Financial investments as cooperation

Ethical Investment Guideline of the Austrian Bishops' Conference

and the Religious Communities of Austria

(FinAnKo)

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

This guideline is aimed in the first instance at all institutions of the Roman Catholic Church in Austria and is intended to be binding for all dioceses, religious communities, parishes and other Church legal entities. If they are under the authority of a bishop in financial matters, this guideline is binding for them. The Austrian Conference of Religious Orders strongly recommends that the Austrian religious communities implement it as binding for their area. It is recommended that other investors and financial service providers use the guideline for information and to help them reflect on their own procedures.

1. Prioritising justice.

Laying the theological and ethical foundation

Through Jesus Christ, the Church has received a mission that encompasses countless tasks. These are based on material considerations, whether these relate to running and maintaining the Church's institutions and works or to meeting its pension and benefit obligations toward priests and members of religious orders. The Church thus needs money and must constantly be in a position to make funds available. It must therefore be able to acquire, own, manage and dispose of assets. Such assets are not an end in themselves. They are intended to be used for the tasks that Jesus entrusted to his disciples. Therefore, the Church does not anxiously cling to or hoard money and possessions, but is free to use its assets to accomplish its tasks. The levels of reserves and invested funds must consequently be in line with the obligations that the Church has entered into. At the same time, Church assets are always earmarked for specific purposes. When the form of an investment is changed, the original purpose must therefore be borne in mind.

Investing money is not ethically neutral. "Purchasing is always a moral – and not simply economic – act." (Pope Francis, Encyclical Laudato si'#206, quoting Pope Benedict XVI, Encyclical Caritas in veritate #66). Wealth not only creates the economic basis for institutions and people, but also exerts influence on the structures of a society. Because it gives you the ability to do things, you are under an obligation to use this ability responsibly. Investing money is an important lever for steering economic processes and for bringing about systemic change.

Wherever the Church invests money, it affirms and supports the institutions to which it makes money available for their activities. It works together with them. This makes it jointly responsible for what these institutions do - while fully aware that only in rare cases will it be possible to give unqualified approval to every single one of their activities. This is at the heart of the moral theological doctrine of "cooperatio ad malum", or cooperation in evil, which is now almost 500 years old. In the flourishing economy of the early modern era, this doctrine attempted to point out the opportunities presented by cooperation and explain its limits. Its very realistic examples and the criteria developed from them are still a helpful benchmark for making ethical judgments today. However, whereas in the 16th and 17th centuries the focus was primarily on cooperation between individuals, today the main question is about 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?

The doctrine makes a fundamental distinction between formal and material cooperation. *Formal cooperation* in evil applies where the financial investment has to be interpreted as implicit or even explicit approval of an ethically objectionable act by the company or public institution invested in. The primary issue here is therefore the communicative effect. The purpose of the prohibition of formal cooperation in evil is to safeguard the Church's credibility and role-model function. This is the main idea behind the exclusion criteria, which are therefore presented under the heading "*Positioning*" (see Section 6.1 below). The overriding question here is not whether the investment effectively promotes or enables the reprehensible primary act, but whether it is possible to communicate justifiable reasons for earning money by investing in the reprehensible primary act.

In the case of *material cooperation*, by contrast, the main concern is its "physical" effects. The aim of the investment, such as generating an investor return in order to fulfil the Church's tasks and obligations, is ethically sound, but it has negative "side effects" such as the production of environmentally and socially harmful products or the manufacture of products in an environmentally and socially harmful way. In principle, it is conceivable that such cooperation might be permissible. However, because it is related to a reprehensible act, this relationship must be examined separately. Here, the classical doctrine first of all establishes the relationship between the intended benefit and the unintended harm. If the benefit clearly outweighs the harm, the material cooperation may be legitimate, otherwise not. The proximity, immediacy and necessity of the investment play a role here: the more proximate, immediate and necessary a Church investment is for an institution being invested in (e.g. in the case of a direct investment in a company or property), the more substantial the good aims must be in order to justify the negative side effects of this investment. In the ethical investment context, there are a number of strategies for this kind of harm-benefit comparison. These include the best-in-class approach, which assesses the harm-benefit ratio in relation to the average for an industry, and the best-in-progress approach, which uses improvements in the harm-benefit ratio as the basis for evaluation. In the guideline, such strategies are discussed under the heading "*Stimulating*" (see Section 6.2 below).

The comments on formal cooperation could give the impression that the doctrine of cooperation in evil is primarily concerned with preventing any form of economic cooperation. The opposite is the case. As far back as the 16th century, it was very clear that no economic activity can be engaged in without getting your hands dirty. There will always be negative side effects somewhere along the line. These must be kept to a minimum, but they can never be ruled out completely. It has also been recognized that in the majority of cases, cooperation is actually "cooperation for good" and has desirable effects. This is precisely what the rules on material cooperation are intended to achieve.

