Guideline for Ethically-Sustainable Investment in the German Protestant Church

4th updated edition
Guideline
for Ethically-Sustainable Investment
within the German Protestant Church

4th updated edition
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Foreword

People entrust their money to the Church to facilitate the work it carries out. The Protestant Church thus considers its management of church funds as a responsibility before God and all people. This applies to all financial transactions of the Church and in particular to financial investments. Investments belong to the investor who is thus responsible for what happens to this money. This is not a recent phenomenon: traditionally the Church has addressed the consequences and impact of its financial investments. When making financial investments, church regulations take security and economic efficiency into consideration above all else, the more so since these investments serve predominantly to honor payment obligations. This economic principle is always valid. At the same time, it is stipulated that financial investments must not contradict the Church’s mission. Characteristic for the Protestant Church is that in this respect broad and sometimes even diverging notions exist.

Commissioned by the Council of the Evangelical Church in Germany (EKD), the Church Investors Working Group (AKI) in the German Protestant Church has developed this guideline, which is now issued in a fourth and updated edition. In this new edition, chapters on climate strategies and Green Bonds/Social Bonds have been added as well as references to the Sustainable Development Goals (SDGs) in several instances. The texts on real estate investments, exclusion criteria and positive criteria for companies as well as the glossary have been revised. The previous index of authors at the end of the guideline has been replaced by information on the AKI which celebrated its tenth anniversary in 2018.

The guideline continues to serve as a compendium of standards. First and foremost, it addresses church and institutional investors, but it is also designed to help private users as well. It can help individuals to adapt their actions specifically to their own goals. The guideline is not a statute but rather a tool from which it may be necessary to deviate: the references given may be too restrictive for some and too broad for others. They are also subject to constant revision, reflecting changes over time in the practices of people and companies.
Thus, the Working Group will maintain and continually update this guideline in the future. For references please consult our website anytime: www.aki-ekd.de. Suggestions are welcome and can help in sustaining the knowledge cycle for ethically-sustainable investments.

Heinz Thomas Striegler
Chair of the Working Group
Church Investments
Expectations for Church investment – where do we stand?

»And whatever you do in word or deed, do all in the name of the Lord Jesus, giving thanks to God the Father through Him.«
Colossians 3:17

Martin Luther reminds us in his Small Catechism* to love and trust in God and to do good according to his Commandments. In his explanation of the Seventh Commandment, Luther elaborates: »We should fear and love God that we may not take our neighbor’s money or property, nor get them by false ware or dealing, but help him to improve and protect his property and business [that his means are preserved and his condition is improved].«

In the Leuenberg Agreement* (II.1.d) it specifically says: »They [the Christians] stand up for justice and peace on earth between individuals and nations. In consequence, they must join with other people in seeking appropriate reasonable criteria and play their part in applying these criteria.«

In line with this agreement, church activities in the field of investments should be in accordance with God’s Commandments and the Church’s Mission, and not contradict them. The Church’s mission consists in the proclamation of the gospel, in socially responsible action (in terms of service), and in the commitment to peace, justice, and assuming responsibility for the integrity of creation in this world. Being a Protestant Christian also includes the freedom of conscious choice in view of one’s own responsibility before God and humanity.

Words marked with an asterisk are explained in the glossary in the appendix.
1. What does ethically-sustainable investment mean?

The responsible handling of funds lies in economically sound investing while adhering to the so-called »Magic Triangle«. The »Magic Triangle« has three criteria: security, profitability, and liquidity. Since the impact an investment may have on others must also be considered, the criterion of ethics/sustainability is also included.

The following therefore applies:

■ Investments must be made according to economic principles.
■ It is vital to address how investments will impact the environment, the social world, and posterity.
■ In consideration of our Christian values, investments should also be made in a socially compatible manner, ecologically, and with intergenerational justice.

»Socially compatible« means recognition of the inviolability of human dignity and worldwide respect for the civil, political, economic, social, and cultural rights and obligations of every human being.

»Ecologically« means responsibility for the integrity of creation, and not only the protection of the environment and natural resources.

»Intergenerational justice« refers to the responsibility for a peaceful and just coexistence of the current generation and the conservation of development potentialities for future generations. (»Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.«¹)

Adhering to these criteria means that the requirements have been met for an ethically-sustainable investment.

2. How to invest money in an ethically-sustainable manner

2.1 Investment goals

In choosing a suitable investment, a balance between security, liquidity*, and profitability must be met so that – depending on the total investment available and other framework conditions – the overall economic goal is attained with the best possible returns. In additionally pursuing the non-economic goals of ethics and sustainability, the so-called »Magic Triangle of Financial Investment« is extended to become the »Ethically-Sustainable Investment Triangle«.

Extending the »Magic Triangle of Financial Investment«
to become the »Ethically-Sustainable Investment Triangle«

Fig. 1: In choosing a suitable investment, the individual goals – security, profitability, and liquidity* – are balanced in the so-called »Magic Triangle of Financial Investment« so that the investment-related overall economic goal is attained in the best possible way. By also considering non-economic goals, the »Magic Triangle« becomes the »Ethically-Sustainable Investment Triangle«.
During this extension process, economic and non-economic investment goals may be complementary or neutral, or may have to compete with each other. When investment goals are complimentary, the measures to attain one goal can also benefit the pursuit of other goals. If measures to attain the one goal do not affect the pursuit of another, then the goals act in a mutually neutral manner.

When the measures to obtain one goal have a negative impact on the pursuit of another, these goals are then mutually competitive. The task of the investors is to optimize their investments while pursuing multiple goals.

2.2 Implementation

»Avoid – Promote – Design« are criteria that have been used to establish several instruments for financial markets, which help to guide investors in making ethically-sustainable investments. They are:

- the laying down of exclusion criteria,
- the inclusion of positive criteria,
- ethically-sustainable themed, direct and impact investments,
- engagement (business dialogue and/or exercise of voting rights), and
- membership in or signing of initiatives that correspond to the intentions of this guideline.

Based on individual framework conditions and diverse objectives regarding each investment, all investors must decide which of the mentioned instruments they will resort to within the scope of the »Ethically-Sustainable Investment Triangle« so as to implement their general sustainability strategy (»modular system«).

2.3 International (reference) framework

»Transforming our world«: In 2015 the United Nations decided on new, more specific goals for sustainable development. These 17 Sustainable Development Goals (SDGs) will provide an important framework for designing instruments and options for ethically-sustainable investing in future years and allow for universally recognized and substantiated goals for sustainable development at an international level. In addi-
tion, they comprise specific ideas regarding how to invest in an ethically-sustainable manner.

This agenda follows the pledge that no one, no matter how vulnerable, will be left behind. Doing so emphasizes the aspect – as already stipulated in the Brundtland Report* in 1987 – of securing the opportunities for future generations for a fulfilled life. In this Guideline the 17 SDGs also provide the essential reference framework for the instruments of ethically-sustainable investment.

**Sustainable Development Goals (SDGs)**

![The SDGs as a reference framework for designing instruments and options in ethically-sustainable investing (source: www.globalgoals.org).](source: www.globalgoals.org).

For the sake of clarity this guideline does not specify the respective SDGs concerned with each criterion mentioned. A corresponding list is attached in the appendix (cf. tables 2 and 3).
Integration of Suitable Instruments into Ethically-Sustainable Investment

**The Whole Investment Universe**

A structured selection process considering security, liquidity, and profitability as the economic goals selects the principally possible single investments from a whole investment universe.

- **Exclusion criteria:** waiving of profit participation
- **Positive criteria:** preference for particularly ethically-sustainable companies/products

**Investment in ethically-sustainable direct investments**

**Single Investment**

- Engagement: company dialogue and representation of shareholder rights
- Independent of specific investment process: membership or signing initiatives

Fig. 3: Depending on the parameters and investment guidelines, an overall investment universe is available. Investors make their decisions in consideration of the economic and non-economic goals of the »Ethically-Sustainable Investment Triangle«.
3. Description of instruments

3.1 Exclusion criteria

Exclusion criteria are used to filter out those assets from a previously defined investment universe that should be excluded from investment. However, in defining or rather implementing exclusion criteria, a too narrow limitation of the available investment universe should be avoided so that the criteria security, liquidity*, and profitability can still be adequately considered. Moreover, exclusion criteria should be defined in a way that allows an unbiased review process (research process), which can eventually generate an exclusion list.

3.1.1 Exclusion criteria for companies

Excluding a company from the investment universe does not result from a basic rejection of the whole company. Instead, exclusion makes evident that, due to ethically-sustainable motivation, investors do not wish to benefit from the profit made in form of dividends, interest, or capital gains.

Companies listed on the stock exchange are usually broadly diversified. This implies that within a company there may indeed exist individual business divisions which an investor rejects for certain reasons. As long as the share of this business division in the total company turnover does not amount to more than ten percent maximum, exclusion should be discouraged for the sake of proportionality. In such a case, a direct business dialogue (see 3.4 and 4.4 Engagement) would be preferable to exclusion. However, companies involved in the development or manufacturing of banned weapons should be excluded from investments regardless of the attributable share of turnover.

A further aspect is important in the exclusion of certain issuers’* corporate bonds: by purchasing a bond the investor makes money available to the respective issuer to finance their company. The exclusion of certain companies can prevent investment in business ventures that the investor, for specific reasons, does not wish to fund. Here too, the matter of proportionality should also be considered.
Exclusion criteria² for companies

Excluded are the following business divisions:

- companies involved in the development or manufacture of armaments (in terms of the appendix to the War Weapons Control Act*) as well as companies involved in the development or manufacture of banned weapons, regardless of their turnover share
- companies producing liquors (minimum alcohol content 15 percentage by volume)
- companies manufacturing tobacco products
- companies conducting controversial forms of gambling
- companies manufacturing products that violate human dignity with denigrating and degrading portrayals of persons
- companies producing genetically modified crops
- companies extracting coal or oil from oil sands and oil shales, and/or accumulate significant reserves of those resources

Excluded are due to controversial business practices:

- companies, who themselves or whose suppliers systematically violate human rights (in terms of the UN Guiding Principles on Business and Human Rights*),
  - in particular companies responsible for forcing the previous users off their land* in violation of the FPIC principle,³
  - in particular companies manufacturing products that are produced in support or toleration of inhumane labor conditions and child labor (in terms of violating one of the fundamental ILO core labor standards) – including the supply chain.

