



# Initiatives for Socially Responsible Investment

## Initiatives for SRI funds

### What are SRI funds?

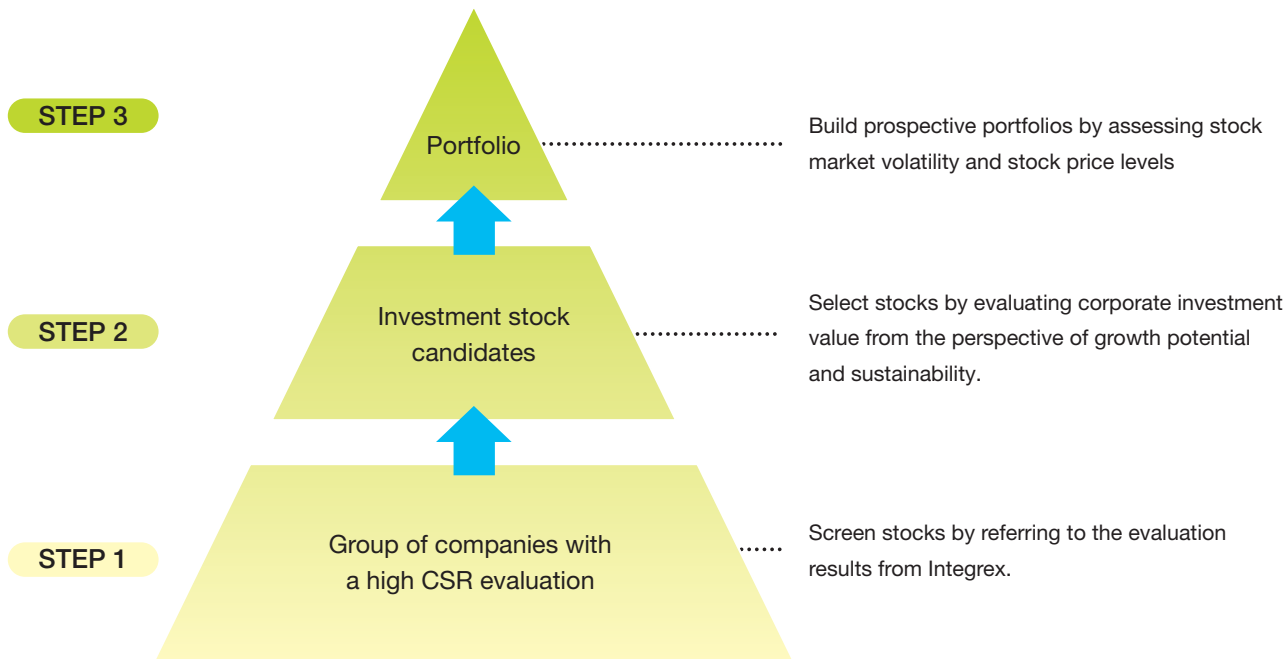
An investment fund is a financial product in which a company specializing in investment (the fund management organization) oversees the money collected from a large number of investors in a single investment account on behalf of the investors. One type of investment fund is an SRI fund, where the stocks for potential investment are screened from the perspectives both of growth potential and of sustainability under certain CSR evaluation standards. The eco funds (ecologically oriented investment funds) that began to appear in Japan in 1999 are one example of an SRI fund.

SRI fund products differ in their characteristics, depending on the portfolio construction process and the CSR evaluation standards. The CSR evaluation standards and portfolio building process for the Daiwa SRI Fund are shown in the diagram.