The third step in ethical investment, "*transforming*" (see Section 6.3 below), goes beyond the classical doctrine of cooperation. Here, strategic use is made of opportunities to exert influence on the actions of an economic actor. Exerting influence in this way is dependent on a number of preconditions which were not yet present in the early modern era. Today, however, it is becoming increasingly important.

Those who invest can and should initiate and promote developments for the better. "Money must serve, not rule!" (Pope Francis, Apostolic Exhortation Evangelii gaudium #58). This guideline is entirely in line with the moral theological tradition in establishing a link between positive and negative strategies. It thus follows Pope Francis' invitation "to seek other ways of understanding the economy and progress" (Pope Francis, Encyclical Laudato si' #16).

2. Ensuring economic efficiency. Laying the economic foundation

2.1 Aims and impact of investment

Church assets are earmarked for specific purposes and serve to fulfil the Church's diverse tasks. They must therefore be invested with these tasks in mind. Where the aim is to hold liquidity to cover foreseeable liabilities, the investment is generally limited to deposits with banks. However, where the aim is to build up reserves to meet obligations further in the future, the investment horizon lengthens and the number of suitable investment strategies and instruments increases. The Church then as acts as a provider of capital on the financial market. Those needing and seeking capital can take out loans from banks or raise equity and debt capital on the capital market. A state or a company issues a bond which investors subscribe to on the primary market directly or indirectly, for example via an investment fund. Or a company that wishes to strengthen its equity capital carries out a capital increase, and investors acquire the shares directly or indirectly. This provides the issuers with funds. In the majority of cases, however, investors are active in the secondary market, where shares and bonds already traded on the market are bought and sold. In this case, the exchange of capital for shares or bonds no longer takes place with the issuer, but with another market participant. Nevertheless, the issuer also benefits indirectly from the demand, as a rising share price increases its market value and thus the chance of achieving a higher issue price in the event of a new issue. The same applies to bonds - strong demand causes the price to rise and the yield to fall, so that a lower interest rate can be achieved in the event of a new issue. There are also other effects, such as the impact on a company's image. Companies that are shunned by investors because of their poor environmental or social performance also have to justify their actions to other stakeholders - especially their customers and employees. In other words, the investment decision can have a direct or indirect effect on the issuer. As an investor, the Church can thus influence how companies do business.

Like any other investor, when selecting investment instruments the Church faces the challenge of the "magic triangle" of return, risk and liquidity and the associated conflicting objectives. The return should as a minimum enable real value preservation, the risk should be acceptable and the invested capital should be available quickly. When resolving such conflicting objectives, the Church acts in a risk-averse manner, as the primary objective of the investment is to preserve the value of the invested capital. In this respect, the Church as an investor is no different from many other investors. However, there is a difference in that the Church is aware that it can both set an example and have an impact through its investments.

Correspondingly, it aims to contribute to improvements in society and the environment. Church investments are therefore characterised by the inclusion of ethical and sustainable investment principles alongside purely financial investment principles. What is more, it is clear to the Church that financial returns must not be generated at the expense of people and the environment. Numerous scientific studies have now shown that prioritizing social and environmental criteria does not automatically lead to lower returns, increased risk or reduced liquidity and that the profitability of ethically sustainable investments is thus assured.

2.2 Investment guidelines and financial instruments

Canon 1284 of the Codex Juris Canonici states that Church administrators are bound to fulfil their function with the diligence of a good householder. Other specific provisions contained in this paragraph (well-organised books and accounts, orderly documents, etc.) suggest that those responsible for Church investments should, like other institutional investors, also establish rules for practising and ensuring such diligence. Rules of this kind typically cover the following points: investment strategy, investment objectives, portfolio structure (e.g. permitted asset classes, instruments and restrictions), risk management and ethically sustainable criteria.

In most cases, it is not the selected investment instrument per se that is or is not ethically justifiable, but what it is used for. Therefore, the initial focus must be on the ethical eligibility of the investment objects. Equity and debt capital investments (especially shares and bonds) must be evaluated in accordance with the ethical considerations defined in this guideline. In the case of public investment funds, attention must be paid to whether the desired ethical criteria are taken into account in the investment process. The only justifiable investments are therefore in funds which pledge to apply clear ethical criteria in legally binding documents (fund regulations, prospectus, key investor information etc.) and demonstrate how these criteria are complied with. Statements that are merely for advertising purposes or of a non-binding nature cannot be taken into account. Funds that bear a seal of approval have undergone a certain certification process, but this does not mean that they will necessarily fulfil all the criteria that the Austrian Church deems essential.
This also applies to index products. The passive investment style aims to buy broadly diversified standardized portfolios ("baskets" or indices) rather than purposefully ("actively") compiled portfolios. Compared to funds, this strategy serves both as an additional method of spreading risk and as a way of reducing costs. Common forms are exchange-traded funds (ETFs). The weighting of indices cannot normally be influenced by the individual investor. It is therefore important to ensure that, as a minimum, all the ethical guideline's exclusion criteria are implemented in the index. In the case of index products, other techniques designed to increase the common benefit of an investment (e.g. positive criteria, best-in-class) are applicable only to a limited extent. Index products can be used to hedge against the risks of an investment.
In addition to equity and bond investments, there are also other asset classes which can be considered for financial investments. These include microfinance, where impact-first products from trustworthy partners should be selected. A further option here is private equity. This asset class is offered directly or as a fund. The latter involves portfolios of company investments. These can include investments in start-ups as well as in existing companies (seed capital, venture capital, leveraged buy-outs (LBOs) and management buy-outs (MBOs)). Unlike with shares, with private equity the fund management has a direct influence on the financing, management and strategy of companies through its significant shareholdings. The aim is to increase the value of the company substantially over a period of usually 10 years and ultimately to sell it. If this direct influence is exercised in accordance with bindingly

