

Initiatives for Socially Responsible Investment

What is SRI?

In the broad sense, socially responsible investment, or SRI, refers to the flow of money (including savings and financing) in ways conscious of the needs of society. Usually, however, it refers to a way of investing money that appraises not only a business's financial data (sales, return on equity, etc.) but also its corporate social responsibility (CSR), which includes its ethics and its actions for society and the environment. In the past, SRI has been considered a special way of investing in Japan, but hereafter, investment with an SRI perspective will be the primary approach taken by the Daiwa Securities Group.

Q&A: SRI at the Daiwa Securities Group

Q1. Why is the Daiwa Securities Group working so hard to implement SRI?

A1. Issues touched off by the 20th century capitalist economy, such as harm to the global environment and the growing gap between rich and poor, have caused many to fear for the sustainability of society. SRI can support the sustainability of society by actively investing in businesses working to solve these issues and deal sincerely with their stakeholders. Another important aspect is that, since it is likely that businesses practicing CSR will grow in value over the long term, SRI can be an attractive way for investors to invest their money for long periods of time. Because that is the core business of the securities industry, the Daiwa Securities Group believes that it is our social mission to lead in promoting SRI.

Q2. What initiatives is the Group taking presently?

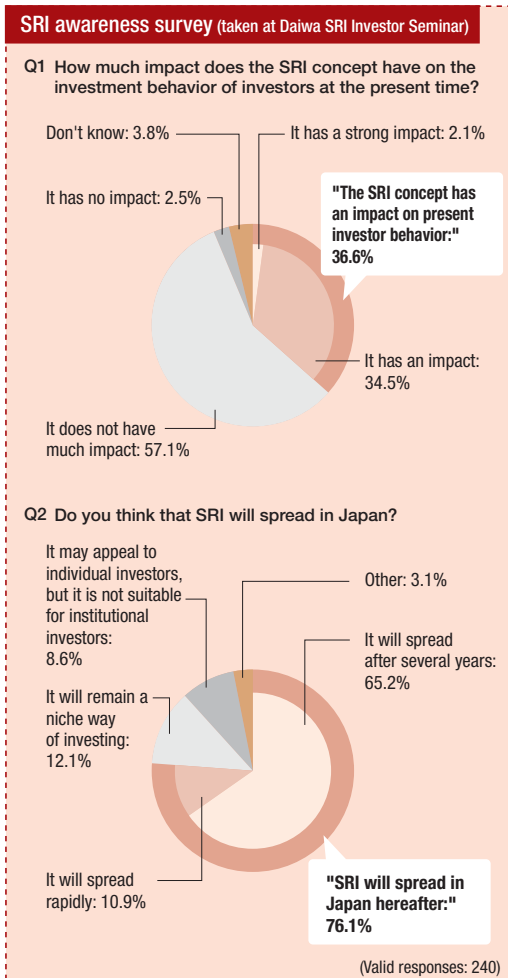
A2. Between June 2001 and May 2004, the Daiwa Securities Group began managing and selling three SRI funds¹. Aside from investment trusts, the Group also supports SRI by offering Kamakura Midori Sai, or "Kamakura Green Bonds," and investing in a World Bank carbon fund. It further releases CSR/SRI information and supports NGOs and non-profits working to promote CSR/SRI.

¹ For details, see page 09.

Q3. What is your outlook for the future of the SRI market in Japan?

A3. As of June 2004, the scale of the SRI market in Japan is estimated at about 150 billion yen. For comparison, the market is about 230 trillion yen in the US and 50 trillion yen in Europe, so Japan's SRI market has plenty of potential for growth.

At the Daiwa SRI Investor Seminar held by the Group in June 2004, we asked primarily institutional investors and corporate CSR managers to fill out a questionnaire. According to the results, only 37% of respondents thought that "the SRI concept has an impact on present investor behavior," but 76% expected that "SRI will spread in Japan hereafter." As of 2004, SRI is still in the nascent stage in Japan.



Fund managers and experts talk about the SRI fund concept

Investors have a wide range of investment trusts to choose from, but SRI funds have a number of unique features. This section introduces our readers to the characteristics of the three SRI funds the Daiwa Securities Group offers its customers and the ideas of fund managers and experts.