### Evaluation points in the R-BEC001 CSR evaluation standards used for the Daiwa SRI Fund

<b>Overall ethical and legal compliance activities</b>
Ethics and integrity
Social contributions and responsibility
Environmental and green activities
<b>Planning systems and processes</b>
Management philosophy
Basic policies for ethical and legal compliance
Compliance manual
Implementation plans, legal rules, and internal regulations
<b>Systems and processes for implementation and management</b>
Divisions and departments in charge of ethical and legal compliance
Corporate governance
Education and training in ethics and legal compliance
Communication
Management and control
Preparation and measures for crisis management
<b>Systems and processes for auditing and improvement</b>
Self evaluation
Internal evaluation
Prevention and correction measures based on self and internal evaluations
Management system auditing
Follow-up audits
Improvement by management levels

### Basic policy for Daiwa SRI Fund portfolio construction



\* Integrex Inc. is a company that carries out quantitative CSR evaluation. Supported only by individual investors, it is an impartial evaluation company with no capital relationships with financial institutions or non-financial companies. Integrex carries out SRI evaluations using CSR evaluation standards (R-BEC001). These are based on Japan's own ECS2000 CSR standards and were mostly prepared by the Reitaku University Business Ethics and Compliance Research Center (Representative: Dr. Iwao Taka).

Socially responsible investment (SRI) is a method of investing that emphasizes firms' performance in the area of corporate social responsibility (CSR), including their environmental initiatives, social consciousness, and ethics, in addition to financial performance factors such as sales and profits. The Daiwa Securities Group, whose main business is the provision of financial services, is well-positioned to contribute to creating a sustainable society through the technique of SRI.

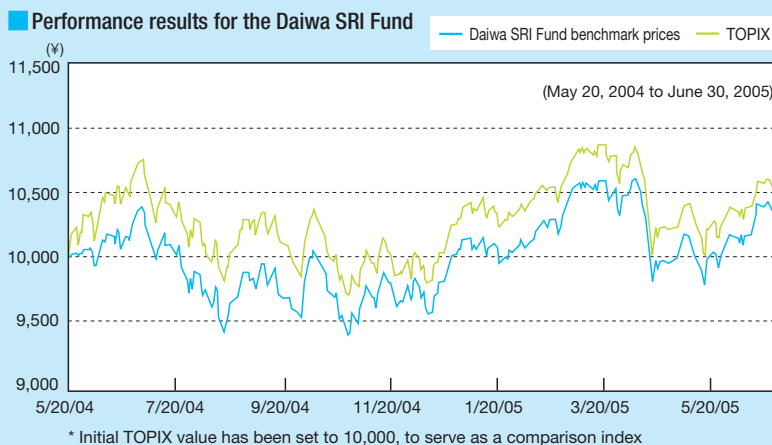
The following is a report on our initiatives for SRI funds, initiatives in the asset management business and the Daiwa Group's own investment business, as well as initiatives with the goal of improving awareness and understanding of SRI.

## Daiwa Securities Group SRI funds

The Daiwa Securities Group began with the Global Eco Growth Fund (commonly called "Mrs. Green") in 2001, followed by the UBS Global Equity 40 SRI+ in 2003, and the Daiwa SRI Fund in 2004. The total net assets of these three SRI funds amount to ¥30.254 billion, which is 22.6% of the total net assets of all SRI funds in Japan (¥133.623 billion).

The Daiwa SRI Fund is a new product based on Japan's own ECS2000 CSR standards, which also evaluate the sincerity and transparency of companies. Although the performance of this fund is currently below that of the Tokyo Stock Price Index (TOPIX), we are aiming for performance results that are better than the TOPIX over the medium and long term.

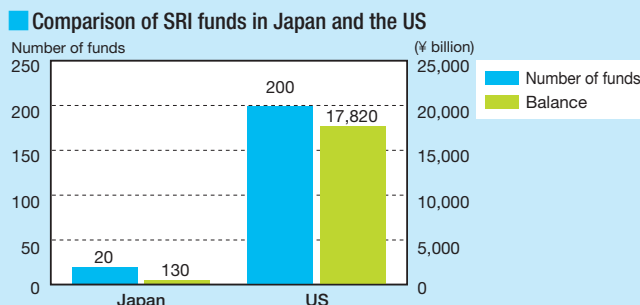
(The figures are according to a Daiwa Securities Group survey, as of June 30, 2005.)