documented ethically desirable principles, private equity can sometimes benefit the common good even more than the acquisition of shares. However, the takeover of companies by private equity funds often entails high fees, a significantly higher level of indebtedness of the acquired company to the benefit of the private equity investors and job losses (e.g. in the case of LBOs). Dealing with private equity therefore calls for additional skill and vigilance on the part of investors so that they are able to make a professional assessment of risks, returns and ethical evaluations.
Since time immemorial, precious metals, in particular gold, have held a special position as an investment. Gold is prized both for the stability with which it holds its value over very long periods of time and in times of currency devaluation or political crises and for its transportability in crisis situations. However, the extraction of new gold is associated with enormous damage to the environment as well as exploitative and unhealthy working conditions. Therefore, investments in companies and projects that mine gold (e.g. shares or bonds in gold-mining companies), physical gold and financial instruments that contribute to further demand for physical gold (e.g. bonds backed by physical gold) should be rejected. Risk hedging by means of financial products linked to the development of the gold price (e.g. derivatives and certificates not backed by physical gold) is possible if there are substantive reasons for doing so, as is the retention of existing investments in physical gold. The same applies to other precious metals.

2.3 Cooperation with banks and asset management companies

When selecting banks and asset management companies, preference should be given to those that take ethically sustainable aspects into account in their own business policies. Church investors should take a closer look at this and clarify at regular intervals how the providers ensure this (guidelines, code of conduct, certifications, etc.).

3. Doing business in a way that serves people and creation.

The link between economics and ethics

In order to provide money for its various tasks, the Church has a moral responsibility to achieve a reasonable return on its investments. The Church's financial managers are faced with the challenge of reconciling its ethical values with the economic requirements of its material security. In the area of finance, this means embedding the well-known "investment triangle", with its investment goals of liquidity, security and return, in an ethically sustainable value orientation. This is a responsibility not only to the owners of the financial resources, but also to society.

As a responsible investor, the Church prioritizes Christian values and, where these conflict with normal investment practices, is prepared to forego a financial advantage if this is required from a moral perspective. Moreover, the investment universe defined according to ethical criteria provides sufficient room for manoeuvre within to ensure that the economically necessary goals are achieved.

4. Acting as one.

The motivation for and binding nature of this guideline

This guideline follows the tradition of Catholic religious orders, which have advocated ethical investment since the 1970s and have contributed significantly to the emergence of ethically sustainable investment, and is based on the following guidelines/aids:

- the "Ethics Guidelines (list of objectives and criteria)" of the Austrian Bishops' Conference (2006) and the 1st edition of this guideline (2017),

- the "Repères éthiques de gestion financière des biens d'Eglise" guidelines issued by the French Bishops' Conference in 2007,

- "The Zug Guidelines to Faith-Consistent Investing", a compilation of guidelines/aids issued in 2017 by the Alliance of Religions and Conservation

- the "La Chiesa Cattolica e la gestione delle risorse finanziarie con criteri etici di responsabilità sociale, ambientale e di governance" guidelines issued by the Italian Bishops' Conference in 2020,

- the "Socially Responsible Investment Guidelines" issued by the US Conference of Catholic Bishops in 2021,

- the 2nd, updated edition of "Investing ethically and sustainably", a guide for financial officers of Catholic institutions in Germany issued by the Secretariat of the German Bishops' Conference and the Central Committee of German Catholics (ZdK) in 2021 (1st edition 2015)

- the "Mensuram Bonam" guide for Catholic investors published by the Pontifical Academy of Social Sciences in 2022

- the 5th, updated edition of the "Guidelines for ethical and sustainable investment in the Protestant Church" issued by the Protestant Church in Germany in 2023 (1st edition 2011).

This guideline relates only to financial investments, not to strategic holdings in companies or direct ownership of property or means of production. It is legally binding wherever it has been adopted by the decision-makers responsible in each case. It aims to be binding across the board for all dioceses, religious communities, parishes, Church institutions and other legal entities of the Church in Austria.