Investors can stipulate further exclusion criteria, for instance, for companies

- violating global norms, such as Global Compact*,
- carrying out unnecessary/non-statutory animal testing,
- conducting embryonic stem cell research.

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² More detailed information on individual criteria is given in the appendix.
³ The principle of free, prior and informed consent, FPIC.
3.1.2 Exclusion criteria for countries

Other than is the case with corporate bonds – the acquisition of which makes an investor a co-proprietor of the company – in purchasing government bonds an investor loans his money to a country that collects the funds and uses them within the scope of its general budget, without earmarking them for specific purposes. In this process the funds of church investors should, on principle, never flow into the budgets of countries that significantly go against church investment guidelines, especially when they

- act as warmongers,
- violate human rights, or
- endanger Creation.

In the application of exclusion criteria for countries, conflicting goals may arise. In general, defining individual criteria only allows some aspects of government actions to be captured. Other than in the case of companies – which usually pursue clearly defined business purposes – the variety of government activities in a wide range of areas hardly allows for an overall assessment. The following criteria may serve as useful indicators/flags in analyzing government bonds:

**Exclusion criteria** for countries

Excluded are:

- countries whose level of peacefulness ranks »very low« according to the Global Peace Index (GPI), produced by the Institute for Economics and Peace,
- countries practicing the death penalty,
- countries classified as »not free« (in the terms of the organization and research institution Freedom House),
- countries perceived as highly corrupt (in terms of the Corruption Perceptions Index (CPI) from Transparency International) (Rating < 40),
- countries whose climate performance ranks in the »very poor« category of Germanwatch’s Climate Change Performance Index (CCPI)

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4 More detailed information on individual criteria is given in the appendix.
3.2 Positive criteria

Among investment options of the same kind, it is the objective of positive criteria to identify and favor those that have a better rating in terms of ethics/sustainability. This is achieved by assessing companies, countries, and branches according to specific systematics, using ethically-sustainable criteria. The results of such analyses are lists that rate companies and industries according to the degree they fulfill certain given criteria.

3.2.1 Positive criteria for companies

The so-called best-of-class approach compares different industries so that investors can choose to invest in assets belonging to the most ethically-sustainable industries. However, this approach may lead to accumulated individual investments in only a few sectors, which does not seem reasonable considering the risk aspects.

A cluster risk of this kind is avoided by adopting instead the best-in-class approach. Here, all sector assets are compared to each other according to ethically-sustainable aspects and brought into rank order. Investors will then invest their money in the respectively best ethically-sustainable assets from several industries, thus allowing a broad diversification of the investment.

The elaboration of such ranking lists requires a comprehensive research process* conducted by specialized sustainability research agencies and banks. In a next step, the acquired knowledge is supplemented with economic data and then implemented into specific individual investments within a structured investment process. In practice, hybrids of the best-of-class and best-in-class approaches have often evolved.

Examples of positive criteria for companies

In consideration of our Christian values, investments should be made in a socially compatible manner, ecologically, and with intergenerational justice.
Socially compatible
Preference for companies that

■ offer products and services for disadvantaged people and groups, which advance their equal participation in economic, political and social life;
■ assume shared responsibility for the labor conditions in subsidiaries and suppliers worldwide, and/or have issued anti-discrimination programes;
■ ensure the full and effective participation of women;
■ create jobs in the formal sector and/or promote further training for its entire staff;
■ have formulated directives on the employees’ right to assemble, on reasonable working hours, and/or that are in favor of living wages.

Ecological
Preference for companies that

■ campaign specifically for a decreased consumption of commodities, water, energy, and/or the reduction of pollutant and waste emissions;
■ further develop and promote the application of regenerative energy sources;
■ have formulated their own environmental policies, and/or have implemented an individual environmental and waste management system;
■ contribute to sustainable tourism, which creates jobs and/or advances local culture and regional products.

Intergenerational justice
Preference for companies that

■ allow for an improved work-life balance and/or offer old age provision;
■ actively promote measures for infrastructural development, the construction of schools and/or expansion of water and power supply systems in all regions;
■ develop products with a sustainable life cycle and/or implement sustainable production patterns, for instance by using sustainably produced commodities, or biodegradable ingredients, etc.;
■ guarantee affordable health care within a community/society, and/or that engage in research on thus far neglected diseases affecting the developing countries in particular;
■ cause minimal impact on climate change with their activities;
■ support developing countries in improving the national capacities for collecting taxes and other charges with their practices.
3.2.2 Positive criteria for countries

Regarding educational and environmental standards or civil society structures, many countries – especially Asia, Latin America, and Africa – have not (yet) reached the same level as developed countries. Thus, criteria applying the same standards to developing and emerging countries as to OECD countries are not equally just with regard to all countries. Hence, it is more conclusive to compare trends and developments over a period of several years rather than simply resorting to absolute rankings and indicators of a one-year period.

Once such trends solidify, adequate and relative criteria for countries will arise. Where there are continued improvements, the appropriate Christian response is to support such countries specifically, and increasingly consider their bonds when making investment decisions.

Examples of positive criteria for states

In consideration of our Christian values, investments should be made in a socially compatible manner, ecologically, and with intergenerational justice. The latter includes the aspect of peace-building.

Socially compatible

Preference for countries that are fair, liberal, basic democratic, and constitutional. An increased level of public welfare can be established with an improvement of the following indices and measures:

- **Freedom House**: compares and assesses countries according to their degree of political freedoms and civil liberties in areas such as freedom of religion and press.
- **The Corruption Perceptions Index** of Transparency International: compares and evaluates countries according to the perceived levels of corruption of their officials and politicians.
- **The Human Development Index** of the United Nations Development Programme: compares and assess countries according to their level of human development in areas such as life expectancy at birth, education, and income per capita.
- **The Gini coefficient**: is used to measure the inequality in the income distribution of a nation’s residents.
The *Shared Prosperity Indicator* of the World Bank: measures and compares the income growth of the bottom 40 percent in every country.

The *Press Freedom Index*: is a ranking of press freedom.

The *Economist Intelligence Unit (EIU) Democracy Index*: evaluates the state of democracy in a country according to a procedure developed by EIU.

**Ecological**

Preference for countries that conserve Creation. The following indices may provide guidance for this decision:

- *Climate Risk Index* of Germanwatch: compares and assesses countries according to their climate change performance
- *World Development Indicator Deforestation and Biodiversity* of the World Bank: compares and assesses countries according to their level of deforestation and biodiversity
- *Environmental Performance Index*: ranks countries’ performance on environmental issues in two areas: protection of human health and protection of ecosystems

**Intergenerational justice**

Preference for countries that assume responsibility for future generations and keep the peace. An improvement of the situation can be identified by using the following indices:

- UNESCO’s *Education for All Development Index*: compares and evaluates progress in the implementation of educational goals by using indicators such as universal primary education and literacy rate.
- The *Global Peace Index of the Institute for Economics and Peace*: compares and measures the lack of violence in countries.
- The *Global Militarization Index of the Bonn International Center for Conversion*: compares and evaluates the relative significance of the military apparatus of a country in relation to society as a whole.
3.3 Direct, themed and impact investments

Direct investments are direct equity holdings or investments in material assets (real estate, infrastructure, commodities, agricultural investments). In this regard, direct investing is the investment strategy that is most likely to enable investors to realize their individual concepts of ethics and sustainability. At the same time, however, direct investments demand an extensive amount of work and controlling as well as closely regarding of the underlying products.

Themed investments are investments focused on specific subjects.

Impact Investments share features with both direct and themed investments. The goal of impact investing is – alongside a financial return – to directly impact on social or ecological aspects and generate a corresponding benefit.

Microfinance investments are a particular form of impact investing, meant to provide equal access to financial services for people in developing and emerging countries.

Hedge funds and commodity investments in the form of derivatives, funds, and certificates are not themed investments in the above-described terms but still require special attention due to their manifold strategic options.

3.3.1 Equity participation
Direct participation in a company is usually acquired via shares or so-called silent participation contributions. For long-term and experienced investors in particular, there is the option to make their money available as equity capital to finance start-up or fast-growing companies. These companies are usually not (yet) listed on the stock market (Private Equity*).

Private Equity* participation usually has a long-term investment horizon. Another feature is the interim lack of fungibility*. Subscribing equities will not immediately induce a flow of the total promised investment volume; instead it will be gradually claimed with each newly confirmed participation agreement. Due to the long-term investment phase of these participations, investors will receive no or only small pay-

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5 The acquisition/purchase and sale of exchange-trade equities (e.g. shares) is described in chapters 3.1 and 3.2.
outs during the first years. At times, and especially during the investment stage, the investment value can sink below the cost value.

➢ So far, ethically-sustainable orientation of private equity securities is rather seldom and requires a thorough review – including, if necessary, the intervention of additional experts. Statements regarding exclusion and positive criteria apply correspondingly.

3.3.2 Real estate investments
As a rule, real estate investments are long-term investments. From the investor's point of view, real estate investing can be made directly (project development, purchase) as well as indirectly (fund investment). To increase future viability, real estate investments should likewise be suited for the inclusive, safe, resilient and sustainable design of cities and housing estates. Another investment goal may be providing appropriate, safe, and affordable housing, thus considering in particular the needs of low-income households. Ethically-sustainable aspects can be included into the whole life cycle of a realty property. This applies both for new buildings as well as for maintenance measures of portfolio properties.

Yet, the economic and non-economic goals of real estate investments are – similar to investing in liquid asset classes – complementary, neutral, or competitive. When deciding upon an investment they must always be weighed against each other.

Examples for considering ethically-sustainable aspects at the different stages of a real estate cycle:

■ Planning and project development
  1. Project developers and constructors
     Are they equipped with sustainability concepts, climate strategies, and focused on societal values?
  2. Project idea and concept
     Are variations examined according to social and ecological aspects? Are lifecycle costs taken into consideration?

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3. Location
Are the location and land parcel appropriate, with regard to a harmonious co-existence of commercial and residential properties, the adaption of buildings to solar radiation (south-facing walls with windows, north-facing walls without windows), family-friendly infrastructure, good connections to public transport?

4. Financing and Investors
Under which conditions are the different actors involved in the funding? Where does the invested money come from?

5. Architecture
How much do safety aspects, comfort, health, functionality, user friendliness, sociocultural aspects, life cycle assessment, waste prevention, use of resources, and energy concept matter?

