



Term investments portfolio

The objective of Oikocredit is to use its lendable funds (share capital, general reserve and loans granted to Oikocredit) mainly for development purposes. Oikocredit 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 Oikocredit's total assets:

1. Development financing (core business): loans and equity investments to partners in developing countries
2. Other securities: non-listed investments in funds
3. Term investments: a portion of our 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. Due to the rather high level of liquid assets Oikocredit has in order to avoid a reliance on short term funding lines, the term investments are used to enhance the return that might be achieved by only holding cash and deposits with banks.

Term investments

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

Since 2016 AXA Investment Managers Paris (AXA) have acted as our 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 a better ESG performance than the benchmark BofA Merrill Lynch Euro Corporate Index with similar average credit rating and maturity characteristics. Most of the term investments in bonds have been rated 'investment grade' by either 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, Oikocredit's term investments policy stipulates that individual issuers are maximised at 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 bond portfolio constantly monitors the performance of the bonds and takes

appropriate action when necessary. Despite this, as a debtor we 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 per end of 2019 the bond portfolio did not contain any shares.

In 2019 the term investments decreased from € 144.2 million to € 139.8 million. Oikocredit decided to divest € 10 million for short term liquidity reasons. The revaluation of the term investments portfolio resulted in a gain of € 3.3 million and the capitalised interest income totalled € 2.3 million. At 31 December 2019 the investments held per main industry remained largely consistent with 2018: banking 27% (2018: 21%), utilities 14% (2018: 11%), basic industry 8% (2018: 11%) and real estate 7.5% (2018: 6%).

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 € 5 million.

Liquidity

The instruments in the portfolio are generally liquid under going-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 risk-adjusted return to Oikocredit's financial results.

Overview of Oikocredit's total term investments portfolio

<i>The total term investments portfolio consists of:</i>	2019	2018
	€ ,000	€ ,000
Buy and Maintain ESG Credit Portfolio	129,780	134,309
Portfolio managed by Alternative Bank Schweiz, Switzerland	10,041	9,931
Total term investments	139,821	144,240

In Oikocredit's Annual Report 2018 the term investments were presented as non-current assets and in the Annual Report 2019 as current assets. To be able to compare 2019 with 2018, the term investments for 2018 are also presented as current assets in the balance sheet and the table above.

Detailed overview of Buy and Maintain ESG Credit Portfolio

<i>List of bonds issued through Buy and Maintain ESG Credit Portfolio</i>	31/12/19	31/12/18
	€ ,000	€ ,000
Wolters Kluwer NV, the Netherlands	2,861	1,649
BPCE SA, France	2,275	1,845
Danske Bank A/S, Denmark	1,668	1,657
Allianz Finance II BV, the Netherlands	1,653	1,684
DNB Bank ASA, Norway	1,639	1,587
Aviva PLC, UK	1,633	1,568
Prologis LP, USA	1,625	1,647
Toronto-Dominion Bank, Canada	1,624	1,624
Tyco Electronics Group SA, Luxembourg	1,606	1,280
Cooperatieve Rabobank UA, the Netherlands	1,600	1,589
Unibail-Rodamco SE, France	1,575	1,605
SSE PLC, UK (green bond)	1,543	1,429
Eaton Capital Unlimited Co, Ireland	1,485	1,645
International Business Machines Corp, USA	1,473	999
Commonwealth Bank of Australia, Australia	1,449	1,286
Bertelsmann SE & CO, Germany	1,444	903
Stockland Trust, Australia (green bond)	1,434	1,437
Legrand SA, France	1,427	1,701
Snam SpA, Italy	1,423	1,142
INTL Flavor and Fragrances INV, USA	1,410	1,407
Ecolab Inc, USA	1,401	1,046
Arkema SA, France	1,401	1,347
Klepierre SA, France	1,397	1,035
Praxair Inc, USA	1,378	1,347
Hammerson PLC, UK	1,362	1,013
Danone SA, France	1,359	1,342
Santander UK Group Holdings PLC, UK	1,342	1,254
Red Electrica Financiaciones SAU, Spain	1,341	1,381
Telefonica Emisiones SAU, Spain	1,333	1,304
Orange SA, France	1,332	1,312
CRH Finland Services OYJ, Finland	1,331	1,358
KBC Group NV, Belgium	1,330	1,913
ABN AMRO Bank NV, the Netherlands	1,326	1,354
National Australia Bank Ltd, Australia (green bond)	1,315	1,292
Motability operations Group PLC, UK	1,309	1,026
Caixabank SA, France	1,309	985
Cie de SA, Franceint-Gobain, France	1,279	1,179
BNP Paribas SA, France (green bond)	1,270	806
Innogy Finance BV, the Netherlands (green bond)	1,269	1,171
Stagecoach Group PLC, UK	1,268	1,149
Essity AB, Sweden	1,252	1,220
General Mills Inc, USA	1,249	1,215
HCP Inc, USA	1,242	-
Cloverie PLC for Zurich Insurance Co Ltd, Ireland	1,240	1,205
Sydney Airport Finance Co Pty Ltd, Australia	1,239	1,223
Kerry Group Financial Services, Ireland	1,233	-
AusNet Services Holdings Pty Ltd, Australia	1,231	1,254
AstraZeneca PLC, UK	1,224	1,217
Westpac Banking Corp, Australia (green bond)	1,223	1,180
Amgen Inc, USA	1,203	1,153
Orsted A/S, Denmark (green bond)	1,198	1,104
Anglian Water Services Financing PLC, UK (green bond)	1,194	1,080
Santander Issuances, Spain	1,162	1,047
Societe Generale SA, France	1,144	1,121
Credit Agricole SA, France	1,143	1,037
Veolia Environnement SA, France	1,127	1,137
Intesa Sanpaolo SpA, Italy (green bond)	1,123	1,072