The uniform implementation of this guideline throughout the Catholic Church in Austria

- puts into practice the words of Jesus: "But seek first his kingdom and his righteousness, and then all these things will be given to you as well." (Matthew 6:33),

- expresses the seriousness with which the Church takes this issue,

- is an indispensable condition for the credibility of the Church in the area of economic activity,

- can set an example for other institutional and private investors,

- will contribute to the opinion-forming process in the political, economic and social spheres,

- enables the Church to present itself more clearly to investment providers and to engage more effectively with companies,

- can achieve the goal of doing business in a humane and environmentally sustainable way more easily and quickly due to the large number of Church investors and the volume of assets they hold.

This guideline therefore appeals to all Church legal entities to adhere fully to the rules outlined here.

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

Differentiation and specialisation, economic liberalisation and globalisation have contributed significantly to the well-being of many individuals, families and societies. However, they have also worked to the detriment of many social groups, some regions of the world and future generations and have promoted the overexploitation of creation. The action areas for ethical investment can therefore best be described using the three guiding principles of the ecumenical conciliar process, which began in 1983 at the General Assembly of the World Council of Churches in Vancouver – Justice, Peace, Integrity of Creation.

In the biblical tradition, interpersonal *justice* is the organization of society so that even the worst-off live well. The Bible explicitly includes widows and orphans, the poor and foreigners, women and children among those to whom special attention must be paid. Modern-day human rights have developed this idea and given it a tangible legal form. In order for these rights to be implemented in practice, good governance of both the state and social institutions is required. The guidelines devote a great deal of attention to this aspect.

Even though the Second World War lies many decades behind us, the world is full of regional conflicts. Many of them involve industrialised countries and companies in them. *Peace* is therefore a second key action area for ethical investment. Biblically, peace is realized when all peoples and religions forge their weapons into civilian implements, journey together to a place of pilgrimage and listen together to what is right. They respect one another and their diverse cultures and religions, but share a common ethic (Isaiah 2; Micah 4). The issues of arms production and weapons trading, as well as the possession of internationally outlawed types of weapons, are therefore very important for ethical investments. The *integrity of creation* emerged as a third major challenge in the 1970s. The Bible recognizes that man is not a faithful steward of the garden into which God has placed him (Genesis 1-9). It longs all the more for man to live in harmony with all creatures (Isaiah 11). In the 21st century, the focus is on two global environmental challenges: protecting the climate and preserving biodiversity (cf. the two conventions of the 1992 UN Conference on Environment and

Development in Rio de Janeiro and the 2015 encyclical Laudato si' by Pope Francis). Both are vital and both will entail considerable effort. Ethical investments can be an important instrument for initiating and driving forward the necessary economic transformation processes.

Justice, peace and the integrity of creation are three action areas with many cross connections. Wars are one of the major causes of environmental destruction. This in turn is an injustice - for people living in environmentally vulnerable regions of the world and for future generations. Ultimately, unjust conditions and serious environmental problems are the major drivers of armed conflicts. The combination of the three areas thus creates a coherent overall picture of the major ethical problems facing humanity.

6 Positioning - Stimulating - Transforming. Principles of ethical investments

The aim of ethical investing, over and above the economic purposes of an investment, is to make a contribution to solving social challenges. It is therefore always designed to have an impact and make a mark. The ways in which a positive impact can be achieved through investment vary depending on the type of investment and the circumstances in each case. Various methods and instruments have been developed over the years, the best known of which are exclusion criteria, positive criteria, best in class, engagement and voting. In the past, it became established practice to assign these methods and instruments to specific categories such as "avoidance", "promotion" and "shaping". In this context, exclusion criteria have an avoiding effect, positive criteria have a promoting effect and dialogue with companies (engagement) has a shaping effect. In the light of the experience and scientific findings of recent years, however, this kind of one-to-one assignment is proving difficult. It is becoming increasingly apparent that while the methods and instruments used for the implementation of ethical investment can be assigned primarily to one specific category, overall they can also be assigned to the other two categories. Accordingly, although exclusion criteria are assigned primarily to the category of avoidance, they can also promote responsible and sustainable business practices and contribute to the establishment of new corporate cultures. The main effect of positive criteria is that capital is channelled into more sustainable companies, but this also means that that capital is no longer available for [companies engaging in] more harmful business practices and a direction of transformation is set. Although active dialogue with companies by investors (engagement and voting) is primarily aimed at influencing management decisions and thus shaping corporate development, where it fails - provided it is applied consistently - it also results in the withdrawal of capital and thus a flow of capital towards comparatively better companies.

In view of this, it seems expedient to highlight the various potential impacts of the methods and instruments and to combine them with key motives / basic strategies of ethical investing. The three basic strategies, which have been reformulated here, are:

- *Positioning*: Ethical investments are intended to prevent an investment either being interpreted as approval of ethically objectionable practices or even directly enabling such practices. On the positive side, they establish a clear and highly visible value horizon.

