

Financial investments as cooperation

*Ethical investment guidelines of the Austrian Bishops' Conference
and the religious orders of Austria (FinAnKo)*

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"But seek first his kingdom and his righteousness, and all these things will be given to you as well." (Matthew 6:33)

1. Giving priority to justice. Theological/ethical basis

Through Jesus Christ, the Church has been given a mission which encompasses countless tasks. These are based on material needs, whether this be ensuring the operation and maintenance of the Church's institutions and works or safeguarding pension and care commitments for priests and members of religious orders. The Church therefore needs money and must constantly be in a position to make funds available. Consequently, it must be able to acquire, own, manage and dispose of assets. Such assets are not an end in themselves. They should be used for the tasks which Jesus set his disciples. For this reason, the Church does not anxiously hold on to money and property and hoard it, but uses its assets freely to accomplish its tasks. The level of reserves and financial investments must therefore be in line with the commitments which the Church has entered into. At the same time, Church assets are always earmarked for a specific purpose. If the form of investment is changed, the original purpose for which the assets were intended must therefore be taken into account.

The investment of money is not ethically neutral. "Purchasing is always a moral – and not simply economic – act". (Pope Francis, Encyclical Letter *Laudato si* no. 206, quoting Pope Benedict XVI, Encyclical Letter *Caritas in veritate* no. 66). Wealth not only creates the economic basis for institutions and people, but also exerts an influence on the structures of a society. Because you can do something with it, there is an obligation to use this ability responsibly. The world of financial investment largely obeys the rules governing the interaction between supply and demand. By investing, you create demand. By excluding certain markets and suppliers, you remove demand from those segments. This can bring about changes in the system.

Wherever the Church invests money, by doing so it is supporting the institutions to which it entrusts the money. It is working together with them. This makes it jointly responsible for what these institutions do. This is at the core of the almost 500-year-old moral theological doctrine of "cooperatio ad malum", cooperation in evil. At the beginning of the early modern age and its flourishing economy, this doctrine attempted to illustrate and give reasons for the opportunities and limits of cooperation. Its very realistic examples and the criteria developed from them are still a useful yardstick for making ethical judgements today. Whereas in the 16th and 17th centuries the primary concern was cooperation between individual people, the main issue today is that of cooperation between institutions: To what extent can and should the Church as an institution entrust its money to states, companies and projects, if it wants to do so with a clear conscience?

In the classical doctrine of cooperation in evil, *formal cooperation* in an evil act is opposed under all circumstances. If cooperation is clearly to be understood as approval of an equally clearly reprehensible act, there is no room for manoeuvre at all. Investing in government bonds of a dictatorially governed state that tortures and executes people would have to be interpreted as such approval, as would investing in a company that flagrantly tramples on the human rights of its employees.

In many cases, however, the situation is not so clear. A state or a company does much good, but also some things that are bad. In this case, cooperation cannot as clearly and unequivocally be interpreted as approval of the action to be opposed. Classical moral theology refers to such cases as *material cooperation*. For these, three aspects need to be assessed:

- How *close* in space and time is the cooperation to the bad act? Investing in a company that is on the point of doing something very bad is more problematic, for example, than if this company does not rule out the bad act in the medium or long term.
- How *directly* is the cooperation linked to the bad act? Investing in a company that itself does something bad is more problematic, for example, than if that company has business relations with another company that is independent of it which commits such an act. If this second company is a supplier, the company to be invested in is linked to it more directly than it is to a company that purchases its goods.
- How *necessary* is the cooperation to the execution of the bad act? A state, for example, is usually more independent than a company. If a public movement advocating a boycott on investment in a company develops, the company will quickly capitulate. A state usually has greater staying power. From this point of view (!) it is therefore more problematic to invest in a company that commits a reprehensible act than in a state that does the same. In this social media age, however, investment boycotts against states have also become an effective lever for civic engagement.

The three criteria must always be applied together. The rule is: the more closely and directly linked and necessary an investment under consideration is to a bad action by the company or state to be invested in, the weightier the reasons must be in order to justify this investment. It is easy to see that this complex rule gives rise to the need for much discussion. Simple solutions are rare. This is precisely why tools such as this guideline are needed, so that good decisions can be made without an excessive amount of effort having to be expended.

The previous remarks could give the impression that the doctrine of cooperation in evil is primarily concerned with the prevention of economic cooperation. The opposite is true. As early as the 16th century, it was already very clear that no economic activity could be carried out without getting your hands dirty. It is safe to say that there will always be adverse side effects somewhere. These must be kept to a minimum, but they can never be completely ruled out. In addition, it was also recognised that in the majority of cases, such cooperation is actually "cooperation in good" and brings about desirable effects. For this reason, the development of ethical investments in recent decades has established positive approaches such as "best-in-class" and "engagement" as well as negative exclusion criteria: those who invest money can and should initiate and encourage changes for the better. "Money must serve, not rule!" (Pope Francis, Apostolic Exhortation *Evangelii gaudium* no. 58). The guideline presented here is fully in line with moral theological tradition in combining positive and negative strategies. It follows the call by Pope Francis to "seek other ways of understanding the economy and progress" (Pope Francis, Encyclical Letter *Laudato si* no. 16).