■ Construction
6. Construction company, construction stage, construction materials
Has attention been given to paying correct and agreed upon wages; the prevention of undeclared work and corruption; the promotion of small and medium-sized regional or local companies; the prevention of unnecessary ecological damage; the reduction of construction noise; the use of modern energy efficient and eco-friendly machines and vehicles; the separation of construction waste and use of return systems/recycling; the building support for residents; considering sustainability in the supply chain or regarding subcontractors?

■ Use
7. Building management
How much do the consideration of exclusion and positive criteria play in the selection of tenants; in a fair balance of interests between landlords and tenants; in frequent restoration and maintenance, and in the creation of communication rooms?

■ Reuse/Conversion
8. Reuse/Conversion
cf. 2.

■ Dismantling
9. Dismantling
Are minimization of emissions, recycling, and appropriate disposal considered in the dismantling process?

The sustainability of real estate is frequently documented with certificates, such as Building Research Establishment Environmental Assessment Methodology (BREEAM*), Leadership in Energy and Environmental Design (LEED*), the Deutsche Gütesiegel für
Nachhaltiges Bauen of the German Sustainable Building Council (DGNB), and GRESB*. GRESB provides the only procedure that allows assessing the sustainability of everyone party involved in the project, that is, developers, funders, planners, architects, construction companies, and users. So far, however, the rating systems of certification are inconsistent and not really comparable. For the German Protestant sector, the organizations »Grüner Gockel/Grüner Hahn«, EMAS* und EMASplus* provide environmental management services.

3.3.3 Infrastructure
Infrastructure refers to the economic and organizational basics required for the operation and development of a national economy. Infrastructure projects ensure the general public’s supply of basic services and allow goods and information to be transferred to the consumer.

Investors with a long-term investment horizon can become involved with infrastructure projects, including those in developing and emerging countries. Eligible projects are, for instance, ports, toll roads, airports and social infrastructure such as schools, hospitals, public transport, water supply, sanitation, sewage disposal as well as communication systems, and supplying renewable energy. Frequently, the payout of dividends will not begin until termination of projects, often years later. Political and economic risks cannot be excluded. Hence, new requirements regarding the management or safety of a project, or higher environmental standards often necessitate additional (re-)investments. Here, as in the case of private equity* investment, the money invested is fixed for many years.

Participation in infrastructure projects that are reasonable from an ethically-sustainable point of view requires a high degree of expertise. Ethically-sustainable assessment (e.g. ecological compatibility, societal benefits, and in particular contributing towards the fulfillment of the SDGs) must be made individually for every individual project. The involvement of further experts is recommended.

3.3.4 Commodity investments
From an ethically-sustainable point of view, commodity investing often proves to be problematic. Commodities are natural resources that are either consumed directly or used as original material for further processing stages in production. The extraction of raw materials always involves an impact on nature. Moreover, recourse is often made to environmentally harmful chemical and physical methods. Likewise, labor condi-
tions and their social impact on the production of raw materials are time and again subject to criticism.

If the investment takes place in form of stocks and corporate bonds or in terms of direct shares in the production of raw materials, the instruments exclusion and positive criteria, as well as engagement, are used. Thus, in line with the criteria applying to companies manufacturing tobacco or radioactive materials used for nuclear weapons, these are excluded in the same manner as companies violating the ILO core labor standards or companies that, owing to corrupt structures, maintain monopolies at the expense of the local population.7

For commodity investing, acquisition can be differentiated into three categories: direct acquisition, acquisition via future markets*, and indirect acquisition via funds and certificates. They all have in common that inherent returns accrued from the investments are minimal; the intended added value is usually attained with the correct assessment of a price trend.

**Categories of commodity investing**

![Diagram of commodity investing categories]

Fig. 4: The returns from commodity investing are attained with the assessment of price trends in all three categories.

**Direct acquisition of commodities**: Since delivery and storage of commodities involves considerable effort, the purchase of physical goods concerns primarily precious metals. One motive for investments in precious metals is protection against the depreciation of money.

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7 Hence, shares and corporate bonds as well as agricultural investments are not subject of this section.
The consideration of ethically-sustainable aspects is difficult given that, for commodities, documentary evidence of origin is the exception rather than the rule. Where this does exist, the procedures of fair trade can be applied, for example, by buying »Fairtrade and Fairmined« gold. In general, it is desirable that in purchasing commodities, the processing industry pays attention to proof of origin and labor conditions of suppliers.

**Acquisition via future markets**: Corresponding financial instruments belong to the group of derivatives that refer to an underlying asset. The decisions that sellers and buyers of derivatives make are guided by the assumed future development of this underlying asset, for instance, the spot price of an individual commodity or commodity index.

Based on their motives, two main groups of market players can be distinguished here: producers, purchasers, and traders on the one hand, and financial investors on the other. The former seek a hedge against undesired changes in prices as well as a gain in certainty when planning, while the latter aim at profits through the correct assessment of price trends.

Future markets are trading centers for expected market prices and not for a trade volume, which actually take effect in the future. Yet, it cannot be excluded that future market activities affect commodity prices, namely in terms of boosting existing trends and by contributing to inflated prices.

From the ethically-sustainable standpoint, it would be problematic if financial investors distorted food prices, thus leading to a worldwide aggravation of famine. Excessive price increases make the purchase of food more expensive for the consumer; excessive price cuts lead to declining profits for smallholder farming. Within the scientific community, the debate on the effects of financial speculation with food is controversial. Unless doubts regarding a negative effect can be removed, from an ethically-sustainable point of view, investment in food future markets should be excluded.

**Indirect acquisition through commodity certificates and funds**: Both for commodity funds as well as for commodity certificates, products are traded on the stock exchange, so-called Exchange Traded Funds (ETFs) or Exchange Traded Commodities (ETCs), respectively. As purely passive investments, their goal is to represent the value development of an underlying asset as precisely as possible. Corresponding
underlying assets* in the commodity sector are usually prices for individual commodities and indices on the future markets. Since the future markets are only open to investors who specialize in them, this product line creates indirect access for all investors.

If the underlying asset* of a commodity certificate or fund is a basket of different commodities or an index, it is recommended to perform an analysis of the single values contained prior to the investment decision to ensure that the financial product fulfills the expectations of the investor. Moreover, care should be taken to make investment strategies and research processes adequately transparent. Should the analysis reveal that the single values include food, the concerns regarding food investments put forth in the section »acquisition via future markets*« apply for those products as well: as long as it cannot be ruled out that trading with the corresponding commodity certificates and funds will impact food prices, they are out of the question for an ethically-sustainable investment.

3.3.5 Agricultural investments
Agricultural investment refers to the purchase of arable land or forestry. With this investment form, the investor benefits from rising land prices and the returns from annual crops or forest management (sale of timber). Hence, the risks are high due to possible price erosion for land or crops as well as crop losses due to weather events (high winds, hail, dry periods) or pest infestations.

From an ethically-sustainable point of view, such an investment is problematic if it encourages exploitation, monocultures, deforestation, and uncontrolled logging, or if it generates high yields owing to the disproportionate use of fertilizers, or realizes high profits in short time due to betterment. Since many of these investments are made in emerging or developing countries, they carry, along with general political risks, the risk of generating huge agricultural monopoles, which prevent family farming of agricultural land, or possibly the risk of completely dispossessing the local population (Land Grabbing*). Moreover, large-scale irrigation systems may cause problems in the drinking water supply or groundwater depletion. Investments are also problematic if farmland is used or even worse, reallocated, for the cultivation of crops required for the generation of energy instead of for food.

Then again, an agricultural investment may help, for instance, in halting deforestation, conserving forest areas through reasonable management, or by creating necessary and useful infrastructures for the general public (such as improved...
drinking water supply, irrigation systems, or agricultural technology for small landholders).

Assessing the ethically-sustainable aspects of agricultural investments requires a high degree of expertise. Generally, the holding period of an agricultural investment is rather long. The involvement of additional experts is recommended.

3.3.6 Themed investments
Themed investing offers the investor the opportunity to invest in the successful trend of a specific industry or technology, selected according to ethically-sustainable aspects.

Examples for such themed investments are shares in companies or projects:

- promoting or developing energy from renewable sources (solar power, wind power, hydropower),
- with a sustainable approach to the resource water (supply and waste disposal, water treatment, water consumption),
- developing and producing emission reducing technologies,
- committed to the principles of fair trade,
- supporting circular economy/recycling.

It should be noted, however, that due to the limitation of the available investment horizon there might be increased risk owing to the lack of diversification opportunities. Statements regarding exclusion and positive criteria apply accordingly.

3.3.7 Microfinance investments
Microfinance refers to the provision of basic financial services such as loans, financial investments and transfers, or insurance for clients in developing and emerging countries, who for different reasons lack access to traditional banks.

Microfinance is understood to entail the granting of very small loans (microloans) by Microfinance Institutions (MFI) to impoverished population groups who traditionally lack a verifiable credit history/cannot provide collateral, or whose income is too low. Typically, it provides often female borrowers with the option to improve their individual income situation, for instance, by founding or expanding microbusinesses. The frequent criticism of microloans concerns the often very high level of interest rates that end buyers must pay. Though interest rates are lower than those of local
money traders, this aspect must be reviewed before investing in microfinance products.

In the past, the appeal of microfinance products has been explained with the repayment rate of microcredits, which has often been higher than the repayment rate of conventional credit transactions at domestic banks. Given that these constellations can change at any time, this aspect should not serve as the single argument for an investment decision in microfinance.

Some MFI offer local populations the opportunity to save assets. These investments earn interest and can be provided by MFIs as credits. Often, the savers do not qualify as clients for traditional commercial banks since they do not have a regular income or lack the necessary documentation. A market for microinsurances as protection, for instance, in case of the loss of crops or health risks, is emerging.

The investor does not usually directly invest in MFIs but instead uses an intermediary*. This may be, for example, a bank, a cooperative, or a limited liable company, which then transfers the invested funds to the local MFIs which grant the actual microcredits.