## Current situation of Japanese SRI funds

In the US, the value of SRI fund assets has expanded rapidly since the 1990s, in 2003, the number of funds reached 200, achieving a combined value of about US\$162 billion (¥18 trillion). Meanwhile, Japanese SRI funds only number about 20, and their total asset worth is just over ¥130 billion.

(The US figures are from 2003, while the Japanese figures are as of June 30, 2005, according to a survey by the Daiwa Securities Group. Source: "2003 Report on SRI Trends in the US," SIF)



## Issues and outlook for the popularization of SRI funds

SRI funds have only a brief history in Japan, and they have not yet demonstrated returns over the medium and long term. However, since companies that promote CSR activities are likely to increase in value over the long term, SRI funds provide an attractive investment tool.

An SRI awareness survey was conducted during the Daiwa SRI Investor Seminar held in June 2004. About 35% of respondents thought that the SRI concept is having an impact on

current investment behavior, and 76% thought that SRI will gain popularity in Japan in the future. Due to the increased interest among investors, the market for SRI funds has future growth potential.

One social mission of the Daiwa Securities Group is to lead the way in the popularization of SRI. Through our own initiatives and support for NPOs and NGOs that advance SRI, we intend to promote SRI funds in Japan.

# Initiatives for Socially Responsible Investment

## Initiatives in other investment business

### Additional investment in a World Bank carbon fund, and clean development mechanism approval

In March 2005, Daiwa Securities SMBC Principal Investments Co. Ltd., added US\$5 million to its investment in the Community Development Carbon Fund, one of the World Bank's carbon funds (US\$2.5 million investment in July 2003, for a total investment of US\$7.5 million). In July 2005, the Community Development Carbon Fund's La Esperanza Hydroelectric Project was approved as a clean development mechanism (CDM)<sup>\*1</sup> by the CDM Executive Board at a meeting in Bonn, Germany.

### Overview of the La Esperanza Hydroelectric Project

Near the city of La Esperanza in the Intibuca region of Honduras, a 12,700-kw hydroelectric plant will be built in order to supply electricity to 40,000 people in La Esperanza and the surrounding area. This effort will enable a 37,000-ton reduction in the annual emissions of greenhouse gases.

<sup>\*1</sup> A system that enables the trading of greenhouse gas reduction amounts to meet obligations under the Kyoto Protocol. This is achieved through development projects to reduce greenhouse emissions, which are subject to certain approval procedures. However, the project must be carried out in a developing country by a firm from a developed country that supplies the technology and financing.

### Regional corporate recovery funds

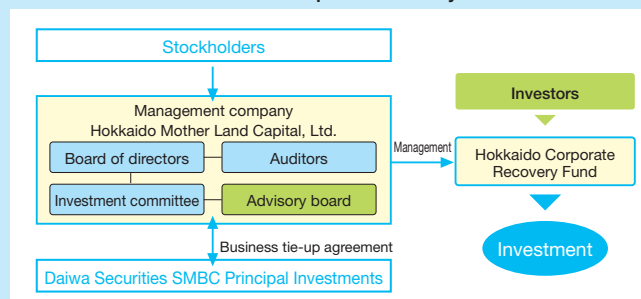
The recovery of local medium and small-scale businesses is indispensable for the revitalization of a region's economy and industry. Daiwa Securities SMBC Principal Investments participates in the formation and management of various regional corporate recovery funds. Through the acquisition of stocks and the purchase of loans from financial institutions, it is supporting the revitalization of small and medium-sized businesses in rural areas.

- Hokkaido Corporate Recovery Fund: ¥10 billion in total asset commitment
- Tochigi Corporate Recovery Fund: ¥8 billion in total asset commitment
- Tokyo Challenge Fund: ¥7.5 billion in total asset commitment

Regional recovery funds (Japanese only)

**URL** <http://www.daiwasmbcpi.co.jp/solution/sol400.html>

### Framework for the Hokkaido Corporate Recovery Fund



## Initiatives in the asset management business

### Exercising our stockholder responsibilities

The two asset management companies of the Daiwa Securities Group recognize the importance of investment target companies living up to their social responsibilities. They are therefore moving forward with corporate governance initiatives that include the exercising of stockholder voting rights.