2. Ensuring economic efficiency. Economic basis

Production, trade and services require the use of labour (expertise) and capital. Those who make capital available as a production factor enable each of these to take place and ideally receive a commensurate share of the profit from doing so. Capital can be made available in a variety of forms, which can broadly be divided into equity and debt capital.

Equity, which in principle is made available for an unlimited period of time, gives the investors ownership of the investment object, which entitles them e.g. to co-determination rights and to a share in the profits and in the substance of the enterprise. However, economic failure can also result in a loss of some or even all of the financial investment. The most important equity investment instrument on financial markets is the share.

Debt capital is normally made available for a limited period of time and entitles the investor to recover the capital invested. The monetary investment is rewarded by interest earnings as compensation for monetary depreciation and the risk. The risk is that the borrowers may be financially only partially able to repay their debt or be wholly unable to do so. The principal transferable and legally standardized debt instruments are bonds and deposits.

The risk of a financial investment is linked to the failure of individual economic entities or to adverse developments in national economic systems. Financial investors can protect themselves to a large extent by spreading the risk appropriately. In practice, the investment fund has established itself on the financial markets as the instrument for professionally managed and well diversified investment.

When responsible investors make their capital available, they are interested in the long-term success of their investment and its benefits to society. "Speculators", by contrast, are aiming for disproportionate and short-term profits. Such profits may go hand in hand with "elements of gambling", with the exploitation of the predicaments of others or with the exploitation of information advantages or of an uneven playing field. Ethically justifiable investment is not aimed at speculative profits and must therefore not use investment instruments that contain significant speculative elements.

In most cases, it is not the investment instrument per se that is ethically justifiable or not, rather it is a question of what it is used for. The initial focus must therefore be on the ethical eligibility of the investment objects (cf. sections 5-6). However, some investment instruments and forms of investment, due to their inherent characteristics, are unsuitable for combining the use of capital with promotion of the common good – even if this means that investors lose out on the benefits (such as e.g. diversification) of such products. Specific issues are associated with the following products and forms of investment:

2.1 Investment funds

In order to obtain the benefits of risk diversification, investors in a fund delegate the details of individual investment decisions to the management of the fund. This has the effect of reducing transparency about the specific use to which the investors' money is put. However, in order to have certainty that the desired ethical criteria are being taken into account in the fund's investment process, conditions of transparency and binding rules must be observed.

On this basis, only investments in funds which set out clear ethical criteria in legally binding documents (fund regulations, prospectus, key investor information document (KIID), etc.) and which make it possible to verify compliance with these can be justified. Statements which are merely of a promotional or non-binding nature cannot be taken into consideration. While funds which carry a quality label have submitted themselves to a particular certification process, this will not necessarily meet all the criteria that the Austrian Catholic Church deems essential.

Funds are managed according to different investment styles. Those styles to which the short-term and speculative nature of the investment is integral are ethically questionable. These include, for example, investment styles which very often or exclusively invest according to mathematical and statistical algorithms. Funds whose business model is based on short selling should be avoided, as should hedge funds whose business model is the systematic asset-stripping of functioning companies. An investment should not be countenanced where no information about the investment methodology is published, nor in business models whose tax transparency is not clear.

2.2 Derivative instruments

Derivatives relate to equity and debt securities or other underlying assets such as commodities, currencies, indices, interest rates and differences. The scope of their application is very wide-ranging and is often associated with a considerable distance from the actual investment object in the real economy. The greater this distance and the more complex the acquired or granted right, the more difficult the management of risks and the smaller the guarantee that the product will ultimately have only ethically desirable effects.

Consequently, the use of derivatives must in general be accompanied by a significantly higher degree of restraint and caution. This is reinforced by the frequent tendency for derivative instruments to be used for implementing short-term considerations, this alone putting it very close to speculative trading. This also applies where derivatives are used by financial professionals within an asset management or fund setting. Caution is likewise called for when assessing so-called "structured products", which are usually a set combination of bond and derivative components.

A major use of derivatives is as hedges against risks in the securities portfolio or in the balance sheet of investors, which in ethical terms are fully justifiable. However, financial professionals who undertake such hedging operations, which are permitted in principle, must be aware that in individual cases there may be ethically questionable side effects that rule out the practice entirely. Reasons for exclusion include, for instance:

- opening and closing hedges for speculative purposes,
- using hedging transactions to engage in short selling,
- contributing through hedging transactions to the volatility of prices relating to food, residential property or other essential products.

2.3 Index products

The passive investment style aims to buy widely diversified standardized portfolios (baskets or indices) rather than purposely ("actively") compiled portfolios. As is the case with funds, this strategy helps to spread risk. It is commonly encountered in the form of exchange-traded funds, certificates or structured products.

The weighting of indices cannot normally be influenced by the individual investor. Care must therefore be taken to ensure as a minimum that all the exclusion criteria in the ethics guideline are implemented in the index. Other methods which are designed to increase the public benefit of a financial investment (best-in-class; engagement) are only applicable to a limited extent in the case of index products. Index products for hedging can be used in accordance with the principles set out in section 2.2.

2.4 Commodities

Commodities are normally subdivided into the categories of energy, precious metals, non-precious metals and industrial commodities and agricultural commodities. The direct link with the feeding of humanity excludes agricultural commodity derivatives from Church investments. The general rule for all commodities is that the investment must create an output and a benefit which are commensurate with the expected profits and enable it to be clearly distinguished from speculation.