* The intermediary – and likewise implicitly the local MFI – must be chosen with great care since this selection decides on the intention of the microcredit transaction. Hence, it is of importance for the investor to know if the intermediary or the MFI takes a rather idealistic approach when providing money without or for low interest (subvention of MFI and microcredit interest rates), or if the goal of having economic benefits for everyone involved is pursued (returns on the invested funds in line with market conditions, the MFI organization is cost-covering, but with resulting higher microcredit interest rates). The granting of commercial microcredits for consumption purposes must be refused since this often marks the beginnings of the debt trap.
3.4 Engagement

Another key instrument for investors acting in an ethically responsible manner is to actively influence the company, since they actually account for the use of their employed capital, for instance, as a share or bond. Suited to this approach, for example, is dialogue with companies, the exercise of voting rights, as well as the participation in committees (advisory boards, etc.).
So far, many engagement processes focus on meeting corporate governance criteria. The engagement of church investors, however, is geared beyond that to the criteria of social compatibility, ecology, and intergenerational equality. Respecting those criteria often serves to improve and sustain in the long term the company’s added value, and assists it in doing justice to its social responsibility.

Hence, the following forms of engagement should accompany church investments.

3.4.1 Business dialogue
The main reason for entering into a constructive dialogue with companies is to achieve the necessary improvements in ethically-sustainable corporate governance. The first stage of this dialogue should be an exchange of ideas and information either in written form or in a personal private, not public, interview.

The non-public business dialogue is the best way to achieve engagement goals, assuming everyone involved is sincere. A public debate may prove counter-productive for both the company as well as the investor, and thus for the whole venture.

This does not preclude the possibility of supplementing such a dialogue with a public exchange of views, when necessary.

3.4.2 Exertion of voting rights
Investors are not entitled to vote on company issues until they have purchased voting shares (for instance, equities, cooperative certificates, etc.). The previously held business dialogue gives added weight to this right. However, the mere exertion of the voting right does not tell the company why a proposal in the general assembly does not meet with approval and what needs to be amended. Therefore, it is advantageous to explain to the respective company, within the scope of active engagement, why and with what objective the voting right is exercised.

The voting right can be exercised
- with regard to existing applications and to obtain information,
- to submit applications of one’s own (e.g. a new item on the agenda).

Depending on the legal framework in each country, this may be difficult to implement since there are diverse barriers to filing an application in the general assembly.
3.5 Memberships and initiatives

Another option – independent of specific investment decisions – for pursuing ethically-sustainable goals is the support of initiatives and associations that have emerged at the regional, national, and international level to promote ethical and sustainable objectives. Thus, investors can publicly demonstrate that they also support the goals of the particular initiatives. Furthermore, this benefits networking as well as allowing for the exchange of information and relating experience.

3.5.1 Memberships

Through membership in suitable associations and organizations every investor is able to support the objectives of these – often registered – membership corporations advocating ethically-sustainable investment. Memberships usually involve membership contributions.

Examples of such associations are:

- the Berlin-based »Forum Sustainable Money Investment« (Forum Nachhaltige Geldanlagen e.V.) which has more than 150 corporate members – companies, organizations, and individuals – which promote sustainable investment,
- the Südwind Institute which helps, among other things, church and non-religious private and institutional investors with the implementation of socially responsible investments,
- the Corporate Responsibility Interface Center (CRIC), an association for the advancement of ethics and sustainability in investing, whose investor community focuses its work on creating awareness, engagement and research in the German-speaking area.

International networking is now also possible, for instance, via the Church Investors Group (CIG) in the United Kingdom or the Interfaith Center on Corporate Responsibility (ICCR) in the United States.

3.5.2 Initiatives

Initiatives acting at a worldwide level also campaign for ethically-sustainable goals. In some cases, being a signatory or supporter of an initiative may entail additional input in terms of money or working time/power.

Examples for those initiatives are the Principles for Responsible Investment (PRI) initiative, an initiative supported by the United Nations committed to the consideration
of environmental, social, and governance (ESG) criteria in their investment, or CDP, formerly known as Carbon Disclosure Project, an organization which, on behalf of institutional investors, tackles climate change and helps companies to understand and manage their actual greenhouse gas emissions and to report to investors with a uniform, standardized method.
4. Practical implementation

The guidance given in the following section is meant to help implement ethically-sustainable aspects in the decision-making process of an investment. Since implementation of the instruments described above is not always easy, it may be useful to resort to the advisory service of others. Church banks in particular can provide the relevant expertise. Likewise, numerous research possibilities already exist around the internet.

4.1 Exclusion criteria

Once investors have decided to apply certain exclusion criteria, a systematic research process is planned and conducted. The companies or countries contained in their investment universe will be analyzed with regard to the exclusion criteria they have laid down. The outcome of this analysis should be a specific asset list of businesses and countries to be excluded, which the investor will no longer fund. Given that such a research process is time-consuming and comprehensive, it is mainly conducted by sustainability research analysts and appropriate banks.

Taking such a negative list into consideration is unproblematic for the direct purchase and deposit of government bonds or corporate securities (e.g. shares, corporate bonds). Yet, the goals of the »Ethically-sustainable Investment Triangle« must always be taken into consideration. This also includes adequate risk diversification through the distribution of amounts invested within an asset class among sufficient assets (principle of diversification).

Due to the lack of diversification opportunities, the direct purchase of bonds and shares is not always recommended for smaller investors. Instead, a great number of ethically-sustainable oriented mutual funds is available, which already consider exclusion criteria in their investment policy. These criteria, however, must not necessarily be consistent with one’s own carefully formulated exclusion criteria. Hence, prior to the purchase of fund shares, an analysis should be performed to select those funds whose foci best correspond with the investor’s goals. Moreover, it should be considered if the investment strategies and research processes are sufficiently transparent. The same applies for index products (e.g. ETFs or index certificates).
For investments in special funds*/asset management, there is usually no problem in passing on the list of exclusion criteria to the corresponding fund manager.

### 4.2 Positive criteria

The decision to include positive criteria in the investment likewise requires conducting a research process*.

A variety of ethically-sustainable oriented mutual funds already exists which conduct the research process for businesses – in most cases using the best-in-class-approach, sometimes supplemented with exclusion criteria. Hence, prior to purchasing fund shares, an analysis should also be performed here in order to select those funds whose foci best correspond with the investor’s goals. The same applies for index products.

Obviously, investors may decide not to purchase such ready-made products and define instead individual positive criteria. They would then conduct the research* process and give the resulting individual positive list to their bank as a guideline to be considered in a systematic investment process in special funds*/asset management. By deliberately limiting the available investment horizon, the investor strengthens the ethically-sustainable orientation of the fund.

### 4.3 Direct, themed and impact investments

Direct investments are the most immediate option for investing money according to ethically-sustainable aspects. Nonetheless, risks may also be notably higher than in other investment forms.

Investors may invest their money either via the purchase of shares in investment funds, through the direct purchase of the negotiated stocks, or through investment in holding companies – mostly in form of closed-end funds*.

#### 4.3.1 Open-end funds/themed funds

**Open-end investment funds** collect predominantly smaller individual amounts from many investors, which will then be invested with a target-oriented approach and bundled in major sums. If the investment strategy of open-end investment funds*
Practical implementation consists in emphasizing selected industries, technologies, or issues regarded as particularly promising or worthy of support, they are also called »themed fund«. This includes, for instance, ethical, water, solar, or forestry funds, but also real estate and infrastructure funds.

In themed funds, the principle of diversified investments often becomes less important for the benefit of the thematic focus. This may indeed induce a higher risk than a widely diversified equity or pension fund. The same applies for index products.

4.3.2 Direct participation

Direct participations are often restricted to specific (regional) projects – such as erecting a wind turbine, building a local residential complex for senior citizens, or a biomass/solar power station. The nature of the investment turns into a direct partnership in the funding of a project. Comprehensive knowledge about project handling as well as legal reviews and tax audits are indispensable for direct participation. Early availability of the sums invested is seldom possible. Moreover, participation of this type is not subject to the rules of financial supervision.

A special form of direct participation is the purchase of subordinated capital (e.g. participation rights). Profits are often higher than for stocks (and possibly preferential), but are acquired by waiving voting rights. Moreover, in the case of insolvency, other terms apply than for shareholders. That is, the particular terms of contract must be closely examined in the purchase of subordinated capital.

4.3.3 Closed-end funds (private equity funds)

For investment in closed-end funds*, a number of a priori limited shareholders participate with fixed sums and for a fixed, long-term period in specific projects (such as offshore wind farms, woodlands, real estate projects, or incorporated/stock companies not listed on the stock markets). Owing to the legal form (a limited company in most cases), the investor assumes as shareholder the entire rewards and risks of a company, which in the worst case may lead to a total loss of the investment. Reviewing this type of investment is quite complex and includes in addition to investment, legal, tax, and economic components. Premature availability of the sums invested is seldom possible.
4.4 Engagement

Engagement is an important instrument for ethically-sustainable investment. Investors can become involved by
■ entering into dialogue with the company and actively exercising their voting rights, and/or
■ entrusting specialized external service providers or church banks with the task.

Companies listed on the stock exchange usually show such high capitalization that individual church investors can only exert their own particular interests with little effect. Hence, the coordination and merging of engagement is recommended.

4.5 Matrix of instruments

Today, ethically-sustainable instruments can be included in almost any type of financial investment, albeit not simultaneously. The following table can provide assistance in reviewing which instruments, tailored to the specific conditions of each asset class, make sense for which investment:
Tab. 1: Tool matrix: application of ethically-sustainable instruments to specific asset categories.

<table>
<thead>
<tr>
<th></th>
<th>Exclusion Criteria</th>
<th>Positive Criteria</th>
<th>Themed, Direct &amp; Impact Investment</th>
<th>Engagement</th>
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<tr>
<td>Impact Investment</td>
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</table>
4.6 Dialogue with credit institutions and fund managers

Ethically-sustainable aspects should not only be included in the investor's process of selecting the right financial investment but also influence the choice of a bank or a fund manager. This process should be implemented in already existing business relations, and thus evolve into a dialogue given that investors' trust cannot simply be taken for granted on a permanent basis. Instead, their confidence must be continuously earned anew with ethically-sustainable business practices and a corresponding range of products. This applies in principle to all credit institutes and fund managers, regardless of their size, legal form, or activity.

Hence, establishing and maintaining a dialogue on ethically-sustainable concerns with banks and fund managers is recommended.

Key aspects regarding the selection of and cooperation with prospective companies are:

- transparency and openness,
- focus on long-term business success,
- integration of ethical and sustainable aspects in strategy, main business and ongoing business activities.