In May 2002, Daiwa Asset Management Co. Ltd., established its basic philosophy and guidelines for the exercising of stockholder voting rights, and in July 1998, Daiwa SB Investments Ltd., put in place the Corporate Governance Initiatives Objective and Basic Approach (these policies have been made public online, in Japanese). Both companies have increased stockholder value over the medium and long term, and have made it their policy to exercise voting rights in order to fulfill their responsibility as investment trustees. Specific votes on issues are determined by committees on the basis of corporate governance committee regulations. Daiwa is also going beyond voting and is striving to improve shareholder value by using various opportunities to encourage investment target companies and to improve their corporate governance.

### Regional support funds

The Daiwa Securities Group puts together and sells regional support funds that are made up of companies based in certain regions of Japan, on the theme of revitalizing regional economies. In March 2005, we invested in listed companies from Toyama Prefecture, in a new fund called the Toyama Support Fund. This fund is not charity; its aim is to secure stable profits and to promote growth of the entrusted assets. This brings the total number of these support funds to five.

### List of regional support funds (as of June 30, 2005)

Fund name	Region	Total net assets (¥ billion)
Ibaraki Fund	Ibaraki	3.7
Kanagawa Support Fund	Kanagawa	1.2
Sainokuni Support Fund	Saitama	4.2
Shizuoka Benchmark Fund	Shizuoka	7.2
Toyama Support Fund	Toyama	4.9
Total		21.2

## Initiatives aiming to improve the awareness and understanding of SRI

### SRI fund advertising activities

In order to convey the importance of SRI to as many people as possible, we placed an SRI fund advertisement in the magazine, *Nikkei Ecology* (April 2005).



### Supporting NPOs and NGOs that advance SRI

The Daiwa Securities Group has become a member of two organizations: the Social Investment Forum Japan (SIF-Japan), which aims to establish social systems where capital is directed into reputable, socially responsible companies, and ASRIA, which seeks to promote SRI across Asia.



SOCIAL  
INVESTMENT  
FORUM  
JAPAN



### Issuing CSR and SRI reports

The Daiwa Institute of Research Ltd. publishes various reports relating to CSR and SRI on the CSR web site of the Daiwa Securities Group. The March 2005 report entitled "Good Stock Performance by Companies that Actively Support Female Employees" (Quantitative Analysis Team, Investment Strategy Department) examines the strong business performance of companies that actively promote women as well as those that have systems to make it easy for women to work while meeting childcare or elder care responsibilities at the same time. It is not possible to prove a causal relationship from these analysis results that the promotion of women is directly linked to better stock performance. However, it is possible to say that the selection of and investment in companies that have CSR management policies that address the needs of female employees is a valid investment strategy.

CSR and SRI related reports (Japanese only)

URL <http://www.daiwa.jp/branding/sri/report.html>

### Adoption of Daiwa SRI Fund for corporate pension plans

Since November 2004, the Daiwa SRI Fund, which invests in companies that are highly rated for their CSR initiatives, was added to the selection of investment products for the Daiwa Securities Group 401k plans, our defined contribution pension plans for employees. This fund, which is already an investment product for defined contribution pension plans for general clients, will be further expanded in the future.

## TOPICS | Current situation for the popularization of SRI

According to the Questionnaire on the Roles Companies Should Play in Society carried out in November 2004 by the Nikkei CSR Project<sup>\*2</sup> sponsored by the Nihon Keizai Shimbun, the level of recognition of SRI was only 10% among business people and individual investors. However, those that would invest in a company that actively pursues CSR management as opposed to another company of comparable standing exceeded 90%. Another survey of analysts and fund managers carried out in December 2004 by Daiwa Investor Relations Co. Ltd., showed the recognition level was 95% for SRI and 94% for CSR.

It is expected that investment in companies with active CSR policies will also gain popularity in Japan as CSR is more widely recognized and understood.