Precious metals, gold in particular, have always enjoyed a special status as a financial investment. The benefit to the general public will in many cases be only an indirect one. However, the stability of investment portfolios can be improved by the inclusion of a small amount of gold. Its particularly stable value retention over very long time periods and in times of monetary depreciation or political crises is valued as a stability factor as much as its transportability in crisis situations. At the same time, the price of gold is subject to considerable fluctuations in the short and medium term.

The extraction of new gold is often associated with damage to the environment and with exploitative working conditions that are harmful to health. Investing in gold therefore imposes a particular responsibility on investors: when purchasing it, consideration must be given to the eco-social certification of the material (e.g. Fair Gold). The exploitation of short-term price fluctuations in a speculative manner (including hedging) must be rejected. Gold is a volatile asset class, and its incorporation in a portfolio mix must be handled very carefully and professionally. The same principles also apply to indirect investments in gold via certificates or funds.

2.5 Other equity investments

As well as equity participation through shares, there are also other forms of equity investment which may be considered. These must be evaluated against the criteria described in section 2.1. This applies, for example, to open-ended and closed-ended property funds. Transparency is essential so that investors can assess whether use of the property is free of any ethical problems (no use which is excluded in sections 5-6) and establish that the main methods used are not of a speculative nature. The principles must be documented in a legally binding form and their implementation must be open to scrutiny.

Family offices and institutions are increasingly investing large amounts of money in private equity. This class of asset is offered either as a direct product or as a fund and involves portfolios of stakes in companies. In contrast to the situation with shares, private equity fund managers exert direct influence on the financing, management and strategy of companies through their considerable stakeholdings. The goal is to increase the value of the company substantially over a period normally of 10 years and finally to dispose of it.

If this direct influence is exercised in accordance with bindingly documented and ethically desirable principles, private equity can benefit the common good more directly than the acquisition of shares. Whereas listed companies and funds report quarterly and are measured against benchmarks of success which are sometimes very short-term, the aim here is for a company's performance and value to be able to develop over an appropriate timescale. However, dealing with private equity requires investors to be additionally qualified to be able to assess risk and return and make an ethical evaluation professionally.

3. Economic management that serves humanity and creation. Toward combining economics and ethics

In order to make funding available for its many and varied tasks, the Church has a moral obligation to achieve a reasonable return on its investments. Its financial managers face the challenge of reconciling the Church's ethical values with the economic demands of providing for its material security. For the Finance department, this means integrating the widely recognized "magic triangle of financial investment", with its investment goals of liquidity, security and profitability, within an ethical and sustainable framework of values. There is a responsibility here toward the owners of the financial resources, calling for efficient use of the resources and adequate management of the risks, and also a responsibility toward society, which is shaped by financial decisions.

As a responsible investor, the Church prioritizes Christian measures of value and if a conflict arises is prepared to forego a financial advantage if this is deemed necessary from the moral point of view. Numerous studies have shown that in many areas an investment made in accordance with ethical criteria does not in the long term have to mean a loss of performance compared with conventional investments. Moreover, the investment universe defined according to ethical criteria offers sufficient scope for ensuring that the necessary economic goals are met.

4. Acting in unity. On the motivation for this guideline and its binding nature

This guideline sees itself as a continuation of the tradition of Catholic religious orders, which since the 1970s have been arguing the case for ethical investment and have contributed substantially to the emergence of this investment format, and as a further development of the following guidelines and guidance documents:

- the "Principles for Investments" and "Investment Policies" of the United States Conference of Catholic Bishops (USCCB) of 12 November 2003,
- the "Ethics guidelines (Lists of objectives and criteria)" of the Austrian Bishops' Conference of 2006
- the "Guidelines for ethical and sustainable investment in the Evangelical Church" of the Evangelical Church in Germany, 3rd updated edition of September 2016 (1st edition dated September 2011) and
- the guide for financial managers of Catholic institutions in Germany on "Investing ethically and sustainably" published by the Secretariat of the German Bishops' Conference and the Central Committee of German Catholics (ZdK) in 2015.

The guideline presented here relates only to financial investments, not to strategic holdings in companies or to the direct ownership of property or means of production. It is legally binding wherever it has been implemented by the relevant decision-makers. The intention is for it to become universally binding on all dioceses, religious orders, parishes, institutions and other legal entities of the Catholic Church in Austria.

Uniform implementation of this guideline throughout the Catholic Church in Austria

- puts into practice the Word of Jesus: "But seek first his kingdom and his righteousness, and all these things will be given to you as well." (Matthew 6:33)
- conveys the seriousness with which the Church is tackling this issue.
- is an essential prerequisite for the credibility of the Church in the area of economic activity.
- can serve as a model for other institutional and private investors.
- will contribute toward shaping opinion in politics, the economy and society.
- enables the Church to adopt a clearer stance toward investment providers and to be more effective in their engagement with companies.
- can achieve the goal of humane and environmentally sound economic management faster and more easily, due to the large number of Church investors and the volume of assets invested by them.

This guideline therefore calls on all legal entities of the Catholic Church to adopt in full the rules set out here.

