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

3<sup>rd</sup>, updated edition



english



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for Ethically-Sustainable Investment  
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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 the people. This applies to all financial transactions of the Church and in particular to financial investments. Placed funds and 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 always 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 honour payment obligations. This economic principle is always valid. At the same time, it is stipulated that financial investments must not be contrary to 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 Working Group of Church Investors in the German Protestant Church has thus developed this guideline, which is now issued in a third and updated edition. In this new edition, chapters on positive criteria for government bonds and derivatives\* are added. The section *Bank services* is now replaced by a comprehensive chapter on *Dialogue with credit institutions and fund managers*. The texts *Investment objectives*, *Agricultural investments* and *Exclusion criteria for countries* as well as some explanations on exclusion criteria are revised. The new colour design, glossary, and extended list of links facilitate the use of this guideline.

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 missions. 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.

The Working Group will maintain and continually update this guideline in the future. For references and new developments, please visit our website: [www.aki-ekd.de](http://www.aki-ekd.de). Suggestions are welcome and can help in sustaining the knowledge cycle for ethically-sustainable investments.

A handwritten signature in black ink, appearing to read 'H. Thomas Striegler'. The signature is fluid and cursive, with the first letter 'H' being particularly large and stylized.

Heinz Thomas Striegler  
Chair of the Working Group of Church Investors



## 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 neighbour’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] know that God’s will, as demand and gift, embraces the whole world. They stand up for justice and peace on earth between individuals and nations. In consequence, they must join with other people in seeking appropriate rational criteria and play their part in applying these criteria.”

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

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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 under consideration here lies in economically sound investment and an adherence to the so-called “Magic Triangle.” The Magic Triangle has three objectives: security, profitability, and liquidity.\* Since the impact an investment may have on others must also be considered, the objectives of ethics/sustainability are 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 the 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.”*<sup>1)</sup>)

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

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1 Report of the World Commission on Environment and Development: Our Common Future 1987\*), cf. glossary.

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

### 2.1 Investment objectives

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 objectives of ethics and sustainability, the so-called “Magic Triangle of 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 objectives of security, profitability and liquidity\* are balanced in the so-called “Magic Triangle of Investment” so that the investment-related overall economic goal is attained in the best possible way. By also considering non-economic objectives, the “Magic Triangle” becomes the “Ethically-Sustainable Investment Triangle.”*

During this extension process, economic and non-economic investment objectives may be complementary or neutral, or may have to compete with each other. When investment objectives are complimentary, the measures to attain one objective can also benefit the pursuit of other objectives. If measures to attain the one objective do not affect the pursuit of another, then the objectives act in a mutually neutral manner.

