic activities. These are specified by the “substantial contributions” made by an activity, as well as the criteria according to which “no significant harm” is done. Sustainability is to be seen as a benchmark for companies and investors alike. Investors can use the science-based criteria and precise metrics of the guidelines to identify the share of the company turnover, and/or the investments that are sustainable. In this way, a greater amount of money is to be channelled into sustainable companies and technologies, while, at the same time, supporting the European Union’s Green Deal*.

**ESG** – **Environmental Social Governance**

**ETF** – an Exchange Traded Fund is an investment fund that is traded on the stock exchange. ETFs are usually passively managed and, by this means, track an index.

**FNG** – Since 2001, the FNG has been the professional association for sustainable investments (Fachverband für Nachhaltige Geldanlagen) within the German-speaking world.

**Forward transaction** – a purchase or sale in which the settlement is arranged for a predetermined date in the future; if delivery or settlement are undertaken immediately, this is referred to as a spot transaction.

**Greenhouse Gas (GHG) Protocol** – an instrument for reporting greenhouse gas emissions that is globally applicable.

**GRESB** – the Global Real Estate Sustainability Benchmark is a rating system for measuring the sustainability performance of real estate companies and real estate funds. The performance potential of individual properties is not assessed, as is the case with LEED* or BREEAM*, but rather it is funds and companies that are evaluated. The assessment involves querying the sustainability performance of the individual properties and then aggregating them at portfolio level.

**GRI** - the Global Reporting Initiative (GRI) is a provider of guidelines for the preparation of sustainability reports by large companies, as well as small and medium-sized enterprises (SMEs).

**Genome analysis** – a method of determining the genetic make-up of an individual, in which the genetic material is tested for a potential predisposition which might cause illnesses, or other susceptibilities.

**Global Compact** –the United Nations Global Compact (UNGC) is the world’s largest initiative for responsible corporate governance. Based on ten universal principles and the Sustainable Development Goals*, it pursues the vision of an inclusive and sustainable global economy for the benefit of all people, communities and markets of today, as well as in the future. The four key subject areas are: human rights, labour standards, the environment and prevention of corruption. The initiative does not see itself as a certifiable standard or a regulatory instrument, but as an open forum to initiate processes of change and to share ideas. Member companies need to regularly publish a progress report.

**Green Deal** – the European Green Deal (December 2019) is a package of policy initiatives designed to set the EU on the path to a **green transition**, to ultimately achieve its goal of becoming climate neutral by 2050.

**ILO** – the International Labour Organisation (ILO) is a specialised agency of the United Nations, founded in 1919. It has a tripartite structure that is unique in the UN system: The 187 member states are represented in the ILO's bodies by governments, employees and employers. Its work focusses on the formulation and implementation of international labour and social standards, in particular the core labour standards, the social and fair shaping of globalisation, and the creation of decent work as a key prerequisite for the fight against poverty.

**Inclusion** – inclusion or involvement of people with the aim of their participation.

**Infungibility** – inalienability; the opposite is fungibility/exchangeability.

**Intermediary** – a mediator between different actors.

**Land grabbing** – land appropriation; the large-scale purchase or lease of agricultural land by the state or private investors in economically weak countries abroad. The aim is to achieve food security in the countries that are *investing*, since they mean to secure their *own* supply. A further aim is to secure water rights. The respective agricultural land can thus no longer be used by the local population – with the consequence that the livelihoods of small farmers are destroyed. There is a risk of rising local food prices, a worsened food situation with the increased need for food imports, as well as damage to the environment and biodiversity.

**LEED** – Leadership in Energy and Environment Design is a U.S. American system of the U.S. Green Building Council for the classification of sustainable buildings. It was developed in 1998 on the basis of the BREEAM system and evaluates buildings by awarding points for individual criteria.

**Leuenberg Agreement** – the founding document of the Communion of Protestant Churches in Europe. In 1973, in Leuenberg near Basel, member churches committed themselves to mutual altar and pulpit fellowship.

**Liquidity** – "solvency"; in the magic triangle: a measure of how quickly an invested amount can be exchanged back into cash/bank deposits. In derivative transactions it is the holding of cash/bank deposits.

**Marker-assisted selection** – analysis of genetic material with the aim of finding and reproducing living organisms with the desired genetic traits.

**Mutual/special funds** – **mutual funds** are investment funds that are, in principle, open to all investors. Shares in **special funds** are issued and managed by one or more investors according to their specifications.

**Net-Zero Banking Alliance** – the participating financial institutions are committed to the theme of 'sustainable finance' and have pledged to adapt their portfolios to implement the goals of climate neutrality and the Paris climate goals. In addition, there is a Net-Zero Asset Owner Alliance, a Net-Zero Asset Manager Alliance and a Net-Zero Insurance Alliance.

**NGO** – (**Non-Governmental Organisation)** - private, independent, not-for-profit organisation of civil society.

**OECD Guidelines for Multinational Enterprises** – the OECD (Organisation for Economic Co-operation and Development) has produced its Guidelines for Multinational Enterprises, which are recommendations made by governments to multinational enterprises that are operating in or from participating countries. They contain principles that are not legally binding and benchmarks for responsible business conduct within a global context, in accordance with the prevailing law and internationally recognised standards. Violations can be brought before the OECD's National Contact Points, and resolved.