\*2. The Daiwa Securities Group supported this project from April 2004 to March 2005.

#### Nikkei CSR Project: Questionnaire on the Roles Companies Should Play in Society

Target groups: Business people (356 men and women working at listed companies or companies with at least 100 employees)  
Individual investors (326 owners of stocks or investment products) (November 2004)

Item	Business people	Individual investors
Recognize SRI	10.9%	13.8%
Would prefer to invest in a company that actively pursues a policy of corporate social responsibility, given a choice with another company of otherwise similar management and financial conditions.	92.7%	93.1%

#### SRI awareness survey by Daiwa Investor Relations

Target groups: 99 Japanese stock market analysts and fund managers (December 2004)

Item	Current survey	Compared to previous survey
Recognize SRI	94.9%	Up 2.3 percentage points
Recognize CSR	93.9%	Up 3.8 percentage points
SRI will gain popularity in Japan	67.7%	Up 7.2 percentage points
SRI affects report preparation and selection of stocks for investment	35.3%	Up 14.3 percentage points

# Initiatives for Economic and Financial Literacy Education

## Two core programs focused on economic and financial education

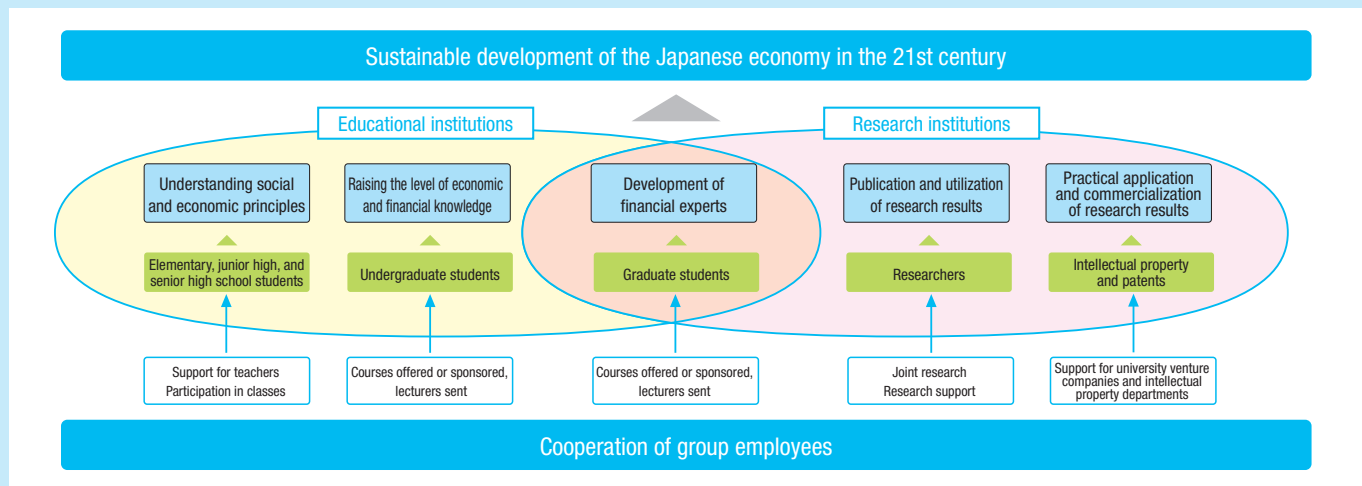
The Daiwa Securities Group recognizes the importance of educational and research activities for economics and finance. We are promoting initiatives focused on these two fields, by working with various educational institutions and NPOs.

The first initiative involves support for the education and research fields through partnerships with universities and graduate schools. In addition to promoting joint research with graduate schools and offering courses and sending lecturers to universities all over Japan, the Daiwa Securities Group sends out program coordinators in order to connect "seeds" (inside the universities) with "needs" (in industry).

The second initiative involves support for programs that are carried out in the classrooms, as well as activities to popularize economic learning among elementary, junior high, and senior high school students.