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

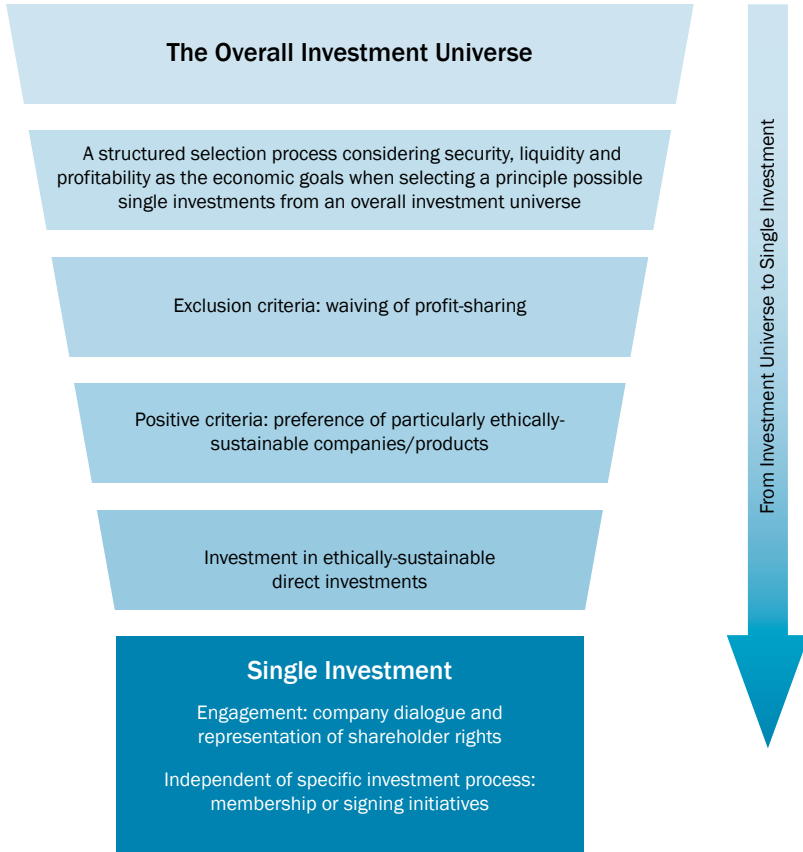
## 2.2 Implementation

“Avoid—Promote—Design” are attributes 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 and direct investments.
- Active engagement (business dialogue and/or exercise of voting rights).
- 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).

## Integration of Suitable Instruments into Ethically-Sustainable Investments



*Fig. 2: 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 per cent maximum, exclusion should be discouraged for the sake of proportionality. In such a case, a direct business dialogue (see 3.4 and 4.4 Active Shareholder Engagement) would be preferable to exclusion. However, companies involved, for instance, 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 its 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 criteria<sup>2</sup> for companies

- 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 manufacturing products that are produced in support or toleration of inhumane **labour conditions and child labour** (in terms of violating one of the fundamental ILO core labour standards)—including the supply chain.

Investors can stipulate further exclusion criteria, for instance, for companies conducting unnecessary/non-statutory animal testing or embryonic stem cell research.

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<sup>2</sup> More detailed information on individual criteria is given in the appendix.

### 3.1.2 Exclusion criteria for countries

Other than is the case with corporate bonds—whose acquisition 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 overall assessment. The following criteria may serve as useful indicators/flags in analysing government bonds:

#### Exclusion criteria<sup>3</sup> for countries

- 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 Transparency International CPI) (Rating < 40).
- Countries whose climate performance ranks in the “very poor” category of Germanwatch’s Climate Change Performance Index (CCPI).

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3 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 favour 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 fulfil 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

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 assume shared responsibility for the labour conditions in subsidiaries and suppliers worldwide, or have issued anti-discrimination programmes.
- Preference for companies promoting further training for its entire staff.
- Preference for companies that have formulated directives on the employees' right to assemble, on reasonable working hours, or that are in favour of minimum wages.

### Ecological

- Preference for companies campaigning specifically for the reduction of pollutant emissions as well as a decreased consumption of commodities, water, and energy.
- Preference for companies that further develop and promote the application of regenerative energy sources.
- Preference for companies that have formulated their own environmental policies, or have implemented an individual environmental management system.

### Intergenerational justice

- Preference for companies that allow for an improved work-life balance.
- Preference for companies that actively promote in all regions measures for infrastructural development and the construction of schools or expansion of water and power supply systems.
- Preference for companies that develop or manufacture products with a sustainable life cycle, for instance by using sustainably produced commodities, or organically degradable ingredients, etc.
- Preference for companies that guarantee health care within a community/society, or that engage in research on thus far neglected diseases.
- Preference for companies whose activities cause minimal impact on climate change.

### 3.2.2 Positive criteria for countries

Regarding educational and environmental standards or civil society structures, many countries—especially in 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 do not give equal justice 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 within a one-year period.

Once such trends have been consolidated, adequate and relative criteria for countries will arise. In case of continued improvements, the appropriate response, in keeping with our Christian values, is to support such countries specifically, and increasingly consider their bonds when making investment decisions.

#### Examples of positive criteria for countries

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, democratic and constitutional. An increased level of public welfare can be established with improvement of the following indices and measures:

- Freedom House—compares and assesses countries according to their level of political freedom 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 assesses 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 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 Themed and direct investments

Direct investments are direct equity holdings<sup>4</sup> or investments in material assets (real estate, infrastructure, commodities, agricultural investments). In this regard, direct investment is the investment strategy that is most likely to enable investors to realise their individual concepts of ethics and sustainability. At the same time, however,

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<sup>4</sup> The criteria relating to the acquisition/purchase and sale of exchange-trade equities (e.g. shares) are described in chapters 3.1 and 3.2.

direct investments demand an extensive amount of work and controlling as well as intensive consideration of the underlying\* products.

Themed investments are investments focused on specific subjects.