Addressing the following topics can provide insight into whether banks and fund managers meet these criteria and principles. In such a dialogue, the ability to provide information as well as references to a conclusive sustainability report are significant indicators of how high the ethically-sustainable aspects rate for the company in question.

- Are social and ecological sustainability criteria (ESG criteria) included in the incentive systems and remuneration policies?
- Is information available regarding the company's effective tax rate* and tax expenditure? Do internationally active companies provide an overview of their regional distribution – especially regarding off-shore financial centres*?
- Which percentage of the total extension of credit is granted according to ESG criteria? Which percentage of the assets under management* are administered according to ESG criteria?
  - Are certain business activities excluded for ESG reasons? Are there examples for such nonactivity due to these reasons?
Practical implementation

- Which self-commitments has the company undertaken? Which principles and statements has it signed (UN Principles for Responsible Investment, Equator Principles, UNEP* Statement of Commitment by Financial Institutions on Sustainable Development, ...)?

Depending on interests and individual priorities, alternative and further issues, and questions concerning the ethically-sustainable orientation of a company can be introduced into an ongoing discussion with banks and fund managers.

The church banks have a particular role in this context. As cooperative organized banks, they are for the most part owned by church institutions and diaconia establishments. Church banks have the task of promoting the Church and its social services (Diakonie). Their main task is to make church deposits in the form of loans accessible to its social services, and thus organize financial circulation within the church.

4.7 Climate strategies

Climate protection is not a sufficient, but an indispensable component of ethically-sustainable investment. In the process, a climate sensitive investment strategy – climate strategy in short – benefits both ecological and social goals (such as climate protection, food security, protection of the local population and local ecosystems affected by the severe impacts of extracting fuel sources). Likewise, it serves economic goals by reducing the risk of economic loss due to strongly devaluated or even valueless assets, so-called stranded assets, and by banking on business models that are sustainable in terms of climate impact.

4.7.1 Decision dimensions

Ethically-sustainable investors wishing to consider the climate impact of their financial investment, must take into account a series of dimensions by which they determine their positions and make their choice of criteria:

1. Which raw materials are taken into consideration?
2. Which sectors must be involved?
3. When and how is the climate impact measured?
Dimensions of decision-making for climate strategies

![Table and Diagram]

Fig. 6: The categories raw materials, sectors, measurement and assessment (including the special dimension emission categories) must be considered as dimensions of decision-making.

1. Which raw materials are taken into consideration?
Analyses of the main perpetrators of climate-damaging greenhouse gas emission serve as a starting point for the reflections. Regarding the carbon dioxide released in combustion in global comparison, oil sands and oil shale can be identified as the largest contributor to CO₂ emissions, closely followed by coal. Oil from conventional extraction and gas follow, though at a greater distance.

The first decision to be made is which raw materials should be taken into account in further analysis. The more raw materials are selected, the more companies must be included in the analysis and the more complex the calculation of emissions of companies and countries becomes.
2. Which sectors must be involved?
Another decision-making dimension arises from the question, which sectors should be included. Extractive industries that produce, stock and sell coal or oil, for instance, represent the first level. Another branch are utility companies which produce energy made with fossil fuels. And finally, those sectors must be taken into account that process coal and oil, especially the cement and steel industries.

3. When and how is the climate impact measured?
A widely-used and accepted instrument for measuring climate impact is the Greenhouse Gas Protocol (GHGP)*, which was developed by the World Resource Institute (WRI) and World Business Council on Sustainable Development (WBCSD). The GHG Protocol standardizes the emission of greenhouse gas emission into three different stages or scopes. **Scope 1** contains direct emissions from owned or controlled sources. **Scope 2** contains indirect emissions involving purchased energy (such as electricity, district heating). **Scope 3** encompasses all other indirect emissions, such as those which are generated by third parties in the supply chain with acquired or purchased goods and services as well as product life cycle emissions. Whereas data from scopes 1 and 2 can be collected and compared rather reliably, data concerning scope 3 is based on a variety of assumptions, which can considerably limit the data quality and comparability.

One indicator for measuring climate impact is the so-called CO₂ footprint, also known as the carbon footprint. It measures the total greenhouse gas emissions caused directly (scope 1 according to the GHG Protocol) and indirectly (scopes 2 and 3 according to the GHG Protocol) by an event or actor during a given period of time. With the help of specialized service providers, such a carbon footprint can also be generated for securities portfolios. According to current surveys and validation methods the most reliable results can be achieved with shares and corporate bonds. But other asset classes can also be included in these CO₂ calculations. Hence, ethically-sustainable investors must not only decide upon up to which scope analyses shall be conducted but also upon the asset classes, that are to be consulted in calculating the portfolio’s carbon footprint.

Another indicator for calculating greenhouse gas emissions is by establishing so-called carbon intensity or CO₂ intensity. It puts the amount of emitted greenhouse gases in relation to a (fixed) benchmark, such as a company’s turnover or market capitalization, or a country’s gross national product or number of inhabitants respective-
The advantage of assessing carbon intensity is that ethically-sustainable portfolios can be compared with each other or with conventional portfolios – provided that the carbon intensity is calculated with the same reference value (e.g. turnover), at the same level (e.g. scope 2), and for the same asset classes of a portfolio. Yet the key advantage of calculating the carbon intensity lies in establishing the development of a specific portfolio over the course of years – regardless of its size. In order to record and document improvements in the climate impacts of a specific portfolio it is crucial to maintain the parameters once selected (reference value, scope, selection of asset classes).

The different, independent dimensions that must be considered in making one’s own decision are conveyed in figure 7. Investors must determine their desired positions within each dimension. Furthermore, turnover thresholds must be defined for the companies of the individual sectors.

4.7.2 Ethically-sustainable instruments
As is for ethically-sustainable investments in general, preventive, promoting and designing instruments can be used for the implementation of climate strategies.

1. Preventing strategies: exclusion criteria for companies and divestment
Today data on the climate impact of companies and countries is in general accessible. Initiatives and NGOs such as CDP, Fossil Free and Germanwatch frequently publish their analyses. Research agencies develop, based upon them and other acknowledged sources, screening models for portfolios. Ethically-sustainable investors can determine within the scope of the above outlined decision dimensions criteria and threshold values for the exclusion of specific companies and countries. Within the scope of a climate strategy the following decisions should be made first:

■ Which fossil fuels shall be excluded?
■ Which sectors shall be excluded?
■ Which turnover thresholds shall be applied?
Examples for exclusion criteria are:

- **exclusion of all companies extracting coal or oil derived from oil sands or oil shale with a turnover share of 10% and more;**
- **exclusion of companies providing significant reserves of these resources;**
- exclusion of companies with a share of more than 1% in global coal extraction;
- exclusion of companies with a turnover share of 30% and more from coal, oil or gas;
- exclusion of energy suppliers making more than 10% of their turnover from coal-fired power plants, while simultaneously showing little activities in expanding renewable energies;
- exclusion of 10% of the worst-performing companies regarding their carbon intensity in each sector.

At least the first two criteria should be part of an ethically-sustainable climate strategy. The following figure (fig. 7) shows, which positions should be selected for this purpose within the decision-making dimensions.

### Recommended exclusion criteria – model positioning within the decision-making dimensions

![Recommended exclusion criteria diagram](image-url)

**Fig. 7**: Green background: Exclusion of all companies extracting oil from oil sands and oil shale as well as producing coal with a 10+ percent share of turnover, and exclusion of companies providing significant reserves of these raw materials.
2. Promoting strategies: indicators, positive criteria, themed, direct and impact investments

Positive criteria for companies – such as using a best-in-class-approach – can likewise be formulated with a specific focus on the company’s climate responsibility. A term that is often used in this context is **carbon rating**. Such carbon ratings are based on the objectifiable carbon footprint and carbon intensity, but consider moreover additional criteria, such as the extent and quality of a company’s carbon reporting, the trend of the carbon footprint, the aspiration and range of climate goals, the alignment of products and chain supply to climate goals, and the integration of climate goals into the variable management remuneration system.

By now there are numerous established agencies that provide a variety of carbon ratings as a base for investment decisions. It is important to review these ratings with regard to the above outlined decision dimensions and their suitability for the assessment of individual decisions because no standard is acknowledged by all parties involved. Assessing the climate strategy of a company or the climate achievement of a country and providing it with a ranking is, after all, a comprehensible, yet subjective evaluation of a particular service provider.

An essential component of climate strategy consists in providing funds for the expansion of renewable energies, storage technologies, networks and efficiency measures. This can, for instance, be implemented with liquid investments such as **Green Bonds** or **equity funds for renewable energies**.

A larger proportion of themed, direct and impact investments belongs to the field of infrastructure, which holds specific risks and is moreover less fungible* than shares or bonds. Advancing the global expansion of renewable energies requires a reliable regulatory framework, but also public-private partnerships* as well as purely private investments into infrastructure. Themed and direct investments can be made in the following fields: regenerative energy (hydropower, wind power, solar energy, biomass, marine energy, geothermics), development storage technologies and networks, funding of energy efficient refurbishment schemes and further energy efficiency measures.

3. Designing strategies: commitment und campaigns

Within the scope of engagement investors can reflect together with companies on their climate risks and unlock potential for improvements. In doing so, it is advisable to get involved with established alliances, such as the Aiming for a Campaign coalition.
of British church investors, the Climate Action 100+ investor initiative, the Carbon Disclosure Project (CDP)*, the Institutional Investors Group on Climate Change (IIGCC)* or the UN Principles for Responsible Investment (UNPRI).

4.7.3 Communication of a climate sensitive investment policy
It makes sense to accompany a climate sensitive investment policy with the appropriate communication measures, both in-house as well as to the public. Special challenges here are the high complexity of assessing the climate impacts of one’s own investment strategy as well as the fact that behind apparently exact figures assumptions and preliminary proceedings are concealed, thus making comparability with other investors difficult, if not impossible. Hence, any communication strategy should be primarily aimed at making one’s own investment goals clear, and explain the changes in climate impact of one’s own portfolio.

Climate protection is a cross-sectional task not only for church investors, but for the churches in general. Thus, a climate strategy for church investments should be embedded into a comprehensive set of measures and be communicated as part of a climate change regime which encompasses all spheres of the church.8

4.8 Derivatives
Over the last ten to twenty years, the use of derivative financial instruments has become increasingly important within the scope of managing investments. This applies in particular to investors who allow their funds to be managed by external managers (i.e. asset management or in the form of specialist fund* mandates).