The Daiwa Securities Group places importance on corporate citizenship activities that utilize its own specialized knowledge and expertise, as part of the Group's core-business CSR activities, and we will continue to actively perform these activities in the future.

### Initiatives for Economic and Financial Education



### Main academic partnerships with universities until fiscal 2004

Main university partnerships	University name	Examples of main courses and themes
Courses sponsored or offered, lecturers sent	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Daiwa Securities corporate strategy creation, corporate restructuring
	Faculty of Policy Management, Keio University (Shonan Fujisawa Campus)	Corporate governance theory
	Graduate School of International Management, Aoyama Gakuin University	Fund management, institutional investors and asset management
	Graduate School of Economics, Kyoto University	Institutional investors and asset management, securities system theory
	Graduate School of Medicine, Kyoto University	Entrepreneur development course
	Faculty of Law, Chuo University	International internship, international finance and securities market, and law
	Faculty of Comprehensive Welfare, Tohoku Fukushi University	Welfare society and securities
Joint research	Faculty of Economics, Kagawa University	Securities market theory
	Division of University Corporate Relations, Tokyo University	Joint research for commercialization of university technology
	Graduate School of Economics, Kyoto University	Calculation of voting right values
Support for commercialization of research results	Waseda Graduate School of Finance, Accounting and Law	Corporate governance
	Business, Research and Intellectual Property Center, Nihon University	Technology licensing organization (TLO) consulting and commercialization support
	Waseda University	TLO pilot fund and company activities for backing seed ventures
Support, courses, and holding joint conferences and lectures	Keio University	Joint research for technology commercialization through participation in the Keio University Venture Forum
	Graduate School of International Corporate Strategy (ICS), Hitotsubashi University	Public lectures by Assistant Professors Kerbini and Morimoto
		Guest Lecture by Michel Crouhy
		Special Lecture by Dr. Darrell Duffie
		Special Commemorative Lecture for the Establishment of Daiwa Sponsored Courses
	Graduate School of Economics, Kyoto University	2004 Daiwa International Workshop on Financial Engineering
		International Commemorative Symposium for the Opening of the Shanghai Center
Commemorative Symposium for the Establishment of Daiwa Sponsored Courses		

A company does not exist merely to perform business functions; rather it must also play a role as a member of society, a corporate citizen. Part of this role is to give back to society some of the technology, knowledge, and expertise that it accumulates in each of its core business areas.

As a corporate group mainly involved in the financial sector, the Daiwa Securities Group is utilizing the expertise that it has developed through its core business. We are working with NPOs and educational institutions including schools, and providing opportunities for the next generation to learn about economics and finance. This is one way that the Daiwa Securities Group is carrying out corporate social responsibility activities through its core business.

## Partnerships with universities and graduate schools

The Daiwa Securities Group is promoting partnerships with universities and graduate schools, as part of its initiatives to contribute to the sustainable development of the economy. We are creating mutually beneficial dynamics between industry and academia through various channels including support for education, research, and exchanges.

### Courses offered

At the Shonan Fujisawa Campus of Keio University, we offer a course on the theory of corporate governance. Started in the fall semester of 2001, this course is now in its fourth year and is open to both undergraduate and graduate students. Based on the theme of corporate governance in the securities market, the course is taught by both Keio University professors and executives and staff of various Daiwa Securities Group companies, primarily the Daiwa Institute of Research Ltd. The course has covered everything from basic knowledge to investor relations, socially responsible investment, corporate reorganization, and even the recent series of corporate scandals. Consequently, it is able to deepen students' understanding of securities in a systematic way. The course has been very well received thanks to incorporation of recent real-world cases, and the number of students enrolled is increasing every year. The course has become so popular that some students come to listen in on the lectures at the back of the large lecture hall.



Class at Keio University

### Joint research

Joint research entitled "J-REIT Net Asset Value Calculation" was carried out by Professor Yuichiro Kawaguchi of Waseda University's Graduate School of Accounting Finance and Law, and the Structured Finance Department, Daiwa Securities SMBC Co. Ltd.