Microfinance investments are a particular way of providing money to support 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 also 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 partner contributions. For rather 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\* participations usually have a rather long-term investment horizon. Another feature is the interim lack of fungibility\*. Subscription 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 payouts 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

Real estate investing can be made directly (project development, purchase) as well as indirectly (fund investment). It is possible to involve ethically-sustainable aspects into the whole life cycle of a realty property. This applies both for new buildings as well as for maintenance measures to portfolio properties.

#### **Examples for considering ethically-sustainable aspects at the different stages of a realty property cycle:**

##### Planning stage

- Harmonious co-existence of commercial and residential properties (noise pollution, socio-culture).
- Promotion of work-life balance due to accessible child care.
- Good connections to public transport.
- Use of regionally available commodities.
- Accessibility.
- Sustainable building architecture (south-facing walls with windows, north-facing walls without windows).
- Environmental management (e. g. recyclable and compostable building materials).
- Quality of work places (quality of acoustics, light, and climate, ceiling height, communication/communal rooms).

##### Commissioning the (sub) contractors

- Relation between temporary/leased staff vs. permanently employed staff.
- Standard/agreed wages.
- Prevention of undeclared work and corruption.
- Promotion of small and medium-sized regional or local companies.

##### Construction stage

- Prevention of unnecessary ecological damage.
- Reduction of construction noise.
- Use of modern, energy efficient and eco-friendly machines and vehicles.
- Separation of construction waste and use of return systems/recycling.
- Building support, also for residents.

### Building Management

- Conservation of resources (e. g. waste management, use of drinking water).
- Energy efficiency.
- Creation of safety aspects (e. g. by avoiding unlit car parks and alleys).
- Use of recyclable means of production.
- Frequent restoration and maintenance.

### Use

- Consideration of exclusion and positive criteria in the selection of tenants.
- Creating communication/communal rooms.
- Fair balance of interests between landlords and tenants.

Today, the sustainability of real estate is frequently documented with a certificate such as, for instance, the *Deutsche Gütesiegel für Nachhaltiges Bauen* of the German Sustainable Building Council (DGNB), Building Research Establishment Environmental Assessment Methodology (BREEAM\*), and Leadership in Energy and Environmental Design (LEED\*). So far, however, the rating system of certification is inconsistent and not really comparable.

→ *The Protestant Church in Germany offers several environmental management systems for real estate such as, for instance, Der Grüne Gockel or Der Grüne Hahn.*

### 3.3.3 Infrastructure investments

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 allows goods and information to be transferred to the consumer.

Investors with a long-term investment horizon can also get involved in infrastructure projects such as ports, toll roads, and airports as well as schools, hospitals, communication systems, and energy supply. Frequently, the payout of dividends will not begin until termination of projects, often following several years. Political and economic risks cannot be excluded. Hence, new requirements regarding the management or security of a project, or higher environmental standards, often necessitate additional investments. Here, as in the case of private equity\* investment, the money invested is fixed for many years.

→ *Participation in infrastructure projects that are acceptable from an ethically-sustainable point of view requires a high degree of expertise. Ethically-Sustainable assessment (e.g. ecological compatibility, societal benefits, etc.) must be made individually for every single 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, labour conditions and their social impact on the production of raw materials are time and again subject to criticism.

If the investment takes place in the form of stocks and corporate bonds or in terms of direct shares in the production of raw materials, the aforementioned instruments, exclusion and positive criteria, as well as active shareholder engagement, are used. Thus, keeping in line with the criteria applied to companies manufacturing tobacco or radioactive materials used for nuclear weapons, these are excluded in the same manner as companies violating the ILO core labour standards are or companies that, owing to corrupt structures, maintain monopolies at the expense of the local population.<sup>5</sup>

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

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<sup>5</sup> Hence, shares and corporate bonds as well as agricultural investments are not subject of this section.



## Categories of commodity investing

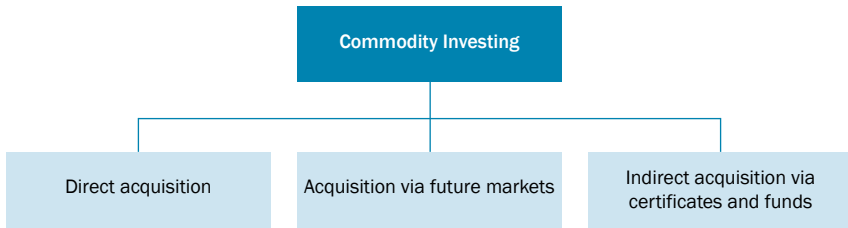


Fig. 3: The returns from commodity investing are generally attained with the assessment of price trends.