	31/12/19	31/12/18
	€ ,000	€ ,000
AT&T Inc, USA	1,116	1,010
Atlas Copco AB, Sweden	1,102	1,621
Telstra Corp Ltd, Australia	1,096	1,091
Linde Finance BV, the Netherlands	1,081	1,114
ICADE, France	1,079	991
Nordea Bank AB, Sweden	1,079	1,105
Iberdrola International BV, the Netherlands (green bond)	1,060	998
Enagas Financiaciones SAU, Spain	1,060	1,034
Sumitomo Mitsui Financial Group Inc, Japan (green bond)	1,028	993
Assicurazioni Generali SpA, Italy	1,028	1,054
Carrefour SA, France	1,027	975
Elsevier Finance S.A., the Netherlands	1,027	1,048
Terna Spa, Italy	1,026	1,113
Suez, France	1,017	1,614
Omnicom Finance Holdings Inc, USA	1,008	-
Takeda Pharmaceutical, Japan	1,005	1,000
Industrial and Commercial Bank of China Limited, UK (green bond)	998	-
Vattenfall AB, Sweden (green bond)	979	-
Verizon Communications Inc, USA	963	1,611
Vodafone Group PLC, UK	938	875
Banco Bilbao Vizcaya Argentaria SA, Spain	930	1,641
Apple Inc, USA (green bond)	926	873
Royal Bank Scotland Grp Plc, Scotland	909	-
ING Bank NV, the Netherlands (green bond)	909	1,520
Australia & New Zealand Banking Group Ltd., Australia	901	883
Crédit Mutuel, France	879	-
Wesfarmers Ltd, Australia	867	876
Nestle Holdings Inc, USA	863	807
Enel Finance International NV, the Netherlands	853	899
Thermo Fisher Scientific Inc, USA	848	850
Banco Bilbao Vizcaya Argentaria SA, Spain (green bond)	847	-
Bristol-Myers Squibb Co, USA	844	815
LA Banque Postale, France	825	782
Enel Finance International NV, the Netherlands (green bond)	802	176
Transport for London, UK (green bond)	751	687
EMD Finance LLC, USA	744	671
Regie Autonome des Transports Parisiens, France (green bond)	740	710
Gas Natural Fenosa Finance BV, the Netherlands	725	680
E.On Se, Germany (green bond)	707	-
De Volksbank NV, the Netherlands (green bond)	692	-
Inversiones CMPC S.A, Chile	663	-
Schneider Electric SE, France	643	606
ICADE, France (green bond)	637	570
RELX Finance BV, the Netherlands	625	600
Lloyds Bank PLC, UK	619	578
Intesa Sanpaolo SpA, Italy	558	513
Kaiser Foundation Hospitals, USA (green bond)	521	471
Agence France Trésor, Obligations assimilables du Trésor (OAT), France	518	-
ABB Finance BV, the Netherlands	515	1,533
Nationwide Building Society, UK	512	495
Skandinaviska Enskilda Banken AB, Sweden (green bond)	505	501
Standard Chartered Plc, UK	441	-
Skandinaviska Enskilda Banken AB, Sweden	438	406
Iberdrola Finanzas SA, Spain (green bond)	428	393
Terna Spa, Italy (green bond)	383	-
Region of Ile de France, France	333	317
Nordea Bank AB, Sweden (green bond)	318	315

	31/12/19	31/12/18
	€ ,000	€ ,000
BNP Paribas SA, France	311	747
KBC Group NV, Belgium (green bond)	309	-
Credit Agricole SA, UK (green bond)	308	300
Societe Generale SA, France (green bond)	301	299
Compagnie de Saint-Gobain S.A., France	300	299
WPP Finance 2010, UK	223	216
LA Banque Postale, France (green bond)	213	100
Industrial and Commercial Bank of China Limited, Singapore (green bond)	136	-
ING Groep NV, the Netherlands	108	97
LA Poste SA, France (green bond)	107	-
Telefonica Emisiones SAU, Spain (green bond)	105	-
Amcor Finance USA Inc, USA	-	837
Autostrade per l'Italia SpA, Italy	-	935
Bank Nederlandse Gemeenten NV, the Netherlands	-	1,889
British Telecommunications PLC, UK	-	1,517
Carlsberg Breweries A/S, Denmark	-	308
China Development Bank, China (green bond)	-	556
Coca-Cola HBC Finance BV, the Netherlands	-	1,055
Compass Group PLC, UK	-	1,238
Enel Finance International NV, the Netherlands (green bond)	-	578
FCE Bank PLC, UK	-	804
French Republic Government, France	-	499
Gecina SA, France	-	1,588
NN Group NV, the Netherlands	-	1,329
Swedbank AB, Sweden	-	1,613
UniCredit SpA, Italy	-	1,073
Valeo SA, France	-	1,491
Total	128,288	130,347

About the cover picture:

Fedco, Ghana

Fedco buys cocoa beans from smallholder cocoa farmers and is a partner of Oikocredit. Cocoa farmer Stephen Paintsil says: "Before I worked with Fedco, I did not get any recognition, and now the chocolate producers visit my farm."

Photo: Opmeer Reports

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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