**Open/closed funds** – **open funds** are investment funds that enable many capital investors to participate in larger investments, even with relatively small amounts of capital. The issued share certificates can, in principle, be traded at any time. **Closed-end funds** offer investors the opportunity to participate in certain projects, but are often limited in the number of investors and the tradability of the shares.

**Offshore financial centre** – a financial centre outside the usual legal norms, characterised by low taxation, a high degree of confidentiality/intransparency and a low level of banking supervision and regulation.

**Offshore wind farm** – a clustering of wind turbines outside coastal waters on the open sea.

**Private equity** – equity capital in which the investment made by the equity investor is not traded on stock exchanges such as shares. If the capital is made available to young, innovative companies, or if there is a high risk (with correspondingly high growth opportunities), this is also referred to as venture capital.

**Research** – the English term for financial analysis. Companies and capital investments are examined by specialised corporations or individuals for certain aspects, the results of which form the basis for an investment decision.

**Seconds trading** – off-market trading of securities carried out automatically and exclusively by computers.

**Small Catechism** – Protestant confessional document published by Martin Luther in 1529 as a learning aid for church instruction, containing the core tenets of the Christian faith.

**Spot price** – the price currently paid for immediate delivery.

**Südwind e. V**. – association for the promotion of international justice in the sense of international understanding.

**Sustainable Development Goals (SDGs)** – Agenda 2030 was adopted by all UN member states in 2015 and applies to all countries in the world: developing countries, emerging economies and industrialised nations. At its core is a catalogue of 17 Sustainable Development Goals (SDGs), which, for the first time, take equal account of all three dimensions of sustainability: social affairs, the environment and the economy.

**TCFD** – the Task Force on Climate-related Financial Disclosures was launched by the Financial Stability Board (FSB) of the G20 in 2015. The aim was to develop recommendations for consistent and comparable climate-related corporate reporting. In 2017, the corresponding guidance was published.

**Underlyings** – securities, reference values (interest rates, indices etc.) or traded items (commodities etc.), the (price) developments of which determine the prices of derivatives.

**UNPRI** – the **UN Principles for Responsible Investment** (**UN PRI**) are an investor initiative founded in 2006, in partnership with the Finance Initiative of the UN Environment Programme (UNEP) and the UN Global Compact*. The investor network has established six principles for responsible investment. The aim is to understand the impact of sustainability on an investor, and to support signatories in integrating these issues into their investment decision-making processes.

**War Weapons Control Act** – implementation act following Article 26 of the Basic Law (Grundgesetz) in Germany. It regulates the manufacture, transfer, marketing, acquisition and transport of military weapons.

## The Working Group of Church Investors (AKI)

The Working Group of Church Investors (Arbeitskreis Kirchlicher Investoren; AKI) (www.aki-ekd.de) is a dependent institution of the Protestant Church in Germany (EKD), to which the major institutional investors within the Protestant churches belong. Since 2008, those responsible for finance within the regional churches, pension and supplementary pension funds, church banks, diaconal enterprises and foundations, have been working to ensure that church action with regard to financial investments is not in contradiction, but in harmony with God's commandments and the respective commission. To this end, the AKI has developed the Guidelines for ethically-sustainable investment, which was first published in 2011. The AKI is also the collective author of subsequent editions.

Members of the AKI are institutional investors within the Protestant churches and the Diaconia in Germany that share and wish to support the work of the AKI. Partners of the AKI are coming from the circle of the Working Group of Christian Churches (ACK), and as well from Christian Churches and ethical investment associations with Christian background from abroad. As a joint initiative of church investors (which also includes institutional investors from Diaconia), the AKI thereby does not replace the actions of its members and partners, but supports and complements them.

1. The AKI promotes the exchange of knowledge on ethically-sustainable investments:
   1.1 between church investors within and outside the area of the Protestant churches and diaconal organisations in Germany – the main instrument for this is the exchange of relevant information,
   1.2 between church investors
      - and the churches' experts on ethics and sustainability
      - and service providers for sustainability and financial services
      - and other relevant experts.
2. The AKI will further develop and publish the Guideline for ethically-sustainable investment within the Protestant Church.
3. The AKI provides the framework, as well as the organisational and conceptual support for corporate dialogues of church investors.
4. The AKI promotes the formation of opinion among, and pools the interests of, its members. These opinion-forming processes prepare the AKI to speak out in the public sphere.

Contact: info@aki-ekd.de

## Index of Illustrations and Tables

Investing money safely and economically without violating ethical standards – how could that work? In an increasingly opaque financial system, there is a great need for guidance among investors. The "Guideline for Ethically-Sustainable Investment in the German Protestant Church" offers tested and tried help. It was authored by the Working Group of Church Investors (Arbeitskreis Kirchlicher Investoren, AKI), to which the major institutional investors within the Protestant Church and Diaconia in Germany belong. Church investors consider it their responsibility to invest their money in ways that are not only economical, but also in ways that follow Christian values, thus in a manner that is compatible with social standards, as well as with ecological and intergenerational justice. This fifth edition has been revised completely, in terms of content and structure. The appendix contains a clear checklist of all the criteria and indicators for the asset classes that are covered within the text.