**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 to avoid the depreciation of money.

→ *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 when purchasing commodities, the processing industry pay attention to proof of origin and labour 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 centres for expected market prices and not for a trade volume, which will 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. The debate within the scientific community about the effects of financial speculation on food-stuffs 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 fulfils 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 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 fertilisers, or realizes high profits in short time due to betterment. Since many of these investments are made in emerging or developing countries, there is the risk not only of creating general political instability but also of generating huge agricultural monopolies. These in turn prevent farming families from working the land, or in some cases completely dispossess 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 for the cultivation of crops for the generation of energy instead of food, or—even worse—is reallocated.

Then again, an 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, for instance, improved drinking water supply, irrigation systems, or agricultural technology for smallholders).

→ *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, wind power, hydro power).
- 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 an 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, or whose income is too low. Typically, it provides 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 in the conventional credit transactions of domestic banks. Given that these constella-

tions can change at any time, this aspect should not serve as the single argument for an investment decision in microfinance.

Some MFIs 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, from 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 determines the intention of the microcredit transaction. Hence, it is of importance for the investor if the intermediary\* or the MFI takes a rather idealistic approach when providing money without or for a low interest rate (subvention of MFI and microcredit interest rates), or if the goal of economic benefits for everyone involved is pursued (returns in line with market conditions of the invested funds, cost-covering organization of the MFI, but also higher microcredit interest rates). The granting of commercial microcredits for consumption purposes must be refused since this often marks the beginning of the debt trap.*

Diagram of Microfinance Parties

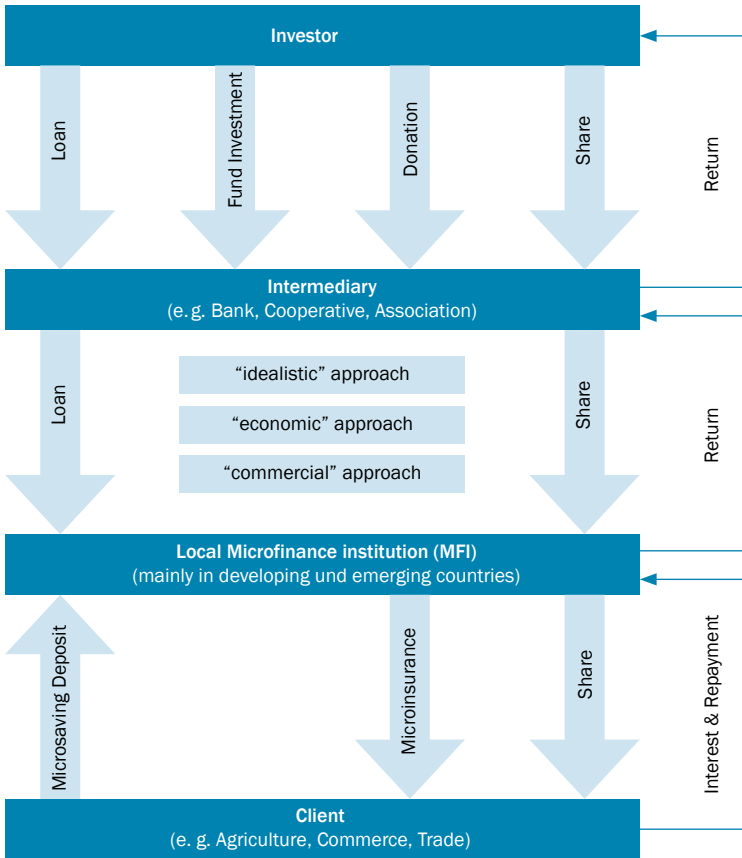


Fig. 4: Microfinance parties are investors, intermediaries\*, microfinance institutions and their clients.

### 3.4 Active shareholder engagement

Another key instrument for investors acting in an ethically responsible manner is by taking an active approach to the company, since they actually account for the use of their 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 active engagement of church investors, however, is geared beyond that to the criteria social compatibility, ecology, and intergenerational equity. 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 active 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 interview—taking place in private.

The non-public business dialogue is the best way to achieve the engagement goals—assuming the sincerity of everyone involved. 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 this dialogue with a public exchange of views, if 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 reveal to the company why a proposal in the general meeting does not meet with approval and what the needs are for amendment. 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 meeting.