5. Justice, peace and integrity of creation. Action areas for ethical investment

Differentiation and specialisation, economic liberalisation and globalisation have all contributed significantly to the well-being of many people, families and societies. However, they have also disadvantaged many social groups and some regions of the world, as well as future generations, and have encouraged the despoiling of creation. The three guiding principles of the ecumenical conciliar process that began at the 1983 Assembly of the World Council of Churches in Vancouver are therefore the best way to describe the action areas for ethical investment: justice, peace and the integrity of creation.

In the biblical tradition, interpersonal *justice* is a structuring of society in which even the worst-off are doing well. The Bible explicitly mentions widows and orphans, the poor and foreigners and women and children as among those to whom particular attention must be paid. Modern human rights expand on this idea and give it a legally tangible form. In order for these rights to be upheld in practice, good governance both of the state and of social institutions is necessary. The guidelines pay particular attention to this aspect.

Even though it is over 70 years since World War II, the world is full of regional conflicts. The industrialised countries and their companies are involved in many of these. *Peace* is therefore a second key action area for ethical investment. Biblically, peace will be realized when all peoples and religions reforge their weapons into tools for civilian use, travel as pilgrims to a common place of pilgrimage and listen together to what is right. They respect the diversity of one another's cultures and religions, but share a common ethic (Isaiah 2; Micah 4). The issues of arms production and the arms trade, as well as possession of internationally banned types of weapons, are therefore of great importance to ethical investment.

The third major challenge, which emerged in the 1970s, is the *integrity of creation*. The Bible itself realized that man is not a faithful steward of the garden in which God has placed him. (Genesis 1-9). This makes it yearn all the more for man to live in harmony with all creatures (Isaiah 11). In the 21st century, the focus will be on two global environmental challenges: protecting the climate and preserving biodiversity (cf. the two conventions of the United Nations Conference on Environment and Development in Rio de Janeiro in 1992 and Pope Francis' 2015 encyclical *Laudato si*). Both are vital, and both will require considerable effort. Ethical investments can be an important instrument for setting the necessary economic transformation processes in motion.

Justice, peace and integrity of creation are three action areas with numerous interconnections. Wars are one of the major causes of environmental destruction. This in turn is an injustice both to people living in environmentally vulnerable regions of the world and to future generations. After all, unfair conditions are the major factor fuelling armed conflicts. The combination of the three action areas thus provides a coherent overall picture of humanity's huge ethical problems.

6. Prevention – encouragement – change. Principles of ethical investment

As ethical investment has developed, three basic principles have emerged: Exclusion criteria are intended to prevent an investment from cooperating too closely, too directly or too necessarily in an action which should be opposed. The best-in-class approach aims to encourage states, companies and projects that can be seen as being of above-average ethical value. And through engagement, investors actively influence the institutions in which they invest money.

Majority owners have a responsibility for the actions of their companies that cannot be delegated. The following negative and positive principles therefore apply to them analogously - even where the majority owners are states. Considerable responsibility for dependent subcontractors and for suppliers of relevant product components is assigned to the parent or principal company.

The following sections explain the long-term principles of ethical investment. Specific thresholds are set out in the attached table. In individual cases, they may also have to be adjusted in the short term without invalidating the principles presented here. Some criteria in the table are currently not yet verifiable and are therefore marked with an asterisk *. As soon as this verifiability is in place, they will be applied to the Church's investments. Other criteria in the table do not currently apply to any country or organisation/company that is eligible for investment, and these are marked with two asterisks **.

6.1 Prevention: exclusion criteria

In a first step, exclusion criteria are intended to prevent an investment from contributing excessively to unacceptable or at least ambiguous actions by companies or states. They signal that the Church does not want to profit from the action concerned. Where exclusion criteria apply, they must be observed in all cases and cannot be offset by an overall excellent ethical performance. Exclusion criteria can be absolute, and then they apply in every case. In less clear-cut cases, they can be set relatively and then only apply under certain additional conditions, which are expressly specified.

Justice

Governance: democracy versus authoritarian regimes – human rights – legal system / legal order – corruption – money laundering and terrorism financing – controversial business practices

Governance refers to governance in terms of structures at the government, administrative or corporate level. Governance is therefore measured against how well a control and regulatory system at the institution concerned functions in the service of human dignity and human rights. For assessing countries which are largely democratically structured, Freedom House's positive list is used. This list is also used for classifying countries that are rated in it as "not free" as ineligible for investment. Furthermore, countries in which serious, persistent and systematic restrictions on the human rights listed in the United Nations Universal Declaration of Human Rights are known to exist are deemed to be ineligible for investment.

Corruption is the abuse of entrusted power for private benefit or gain. Each year, Transparency International publishes an index which shows the scale of corruption in a country's public sector, as perceived by business people and experts (Corruption Perception Index). Countries with a rating of less than 50 out of 100 in this index are not eligible for investment. Money laundering and the financing of international terrorism are a steadily growing problem in the financial world. A state which has not incorporated the relevant standards of the Financial Action Task Force (FATF) into its legislation or a company which is in serious breach of these standards is therefore not eligible for investment. Similarly, companies are also considered to be ineligible for investment if they have been convicted of corruption, data falsification, false accounting or fraud - until independent authorities confirm that this practice has ended.

