



Term investments portfolio

Oikocredit, Ecumenical Development Cooperative Society U.A. (the Society) aims to use its lendable funds (share capital, general reserve and loans granted to the Society) mainly for development financing. The Society provides loans and equity investments to partners and at the same time maintains a comfortable amount in liquid assets to mitigate liquidity risks. This is reflected in the following four asset classes which make up the Society's total assets:

1. Development financing (core business): loans and equity investments to partners in low-income countries
2. Other securities: non-listed investments in funds
3. Term investments: the portion of the Society's total assets invested in listed securities (mainly bonds)
4. Other liquidity buffers under Cash and Banks

The total amount of liquid assets is used as a buffer for redemption requests and other deviations from the monthly balancing of cash flows. The Society holds a rather high level of liquid assets in order to avoid a reliance on short-term funding lines. These liquid, redeemable securities are used to enhance the return and income in a prudent way compared to holding cash and deposits with banks.

Term investments

The purpose of the term investments portfolio is to invest part of the liquidity buffer mainly in bonds, while at the same time balancing risks, liquidity and income with the Society's mission. The bonds must have a minimum environmental, social and governance (ESG) score and conform to the Society's term investments policy, which aligns with its mission.

Since 2016 Axa Investment Managers Paris (Axa) have acted as the Society's external fund manager. The name of the bond portfolio managed by Axa is 'Buy and Maintain ESG Credit Portfolio'. The bond portfolio aims to achieve better diversification, less credit risk and better ESG performance than the benchmark ICE BofA Euro Corporate Index but it has similar average credit rating and maturity characteristics. Most of the term investments in bonds have been rated 'investment grade' by Moody's, S&P and/or Fitch, with at least 30% in the AAA range (Aaa-A3) and up to a maximum of 65% in the BBB range. Moreover, the Society's term investments policy stipulates that individual issuers cannot exceed 5% of total portfolio for quasi and foreign governments, 2.5% of total portfolio for AAA/AA range, 1.75% of total portfolio for A range and 1.5% of total portfolio for BBB and lower range. The manager of the term investment portfolio constantly monitors the performance of the bonds and takes appropriate action when necessary. Despite this, the Society can face sudden downgrades and/or price corrections. Such credit risk must always be taken into account when investing. A maximum of 10% of the total amount available for term investments can be invested in shares. As at the end of 2020 the bond portfolio did not contain any shares.

The Managing Board is responsible for approving the term investment policy. The policy is evaluated every two years. For the current version of the policy the Managing Board received input from external experts designated by the Society's members.

Changes in the composition of the portfolio are related to bond maturity and not because of trading. In principle bonds will only be sold when there is a downgrade on the ESG or financial rating or when the Society needs cash. Therefore the strategy is called 'buy and maintain' or 'buy and hold'.

In 2020 the term investments increased from € 139.8 million to € 182.8 million. The Society decided to invest € 40 million as it experienced increased liquidity due to the Covid-19 crisis and measures taken to preserve liquidity. The revaluation of the term investments portfolio resulted in a gain of € 0.6 million and the capitalised interest income totaled € 2.4 million. At 31 December 2020 the investments held per main industry remained largely consistent with 2019: banking 26% (2019: 27%), utilities 13% (2019: 14%), basic industry 6% (2019: 8%) and real estate 6% (2019: 7.5%).

Financial criteria and risk management

Credit risks

Due to the investment criteria of minimum credit ratings and 'investment grade' standards agreed with the asset manager, the bonds' credit risk is limited. Next to that, the performance of the issuers of the bonds is monitored by the asset manager. When the situation of an issuer deteriorates, the manager can decide to sell the bonds. The asset manager also monitors general market trends and the diversification in the total portfolio.

Interest rate risk

The term investments portfolio has a target duration of approximately four years. An increase of 1% in interest rates would lead to a valuation loss of approximately € 7 million.

Liquidity

The instruments in the portfolio are generally liquid undergoing-concern circumstances. However, liquidity could potentially reduce in moments of market turbulence, which could potentially affect the sale price of the securities.

Green bonds

A green bond is a fixed income instrument specifically intended to support climate-related or environmental projects. The current percentage of green bonds in the portfolio is around 20%.