### 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 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 the exchange of experience and information.

#### 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 for such associations are:

- The Berlin-based Forum Sustainable Money Investment (*Forum Nachhaltige Geldanlagen e. V.*) which has about 150 corporate members promoting sustainable investment.
- The *Südwind Institute* which helps church and non-religious private and institutional investors with the implementation of socially responsible investments.
- The *Corporate Responsibility Interface Center (CRIC)*, an association for ethically guided investors which pursues the goal to add more weight to ecological and socio-cultural aspects in companies.



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

### 3.5.2 Initiatives

Initiatives, active on 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,<sup>6</sup> an initiative supported by the United Nations, thus far joined by 300 institutional investors and approx. 1,000 investment managers committed to the consideration of environmental, social, and governance (ESG) criteria in their investment and decision-making processes; or CDP, formerly known as *Carbon Disclosure Project*, an organization which on behalf of more than 800 institutional investors tackles climate change and helps companies understand and manage their actual greenhouse gas emissions and to report to investors with a uniform, standardized method.

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6 See the entire “The Six Principles for Responsible Investment” document in the appendix.

## 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 analysed 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 governments or corporate bonds (e. g. shares, corporate securities). 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 conducts 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 to not 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 Themed and direct 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 the form of closed-end\* funds.

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

**Open-ended 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-ended investment funds\* consists in emphasising selected industries, technologies, or issues regarded as particularly promising or worthy of support, they are also called “themed funds”. 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, for instance, 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). Profit-shares are often higher than for stocks (and possibly pref-

erential), 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 fund\* (private equity\* fund)

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 (for instance, offshore\* wind farms, forests, 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 refers, in addition to investment, also to legal, tax, and economic components. Premature availability of the sums invested is seldom possible.

## 4.4 Active shareholder engagement

Active engagement is an important instrument for ethically-sustainable investment. Investors can become engaged by

- Entering into the dialogue with the company themselves and actively exercise their voting rights.
- Entrusting specialised external service providers or church banks with the exercise.

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

## 4.5 Matrix of instruments

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

Fig. Tool Matrix

	Exclusion Criteria	Positive Criteria	Themed / Direct Investments	Engagement	
				Exercise of Voting Rights	Business Dialogue
	3.1	3.2	3.3	3.4	3.4
Equities Shares	✓	✓	✓	✓	✓
Government Bonds	✓	✓	conditional		
Corporate Bonds	✓	✓	✓		✓
Subordinated Capital	✓	✓	✓		✓
Private Equity*	✓	✓	✓	conditional	✓
Real Estate	✓	conditional	✓		
Infrastructure	✓		✓		
Raw Materials	✓		✓		
Agricultural Investment	✓		✓		
Microfinance	✓		✓		
Hedge funds	conditional	conditional			

Tab. 1: The matrix illustrates which ethically-sustainable instruments can be applied to which asset category.

## 4.6 Dialogue with credit institutions and fund managers

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

Hence, establishing and maintaining **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 current 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 is.

- ■ *Are social and ecological sustainability criteria (environmental, social and governance, ESG) included in 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 offshore 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 activities not taken due to these reasons?*
- *Which self-commitments has the company undertaken and which policies has it published? 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 individual priorities and concerns, alternative and further issues and questions regarding 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 [organised] banks, they are by majority owned by church and diaconia institutions. One mission of church banks is to promote the Church and Diaconia. Their main task is to make church deposits in the form of loans serviceable for diaconia, and thus organise financial circulation within the church.

## **4.7 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 be managed by external managers (i. e., asset management or in the form of specialist fund\* mandates).

In view of the increased volatility\* in recent years on equity and bond markets, 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.

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 on the market and for portfolios.
- In purchasing and selling derivatives in off-market trading, the price risk as well as the counter party risk\* must be considered.
- Derivative trading is the trading of rights and duties—not, however, of the underlying assets\*.
- To assess packaged/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/control.
- 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 value 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 active engagement/dialogue to offer increasingly ethically-sustainable underlying assets\*.*
- *On 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 of available investments plus the equivalent of purchased futures contracts\* should not exceed the total of available investments plus the available liquidity\* (investment limit 100 per cent).*
- *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\*.*

## 4.8 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 domiciliation of hedge funds.*
- *Consideration of ethically-sustainable aspects.*

# Appendix

## 1. Explanation of exclusion criteria

### Armaments

Weapons and armaments are not only used for defence 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 for example:

- 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 per cent. These conventions are: the Treaty of the Non-Proliferation of Nuclear Weapons, 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 per cent by volume) to liquors (15 – 80 per cent by volume). 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 ultimately problematic 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 as "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 glamorizing violence.