Global justice and world food supply: land grabbing – food speculation – waste exports – breast-milk substitutes and the marketing of pharmaceutical products

In many cases, globalisation has led to growing prosperity. But particularly for the most disadvantaged countries and individuals it also brings with it serious disadvantages – above all because the international regulatory framework is too weak and does not prohibit many ethically reprehensible practices. The worst of these practices therefore result in states and companies being deemed ineligible for investment.

"Land grabbing" is the term used to refer to the acquisition of large areas of land by large companies or foreign states. The aim is either to achieve a dominant market position or to speculate with the land. They generally exploit their size as a power factor, and small farmers are prevented from accessing farmland. In poor countries the consequences are hunger and impoverishment, while in rich countries the death of small farms is accelerated. Food speculation means trading in food-based derivatives without any intention of processing or selling these foods in actual trading. Such speculation can drive food prices up to levels that are unaffordable in poorer countries or down to levels that drive small farmers to ruin. Commodity certificates and funds which contain food derivatives of this kind in their baskets are therefore also excluded.

The problem of waste exports should not be underestimated. When waste from rich countries is exported to poor countries, it is almost certainly disposed of there without any health and environmental regulations. Companies are therefore considered to be ineligible for investment if they are found to be in breach of the 1989 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. Breast-milk substitutes have for long been used as a "Trojan horse" by large corporations. In poor countries, their use for feeding infants led to mothers stopping breastfeeding and becoming dependent on large corporations. In addition, they often mixed the powdered milk with contaminated water, thereby endangering the health of their children. There are also similar violations relating to

the distribution of pharmaceutical products. Companies are therefore excluded from the universe if they violate international agreements on the marketing of breast-milk substitutes or the Code of Practice of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA).

Labour: labour rights – working conditions – child labour

Work is an expression of human dignity. The goal must therefore be to organise working conditions in such a way that the human personality can develop. Countries in which labour legislation has serious shortcomings are therefore not eligible for investment. The same applies to companies which grossly violate the four basic principles of the International Labour Organization (ILO) or accept the fact that their suppliers do so. The four principles are as follows:

- 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.

The ILO itself does not give any definitions of these key concepts. It will therefore be the responsibility of the ethical advisory organisations to draw up meaningful criteria here.

Protection of life: embryonic stem cell research – abortion – euthanasia – death penalty

Human life enjoys a particularly high level of protection in our system of values, because it is the essential condition of every human being to attain higher goods and because disregard for it would lead to serious social upheavals. The strong protection of human life, to which there are virtually no exceptions, begins with the fusion of egg and sperm cells, as the single point in time that is not based on an arbitrary demarcation, and does not end until death.

The principle of the protection of life prohibits the destruction of human embryos and the use of their stem cells for research or manufacturing purposes. It also prohibits abortion (including the production and distribution of abortifacients) and active euthanasia as well as assisted suicide. The death penalty must also be opposed as a sanction of the modern state. Therefore, any companies which carry out one or more of these practices and any states which declare one or more of these practices to be not only exempt from prosecution but also lawful, or which practise it/them themselves, are not eligible for investment.

Sexual ethics and reproductive medicine: reproductive medicine – contraceptives – pornography

In the area of sexuality and reproduction, there are also a number of practices of which the Church disapproves. Although they do not constitute the killing of human beings, they are evidence of serious shortcomings with regard to justice. In the case of most criteria, companies that carry out these practices are therefore not absolutely excluded from the investable universe, but there is a relative exclusion if the turnover from these practices exceeds a low, clearly defined limit.

In the field of reproductive medicine, this applies firstly to methods in which so-called "surplus embryos" are produced that are later left to die. Secondly, so-called heterologous fertilization, in which sperm or egg cells do not originate from the couple wanting to have a child, which can cause severe psychological stress for the children conceived in this way when they search for their identity. And thirdly, so-called surrogacy, in which the woman who carries the child to term is not the one whose child it is intended to be after the birth. In this latter case, the child's severely complicated search for its identity is added to by the exploitation of the surrogate mother's body and the highly problematic separation of mother and child immediately after birth, notwithstanding the fact that during the nine months of the pregnancy an intimate relationship has formed between them.

Pornography is also a form of exploitation of the human body and its objectification by producers and consumers.

Encouragement of addictive behaviours: alcohol – tobacco – gambling

Addiction is dependence on a substance or a behaviour. The person concerned no longer has any control over himself or herself. The health-related, social and financial consequences are often drastic. Strong alcoholic beverages, tobacco and gambling will not necessarily lead to addiction. Without effective preventive measures, however, this is often the case. For this reason, certain companies which supply addictive substances are not eligible for investment at all, and some are ineligible above a low share of turnover limit.

Peace

War and armaments: arms budget – weapons – armaments

Even democratic states need the means to defend themselves. However, if they have a relatively high arms budget, this will be seen, at least by wealthy countries, as a potential threat, which will incite other countries to arm themselves. Therefore, investments are only made in states whose defence budget is below a certain proportion of their gross domestic product.

Companies which manufacture or sell internationally banned weapons (i.e. weapons defined in conventions as prohibited) and states which possess such weapons are not eligible for investment. These include nuclear, biological and chemical weapons, as well as anti-personnel mines and cluster munitions. Companies which manufacture or sell other weapons or armaments are not eligible for investment if the proportion of total turnover accounted for by such goods is above a low limit. Armaments are goods that are primarily or exclusively used for military purposes. These include far more goods than just weapons.