In view of the increased volatility* on equity and bond markets in recent years, market players use derivative financial instruments, for instance, within the scope of risk management and for hedging purposes. By using them, asset structures and the market risks they involve can be adapted quickly and cost-effectively to prevailing market conditions. For asset managers, derivative financial instruments play an essential role in managing market risks.

8 Cf. EKD Text 130 »Lent to Us Is the Star on Which We Live.« The Agenda 2030: A challenge for the Churches, 2018.
However, the use of derivative financial instruments is complex in practice and requires a high degree of expertise.

- Trading derivatives requires professional guidance and adequate risk management.
- Investors should be aware of the interdependencies of transactions with regard to the market and portfolio.
- In purchasing and selling derivatives in off-market trading, the price risk as well as the counterparty risk must be considered.
- Derivative trading is the trading of rights and duties – not, however, of the underlying assets.
- To assess bundled products, they must be broken down to their basic components and evaluated accordingly.
- Derivatives are not only used for speculation but also for hedging investments, as well as for allocation and risk management.
- Derivatives are used for reasons of efficiency. They are flexible, liquid, and often cost-effective.

Even though derivatives are not a direct investment (for example into an asset), but constitute a contract from an economic viewpoint whose value is derived from the fair assessment of a reference level, ethically-sustainable aspects should be considered when using derivatives in portfolio management.

> In the ethically-sustainable assessment of derivative businesses, attention should be given to the different constellations and impacts of the transactions.

- The underlying assets or the indices underlying the transactions respectively should correspond as far as possible to the ethically-sustainable principles of the investor. Contracting parties should be sensitized in (engagement) dialogues to offer increasingly ethically-sustainable underlying assets.
- With the conclusion of derivative transactions, the corresponding underlying asset, cash flow, or liquidity equivalent to the amount in question should be available on the payable date at the latest.
- The total amount of available investments plus the equivalent of purchased futures contracts should not exceed the total amount of available investments plus the available liquidity (investment limit 100 percent).
- No uncovered short sales should be made.
- Futures, whose pricing is non-transparent and incomprehensible, should be avoided, as well as participation in high frequency trading.
4.9 Hedge funds

Investments in hedge funds are often problematic from an ethically-sustainable point of view.

Hedge funds attempt to generate high returns by using flexible investment methods as well as the possibility of leverage or short sale. Hedge funds basically possess greater freedom of investment. Due to the variety of hedge fund strategies on the market ranging from rather conservative to highly speculative, a general statement regarding possible investment is not appropriate. The assessment of a possible investment, including consideration of ethically-sustainable aspects, in hedge funds requires a high degree of expertise, and the involvement of additional specialists is recommended.

The following aspects must be reviewed before making an investment decision:

- transparency of the investment process,
- traceability of investment decisions,
- appropriate leverage,
- taxation and location of the hedge fund,
- consideration of ethically-sustainable aspects.

4.10 Green Bonds/Social Bonds

With Green Bonds (or Social Bonds), two requirements for sustainable investment can be met simultaneously, which until now could only be implemented by using a variety of instruments.

Most Green Bonds have a risk-return ratio that is largely identical with the one conventional bonds, and proceeds from the issue are invested into projects meeting specific ecological (or social) criteria.

Many Green Bonds comply with a set of rules providing that, in distinction from conventional bonds, the issue proceeds are separately booked and used. The issuer earmarks in the bond’s issue prospectus which category of projects the money shall be used for. The categories include, for instance, regenerative energy, energy efficiency projects or waste disposal, but social projects, such as health measures, can likewise be funded with these bonds.
Investors can decide whether the investment category provided for with the Green Bond meets their criteria, thus allowing an investment. This requires precise and fully transparent information for the investment categories, or better still, the scheduled projects. In the process, an independent review (also known as Second Party Opinion) commissioned by the issuer may prove helpful.

Regardless of how well-documented Green Bonds are, investors in sustainable products are still confronted with the essential question of whether the bonds should be purchased from issuers who have not made it on their individual list of sustainably responsible companies. Should one, for instance, purchase a Green Bond from a nuclear power plant, whose operator credibly claims to use its proceeds exclusively for regenerative energies?

Rating the sustainability of Green Bonds is more complex than rating other bonds, given that both the issuer as well as the specifically bond-funded project must be assessed. The following possibilities are the outcome of this for investors with ethically-sustainable goals:

1. They go by the **issuer's sustainability assessment** only and buy bonds from issuers who meet their criteria, regardless if these are Green or conventional bonds.

2. They go by the **issuer's sustainability assessment and the project funded by the bonds**. That is, they only buy bonds from issuers who meet their criteria. If such an issuer provides Green or Social Bonds, these are given preference.

3. They go by the **sustainability assessment of bonds-funded projects** only. This allows purchasing Green Bonds from issuers who do not meet the criteria of the investors and whose conventional bonds would usually be avoided. In this case, however, further regulations should be introduced and observed. Plus, the following questions should be answered:
   - Which categories of projects are covered by the investor's sustainability criteria?
   - What kind of information is expected regarding the funded projects?
1. Explanation of exclusion criteria

Armaments
Weapons and armaments are not only used for defense but also for aggression. This runs counter to the churches’ mission of peace. A comprehensible list of which weapons and military equipment are regarded as armaments is given in the appendix to the War Weapons Control Act*. According to this list, weapons of war include:

- fighter aircraft, attack helicopters, warships, submarines, and tanks;
- missile weapons, including the corresponding launchers;
- small arms (except for hunting and sporting weapons);
- howitzers, land mines, naval mines, explosive bombs;
- ammunition.

Companies producing cluster munitions or land mines and other controversial and banned weapons (that is, weapons whose use has been prohibited by conventions) should generally be excluded, even if the turnover is below ten percent. These conventions are: the Non-Proliferation Treaty, the Biological Weapons Convention, the Chemical Weapons Convention, the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects, the Ottawa Treaty aka Anti-Personnel Mine Ban Convention, and the Convention on Cluster Munitions – each one with the corresponding protocols.

Liquors
The consumption of alcoholic spirit beverages lies in the personal responsibility of each individual, however, excessive or permanent use of spirits holds an increased risk of addiction.

The limit mentioned in the criterion approximately marks the transition from alcoholic beverages such as wine and beer (about 3–14 percent) to liquors (15–80 percent). This also includes manufacturers of so-called alcopops if they are based on spirits.
**Tobacco products**  
The consumption of tobacco products lies in the personal responsibility of each individual but excessive or permanent use of these substances is associated with a considerable risk of addiction.

**Gambling**  
Gambling is problematic mostly because it can lead to or foster gambling addiction. This is especially the case where there is only a short time period between stake and result to reflect one’s own actions and become duly aware of the losses. In terms of this exclusion criterion, the following types of gambling are considered controversial: certain sports bets, electronic gaming like slot machines, virtual casinos, etc. Not included, however, are state lotteries and the like.

Besides the above-mentioned »classic« gambling, certain computer games must be considered as potentially addictive media. So far, however, research results in this regard are not sufficient to include this sector in this exclusion criterion.

**Violation of human dignity/pornography**  
Human dignity is based on the belief that women and men are created in God’s image. This results in the mission to protect this dignity against derogatory, denigrating, or degrading portrayals. The analysis of this criterion should not only consider pornographic products, but also the producers of videos depicting violence and likewise computer games glamourizing violence.

**Genetically modified crops**  
Due to different application possibilities (such as DNA sequencing*, marker assisted* selection, generation of genetically modified* crops) the use of genetic engineering techniques in plant breeding is not excluded as a rule. Hence this exclusion criterion refers to companies significantly producing genetically modified crops. What can be discerned here above all are socio-economic risks (the problem of extreme market concentration, increased clustering of the value-added chain by just a few companies, and the granting of biological patents), ecological risks (the hazard of contaminating conventional plants), and health hazards (resistance). This also includes the production of genetically modified woody plants (for example, wood for paper manufacturing, fruit trees). Green genetic engineering entails major risks for biodiversity, the environment, and health.

Since the application possibilities of genetic engineering are rather dynamic, continuous review and adjustment of the criterion is required.
Coal, oil sands, oil shale
Coal, oil sands, and oil shale are the fossil fuels with the worst CO₂ and environmental balance. Some of the largest global coal producers are so widely diversified that they cannot always be identified with a coal-related turnover threshold. Hence it is recommended to include the exclusion of all oil sands, oil shale and coal extracting companies with a 10% share of turnover as follows: exclusion of companies that provide significant reserves of those raw materials or companies with a share of more than 1% in global coal extraction.

Human rights violations
The active participation of indigenous people in national and transnational development processes is required for the implementation of political, civil, economic, social, and cultural human rights. Sustainable development can only be achieved when indigenous people can actively participate, that is, when they are actually involved in any decision concerning them (right to self-determination). This requires observing the principle of Free Prior Informed Consent (FPIC*), and applies above all to the areas land, natural resources and environment (territory), legal equality including the right to culturally adapted education and health systems, political participation and self-government.

Excluded are companies that deliberately violate the FPIC principle, or make no attempts to bring about the cessation of any known violation, including within the supply chain. Excluding a company based upon this criterion requires close and meticulous research*.

The International Labour Organization (ILO) is a special agency of the United Nations and has four fundamental principles which have been specified with several core labor standards and a variety of additional conventions and recommendations. These four fundamental principles are:

- freedom of association and the effective recognition of the right to collective bargaining,
- elimination of all forms of forced or compulsory labor,
- effective abolition of child labor, and
- elimination of discrimination in respect of employment and occupation.

Excluded are companies that deliberately violate the ILO core labor standards, or do not take measures to stop violations that have become known – including those of suppliers. The exclusion of a business based on this criterion requires intensive and meticulous research*.
Peacebuilding/Global Peace Index
Instead of actively warmongering, a country should promote non-violence and peace. The Global Peace Index (GPI) is provided by the non-profit global think tank Institute for Economics and Peace whose aim is to promote and measure a concept of peace that goes beyond the mere absence of war. Hence, peace is assessed within the context of democracy, education, and common good, and is generally considered as the absence of violence.

The GPI compares and measures the absence of violence in 162 countries. The index consists of 22 indicators ranging from military expenditure as a percentage of a country’s GDP, the relations with neighboring countries, and the number of jailed persons per 100,000 citizens. The data is based on a wide range of international sources, including several United Nations agencies, the World Bank, and peace research institutes such as the Stockholm International Peace Research Institute (SIPRI).