- *Stimulating*: Ethical investments aim to motivate companies and economic actors, other investors or the public as a whole and win them over to socially responsible and environmentally sustainable business practices.

- *Transforming*: Finally, ethical investors want to exert active and targeted influence on the institutions in which they invest money. There are a large number of methods for achieving this objective.

6.1 Positioning

In order to safeguard their own credibility, it is important for ethical investors to distance themselves from controversial, i.e. socially and environmentally damaging, economic activities. This distancing is not only about avoiding financially facilitating involvement in such practices, but above all about making a clear statement that they reject such activities on moral grounds and they do not wish to profit from them. In this way, investors make it clear what they do or do not stand for. This kind of positioning is important. It criticizes those who cause harm through their activities and shows solidarity with those who are affected by these activities.

Positioning can be carried out using various methods and instruments and can work in different directions. The primary method is the application of exclusion criteria: the main aim here is not to facilitate immoral economic activities and practices through the provision of capital. At the same time, however, values are communicated and economic practices are put up for discussion. In addition to exclusion criteria, all the other methods and instruments are also suitable for positioning. Ethically-oriented investors can also position themselves and their values through the use of positive criteria or the best-in-class approach or by taking an active part in the annual general meeting of a public limited company.

To ensure clear positioning, the exclusion criteria in the attached list are all binding. Providers who label a financial product as "FinAnKo-compliant" are strictly bound by them. However, in rare individual cases and based on careful consideration, Church investors may decide to waive an exclusion criterion for a particular investment. They must provide high-level ethical reasons relating to stimulation and/or transformation and document these in their reports on the implementation of the guideline ("comply or explain"). In doing so, they should consider the difference between absolute (principle-based) and relative (threshold-based) exclusion criteria, as well as the difference between current and past violations of an exclusion criterion by a company or state.

6.2 Stimulating

The aim of ethical investing is to draw attention to existing shortcomings and to initiate and stimulate the necessary changes to rectify these shortcomings - both in the financial market and beyond. Stimulation of this kind can be directed at the investment objects themselves (e.g. companies, states) by confronting them with shortcomings and calling on them to make improvements. However, it can also be directed at other actors, such as market participants, the members of the general public or politicians, by calling on them to advocate improvements too, in their specific roles as institutional or private investors, consumers or legislative bodies. The aim is to motivate people or build pressure to promote socially and environmentally responsible economic practices.

This kind of stimulation for the better can take the form of directing capital flows, creating awareness or making it clear that there are advantages to change. The primary way of achieving this is through competitive methods: the best-in-class approach involves identifying the best companies in an industry from an environmental and social perspective and then investing exclusively in these. This motivates those companies that are not best in class to improve their environmental and social performance. The same applies to the best-in-progress approach, which identifies those companies that are making the best progress toward sustainable business practices. This kind of stimulation can also be achieved by means of exclusion criteria, engagement or voting. These methods reach not only the companies themselves, but also other stakeholders, the public and politicians, and create the socio-political climate that is necessary for successful change processes.

For best-in-class and best-in-progress approaches to be effective, they must be designed so as to be ambitious for investors and challenging for companies. In the context of this guideline, which already includes extensive exclusion criteria, this means for relative best-in-class approaches that the sustainability performance of companies must be at least above average in order to be considered best in class. For absolute best-in-class approaches, the rating or score threshold that must be exceeded in order to be best in class must likewise be set in such a way that at least half of the companies in a sector are no longer eligible for investment.

For best-in-progress approaches, appropriate observation periods must be set in order to eliminate outliers and extraordinary effects. In order to enable companies to improve their sustainability performance quickly and decisively, only performance which is significantly above average should be recognised (e.g. the five top performers in a sector).

For both best-in-class and best-in-progress approaches, it is important to ensure that the focus is not exclusively on companies' performance in managing sustainability risks (outside-in perspective: "How do environmental and social phenomena influence a company?"). Rather, for transformation to be successful it is crucial that companies improve in terms of their social and environmental impact (inside-out perspective: "How do the company's activities affect society and the environment?"). Rating approaches that focus exclusively on risk management are not compatible with the basic intention of this guideline.

6.3 Transforming

It is evident that common economic strategies and practices are a cause of many environmental and social ills. In order to change this, it is often not enough to make minor individual adjustments. Rather, it is sometimes necessary to review business models and economic practices as a whole **and** to look for alternatives. Transformations of this kind - such as the decarbonisation of the economy and its conversion to renewable forms of energy - do not usually happen overnight, but take place gradually. In this sense, transformation means reducing environmentally and socially unsustainable economic activity while at the same time expanding sustainable economic practices. The success of this process depends not only on political and regulatory measures but also on the behaviour of market actors. Investors can play an important role here by using their potential to shape the capital market.