Individual violence: violence-glorifying media

Realistically portrayed real or virtual acts of killing or cruelty often go hand in hand with the glorification or trivialization of the portrayed violence. In addition, the dignity of the persons portrayed is often violated. Many of these portrayals are subject to legal regulations for the protection of minors, and in some countries they are punishable. Companies which produce such video films, computer games or other comparable media are not eligible for investment under any circumstances, and retailers are not eligible above a certain turnover limit.

Integrity of creation

The most important global goals: biodiversity – climate protection

Since the United Nations Conference on Environment and Development in Rio de Janeiro in 1992, the international community has agreed to recognize the preservation of biodiversity and climate protection as two equally important, top-priority goals for political action. States which have not ratified the relevant follow-up treaties are therefore not eligible for investment. With regard to climate protection, this is currently the Paris Protocol of the 21st Conference of the Parties in 2015, and with regard to the protection of biodiversity, it is the Cartagena Protocol of the 1st Extraordinary Conference of the Parties in 2003 and the Nagoya Protocol of the 10th Conference of the Parties in 2010. Poor implementation of the treaties will result in a downgrading under the best-in-class approach.

The production and combustion of fossil fuels are a significant factor in the global greenhouse effect. We cannot yet do without them altogether. However, steps to reduce them, known as "decarbonisation", should be supported, and steps to extend their use should not be supported. Therefore, companies producing natural gas by fracking or producing crude oil by fracking or from tar sand or coal are not eligible for investment. Companies which produce crude oil or use coal to generate electricity are not eligible for investment if the revenues from these activities exceed a certain percentage of total turnover.

Agriculture: biocides – green genetic engineering

Industrialised agriculture involves practices that pose a major threat to environmental media such as soil, water and air, to ecosystems and sometimes even to the health of farm animals and human beings. Such practices include the use on the one hand of biocides and on the other of genetically modified organisms. Companies which manufacture or sell biocides classified by the World Health Organization (WHO) as "extremely or highly hazardous" are not eligible for investment if the revenues from these activities exceed a certain percentage of total turnover. The same applies to companies which produce genetically modified plants and animals for agricultural use and to companies which process or sell foodstuffs and animal feed (and raw materials for these) made from genetically modified plants and animals.

Individual environmental problems: chemicals – nuclear power – controversial environmental behaviour

Certain chemical substances pose a major threat to humans and to the environment. Companies which manufacture or sell chemical substances banned by the European Union are not eligible for investment if the revenues from these activities exceed a certain percentage of total turnover.

After the events of Fukushima, the civil use of nuclear power is no longer defensible. The risks of a maximum credible accident (MCA) during operation of the power plants are too great. In addition, the final storage of nuclear waste places a burden on future generations, the implications of which we cannot even begin to estimate. Companies which operate nuclear power plants or generate revenue through products and services for and from nuclear power plants are not eligible for investment if the revenues from these activities exceed a certain proportion of total turnover.

States and companies which flagrantly disregard environmental laws or generally recognised minimum environmental standards or codes of conduct, or which operate large-scale projects (e. g. pipelines, mines, dams) that have a particularly harmful effect on ecosystems in the region, are not eligible for investment. Banks which provide at least 20% of the finance for such large-scale projects are not eligible for investment.

Animals: livestock farming – animal testing

Animals are fellow creatures of humankind and deserve to be treated fairly. When humans use them, they assume a special responsibility for their well-being. Intensive livestock farming or factory farming is a high-tech form of livestock farming in which large numbers of animals are kept in confined spaces and the number of animals is not appropriate to the area of agricultural land available. Factory farming harms not only animals but also the ecosystem and the climate. Companies engaged in factory farming, mass transportation of livestock or fur farming (including breeding establishments) are therefore not eligible for investment. Animal testing, despite its limited informative value, is often the best possible method for testing the impact on health of chemical substances and drugs. Since science has not yet found adequate alternative methods, it will remain dependent on animal testing in the medium term. However, as this usually causes harm to animals, it must be limited to the absolute minimum necessary. Companies which manufacture products for which tests that are not required by law have been carried out on animals are therefore not eligible for investment.

6.2 Encouragement: best in class as "cooperation in good"

Alongside the negative exclusion criteria, which prevent cooperation in ethically clearly unacceptable forms of behaviour, the best-in-class approach is applied as a means of exerting a positive influence. It represents a refinement of issuer selection. Those securities that are not affected by an exclusion criterion are evaluated using positive and negative scores. This results in a ranking, which allows a specific selection to be made under the headings "encourage" and "avoid". This is done by specifying a certain minimum number of points as an absolute limit or a certain proportion of the total number of securities as a relative limit, e.g. "only the top third".

The thematic areas of the evaluation are taken from the attached list of criteria, their weighting being left to the investors. Particularly in critical sectors such as mining, the automotive industry, power generation, etc., only the "most sustainable" in the class should be eligible for investment. This is intended to help produce a role model effect, so that overall ethical standards in the sectors improve. This creates positive incentives without worsening the risk profile of investors' own investments through a general exclusion. Specialist research agencies must be used for the evaluation. These must meet certain quality criteria (e.g. CSRR quality standard) or be able to provide evidence of certification (e.g. Arista). Within the investment universe they have defined, asset managers or fund managers can make their selections according to economic criteria.