Death penalty
German Protestant churches take a categorical stand against the death penalty. The strongest argument against the death penalty originates in Christianity, and here in particular, in reformatory ethics: the clear distinction between an individual’s inner self and external actions. This understanding has been introduced into European legal systems as the concept of inalienable human dignity. Thus, the death penalty is incompatible with the protection of human dignity.

The number of executions is increasing worldwide; however, the number of nations that practice the death penalty is decreasing. Approximately 80 per cent of all capital punishments are executed in China, Iran, Iraq, and Saudi Arabia. In many other countries where executions take place, it receives less and less support from the population.

Classification »not free«
The research institute Freedom House issues an annual »Freedom in the World« report evaluating the degree of political freedoms and civil liberties in countries all over the world. The political rights and civil liberties (including freedom of religion) are assessed on a scale from 1 to 7. Countries are classified into three categories: »free«, »partly free«, and »not free«.

Corruption
Not only churches regard corruption as unethical behavior. Transparency International defines corruption as abuse of entrusted power for private gain and publishes an
annual Corruption Perceptions Index (CPI), which describes the degree of public sector corruption in a country as perceived by business people and experts. The scale ranges from 0 (highly corrupt) to 100 (very clean). All countries with a rating below 40 should be excluded.

Ecological compatibility/Climate protection
Conserving Creation includes not exceeding the absorptive capacities of the environmental media – water, soil, and air. A key factor in achieving this is to set binding limits and target values on the emissions [of greenhouse gases] that also play a crucial part in climate change mitigation.

The Climate Change Performance Index is an instrument that is supposed to enhance transparency in international climate politics. Its aim is to encourage political and social pressure on those countries which, up to now have failed to take ambitious actions on climate protection, and to highlight countries with best-practice climate policies. On the basis of standardized criteria, the index evaluates and compares the climate protection performance of 58 countries which together are responsible for more than 90 percent of global energy-related CO₂ emissions. Eighty percent of the evaluation is based on the objective indicators of emissions trend and emissions level. Twenty percent of the index results are built on national and international climate policy assessments from over 200 experts from the respective countries.
2. Principles for Responsible Investment (PRI):

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes, and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following six principles:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the PRI within the investment industry.
- We will work together to enhance our effectiveness in implementing the PRI.
- We will each report on our activities and progress towards implementing the PRI.

The PRI were developed by an international group of institutional investors and reflect the increasing relevance of environmental, social, and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. In signing the PRI, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the PRI over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the PRI.
3. Sustainable Development Goals (SDGs):

Goal 1: No poverty
Goal 2: Zero hunger
Goal 3: Good health and well-being for people
Goal 4: Quality education
Goal 5: Gender equality
Goal 6: Clean water and sanitation
Goal 7: Affordable and clean energy
Goal 8: Decent work and economic growth
Goal 9: Industry, Innovation, and Infrastructure
Goal 10: Reduced inequalities
Goal 11: Sustainable cities and communities
Goal 12: Responsible consumption and production
Goal 13: Climate action
Goal 14: Life below water
Goal 15: Life on land
Goal 16: Peace, justice and strong institutions
Goal 17: Partnerships for the goals
4. Allocating SDGs to the exclusion and positive criteria for government bonds

Tab. 2: Contribution of country criteria to fulfilling the SDGs

<table>
<thead>
<tr>
<th>Exclusions</th>
<th>Socially compatible</th>
<th>Ecological</th>
<th>Intergenerational justice</th>
<th>Responsible for future generations (e.g. education, literacy, infrastructure)</th>
<th>Keeping peace; lack of violence</th>
</tr>
</thead>
<tbody>
<tr>
<td>War-mongering countries</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Violations of human rights (death penalty, torture, paramilitary structures)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Countries classified as not free</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Endangering Creation due to poor climate change performance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Exclusions</td>
<td>Socially compatible</td>
<td>Ecological</td>
<td>Intergenerational justice</td>
<td>Responsible for future generations (e.g. education, literacy, infrastructure)</td>
<td>Keeping peace; lack of violence</td>
</tr>
<tr>
<td>Government bonds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Climate change performance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Level of deforestation and biodiversity</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Protection of human health and protection of ecosystems</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Level of (un)equal distribution and corruption</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Degree of Human Development; such as life expectancy at birth, education, and income</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Degree of political freedoms and civil liberties in areas such as freedom of religion and press</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Climate change performance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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</tr>
<tr>
<td>Level of deforestation and biodiversity</td>
<td>X</td>
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</tr>
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<td>X</td>
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<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Degree of Human Development; such as life expectancy at birth, education, and income</td>
<td>X</td>
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<td>X</td>
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<tr>
<td>Degree of political freedoms and civil liberties in areas such as freedom of religion and press</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
### 5. Allocating SDGs to the exclusion and positive criteria for corporate bonds and various other asset classes

Tab. 3: Contribution of company criteria to fulfilling the SDGs

<table>
<thead>
<tr>
<th>Forms of Investment</th>
<th>Shareholdings (corporate bonds, stocks, equity funds, private equity participation)</th>
<th>Real estate</th>
<th>Infrastructure</th>
<th>Agricultural investments</th>
<th>Commodity investments</th>
<th>Themed investments</th>
<th>Microfinance</th>
<th>Company criteria to fulfill SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing armsaments, banned weapons</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Manufacturing armsaments, banned weapons</td>
</tr>
<tr>
<td>Manufacturing tobacco products</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Manufacturing tobacco products</td>
</tr>
<tr>
<td>Producing liquors</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Producing liquors</td>
</tr>
<tr>
<td>Conducting gambling</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Conducting gambling</td>
</tr>
<tr>
<td>Violating human dignity (degradation and degradation)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Violating human dignity (degradation and degradation)</td>
</tr>
<tr>
<td>Producing genetically modified crops</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Producing genetically modified crops</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>Producing genetically modified crops</td>
</tr>
<tr>
<td>Violating FPIC by forcing the previous users off their land</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Violating FPIC by forcing the previous users off their land</td>
</tr>
<tr>
<td>Supporting or tolerating of inhumane labor conditions and child labor</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Supporting or tolerating of inhumane labor conditions and child labor</td>
</tr>
</tbody>
</table>
### Positive criteria

<table>
<thead>
<tr>
<th>Socially compatible</th>
<th>Ecological</th>
<th>Intergenerational justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing products and services for disadvantaged people/advancing inclusion</td>
<td>Decreased consumption of commodities and reduction of pollutant and waste emissions</td>
<td>Promoting improved work-life balance and offering old age provisions</td>
</tr>
<tr>
<td>Assuming shared responsibility for labor conditions including suppliers</td>
<td>Application and promotion of regenerative energy sources</td>
<td>Advancing infrastructure (e.g. schools, water and power supply systems)</td>
</tr>
<tr>
<td>Issuing anti-discrimination programmes/participation of women at all levels</td>
<td>Formulation of environmental policies and implementation of environmental and waste management systems</td>
<td>Products with a sustainable life cycle and sustainable production patterns</td>
</tr>
<tr>
<td>Creating jobs in the formal sector and promoting further training for entire staff</td>
<td>Sustainable tourism including creation of jobs, advancing local culture, and regional products</td>
<td>Ensuring affordable health care; research on previously neglected diseases</td>
</tr>
<tr>
<td>Directives on the employees' right to assemble and on reasonable work hours</td>
<td></td>
<td>Minimizing impact on climate change through daily activities</td>
</tr>
<tr>
<td>Commitment to paying living wages</td>
<td></td>
<td>Paying taxes and contributions, and improving collection of taxes and other charges</td>
</tr>
</tbody>
</table>

- **Socially compatible**
  - X X X X X X
  - X
  - X
  - X
  - X
  - X
  - X

- **Ecological**
  - X X X X X X X X X
  - X
  - X
  - X
  - X
  - X

- **Intergenerational justice**
  - X X X
  - X
  - X
  - X
  - X
  - X
  - X
  - X
6. List of links (Selection – in alphabetical order)

Church Information and Publications:
- AKI – Working Group Church Investments
  www.aki-ekd.de
- Brot für die Welt – Development Criteria
  www.brot-fuer-die-welt.de
- Church Investors Group
  www.churchinvestorsgroup.org.uk
- De Nieuwe Beurskoers
  www.denieuwebeurskoers.nl
- Division for Sustainability of the EKD
  www.ekd.de/nachhaltigkeit-32261.htm
- EKD Sites on Church finances
  www.kirchenfinanzen.de
- EKD-Text 130 »Lent to us is the Star on which we live«.
  The Agenda 2030: a Challenge to the Churches
- Environmental officer of the EKD member churches (AGU)
  www.ekd.de/agu
- FEST – Forschungsstätte der Ev. Studiengemeinschaft
  www.fest-heidelberg.de
- SÜDWIND Institute
  www.suedwind-institut.de
- Werkstatt Ökonomie
  www.woek.de
- ZdK/DBK: Making ethically-sustainable investments
  www.dbk-shop.de

Banks of the Church:
- Bank für Kirche und Diakonie eG – KD-Bank
  www.kd-bank.de
- Evangelische Bank eG
  www.eb.de
Research Agencies:
- Imug Rating
  www.imug.de
- MSCI ESG Research
  www.msci.com
- ISS-oekom
  www.oekom-research.de
- Sustainalytics
  www.sustainalytics.com

Provider Database:
- Sustainable Business Institute
  www.sbi21.de

Initiatives:
- Corporate Responsibility Interface Center
  www.cric-online.org
- EUROSIF
  www.eurosif.org
- Forum Nachhaltige Geldanlagen
  www.forum-ng.de
- Interfaith Center on Corporate Responsibility
  www.iccr.org
- UN Principles for Responsible Investment
  www.unpri.org

Real Estate Certification:
- BREEAM
  www.breeam.com
- EMAS
  www.emas.de
- EMASplus
  www.emasplus.org
- German Sustainable Building Council (DGNB)
  www.dgnb.de
- GRESB – The ESG Benchmark for Real Assets
  www.gresb.com
Grüner Gockel/Grüner Hahn  
www.gruener-gockel.de

LEED  
www.usgbc.org

**Microfinance Organizations:**

- Oikocredit  
  www.oikocredit.coop  
- ProCredit  
  www.procredit–holding.com  
- ResponsAbility  
  www.responsability.com
7. Glossary

**Asset allocation** – Allocation of scarce commodities to various possible uses. In the investment strategy this means the distribution of funds into different asset classes.