Ryoji Takaoka
Senior Fund Manager,
Japanese Equity
Management Department 1,
Daiwa Asset Management
Co. Ltd.

The Daiwa Securities Group is working to put "brand management" into effect to earn the trust of its stakeholders. Therefore putting CSR into practice in our core business was a great mission for us. This fund is the result.

Hereafter, we will be putting more time into fund manager reports and other tools to help our investors understand CSR and SRI, and I hope to help the fund grow over time as a result.

Daiwa SRI Fund² : Japanese stocks only, with a focus on transparency and sincerity

The Daiwa SRI Fund, which invests in Japanese stocks, was created in partnership with Integrex Inc., a firm that quantitatively assesses CSR. Using the comprehensive R-bec001 framework as based on Japan's original CSR standard ECS2000, this fund screens businesses' CSR by focusing on organizational systems, information disclosure attitude and "business sincerity and transparency" as revealed in its measures for dealing with emergencies. It then narrows down its investment targets by examining the future potential of company products and services, competitiveness, business strategy and so on. In the first two months since its launch in May 2004, it has grown to become Japan's largest SRI fund.

² Established May 2004. As of June 30, 2004, net assets totaled 29.4 billion yen.



Daiwa SRI Fund



Hideo Ueki, CFA, CMA
Executive Director, Chief Investment
Officer and Head of Japanese
Equities, UBS Global Asset
Management (Japan) Ltd.

This fund was created because Daiwa Securities Group wished to have a unique global equity SRI fund easy for Japanese investors to understand and because UBS had a good track record. The issues making up the portfolio are primarily from premium, well known companies outside of Japan with excellent CSR performance. SRI, which has just begun to draw attention in Japan, is most definitely not charity. Our role in SRI is to manage this fund so that investors will feel confident that they will get a high return on investment over the medium- to long-term.

UBS Global Equity 40 SRI+³ : SRI fund consisting primarily of premium non-Japanese stocks

With sales beginning in October 2003, UBS Global Equity 40 SRI+ focuses on companies' CSR performance by referring to issues listed in the Dow Jones Sustainability World Index (DJSI World) and SRI survey results of UBS AG. The fund invests primarily in large, premium company shares in major industrialized countries, selecting specific investment targets by assessing medium- to long-term company growth potential, product competitiveness, financial strength including profitability, and stock prices.

³ Established November 2003. As of June 30, 2004, net assets totaled 8.5 billion yen.



UBS Global Equity 40 SRI+



Masayuki Yoshida
Deputy General Manager,
Investment Trust Support,
Daiwa SB Investments Ltd.

"Mrs. GREEN" is an investment trust originated by a woman and brought to reality by female staff members. The portfolio consists of global stocks with a CSR perspective, primarily focusing on environmental aspects as based on environmental assessments by Innovest Strategic Value Advisors. Achieving social growth while protecting the environment is possible and these are not contradictory goals. Achieving

this, however, will require that each business's stakeholders change together. As people become more interested in "Mrs. GREEN," I think we will see society's consciousness change.

Global Eco Growth Fund (nickname: Mrs. GREEN)⁴ : A CSR perspective with an environmental focus

"The stock market assesses companies according to how they act toward the environment." Based on this concept, the fund, which invests in Japanese and global stocks, first selects issues from a growth (performance) perspective then further narrows down its choices based on environmental assessments by Innovest Strategic Value Advisors Inc.⁵

⁴ Established June 2001. The fund offers two options: Course A with foreign exchange hedging and Course B without foreign exchange hedging. As of June 30, 2004, combined net assets for Courses A and B totaled 4.8 billion yen.

⁵ Innovest Strategic Value Advisors Inc. is an investment research company that analyzes and assesses businesses in terms of environmental efficiency and sustainability and assigns an environmental ranking based on these.



Mrs. GREEN

**Revitalizing regional economies:
Establishment of regional index funds**

The Daiwa Securities Group sells "regional index funds"⁶ whose portfolios consist of issues from businesses with deep ties to a certain region. The goal of these funds is to inject vitality into regional economies. As of June 30, 2004, the Group has funds targeting businesses in four prefectures: Ibaraki, Kanagawa, Saitama and Shizuoka.