6.3 Change: engagement

Non-demand (exclusion criteria) and demand (best-in-class approach), as well as the transparency and consistency of the criteria used for these, are already beginning to have a guiding influence on the financial markets. This effect can be enhanced through active confidential or public communication between (groups of) investors and issuers. In particular, conditions can be specified under which ethically oriented (groups of) investors are likely to invest. Such communication processes are referred to as engagement. Engagement includes a variety of strategies that can be used:

- **Vote strategy:** Shareholders exercise their speaking and voting rights at the annual general meeting. Voting rights can also be pooled or transferred in order to give them greater weight. In large public companies or companies with dominant key shareholders, the voting rights may not be of any relevance to majority decisions, but arguments can nonetheless be put forward in the annual general meeting and bring about changes – even if the management is concerned solely about avoiding damage to its image.
- **Voice strategy:** Direct dialogue with a company is used to raise ethical issues. This dialogue may include criticism of failings as well as encouragement to make further ethical improvements.
- **Entrance strategy:** If the voice strategy leads to a situation where a company in which you have not previously invested improves its ethical performance to such an extent that it rises sufficiently in the best-in-class ranking or that a previously relevant exclusion criterion no longer applies to it, you can deliberately invest in this company in order to reward it for its improvements.
- **Exit strategy:** Where voting and dialogue strategies remain unsuccessful for a long period, decisions on exiting (divestment) must be taken.
- **Impact investment:** Here, an institution offers investment opportunities aimed at achieving a defined, ethically desirable objective. In contrast to projects financed by donations, impact investments combine achievement of the objective with commercially worthwhile investments. Experience has shown that combining these two goals can be challenging and is not always successful. The increased risk must be borne in mind. It is important to weigh up carefully whether the protection of the actual aim of the investment (pensions, works, etc.) is commensurate with the risk being taken.

The clearer and more unified the position taken by Church investors, the sooner an impact will be achieved. The Catholic Church in Austria is committed to playing an active role in shaping society and thus to the use of engagement processes.

7. Final provisions

The principle of proportionality applies to the implementation of this guideline. Small investors will therefore choose straightforward investments or use financial products, the managers of which have made a binding commitment to comply with this guideline. Large investors will adopt a more independent and proactive approach to complying with this guideline. Bishops and Superiors will implement effective monitoring mechanisms for checking compliance with the guideline within their respective area of responsibility. It is particularly important that the Catholic Church in Austria should speak with one voice.

No.	Action areas	Subcategory	Further definition / differentiation	Measured value - unit of measurement	Exclusion if (value from 0 - 99)	Best in class (positive and negative criteria, no exclusion involved)	Evaluation applies to (in the case of companies, also to majority owners, suppliers and subcontractors)		
							States/countries	Companies - producers	Companies - traders
1	Governance	Democracy	Freedom House criteria are used			Positive/Negative	x		
		Authoritarian regime	Classification by Freedom House as "not free"		0		x		
		Human rights	Large-scale, serious, persistent and systematic restrictions on the human rights listed in the United Nations Universal Declaration of Human Rights		0		x	x	x
		Corruption	Spread of corruption	Transparency International's Corruption Perceptions Index	<50	Negative	x		
		Money laundering + terrorism financing*	Non-implementation of FATF standards		0		x		
			Gross violations of FATF standards		0		x	x	x
		Controversial business practices	Evidence of controversial business practices (e.g. corruption, data falsification, false accounting, fraud)		0			x	x
Corporate governance violations, dubious business practices				Negative		x	x		
Education	Access to and quality of education systems			Positive/Negative	x				
2	Global justice + world food supply	Land grabbing *	Buying-up of farmland in poor countries on a large scale and possibly at excessively high prices, land speculation		0	Negative	x	x	
		Food speculation	Large-scale trading in food commodity derivatives primarily in order to make speculative gains		0			x	x
		Waste exports	Breaches of the 1989 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal		0			x	x
		Pharmaceutical products, breast-milk substitutes	Breaches of international agreements on the marketing of breast-milk substitutes or the IFPMA Code of Practice for the marketing of pharmaceutical products		0			x	x
3	Labour	Labour rights	Particularly low legal standards with regard to labour rights			Negative	x		
			Gross violations of at least one of the 4 fundamental principles of the ILO (freedom of association and the right to collective bargaining, forced labour, child labour, discrimination)		0			x	x
		Working conditions	Exceeding/falling short of the minimum standards of the ILO in relation to safety, health, pay, working hours, co-determination at the workplace, education and training			Positive/Negative		x	x
4	Protection of life	Use of embryonic stem cells	Obtaining or using embryonic stem cells (e.g. "embryo-destructive research")		0			x	x
		Abortion	Development, production or distribution of abortifacients, or operation of abortion clinics		0			x	x
		Euthanasia	Legalisation of active euthanasia **		0		x		
			Provision or mediation of active euthanasia or assisted suicide **		0			x	x
Death penalty	Death penalty not completely abolished, according to Amnesty International		0		x				
	Production of poisons manufactured exclusively for executions **		0			x			
5	Sexual ethics and reproductive medicine	Reproductive medicine	Use of heterologous IVF techniques (sperm donation / egg donation / surrogacy) or IVF techniques involving surplus embryos	Proportion of turnover	> 10%	Negative evaluation if > 0 - 10 %		x	
		Contraceptives	Development and manufacture of contraceptives	Proportion of turnover	> 10%	Negative evaluation if > 0 - 10 %		x	
		Pornography	Manufacture/provision of pornographic products/services or supply of prostitution		0			x	
Distribution of pornographic products/services	Proportion of turnover		> 10 %	Negative evaluation if > 0 - 10 %			x		
6	Addiction	Alcohol	Manufacture and distribution of spirits (Alcohol content > 20 %)	Proportion of turnover	> 10%	Negative evaluation if > 0 - 10 %		x	x
		Tobacco	Distribution of tobacco products or providing supplies to the tobacco industry	Proportion of turnover	> 10 %	Negative evaluation if > 0 - 10 %			x
			Manufacture of tobacco products		0			x	
		Gambling	Suppliers of potentially addictive gambling products which take no measures to prevent social and financial risks to people's livelihoods		0			x	x
Suppliers of potentially addictive gambling products which take effective measures to prevent social and financial risks to people's livelihoods	Proportion of turnover		> 10 %	Negative evaluation if > 0 - 10 %		x	x		