Income

Another requirement of the term investments portfolio is to contribute a reasonable, effective yield to the Society's financial results.

Overview of the term investments

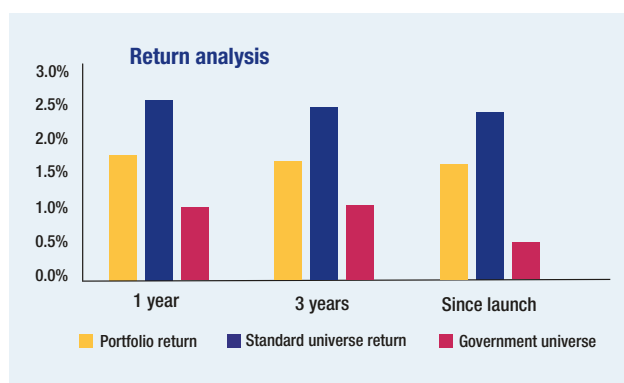
Overview of the Society's total term investments portfolio

The total term investments portfolio consists of:	2020	2019
	€ ,000	€ ,000
Buy and Maintain ESG Credit Portfolio	172,808	129,780
Portfolio managed by Alternative Bank Schweiz, Switzerland	10,003	10,041
Total term investments	182,811	139,821

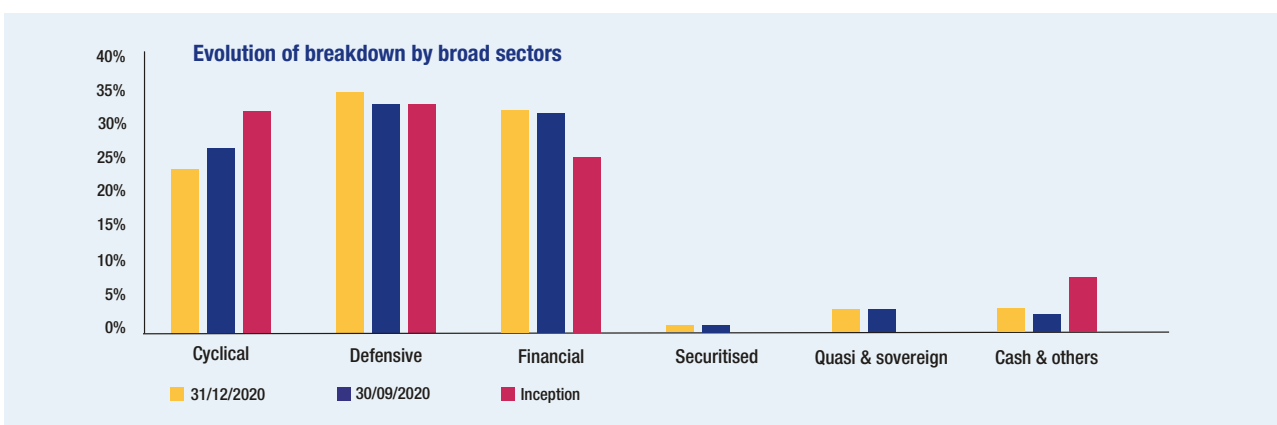
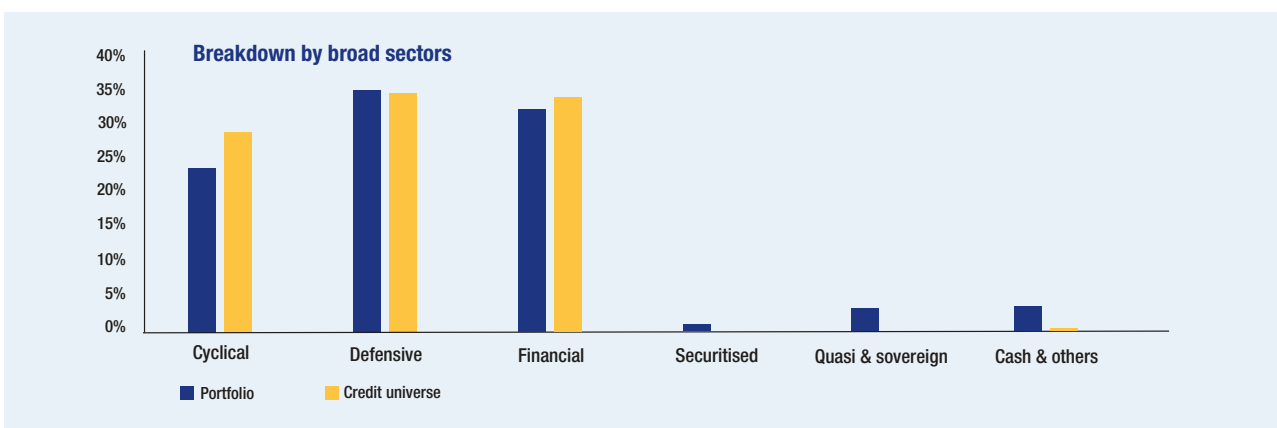
Performance of the Buy and Maintain ESG Credit Portfolio