List of regional index funds

Fund name	Region	Net assets (As of June 30, 2004)
Ibaraki Fund	Ibaraki Prefecture	3.98 billion yen
Kanagawa Support Fund	Kanagawa Prefecture	1.36 billion yen
Sainokuni Support Fund	Saitama Prefecture	5.01 billion yen
Shizuoka Benchmark Fund	Shizuoka Prefecture	7.39 billion yen
Total		17.74 billion yen

Local bond enables citizens to care for their natural environment: Kamakura Midori Sai



Emi Fukuhara,
Branch Manager, Kamakura
Branch, Daiwa Securities

Kamakura Midori Sai, or "Kamakura Green Bonds," were issued in December 2003 as Kamakura City's first local "mini bonds" (lead manager: Daiwa Securities; amount issued: two billion yen). The goal was to procure funds from area citizens and use the funds to protect the environment of the forested, hilly western section of the city. Branch Manager Emi Fukuhara says that "The theme, which is appropriate for an age of direct financing, is 'Community building through the hands of Kamakura's citizens.' By getting deeply involved, Daiwa Securities also has the opportunity to make more people aware of the social role of a securities company." Branches worked together to promote the fund, so that the entire issue sold out just after 10:00 AM on the opening day of sales.



Staff members from
Kamakura Branch

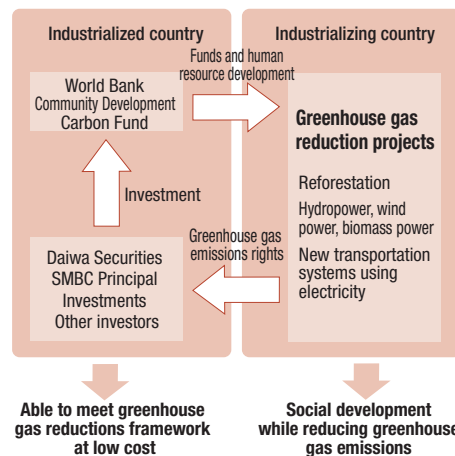
Investment in World Bank carbon fund

In July 2003, Daiwa Securities SMBC Principal Investments Co. Ltd. became the only securities company in the world to invest in a World Bank carbon fund (the Community Development Carbon Fund), purchasing a share worth US\$2.5 million. This carbon fund invests in emissions rights arising from development projects to reduce greenhouse gases, for example the use of wind power in industrializing countries, thus contributing to the reduction of greenhouse gases in industrializing countries and regions while supporting social development there. Daiwa Securities SMBC Principal Investments also participated in the Carbon Expo, held in Cologne, Germany in June 2004 to promote the active trading of emissions rights.

Greenhouse gas emissions trading is a system under which, for example, each nation (or business) is allowed to emit a certain amount of greenhouse gases, and those nations (or businesses) that exceed the limit can purchase rights to release the excess

amount from others that are under the limit. This system is drawing attention as a means for meeting emissions reduction targets promised under the Kyoto Protocol (emissions reductions from 2008 to 2012 are to be at least 5% vs. 1990 levels).

World Bank carbon fund scheme



⁶ Daiwa Asset Management has established and is operating the four regional index funds.

Activities to promote SRI

Daiwa SRI Investor Seminar

The Daiwa SRI Investor Seminar⁷ took place on June 18, 2004. The 420 attendees consisted mainly of company CSR managers and institutional investors. Exploring the theme "SRI and Its Possibilities," the seminar brought together company pension managers, SRI supervisors, CSR assessors and quantitative analysts, who discussed the question, "Does SRI lead to good investment performance?" Foreshadowing an age of wide-scale SRI investment in Japan, the seminar gave the participants a clear sense that SRI will soon no longer be a specialized way of investing.



A panel discussion at the seminar.

Lecture by Mariko Kawaguchi,
Senior Analyst
at Daiwa Institute of Research



Support for NGOs and non-profits advancing SRI

Taking part as a corporate member, the Daiwa Securities Group supports non-profits which advance the SRI cause. Social Investment Forum Japan⁸, launched in November 2003, pursues its mission of helping to establish social systems wherein funds flow to companies with strong pro-social characteristics. Additionally, the Association for Sustainable & Responsible Investment in Asia (ASrIA)⁹ held its Annual Conference¹⁰ in July 2004 in Singapore, at which Director and Executive Vice President Masayasu Oi of Daiwa Asset Management gave a speech on the status of SRI in Japan.



