

## **Leading the way in ethical investment for development**

### **Recommendations of the Oikocredit Conference in Vienna, 22 - 24 February 2017**

From 22 to 24 February 2017 some 60 representatives of Oikocredit members met in Vienna to discuss Oikocredit's future term investment policies. The Conference took note of the current state and history of Oikocredit's term investments and worked intensively on financial criteria and risk management, exclusion criteria, positive criteria, criteria for the selection of investment manager(s) and opportunities for engagement, transparency and reporting.

#### **The participants of the Conference developed the following recommendations for Oikocredit's Term Investment (TI) policy:**

Oikocredit should overhaul its current TI Policy from 2011 to incorporate the following recommendations and to harmonize it with the Oikocredit Investment Policy Statement from 2013. This harmonized policy will mandate the activities of the investment manager(s) going forward.

#### **Financial Criteria and Risk Management**

The purpose of the Term Investment Portfolio is to provide a balance of risks, provide a liquidity buffer and provide investment income as stated in the current TI investment policy. This Conference reaffirms the original statement of purpose in the policy.

##### Recommendations

1. Oikocredit should prepare an appropriate scenario framework on an annual basis that tests the portfolio and policy in terms of the balance of liquidity, risk and return in the light of its social impact.
2. Oikocredit should brief the manager(s) on the results of this scenario framework.
3. Oikocredit should provide annual feedback on this scenario framework to the members.

#### **Exclusionary Criteria**

The exclusionary criteria are an important expression of Oikocredit's values and an important tool to protect Oikocredit against reputational risk.

##### Recommendations

1. The TI portfolio should exclude investments with controversies as sustainable ratings agencies identify them, on norms-based criteria such as International Labor Organization, corruption and human rights standards and environmental issues.
2. Oikocredit should review the existing list of exclusions in the Oikocredit Sustainability Guidelines in light of continued relevance and the evolution of the responsible investment industry, including effective criteria on armaments, nuclear power and divestment from fossil fuel companies.
3. Oikocredit should review the exclusionary criteria to determine which criteria represent a "no-go" issue (zero tolerance), and which should be interpreted in terms of a tolerance range.
4. Oikocredit should review the TI exclusionary criteria. Although the values are the same as for the development portfolio, the criteria might be different.
5. There should be different sets of exclusionary criteria for corporate bonds/shares and sovereign bonds (with possible further differentiation between bonds of developing countries and developed countries).

## **Positive Criteria (ESG)**

Oikocredit is committed to the pursuit of positive ESG practices in its investments. Oikocredit has affirmed this commitment in its Oikocredit Investment Policy Statement and by becoming a signatory to the Principles for Responsible Investing (PRI).

### **Recommendations**

1. The term investment portfolio should be placed in investment-grade instruments from issuers who meet the following criteria:
  - a. have a positive impact according to international standards in at least one of the following areas:
    - i. environment
    - ii. health
    - iii. financial inclusion
    - iv. education and training
    - v. food security
    - vi. sustainable job creation
    - vii. other areas, to be determined based on the Sustainable Development Goals (SDGs)
  - b. are “best in class” insofar as their ESG practices rank in the top 50% for their industry, according to a composite of expert ratings
2. Up to 20% of the term investment portfolio should be placed in green bonds or development bonds, at least 5% to 10% within in 5 years.
3. For the sake of transparency, Oikocredit should:
  - a. obtain clear information about the composition of each green bond or development bond. i.e. How does the issuer use the funds from the bond?
  - b. ensure that each green bond or development bond is clearly described as such in the issuer’s and Oikocredit’s public communications
  - c. obtain clear information about the fund manager’s process for creating “best in class” composite ratings

## **Criteria for the Investment Manager(s)**

Oikocredit should select an investment manager(s) who is, as much as possible, in line with the mission and vision of Oikocredit.

### **Recommendations:**

- For the selection, Oikocredit should use an ESG rating system, or an equivalent assessment.
- The exclusionary criteria in the TI portfolio should also be considered with regard to the investment manager(s) selection.
- A periodic review of the ESG assessment of the investment manager(s) should be conducted by an independent third party.
- Oikocredit should seek to have an active engagement process with the investment manager(s).
- Oikocredit should on a regular basis evaluate the performance of the investment manager(s) (at least every 2 years). This should be done with an external evaluation and an internal committee including different stakeholders. The regular dialogue with the investment manager(s) is helpful for OC to develop its criteria and helpful for the investment manager(s) to improve the ESG performance.

## **Active Engagement**

Oikocredit believes that it is important to use its “critical mass” (not only capital but also its broad membership and its reputation) to engage via the investment manager(s) to influence the companies in the TI portfolio.

### **Recommendations:**

- If Oikocredit invests in shares, it should use its voting rights together with other like-minded organizations.
- Oikocredit should prefer investment managers that use their voting rights to achieve positive impact.
- Oikocredit should require the investment manager(s) to provide regular information on how it uses its voting rights and opportunities for active engagement.
- Every year, Oikocredit should consider informing the companies (e.g., through writing a letter to the company's management urging them to improve) that were part of the universe of acceptable companies but were dropped out of it during the course of the year.

### **Transparency and Reporting**

Oikocredit is committed to ensuring that the TI portfolio is transparently reported to its members and to the general public.

Recommendations:

- Oikocredit should abide by its current transparency principles in the current TI policy. If Oikocredit chooses not to publish the portfolio in the annual report, it should be reported in another public medium such as the website. This should include a separate summary with the major changes in the portfolio in the last year.
- Oikocredit should explain in its reporting the purpose of and difference between the development portfolio and the TI portfolio.
- Oikocredit should publish the TI policy on the website.
- Oikocredit should create a committee which reviews the portfolio regarding the financial and ESG performance of the portfolio. This should include representation from the finance department, social performance department and, possibly, the members' council. The committee should report periodically to the MB and SB. A summary of the report should be published on the website. The committee should meet with the investment manager(s) as a part of this process.

### **Conclusion**

As a result of the joint effort to realize a coherent approach we are confident that Oikocredit will be a leading socially responsible investor with regard to its TI portfolio, taking into account the liquidity and other constraints.

The Conference recommends that Oikocredit should update its TI policy every 2 years.

Vienna, 24<sup>th</sup> February 2017