The role of ethically oriented investors is then primarily to initiate or call for transformation processes, organize majorities and use targeted investments to support the transformation efforts of companies which are operating unsustainably. Cooperation between investors in order to take joint action (e.g. divestment, engagement, voting) can also support transformation processes. Best-in-progress approaches, green bonds, private equity or project financing can also be used to support the transformation efforts of unsustainable companies and gradually reduce unsustainable business practices, provided these efforts are serious in their intent and follow a binding and transparent transformation pathway. Such ‘brown-to-green’ investments are under particular pressure to justify themselves, necessitating a precise evaluation of a company's transformation progress, as it is particularly important to avoid greenwashing and greenwishing.

Investors can also initiate and drive transformation through engagement. Engagement means, on the one hand, exercising voting rights in public limited companies (voting) and, on the other, engaging in dialogue with company representatives in order to draw attention to shortcomings and achieve improvements in the area of sustainability (engagement in the narrower sense). Voting is generally not practicable for investors themselves, or only to a limited extent. However, voting rights are increasingly being exercised via specialist agencies and/or investment companies. The minimum standard in the context of this guideline is that Church investors aim to exercise voting rights to support transformation measures in the long term. Engagement in the narrower sense can similarly be organized and implemented via financial service providers, but is sometimes also practised by Church investors themselves. This guideline stipulates participation in company meetings organized via financial service providers as a minimum requirement for some investments. Quality criteria which can be used are listed in the appendix.

7. FinAnKo Standing Committee

The FinAnKo Standing Committee was set up to monitor the application of this guideline.

The Standing Committee is charged with performing the following tasks:

- Drawing up and publishing interpretations of the guideline

- Monitoring the application of the guideline

- Compiling and discussing issues that arise in the application of the guideline

- Drawing up recommendations for amendment of the guideline

The appointment of members and the detailed organisation of the Committee are governed by rules of procedure to be adopted by the Austrian Bishops' Conference.

8. Final provisions

This guideline is to be implemented by Church investors in accordance with the principle of proportionality. Small investors must therefore choose investments or use financial products whose managers expressly undertake to comply with this guideline. Large investors will proceed more independently and actively in compliance with this guideline.

Bishops and religious superiors will implement within their areas of responsibility effective control mechanisms for checking compliance with this guideline.

Changes to this guideline must be implemented in investments within one year of their entry into force.

It is of particular importance that the Catholic Church in Austria speaks with one voice.

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Appendix: Explanatory notes

General explanatory notes on the exclusion criteria

The list of exclusion criteria relates to the acts or omissions of companies and states. Other areas that are not suitable for Church investments (e.g. gold or financial products derived from it) are also covered within the text of this guideline. Overall, it should be emphasized that in order to make your investments FinAnKo-compliant, it is not sufficient merely to follow the list of exclusions. The guideline must be implemented in its entirety, i.e. in the three areas of positioning, stimulating and transforming.

When implementing the guideline as a whole or the exclusion criteria in particular, financial service providers may come up with different solutions due to their use of different methodologies and varying definitions of terms. The basic rule is that the best possible implementation within the meaning of the guideline should be sought.

As stated in the table heading, in the case of companies the exclusion criteria also apply to majority owners, suppliers and subcontractors. This means that a company is excluded if, and only if, one of the latter engages in the activity proscribed by the exclusion criterion. The supply of "enabling technologies", i.e. technology and components that make the proscribed act possible, leads to exclusion within the meaning of this guideline only if this is explicitly mentioned in the relevant criterion.

In contrast to the first version of this guideline, which was issued in 2017, the 2024 second version refrains from excluding states from investability for permitting, tolerating or exempting from punishment an ethically objectionable act by their citizens. The exclusion criteria relating to states and state institutions are limited to addressing the specific acts or omissions of the state and its institutions themselves.

Explanatory notes on the individual criteria

Justice

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

Governance refers to government, administration or corporate management in the sense of structures. Governance is thus measured in terms of how the control and regulation system of the institution concerned functions in the service of human dignity and human rights. The Freedom House positive list is used for assessing countries that are largely democratically structured. It is also used for classifying as not eligible for investment countries that it rates as "not free". Furthermore, countries in which there are known to be severe, lasting and systematic restrictions on human rights as defined in the United Nations Universal Declaration of Human Rights are considered to be ineligible for investment.

Corruption is the abuse of entrusted power for private gain or advantage. Transparency International publishes an annual index that reflects the extent of corruption in a country's public sector as perceived by business people and experts (Corruption Perception Index). Countries scoring less than 50 out of 100 in this index are not eligible for investment. Money laundering and the financing of international terrorism are a growing problem in the financial world. States that have not adopted the relevant standards of the Financial Action Task Force (FATF) in their legislation and companies that seriously violate these standards are therefore not eligible for investment. Companies are also considered ineligible for investment if they have been convicted of corruption, falsification of data or financial statements or fraud, until independent bodies confirm that this practice has ended.