Speech by Masayasu Oi, Director
and Executive Vice President of
Daiwa Asset Management



SOCIAL
INVESTMENT
FORUM
JAPAN

Signatory to Carbon Disclosure Project (CDP)¹¹

Daiwa Securities Group Inc. became a signatory to the Carbon Disclosure Project (CDP) in March 2004. The CDP is the secretariat for an alliance of institutional investors interested in climate change who ask global businesses to disclose information on their actions and positions on global environmental problems. As of May 2004, the CDP has 95 participating financial institutions with combined working assets of approximately US\$10 trillion, demonstrating that institutional investors are highly concerned about climate change.

Publication of SRI/CSR report

SRI/CSR reports produced by the Daiwa Institute of Research are published on the Group's "CSR Website"¹². In addition, a compilation of multiple reports, "Daiwa Securities Group SRI Reports 2004"¹³, has been produced.

SRI awareness survey

Daiwa Investor Relations Co. Ltd. has performed a series of surveys for analysts and fund managers in Japan on the topic of "The impact of SRI on Japanese businesses" since December 2002. In the most recent such survey, performed in March - April 2004, only 21.0% of respondents said that "SRI has an impact on report writing and stocks chosen for investment," but 60.5% of respondents believed that "SRI will become widespread in Japan."

7

For details about the Daiwa SRI Investor Seminar, see <http://www.daiwa.jp/branding/sri/seminar040723.html> (Japanese only)

8

Social Investment Forum Japan: <http://www.sifjapan.org/> (Japanese only)

9

Association for Sustainable & Responsible Investment in Asia (ASrIA): <http://www.asria.org/>

10

ASrIA Annual Conference: <http://www.asria.org/events/singapore/july04/home>

11

Carbon Disclosure Project (CDP): <http://www.cdproject.net/>

12

<http://www.daiwa.jp/branding/> (Japanese only)

13

<http://www.daiwa.jp/branding/sri/report.html> (Japanese only)

SRI awareness survey by Daiwa Investor Relations (March - April 2004)

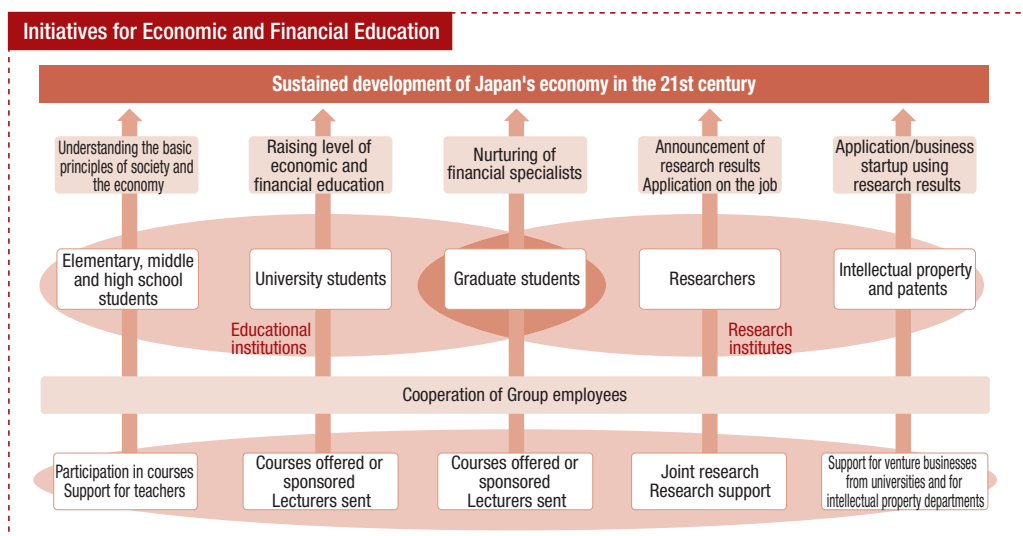
Respondents: total of 81 Japanese analysts and fund managers

Items	
I know about SRI	92.6%
I know about CSR	90.1%
SRI will become widespread in Japan	60.5%
SRI has an impact on report writing and stocks chosen for investment	21.0%

Initiatives for Economic and Financial Education

All of us from children to adults are getting along, using the medium of money in our day-to-day lives. Therefore we are all quite familiar with money, but the Daiwa Securities Group believes that, in Japan, we have not had sufficient education in money flows, economic systems or even social systems.