Despite the Covid-19 pandemic, the portfolio has performed better than the previous three years combined. However, the portfolio performance dipped in Q4 2020. Political events including the United States elections and a second wave of Covid-19 affected the developed markets.


In line with our term investment policy, the credit quality of the portfolio remained stable over the period, there were no material downgrades and the portfolio is well diversified.



Breakdown by broad sectors



ESG Key Performance Indicators (KPIs)

ESG score	Buy and Maintain ESG Credit Portfolio	Benchmark*	ESG relative footprint
	7.3	6.0	

Axa ESG standards	Buy and Maintain ESG Credit Portfolio	Benchmark*
Climate risk	0.00%	0.56%
Tobacco	0.00%	0.95%
Defense	0.00%	0.39%
ESG low quality	0.00%	2.30%
Controversies	0.00%	3.17%

Environmental KPIs	Buy and Maintain ESG Credit Portfolio	Benchmark*
Carbon footprint (CO ₂ t per million €)	191	214
% Green share	29%	4%

Social and governance KPIs	Buy and Maintain ESG Credit Portfolio	Benchmark*
% of total directors in the companies invested in or bonds held with		
% Independent directors on the board	72%	70%
% Women directors on the board	34%	35%

* Benchmark reference: ICE BofA Euro Corporate Index.

Source: Oikocredit Buy & Maintain ESG - Fixed Income Investment report 31/12/2020 by Axa Investment Managers.