**Assets under management** – Managed funds; a significant financial indicator for size and market penetration of investment firms, insurers, fund managers, and banks.

**BREEAM** – Building Research Establishment Environmental Assessment Method is a certification method for buildings and entails numerous environmental and sustainability aspects. It was established in 1990 in Great Britain and underwent significant modernization in 2008.

**Brundtland Report** – The report of the World Commission on Environment and Development, »Our Common Future«, was published in 1987. The former prime minister of Norway, Gro Harlem Brundtland, was chairwoman of the commission.

**CDP** – Previously known as Carbon Disclosure Project, this investor’s initiative runs a global disclosure system of environmental data such as greenhouse gas emissions and water consumption. Once a year CDP collects environmental data and information from companies [and cities] on CO₂ emissions, climate risks and reduction goals and strategies, using standardized questionnaires on a voluntary basis.

**Corporate governance** – Responsible business management and control.

**Derivative** – Financial instrument that derives its value (price, rate) from the performance of the underlying asset.

**DGNB** – The German Sustainable Building Council (*Deutsche Gesellschaft für Nachhaltiges Bauen*) is a certification system serving the description and assessment of buildings and urban districts. Quality assessment revolves around a holistic understanding of sustainability, including the entire life cycle of a building.

**Effective tax rate** – The average rate at which a corporation is taxed on pre-tax profits, and thus a measure for minimizing tax payment.

**EMAS** – The Eco-Management and Audit Scheme is a voluntary instrument of the European Union supporting companies and organizations of all sizes and branches in continuously improving their environmental performance. **EMAS plus** is a sustainability management system based on EMAS supplemented with a social and economic perspective, including the generation of a standardized sustainability report.

**Equator principles** – A voluntary framework adopted by banks for determining, assessing, and managing environmental and social risk in projects.

**ETF** – An exchange traded fund is an investment fund traded on the stock exchange. ETFs are largely passively managed portfolios and track an index in the process.
**FPIC** – The principle of Free Prior Informed Consent shall ensure that indigenous people are involved in any decision concerning their land and living conditions early on.

**Futures (contracts)** – A legal agreement to buy or sell something at a specified time in the future; if, however, the transaction takes place immediately it is called spot date.

**Genome analysis** – DNA sequencing is the process of determining the predisposition of an individual human being, in which his genetic make-up is checked for possible disease-triggering dispositions or other liabilities.

**Global Compact** – The United Nations Global Compact is worldwide the largest initiative for responsible corporate governance. Based upon the Ten Principles of human rights as well as the Sustainable Development Goals* the UN Global Compact pursues the vision of an inclusive and sustainable global economy for the benefit of all people, communities and markets both today as well as in the future. The focus areas include human rights, labor standards, environment and corruption prevention. In doing so, the UN Global Compact does not consider itself as a certifiable standard or regulation instrument, but rather as an open forum initiating processes of change and sharing ideas.


**GRESB** – GRESB assesses and benchmarks the environmental, social and governance performance of real estate and real (estate) assets. Unlike LEED* or BREEAM*, GRESB does not assess the performance potential of individual buildings but of real estate and infrastructure portfolios and assets. The assessment is guided by the sustainability performance of individual real estate, and subsequently aggregated at portfolio level.

**High frequency trading** – Off-market and exclusively automated algorithmic trading of securities.

**IIGCC** – The Institutional Investors Group on Climate Change is an investor network advancing the issue of climate crisis among business and economy, policy makers and fellow investors.

**ILO** – The International Labour Organization is the oldest UN specialized agency which was founded in 1919. It has a tripartite structure that is unique within the UN system: The 187 member states are represented by governments, by employees as well as employers in the ILO bodies. Focal points of ILO work are setting and implementing international labor and social standards, in particular the core labor standards, seeking a fair and social process of globalization as well as creating decent work as an essential prerequisite in fighting poverty.
**Inclusion** – Including or rather involving people thus aiming at their participation.

**Intermediary** – A mediator who goes between various actors.

**Issuer** – Someone who issues securities.

**Lack of fungibility** – Not interchangeable; the opposite is fungibility, interchangeability.

**Land grabbing** – Appropriation of land; the buying or leasing of large pieces of land in developing countries by private or government investors. The target is food security for the investing countries wishing to secure their own supply. Another goal is to secure water rights. Hence, the local population can no longer use the corresponding agricultural areas, subsequently destroying smallholder livelihoods. It brings with it the danger of increased local food prices, a deterioration of the food supply necessitating increased food imports, as well as damage to the environment and biodiversity.

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

**Leuenberg Concord** – Constitutive document of the Community of Protestant Churches in Europe. In 1973, the member churches agreed in Leuenberg near Basel on pulpit and table fellowship.

**Liquidity** – in the Magic Triangle, measure for how quickly an invested amount can be traded into cash/cash at bank; in derivative transactions: availability of cash/cash at bank.

**Marker assisted selection** – A process used in plant and animal breeding whereby a marker is used for the selection of a genetic determinant or determinants of a trait of interest.

**Mutual/specialist funds** – Mutual funds are investment funds that are open to the general public. Shares of specialist funds, however, may only be acquired by institutional investors.

**NGO** – A non-governmental organization is a private, non-profit organization of the civil society that operates independently of any government.

**Offshore financial centre** – is a financial centre outside of standard jurisdiction, characterized by low taxation, a high degree of confidentiality/non-transparency, and a low degree of banking supervision and regulation.

**Offshore wind power** – A group of wind turbines in the same location in a body of water to generate electricity from wind.

**Open-end/closed-end funds** – An open-end fund is a collective investment scheme that allows investors to acquire shares in bigger investments, even for relatively
modest amounts of money. In general, shares can in principle be issued and redeemed at any time. **Closed-end funds** provide investors with the opportunity to purchases shares for specific projects whose number is fixed. The shares can only be purchased and sold on the market.

**Private equity** – Equity capital from an investor which is not traded on the stock market. If the capital is made available to young and innovative businesses, or if there is a high risk (with a correspondingly high growth prospect) involved, it is also referred to as venture capital.

**Public-private partnerships** – A public–private partnership is a cooperation between the public and the private sectors in designing, creating, generating, funding, managing, operating, and utilizing public services previously provided by the state.

**Research** – Research analysts perform financial analyses of companies and capital investments regarding specific aspects, the results of which serve as a basis for an investment decision.

**Small Catechism** – Protestant confessional statement written by Martin Luther in 1529 as a learning aid for youth education in churches regarding the core of the Christian faith.

**Spot price** – The current price paid for immediate delivery.

**Sustainable Development Goals (SDGs)** – The 2030 Agenda for Sustainable Development was adopted by all UN Member States in 2015, it applies to all nations in this world: developing states, emerging states, and industrialized states. At its heart are the 17 Sustainable Development Goals (SDGs), which for the first time take into account all three dimensions equally (i.e. social, environmental, economic) of sustainability.

**Underlying (assets)** – Securities, reference values (interest rates, indices…), or commodities (raw materials…) whose (price) performance determines the value of derivatives.

**UNEP Statement of Commitment by Financial Institutions on Sustainable Development** – Statement of the UNEP regarding the responsibility of financial institutions for sustainable development, to the implementation of which financial institutions can commit as signatories.

**United Nations Guiding Principles on Business and Human Rights (UNGPs)** – In 2011 the UN Human Rights Council unanimously endorsed the UNGPs. Although they are not an international binding legal instrument, the UNGPs are based on existing human rights obligations and must be understood as minimum requirements for states and companies. The Guiding Principles are based upon three pillars:
- the state duty to protect human rights
- the corporate responsibility to respect human rights
- access to remedy for victims of business-related abuses

**Volatility** – is measured by its standard deviation.

**War Weapons Control Act** – Implementing law to Article 26 of the Basic Law, which regulates the manufacture, transfer, placing, purchase, and transport of war weapons.
8. The Church Investors Working Group (AKI)

AKI (www.aki-ekd.de) is an EKD (Evangelical Church in Germany) dependent body of which the large institutional investors within the realm of the Protestant Church are members. Since 2008 the chief financial officers of national churches, pension and supplementary pension funds, church banks, diaconal corporations and foundations have been advocating that church activities in the field of investments be in accord with God’s Commandments and the Church’s mission, and do not contradict them. Thus, the AKI has developed the guideline for ethically-sustainable financial investing, which was first published in 2011. The AKI remains the collective author of all its following editions.

Institutional investors in the realm of the Evangelical Church and Diakonie in Germany who share and wish to promote the concerns of AKI can become members. Church institutional investors in the realm of the Council of Christian Churches in Germany (ACK) and from abroad, as well as organizations representing such investors, can become partners.

As a joint initiative of church investors (including the social service institutional investors) the AKI is not a substitute for the activities of its members and partners, but supports and supplements these.

1. The AKI advances the knowledge transfer on ethically-sustainable investments
   1.1 between church investors within the realm of the Protestant Church and church social services in Germany and beyond – the key instrument for that being the exchange of relevant information;
   1.2 between church investors
      ■ and church experts on ethics and sustainability,
      ■ and sustainability and financial service providers,
      ■ and other pertinent experts.

2. The AKI updates and publishes the Guideline for Ethically-Sustainable Investment within the German Protestant Church.

3. The AKI provides the framework as well as organizational and content-related support for the business dialogues of church investors.

4. The AKI encourages the formation of opinion and brings together the interests of its members. Based upon this opinion-forming process, the AKI can make public statements.

Contact: info@aki-ekd.de
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How to invest money safely and economically without violating ethical standards in doing so? In an increasingly non-transparent financial system investors feel a great need for guidance. Here the »Guideline for Ethically-Sustainable Investment in the German Protestant Church« provides well-proven support. It has been drafted and developed by the Working Group Church Investors (AKI), which accommodates the large institutional investors within the realm of the Protestant Church and Diaconia in Germany. Church investors recognise their responsibility of not only investing their funds economically but based upon Christian values also socially compatible, ecologically, and intergenerationally just. This fourth edition has been updated with new criteria for companies as well as chapters on climate strategies and the Sustainable Development Goals (SDGs) among other things.