The Daiwa Securities Group works with a variety of educational institutions and non-profits to provide people with opportunities for economic and financial education and research. Specifically, we support 1) basic education for elementary, middle and high school students and 2) education and research through industry/academic partnerships with universities and graduate schools. We consider such activities to be a way for us to use our professional knowledge and skills to make a contribution to society in our core area of business.



Main industry/academic partnerships with universities and graduate schools in FY 2003

Main objectives	Major industry/academic partnerships	Major efforts in FY 2003
Educational support	Courses sponsored	Offered two courses at Hitotsubashi University Graduate School of International Corporate Strategy and one course at Kyoto University Graduate School of Economics
	Courses offered	Offered course on "Theory of Corporate Governance" at Keio University Shonan Fujisawa Campus. This introductory course teaching the importance of market-type finance gets many students every year. Announced partnership with Waseda Graduate School of Finance, Accounting and Law.
	Lecturers sent	Lecturers sent to 12 courses at as many universities in Japan, including Aoyama Gakuin University Graduate School of International Management.
Research support	Joint research	Performed joint research on company valuation with Hitotsubashi University Graduate School of International Corporate Strategy. Presented research results in Securities Analyst Journal. Research results also posted on our website.
Exchange support	Award system support	Provided comprehensive support for Porter Prize 2003 (given to Japanese businesses using excellent strategy to achieve high profitability).
	Scholarship system	Operated Daiwa Securities Group's scholarships for international students at Hitotsubashi University Graduate School of International Corporate Strategy (eight individuals received scholarships in FY 2003).
	Support for holding conferences	Supported Kyoto University's symposium on Chinese economic development and capital markets to mark the opening of the university's Shanghai Center for Economic Research.

Acquiring life skills: Economic education for elementary, middle and high school students

The Group's hope is to help children understand that the basic premise of the economy is to create a common good for society. The phenomena of day to day life exactly parallel the basic principles of the economy. Even the smallest actions that an individual takes can create value for society. We believe that when the child becomes keenly aware of this, it empowers the child to live. It is out of a desire for doing this that the Daiwa Securities Group supports economic education in elementary, middle and high schools.

Cooperative partnership with Junior Achievement¹ Japan

The Daiwa Securities Group endorses the economic education efforts of Junior Achievement Japan and supports the promotion of its programs and their implementation in places of education.

Activities for spreading economic education

The Daiwa Securities Group provided support to Junior Achievement Japan's third Global Leadership Forum for Elementary, Middle and High School Teachers, held in August 2003. This forum, which drew participation from nearly 800 teachers at the elementary to high school level from all over Japan, provided a venue to consider the hoped-for state of education in the 21st century. From the Daiwa Securities Group, Eiji Azuma, Managing Director at Daiwa Institute of Research, gave a lecture on the topic of "Conditions for Revitalizing Japan's Economy."



At the Global Leadership Forum

1

Junior Achievement:
A non-profit organization founded in the US in 1919. The world's largest organization dedicated to economic education, it provides materials and programs to schools free of charge in various countries. With the support of member businesses, Junior Achievement strives to educate young people about business management, economics and finance. Junior Achievement Japan was established in 1995, with the Daiwa Securities Group becoming a member in 2000.

2

The Student Company Program, or SCP, is Junior Achievement Japan's hands-on economic education program. For details, see <http://www.ja-japan.org/> (Japanese only).

Student Company Program (SCP)²: Working with JUGO Inc. at Ritsumeikan Senior High School

The Daiwa Securities Group has supported the "Student Company Program," or SCP, which has been given as part of the regular curriculum at Ritsumeikan Senior High School in Kyoto since October 2003. Under this program, 15 students started a company called JUGO Inc. with a capital of 10,000 yen. The students ran the business for a period of 16 weeks, in the meantime learning about social and economic systems. Three employees and one retiree from the Daiwa Securities Group took part in weekly classes and advised the students as outside directors.