Detailed overview of Buy and Maintain ESG Credit Portfolio

List of bonds issued through Buy and Maintain ESG Credit Portfolio

	31/12/2020	31/12/2019
The list excludes alternative investments such as margin calls	€ ,000	€ ,000
Wolters Kluwer NV, the Netherlands	2,803	2,861
Arkema SA, France	2,762	1,401
VF Corp, United States (green bond)	2,228	-
Crédit Mutuel Arkéa, France	2,203	879
Gas Natural Fenosa Finance BV, the Netherlands	2,191	725
Clarion Housing Group, United Kingdom	2,182	-
Orsted A/S, Denmark (green bond)	2,161	1,198
Fiserv Inc, United States	2,161	-
BPCE SA, France	2,152	1,757
Orange SA, France	2,152	1,332
Caixabank SA, Spain	2,149	1,309
International Business Machines Corp, United States	2,142	1,473
Vattenfall AB, Sweden (green bond)	2,123	979
LA Poste SA, France	2,120	107
E.ON SE, Germany (green bond)	2,104	707
Verizon Communications Inc, United States	2,084	963
Bank of America Corp, United States	1,963	-
Omnicom Finance Holdings PLC, United Kingdom	1,858	1,008
Electricity Supply Board (ESB), Ireland (green bond)	1,747	-
Credit Agricole SA, France	1,743	1,143
The Takeda Pharmaceutical Co. Ltd, Japan	1,722	-
Mizuho Financial Group, Inc., Japan (green bond)	1,720	-
Danske Bank A/S, Denmark	1,664	1,668
DNB Bank ASA, Norway	1,657	1,639
Aviva PLC, United Kingdom	1,641	1,633
Prudential Financial Inc, United States (green bond)	1,619	-
Allianz Finance II BV, the Netherlands	1,606	1,653
Tyco Electronics Group SA, Luxembourg	1,606	1,606
BNP Paribas SA, France (green bond)	1,579	1,270
SSE PLC, United Kingdom (green bond)	1,564	1,543
Coöperatieve Rabobank UA, the Netherlands	1,562	1,600
Siemens Financieringsmaatschappij NV, the Netherlands	1,543	-
NatWest Group PLC, Scotland	1,540	909
Unibail-Rodamco SE, France	1,536	1,575
Transport for London, United Kingdom (green bond)	1,519	751
DH Europe Finance II SàRL, Luxembourg	1,516	-
Medtronic Public Limited Company, United States	1,508	-
Standard Chartered Bank, United Kingdom	1,505	441
Eaton Capital Unlimited Co, Ireland	1,469	1,485
Bertelsmann SE & CO, Germany	1,450	1,444
Legrand SA, France	1,426	1,427
Stockland Trust, Australia (green bond)	1,414	1,434
Commonwealth Bank of Australia, Australia	1,411	1,449
INTL Flavor and Fragrances INV, United States	1,407	1,410
Klepierre SA, France	1,395	1,397
Marsh & McLennan Companies, Inc., United States	1,389	-
Praxair Inc, United States	1,371	1,378
Région Île-de-France, France	1,370	333
Santander UK Group Holdings PLC, United Kingdom	1,342	1,342
Cassa Depositi e Prestiti SpA, Italy	1,340	-
La Banque Postale, France (green bond)	1,324	-
Motability Operations Group PLC, United Kingdom	1,319	1,309
National Australia Bank Ltd, Australia (green bond)	1,317	1,315
Banque Fédérative du Crédit Mutuel SA, France (green bond)	1,308	-
Red Eléctrica Financiaciones SAU, Spain	1,294	1,341

	31/12/2020	31/12/2019
	€ ,000	€ ,000
Intesa Sanpaolo SpA, Italy (green bond)	1,267	1,266
Hammerson PLC, United Kingdom	1,262	1,362
Republic of Chile, Chile (green bond)	1,258	-
Telefónica Emisiones SAU, Spain	1,256	1,437
ESSITY AB, Sweden	1,256	1,252
ABN AMRO Bank NV, the Netherlands	1,256	1,326
Kerry Group Financial Services Unlt Co, Ireland	1,250	1,233
Cloverie PLC for Zurich Insurance Co Ltd, Ireland	1,241	1,240
Westpac Banking Corp, Australia (green bond)	1,239	1,223
Healthpeak Properties Inc., United States	1,238	1,242
AstraZeneca PLC, United Kingdom	1,214	1,224
Sydney Airport Finance Co Pty Ltd, Australia	1,213	1,239
Compagnie de Saint-Gobain SA, France	1,209	1,579
Amgen Inc, United States	1,204	1,203
VINCI SA, France (green bond)	1,202	-
Anglian Water Services Financing PLC, United Kingdom (green bond)	1,181	1,194
Santander Issuances, Spain	1,161	1,162
Industrial And Commercial Bank Of China, Singapore (green bond)	1,136	1,135
KBC Group NV, Belgium (green bond)	1,126	309
Inversiones CMPC SA, Chile	1,125	663
Terna Rete Elettrica Nazionale SpA, Italy	1,124	1,129
Cigna Corp, United States	1,119	-
Societe Generale SA, France	1,113	1,144
Toronto-Dominion Bank, Canada	1,108	1,624
ICADE, France	1,097	1,079
Atlas Copco AB, Sweden	1,080	1,102
Telstra Corp Ltd, Australia (green bond)	1,080	1,096
Ecolab Inc, United States	1,076	1,401
Iberdrola International BV, the Netherlands (green bond)	1,071	1,060
Enagas Financiaciones SAU, Spain	1,068	1,060
Snam SpA, Italy	1,053	1,423
Linde Finance BV, the Netherlands	1,040	1,081
Nordea Bank AB, Sweden	1,040	1,079
Sumitomo Mitsui Financial Group Inc, Japan (green bond)	1,039	1,028
Carrefour SA, France	1,031	1,027
KBC Group NV, Belgium	1,018	1,330
Schneider Electric SE, France	1,011	643
Banco Bilbao Vizcaya Argentaria SA, Spain	1,003	930
Suez, France	980	1,017
Vodafone Group PLC, United Kingdom	951	938
AT&T Inc, United States	948	1,116
Australia & New Zealand Banking Group Ltd., Australia	903	901
Banco Bilbao Vizcaya Argentaria SA, Spain (green bond)	856	847
Bristol-Myers Squibb Co, United States	847	844
Wesfarmers Ltd, Australia	846	867
Danone SA, France	844	1,359
Thermo Fisher Scientific Inc, United States	832	848
La Banque Postale, France	832	1,037
Nestlé Holdings, Inc., United States	819	863
Societe Generale SA, France (green bond)	818	301
Enel Finance International NV, the Netherlands (green bond)	809	802
Enel Finance International NV, the Netherlands	807	853
General Mills Inc, United States	767	1,249
Iberdrola Finanzas SA, Spain (green bond)	765	428
Régie Autonome des Transports Parisiens, France (green bond)	755	740
Thermo Fisher Scientific Inc, United States	739	-