### **Genetically modified crops\***

Due to different application possibilities (for instance 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 are above all socio-economic risks (the issue of extreme market concentration, increasing clustering of the value-added chain with just a few companies, and the granting of biological patents), ecologic 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.

### **Human rights/Violation of ILO standards**

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 labour 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 labour.
- Effective abolition of child labour.
- Elimination of discrimination in respect of employment and occupation.

A company should not be considered in the investment universe if it knowingly violates the ILO core labour standards, or does 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, over the relations with neighbouring countries, up to the number of jailed individuals 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 Christian, and here in particular, 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. The countries are classified into three categories: free, partly free, not free.

### **Corruption**

Not only churches regard corruption as unethical [behaviour]. *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 incompatibility/climate-related damage**

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 that, 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 standardised criteria, the index evaluates and compares the climate protection performance of 58 countries, which together are responsible for more than 90 per cent of global energy-related CO<sub>2</sub> emissions. Eighty per cent of the evaluation is based on objective indicators of emissions trend and emissions level. Twenty per cent of the index results are built on national and international climate policy assessments by about 300 experts from the respective countries.

## 2. Principles for responsible investment (PRI)— The Six Principles

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 over time). We also recognise that applying the PRI 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 for 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. List of links (Selection—in alphabetical order)

#### Church Information and Publications:

- AKI—Working Group of Church Investors  
[www.aki-ekd.de](http://www.aki-ekd.de)
- Brot für die Welt—Development Criteria  
[www.brot-fuer-die-welt.de](http://www.brot-fuer-die-welt.de)
- EKD Publications  
[www.ekd.de/ekd\\_kirchen/44057.html](http://www.ekd.de/ekd_kirchen/44057.html)
- EKD Sites on Church finances  
[www.kirchenfinanzen.de](http://www.kirchenfinanzen.de)
- FEST—Forschungsstätte der Ev. Studiengemeinschaft  
[www.fest-heidelberg.de](http://www.fest-heidelberg.de)
- German Bishops' Conference—Catholic Guide “Making ethically-sustainable investments” · [www.zdk.de](http://www.zdk.de) · [www.dbk-shop.de](http://www.dbk-shop.de)
- SÜDWIND Institute  
[www.suedwind-institut.de](http://www.suedwind-institut.de)
- Umweltbeauftragte der Gliedkirchen der EKD (AGU)  
[www.ekd.de/agu](http://www.ekd.de/agu)
- Werkstatt Ökonomie  
[www.woek.de](http://www.woek.de)

#### Banks of the Church:

- Bank für Kirche und Diakonie eG—KD-Bank  
[www.kd-bank.de](http://www.kd-bank.de)
- Evangelische Bank eG  
[www.eb.de](http://www.eb.de)

#### Research Agencies:

- Imug  
[www.imug.de](http://www.imug.de)
- MSCI  
[www.msci.com](http://www.msci.com)
- Oekom research  
[www.oekom-research.de](http://www.oekom-research.de)
- Sustainalytics  
[www.sustainalytics.com](http://www.sustainalytics.com)

**Provider Database:**

- Sustainable Business Institute  
[www.sbi21.de](http://www.sbi21.de)

**Initiatives:**

- Church Investors Group  
[www.churchinvestorsgroup.org.uk](http://www.churchinvestorsgroup.org.uk)
- Corporate Responsibility Interface Center  
[www.cric-online.org](http://www.cric-online.org)
- EUROSIF  
[www.eurosif.org](http://www.eurosif.org)
- Forum Nachhaltige Geldanlagen  
[www.forum-ng.de](http://www.forum-ng.de)
- Interfaith Center on Corporate Responsibility  
[www.iccr.org](http://www.iccr.org)
- Projekt "Zukunft einkaufen"  
[www.zukunft-einkaufen.de](http://www.zukunft-einkaufen.de)
- UN Principles for Responsible Investment  
[www.unpri.org](http://www.unpri.org)