Global justice and world nutrition: land grabbing - food speculation - privatization of drinking water - waste exports - marketing of pharmaceutical products

In many cases, globalization has led to growing prosperity. But for the least advantaged countries and people, in particular, it also brings serious disadvantages - mainly because the international regulatory framework is too weak and does not prohibit many ethically reprehensible practices. The worst of these practices therefore lead to states and companies being ineligible for investment.

"Land grabbing" is the term used to refer to the acquisition of large tracts of land by large companies or foreign states. The aim is either to achieve a dominant market position or to speculate with the land. In most cases, the company's size is exploited as a power factor and small farmers are denied access to farmland. In poor countries, this results in hunger and impoverishment, while in rich countries it accelerates the demise of small farms.

Food speculation refers to trading in food derivatives with no intention of processing the food or selling it in real trade. Such speculation can drive food prices to heights that are unaffordable in poorer countries or to depths that drive small farms to ruin. Commodity certificates and funds that include such food derivatives in their baskets are therefore also excluded.

Drinking water is a vital commodity that everyone depends on every day. If large water resources (surface water, groundwater and deep aquifers) are bought up by private companies, creating a regional monopoly that makes public access to water considerably more difficult and expensive for the population, the livelihoods of poorer people and small farmers in particular are put at risk. Companies that profit from such large-scale privatization of drinking water are therefore excluded from investment.

The problem of waste exports should not be underestimated. When waste is exported from rich to poor countries, it will almost certainly be disposed of there without any health and safety or environmental restrictions. Companies that are found to be in breach of the 1989 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal are therefore considered ineligible for investment.

There are also violations relating to the distribution of pharmaceutical products. Companies that violate the Code of Practice of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) are therefore excluded from the universe.

Work: labour rights - working conditions - child labour

Work is an expression of human dignity. The aim must therefore be to shape working conditions in such a way that the human personality can develop. States in which labour legislation is seriously deficient are therefore not eligible for investment. The same applies to companies that seriously infringe the five basic principles of the International Labour Organization (ILO) or condone their suppliers doing so. The five principles are:

- Freedom of association and the right to collective bargaining

- Elimination of forced labour

- Abolition of child labour

- Prohibition of discrimination in respect of employment and occupation

- A safe and healthy working environment

The ILO itself does not provide any definitions for these core concepts. It will therefore be the responsibility of the ethics advisory bodies to apply meaningful standards here.

Protection of life: embryonic stem cell research - abortion - assisted dying - death penalty

Human life enjoys a particularly high level of protection in our value system, because it is the conditio sine qua non for every human being to attain higher goods and because disregard for it would lead to serious social upheavals. This strong and almost universal protection of human life begins with the fusion of egg and sperm cell, as the only point in time that is not based on an arbitrary demarcation, and ends only with death.

The principle of the protection of life prohibits the destruction of human embryos and the utilisation of their stem cells for research or production purposes. It also prohibits abortion (including the production and distribution of abortifacients) and active assisted dying as well as assisted suicide. The death penalty as a sanction of the modern state is also to be rejected. Companies and states that implement one or more of these practices are therefore not eligible for investment.

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

In the action area of sexuality and reproduction, there are also a number of practices of which the Church disapproves. Although these do not constitute the killing of human beings, in terms of justice they have serious shortcomings. For most criteria, companies that engage in these practices will therefore not face absolute exclusion from the investable universe, but relative exclusion will apply if the turnover from these practices exceeds a low, clearly defined threshold.

In reproductive medicine, this applies firstly to methods that result in so-called "surplus embryos" that are later allowed to die. Secondly, to so-called "heterologous fertilisation", in which the sperm or egg does not come from the couple wishing to have a child, which can place a heavy psychological burden on the children conceived in this way as they search for their identity. And thirdly, to so-called "surrogacy", in which the child is carried by a women other than the woman whose child it is to be after birth. In this last case, the child's already difficult search for identity is further complicated by the exploitation of the surrogate mother's body and the highly problematic separation of mother and child immediately after the birth, even though an intimate relationship has developed between the two during the nine months of pregnancy.

Pornography is also a form of exploitation of the human body and its objectification by producers and consumers. An absolute exclusion is therefore set for some acts relating to pornography, while a threshold value is defined for others. The depiction of sexualised violence against children is particularly objectionable because it abuses the power imbalance between adults and children and severely traumatises children. However, as it is illegal in all countries of the world, it does not need its own exclusion criterion.

Promotion of addictive behaviour: alcohol - tobacco - gambling

Addiction is dependence on a substance or behaviour. Persons affected no longer have any control over themselves. The health-related, social and financial consequences are often dramatic. Alcoholic beverages, tobacco and gambling do not necessarily lead to addiction. Without effective preventative measures, however, this often happens. This is why some companies that supply addictive substances are not eligible for investment at all, and some are not eligible for investment above a threshold share of turnover.

Peace

War and armament: arms budget - weapons - armaments

Even democratic states need the means to defend themselves. However, if they have a relatively high arms budget, this will - particularly in the case of wealthy countries - be perceived as a potential threat that encourages other countries to arm themselves. This is why we invest only in states whose defence budget is below a certain percentage of their gross domestic product.