A JUGO Inc. board meeting



Company members making products



Selling to PTA members



General meeting of shareholders

SCP: A 16-week struggle and maturing experience

For the 15 students who took part, SCP was a 16-week of struggle, anguish, joy and maturing. As the supervising teacher who spent time with the group during these 16 weeks, I came away feeling that children will show their unlimited potential, if just given a place and opportunity to do so. I appreciate the personnel from Junior Achievement who offered and supported the program and the members from the Daiwa Securities Group who gave such good advice to the students every week as outside directors.



Tetsuji Jinno, Teacher, Ritsumeikan Senior High School

Outline of the SCP

October 9, 2003:
A President is selected and the company established. JUGO Inc. starts activities.

November 22, 2003:
Company begins selling ornamental plant products "PLANCOAL" and "Kaguyahime."

February 1, 2004:
Street sales at Kyoto's Nishiki Market. JUGO sells out its stock of 27 PLANCOAL and 19 Kaguyahime products.

February 19, 2004:
Activities end

March 12, 2004:
Students visit Daiwa Securities Group Inc. and report activity results to President (now Chairman) Hara.

March 13, 2004:
Business performance announced at joint SCP general meeting of shareholders held at IBM Japan.

Industry/academic partnerships with universities and graduate schools

Industry/academic partnerships are an important way to contribute to the sustained development of the Japanese economy.

The heart of the Daiwa Securities Group's industry/academic partnerships is the sending of lecturers and offering and sponsorship of courses at universities around Japan, and joint research with graduate schools. Additionally, the Group sends employees to such organizations as university-originated ventures and university intellectual property departments to act as coordinators between the seeds of the academic world and the needs of the industrial world.

Offering courses and sending lecturers: Industry/academic partnerships taking advantage of regional characteristics

The Daiwa Securities Group sends lecturers to lead courses it provides of varying size and content. These include courses to which personnel from Daiwa Securities branch offices are sent as lecturers according to the needs of local universities. The Takamatsu Branch of Daiwa Securities, for example, has given spot lectures a total of nine times through FY 2002 at Kagawa University and an associated middle school and started its second series at a national university in FY 2003. Continuing in FY 2004, the manager of the Takamatsu Branch and directors from group companies have lectured on the theory of securities markets. We believe that, through local efforts like these, we can contribute to regional economies.

Nurturing economy-savvy citizens: Initiatives of the Takamatsu Branch

How can we make ourselves the most trusted company? That is the question that prompted the Takamatsu Branch of Daiwa Securities to form an industry/academic partnership with Kagawa University. During branch meetings, we staff members narrowed the discussion to ways of vitalizing Takamatsu's economy, after which we interviewed people from the prefectural and city governments as well as university and financial world personnel. This ended in a decision to try to help nurture human resources with practical skills. Twelve site managers from three companies in the Daiwa Securities Group came together to give a lecture exposing students to practical knowledge based on on-site experience.

In our lectures we talked about what we were doing on the job, what we were struggling with, what the workplace was really like, and so on. This is what we consider "practical knowledge." The students listened with great interest, since these were real-life stories from the business place.

Working in these industry/academic partnerships, we come to be better known within the community and to understand that our customers have developed a sense of trust in us in many ways.

Moreover, we got a strong impression of how important it is that activities taking place within a local community be planned by people who truly understand local characteristics. It is so critical that action come from the place that best understands the local people, economic conditions and problems of the area.



Tatsuru Asano,
Branch Manager
Takamatsu Branch, Daiwa Securities

Main points of Theory of Securities Market special lectures at Kagawa University in FY 2003.