**Real Estate Certification:**

- BREEAM  
[www.breeam.com](http://www.breeam.com)
- Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)  
[www.dgnb.de](http://www.dgnb.de)
- Grüner Gockel/Grüner Hahn  
[www.gruener-gockel.de](http://www.gruener-gockel.de)
- LEED  
[www.usgbc.org](http://www.usgbc.org)

**Microfinance Organisations:**

- Oikocredit  
[www.oikocredit.de](http://www.oikocredit.de)
- Procredit  
[www.procredit-holding.com](http://www.procredit-holding.com)
- ResponsAbility  
[www.responsability.com](http://www.responsability.com)

## 4. Glossary

**Assets under management**—Managed funds; a significant financial indicator for size and success/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 modernisation in 2008.

**Corporate governance**—The system of rules, practices and processes by which a company is directed and controlled.

**Counter party risk**—Default risk of the contracting party, especially the issuer.

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

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

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

**ETF**—An exchange traded fund is a marketable security. ETFs are largely passively managed portfolios and track an index, a commodity, bonds, or a basket of assets like an index fund.

**Futures (contracts)**—Purchase or sale with delivery set at a specified time in the future; if, however, the transaction/delivery takes place immediately, it is called spot date.

**Genetically modified crops**—are plants into which genes foreign to the species have been introduced. In natural conditions, the hereditary disposition would not happen due to cross or natural breeding. For instance, if bacteria transfer certain genes to plant hosts, these plants can independently develop toxins to resist pests.

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

**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; large-scale land acquisitions: the buying or leasing of large pieces of land in developing countries by private and government investors. The target is food security in 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 entails the danger of increasing local food prices, deteriorating food situations which necessitate increased food imports, as well as damage to 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 Agreement**—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, as well as full communion in witness and service.

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

**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.

**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 be issued and redeemed at any time. **Closed-end** funds provide investors with the opportunity to purchase shares for specific projects whose number is fixed. The shares can only be purchased and sold on the market.

**Private equity**—Equity capital, whereby the participation agreed upon by the capital provider is not traded on the stock markets. 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, one also refers to venture capital.

**Research**—Research analysts perform financial analyses of companies and capital investments regarding specific aspects, the result 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.

**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.

**Volatility**—A statistical measure of the dispersion of returns for a given security or market index.

**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.

## 5. Members of the Working Group Church of Church Investors—AKI

Evangelische Kirche in Deutschland  
Evangelische Landeskirche Anhalts  
Evangelische Landeskirche in Baden  
Evangelisch-Lutherische Kirche in Bayern  
Evangelische Kirche Berlin-Brandenburg-schlesische Oberlausitz  
Evangelisch-lutherische Landeskirche in Braunschweig  
Bremische Evangelische Kirche  
Evangelisch-lutherische Landeskirche Hannovers  
Evangelische Kirche in Hessen und Nassau  
Evangelische Kirche von Kurhessen-Waldeck  
Evangelische Kirche in Mitteldeutschland  
Evangelisch-Lutherische Kirche in Norddeutschland (Nordkirche)  
Evangelische Kirche der Pfalz  
Evangelische Kirche im Rheinland  
Evangelisch-Lutherische Landeskirche Sachsens  
Evangelisch-Lutherische Landeskirche Schaumburg-Lippe  
Evangelische Kirche von Westfalen  
Evangelische Landeskirche in Württemberg  
Evangelische Bank eG  
Bank für Kirche und Diakonie eG – KD-Bank  
Evangelische Ruhegehaltskasse in Darmstadt  
Evangelische Zusatzversorgungskasse  
Kirchliche Zusatzversorgungskasse Rheinland-Westfalen/Gemeinsame  
Versorgungskasse für Pfarrer und Kirchenbeamte  
Kirchliche Zusatzversorgungskasse der Evangelisch-lutherischen Landeskirche  
Hannovers  
Norddeutsche Kirchliche Versorgungskasse für Pfarrer und Kirchenbeamte  
VERKA VK Kirchliche Vorsorge VVaG  
Evangelisches Werk für Diakonie und Entwicklung  
Dachstiftung Diakonie  
Diakonie Württemberg  
Diako Thüringen  
Evangelischer Pfarrverein in Württemberg  
Herrnhuter Missionshilfe  
Landesausschuss für Innere Mission  
Stiftung Jugendhilfe aktiv  
Die Zieglerschen

As of May 2016