Companies that manufacture or distribute internationally banned weapons (i.e. weapons defined as prohibited in conventions) and states that 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 that manufacture or distribute other weapons or armaments are not eligible for investment where the share of total sales accounted for by such goods is above a low threshold. Armaments are goods that are used primarily or exclusively for military purposes. These goods include far more than just weapons.

Individual violence: media glorifying or trivialising violence

Acts of killing or cruelty depicted in reality or realistically simulated virtually often go hand in hand with glorification or trivialisation of the violence depicted. In addition, the dignity of the individuals portrayed is often violated. Many of these portrayals fall under the law protecting minors, and in some countries they are punishable by law. Companies that produce such computer games or other comparable media are not eligible for investment at all, and traders are ineligible above a certain turnover threshold.

Integrity of creation

The most important global goals: biodiversity - climate protection

Since the 1992 UN Conference on Environment and Development in Rio de Janeiro, the international community has agreed to recognise biodiversity preservation and climate protection as two equally important goals of absolute priority for political action. States that have not ratified the relevant follow-up agreements are therefore not eligible for investment. For climate protection, this is currently the Paris Protocol of the 21st Conference of the Parties in 2015; for the protection of biodiversity, they are 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.

One significant factor in the global greenhouse effect is the extraction and burning of fossil fuels. We cannot yet do without them completely. However, steps towards reducing their use, so-called "decarbonisation", should be supported and steps towards further prolonging their use should not be supported. Companies that extract natural gas, oil or coal are therefore not eligible for investment. Companies that use fossil fuels to generate electricity are not eligible for investment if the revenue from this activity exceeds a certain proportion of their total turnover.

Agriculture: biocides - genetic engineering in agriculture

Industrialised agriculture involves practices that pose a major threat to the environmental media soil, water and air, to ecosystems and their biodiversity and sometimes even to the health of farm animals and humans. Furthermore, these practices, and in particular the patents underpinning them, accelerate the displacement of small-scale agriculture, which the United Nations Conference on Trade and Development (UNCTAD) believes is the key to combating world hunger. This applies on the one hand to the application of biocides and on the other to the use of most genetically modified organisms(although individual GMOs can also bring environmental/social benefits). Companies that produce or distribute biocides classified as "extremely or highly hazardous" by the World Health Organisation (WHO) are not eligible for investment if the revenues they earn from these activities exceed a certain proportion of their total turnover. The same applies to companies that produce genetically modified plants and animals for agricultural use or grant licences for patents relating to these, and to companies that cultivate, process or distribute food and animal feed (and raw materials for these) produced from genetically modified plants and animals. We understand "genetically modified" here to mean both the old, transgenic and the new, cisgenic methods of gene transfer from one organism to another, irrespective of legal regulations.

Individual environmental problems: chemical substances - nuclear power - controversial environmental behaviour

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

Following the events at Fukushima, the civilian use of nuclear power can no longer be justified. The risk of a maximum credible accident (MCA) during the operation of power plants is too great. In addition, the final disposal of nuclear waste places a burden on future generations, the extent of which cannot even begin to be estimated. Companies which operate nuclear power plants or generate revenue from products and services for and from nuclear power plants are not eligible for investment if the revenue from these activities exceeds a certain proportion of their total turnover.

States and companies which seriously 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 damaging effect on the ecosystems in the region are not eligible for investment. Banks which provide 20% or more of the financing for such large-scale projects are not eligible for investment.

Animals: livestock farming - animal testing

Animals are fellow creatures of humankind and deserve fair treatment. When humans make use of them, they assume a special responsibility for their welfare. Intensive livestock farming or factory farming refers to a highly mechanised form of livestock farming in which many animals are kept in a confined space and their numbers are not appropriate to the size of the available agricultural land. Factory farming harms not only the animals, but also the ecosystem and the climate. Companies which engage in factory farming or the mass transportation of livestock or fur farming (including breeding establishments) are therefore not eligible for investment.

Animal testing is often the best possible method for testing the tolerability of chemical substances and medicines, despite its limited informative value. As science has not yet found sufficient alternative methods, it will remain reliant 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.

Explanatory notes on 6. Engagement

The term "engagement" in the sense of dialogue with companies is used several times in Section 6. However, this kind of dialogue with companies must also be measured against certain quality criteria in order to avoid greenwashing. Examples include:

- Engagement policy: either the investor, the financial service provider or the financial product has an engagement policy. This describes the procedure for engagement activities.

- Engagement goals: the goals of the engagement are set out clearly.

- Time limit for engagement activities: a time by which the engagement goals are to be achieved must be specified.

- Escalation levels and exit strategy: in case engagement activities are unsuccessful, the next steps must be laid down. These may be escalation levels (e.g. mobilisation of the public) or divestment.

- There is transparent communication about engagement activities.

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