No.	Lecture topic	Lecturer
No. 1	Special Lecture and Orientation	Eiji Azuma Managing Director Daiwa Institute of Research
No. 2	The Securities Market: Its Effect on the Actual Economy	Sachiko Hanaoka Deputy General Manager Investment Strategy & Research Department, Daiwa Securities
No. 3	The Role of the Securities Market as Seen in the Changes in Japan's Economy	Hiroshi Asano Deputy General Manager Takamatsu Branch, Daiwa Securities
No. 4	The Stock Market I: The Market System	Toyofumi Oga General Manager Equity Department, Daiwa Securities
No. 5	The Stock Market II: How are Stock Prices Determined?	Toyofumi Oga General Manager Equity Department, Daiwa Securities
No. 6	The Bond Market I: What are Bonds? What is Rating?	Kouichi Ninomiya General Manager Fixed Income Department, Daiwa Securities
No. 7	The Bond Market II: From Yield to Fiscal Problems	Kouichi Ninomiya General Manager Fixed Income Department, Daiwa Securities
No. 8	Investment Trusts and Practical Asset Management	Tatsui Yanagisawa Deputy General Manager Pension & Annuity Department, Daiwa Securities
No. 9	What are Derivatives?	Shizuka Osawa Deputy General Manager Daiwa Institute of Research
No. 10	Investment and Securities Companies	Kinya Kuramoto General Manager Corporate Planning Department, Daiwa Securities
No. 11	Securitized Products: New Finance Techniques	Yuichi Sato Deputy General Manager Daiwa Institute of Research
No. 12	Information Disclosure and Investor Relations: From Black Boxes to Glass Windows	Makoto Yada Deputy General Manager Takamatsu Branch, Daiwa Securities
No. 13	Case Studies in the Importance of Compliance	Yoshinori Shikada Deputy General Manager Personnel Department, Daiwa Securities Group Inc.
No. 14	Overview and Role of Securities Markets Hereafter	Nobuyuki Sano Branch Manager Takamatsu Branch, Daiwa Securities

(Titles given were valid as of FY 2003)

Joint research with graduate schools

Joint research between companies and graduate schools has a number of advantages both for the companies, who can apply graduate school research results to their business, and for the graduate schools, who can absorb company know-how. One example is the Group's joint research with the Hitotsubashi University Graduate School of International Corporate Strategy on the theme "Valuation of Diversified Corporations in Japan: Analysis by Fundamentals and Investment Strategies." Specifically, the research examined whether the concept of the "diversification discount," widely accepted in the West, can be applied to Japanese businesses, and this led to the development of a "diversified company evaluation tool." Published in the Security Analysts Journal®, the study has captured attention from many quarters.³

Other industry/academic partnerships

Japan at this time needs to find ways to take university and graduate school research and apply it promptly to the economy. The Daiwa Securities Group is endeavoring to support university-originated venture businesses and university intellectual property offices which seek to apply research results to private enterprise in a process of technical transfer. Moreover, it is helping to hold international conferences to which noted researchers from abroad are invited. The Group will continue to offer ongoing, multifaceted support and create ways to apply university and graduate school research directly to Japan's economy.

³ For details on joint research with Hitotsubashi University's Graduate School, see <http://www.daiwa.jp/branding/action/acd.html> (Japanese only)

Joint research using the respective strong points of graduate schools and businesses



Makoto Nakano (center), Associate Professor, Graduate School of International Corporate Strategy, Hitotsubashi University

As academic disciplines, corporate finance and finance in general are strongly characterized by practical knowledge, but within the university framework, the sense of being in the workplace is missing. We have done joint research with private enterprise because it gives one that sense of being in the actual workplace and one feels that the research can really be put to practical use. We have been able to accomplish some highly original research by working with people from the Daiwa Securities Group, who have real experience in quantitative analysis.

Naoya Kubo (right), Deputy General Manager, Quantitative Research Department, Daiwa Securities SMBC

The joint research made me feel that my theoretical knowledge of the field was lacking. That motivated me actually to become a student of Hitotsubashi University's Graduate School. The chance to mingle with people from the academic world is one of the great things about industry/academic partnerships.

Yukimitsu Yoshimura (left), Assistant Manager, Quantitative Research Department, Daiwa Securities SMBC

The Daiwa Securities Group has so many staff members, it's like a treasure house of human resources. Through the research process we were able to take the knowledge and experience of many employees and use it to produce results. As competition among businesses heats up, it is the ability to create new areas of business that will enable companies to grow. That is one way in which this type of industry/academic partnership is such a great opportunity.