	31/12/2020	31/12/2019
	€ ,000	€ ,000
EMD Finance LLC, United States	722	744
De Volksbank (SNS Bank), the Netherlands (green bond)	704	692
Energias de Portugal SA, Portugal (green bond)	660	-
ICADE, France (green bond)	655	637
innogy Finance BV, the Netherlands (green bond)	651	1,269
Merck Financial Services GmbH, Germany	625	-
RELX Finance BV, the Netherlands	624	625
Lloyds Bank PLC, United Kingdom	584	619
Terna Rete Elettrica Nazionale SpA, Italy (green bond)	574	280
Caisse Francaise De Financement Local, France	529	518
Agence France Trésor, Obligations assimilables du Trésor (OAT), France	525	518
ABB Finance BV, the Netherlands	518	515
Kaiser Foundation Hospitals, United States (green bond)	517	521
Nationwide Building Society, United Kingdom	511	512
Skandinaviska Enskilda Banken AB, Sweden (green bond)	505	505
Mitsubishi Ufj Financial Group Inc., Japan	438	-
Skandinaviska Enskilda Banken AB, Sweden	422	438
Telefonica Emisiones SAU, Spain (green bond)	418	-
Instituto De Credito Oficia, Spain	355	-
Nordea Bank AB, Sweden (green bond)	318	318
Veolia Environnement SA, France	313	1,127
BNP Paribas SA, France	311	311
Red Electrica Financiaciones SAU, Spain (green bond)	309	-
Crédit Agricole SA, United Kingdom	309	308
CRH Finland Services OYJ, Finland	304	1,331
Schneider Electric SE, France (Green bond)	221	-
WPP Finance 2010, United Kingdom	219	223
Scottish & Southern Energy (SSE), Scotland	217	-
Swisscom Finance BV, the Netherlands	201	-
ING Groep NV, the Netherlands	106	113
Caixabank SA, France (green bond)	100	-
Prologis LP, United States	43	1,625
Apple Inc, United States (green bond)	-	926
Assicurazioni Generali SpA, Italy	-	1,028
AusNet Services Holdings Pty Ltd, Australia	-	1,231
Elsevier Finance SA, the Netherlands	-	1,027
ING Bank NV, the Netherlands (green bond)	-	909
Intesa Sanpaolo SpA, Italy	-	416
Stagecoach Group PLC, United Kingdom	-	1,268
Takeda Pharmaceutical, Japan	-	1,005
Total	167,072	128,288

About the cover photo:

Cooperativa de Ahorro y Crédito Jardín Azuayo Ltda, Ecuador

Cooperativa de Ahorro y Crédito Jardín Azuayo Ltda (Jardín Azuayo) is a savings and credit cooperative. It runs a network of rural and urban branches that deliver financial services to small and medium enterprises (SMEs) and self-employed microentrepreneurs. This type of financing provides jobs to people like Carlos Rojas (pictured here), who works at a car garage financed by Jardín Azuayo.

Photo: Ana Maria Buitron

Oikocredit's vision is a global, just society in which resources are shared sustainably and all people are empowered with the choices they need to create a life of dignity.



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