No.	Action areas	Subcategory	Further definition / differentiation	Measured value - unit of measurement	Exclusion if (value from 0-99)	Best in class (positive and negative criteria, no exclusion involved)	Evaluation applies to (in the case of companies, also to majority owners, suppliers and subcontractors)		
							States/countries	Companies - producers	Companies - traders
7	War + armaments	Arms budget	Particularly high military budget (military expenditure/GDP)	Proportion of GDP	> 2%		x		
		Weapons	Weapons banned by the International Criminal Court (e.g. landmines and cluster munitions) and ABC weapons		0		x	x	x
		Weapons + armaments	Manufacture and distribution of armaments	Proportion of turnover	> 10 %	Negative evaluation if > 0 - 10 %		x	x
8	Individual violence	Media glorifying or trivializing violence	Distribution of films which depict inhuman acts of violence in a glorifying or trivializing way, or of computer games whose main aim is the virtual performance of realistically portrayed acts of killing or cruelty.	Proportion of turnover	> 10%	Negative evaluation if > 0 - 10 %			x
			Production of films which depict inhuman acts of violence in a glorifying or trivializing way, or of computer games whose main aim is the virtual performance of realistically portrayed acts of killing or cruelty.		0			x	
9	Biodiversity / climate protection	Biodiversity	Non ratification of the UN Convention on Biological Diversity and associated Protocols		0		x		
		Climate protection	Non ratification of the UN Climate Convention and of the Paris Agreement on greenhouse gas reduction of 2015		0		x		
			Reduction of greenhouse gases by at least 10% over 10 years			Positive	x		
			Improvement of emissions efficiency over 5 years	Reduction in CO2 relative to turnover		Positive		x	x
			Production of natural gas by fracking or of crude oil by fracking or from tar sand or coal		0			x	
Production of crude oil or use of coal to generate electricity		> 30%	Negative evaluation if > 0 - 30 %		x				
10	Agriculture	Biocides	Manufacture of and trade in biocides which are classified by the WHO as "extremely or highly hazardous"	Proportion of turnover	> 5%	Negative evaluation if > 0 - 5 %		x	x
		Green genetic engineering	Production of genetically modified plants and animals for agricultural use	Proportion of turnover	> 5%	Negative evaluation if > 0 - 5 %		x	
			Processing and distribution of foodstuffs and animal feed (and raw materials for these) made from genetically modified plants and animals	Proportion of turnover	> 10%	Negative evaluation if > 0 - 10 %			x
		Agriculture	Production and distribution of organic foodstuffs			Positive		x	x
11	Individual environmental problems	Chemicals	Manufacture of and trade in chemical substances prohibited in the EU	Proportion of turnover	> 5%	Negative evaluation if > 0 - 5 %		x	x
		Nuclear power	Nuclear power accounts for low proportion of total power generation			Positive evaluation if < 10 %	x		
			Phase-out of nuclear power already implemented or agreed			Positive	x		
			Operation of nuclear power plants and generation of revenue from products and services for and from nuclear power plants	Proportion of turnover	> 10 %	Negative evaluation if > 0 - 10 %		x	x
		Controversial environmental behaviour	Gross disregard of environmental laws or generally recognised minimum environmental standards / codes of conduct, or operation of projects (e.g. pipelines, mines, dams) that have a particularly harmful effect on ecosystems in the region		0			x	x
Above-averagely high or low resource consumption, high/low pollutant emissions	Sectoral average			Positive/Negative			x	x	
		Financing of large-scale projects (e.g. pipelines, mines, dams) that have a particularly harmful effect on ecosystems in the region.	>20% of financing	>20%	Negative evaluation if > 0 - 20 %		x		
12	Animals	Livestock farming	Engagement in factory farming / mass transportation of livestock or fur farming (including breeding establishments)		0			x	x
		Animal testing	Manufacture of products for which tests that are not required by law have been carried out on animals		0			x	

* cannot currently be shown, as not surveyed by some research agencies
** currently not surveyed by research agencies because there are no relevant cases