This joint research involves the preparation of a computer program to calculate the monthly total net asset value of real estate investment trusts (J-REIT) listed on the Tokyo and Osaka stock exchanges. It also includes the calculation of monthly total net asset value based on this program. By providing a useful index on J-REIT investment to investors, we expect to broaden the participation in the J-REIT market.

From the right: Assistant Professor Hiroshi Ishijima (Waseda University Center for Financial Research), Professor Yuichiro Kawaguchi (Waseda Graduate School of Finance, Accounting and Law), Deputy General Manager Masayuki Yokota, Assistant Manager Yoshiaki Iguchi (Structured Finance Department, Daiwa Securities SMBC)



### Supporting the Porter Prize

The Porter Prize was established in July 2001 by Graduate School of International Corporate Strategy, Hitotsubashi University (ICS), with Michael Porter of Harvard University serving as an advisor. The purpose of the award is to honor Japanese companies that implement a unique strategy to successfully achieve high, sustained profits in their industry. In May 2001, the Daiwa Securities Group and ICS established a comprehensive partnership based on the common philosophy of promoting cooperation between industry and academia in the fields of both finance and management, and contributing to the revitalization of the Japanese economy. As part of this partnership, the Daiwa Securities Group has provided comprehensive support for the Porter Prize since its inception.

The Porter Prize selection process is expected to become an innovative method of corporate evaluation for the future. The fourth annual Porter Prize ceremony was held on December 3, 2004. The awards went to Daido Life Insurance Company, and PHOENIX Electric Co., Ltd.



Awards ceremony Professor Michael Porter (right) and Sadaichi Saito, then-President of PHOENIX Electric (now Chairman)



# Initiatives for Economic and Financial Literacy Education

## Developing life skills: Economic Literacy education for young people

The Daiwa Securities Group places high importance on learning about the flow of money and economic mechanisms, especially for young people, who are the leaders of tomorrow. We are providing program support in the classroom and pursuing activities to popularize economic education for elementary, junior high and senior high school students.

In the past there has been insufficient education for Japanese young people concerning real-world economics, while today, our young people get daily exposure to the virtual world of the Internet. Therefore, finding out about social mechanisms and developing communication skills through hands-on learning for economics is a great way to enable young people to grow.

## Partnerships with NPOs

The Daiwa Securities Group supports the activities of Junior Achievement,<sup>\*1</sup> a non-profit organization that is providing economic literacy education around the world. Since joining the organization as a corporate member of Junior Achievement Japan/Board Chair, Mr. Takeo Shiina (Senior Advisor of IBM- Japan) in 2000, we have built a partnership with Junior Achievement through various activities. These include sending employees to participate in the Student Company Program at high schools, providing support to Global Leadership Forums for Elementary, Junior High and Senior High School Teachers, and producing the Japanese version of *Financial Fitness for Life* for students, teachers and parents.

\*1. Founded in the US in 1919, Junior Achievement developed activities for the promotion and implementation of education related to finance, economics, and corporate management. Today, 40,000 companies support the organization through financial and human resources assistance, which includes company employees and managers who serve as Junior Achievement instructors. Each year the organization teaches 6.5 million young participants globally. Junior Achievement Japan was established in 1995.

### Stakeholder comment

#### Expectations for the Daiwa Securities Group

The sentiment that companies ought to contribute to society as corporate citizens has become quite strong. However, there is also a strong sense in Japan that social contribution activities by companies are a type of charity. Since companies have greatly benefited from and depended on resources provided by local communities such as labor and government services, it is necessary for them to realize that they need to give back to the community through their activities as corporate citizens. I believe that, in the future, all companies will come to think this way. Based on the idea of giving back to society, the Daiwa Securities Group strives to enhance its activities in cooperation with NPOs and local communities. I think that the Daiwa Securities Group will be respected as a leading company in this new era for corporate responsibility.



Yoshihiro Nakamoto  
President & Chief Operating Officer, Junior Achievement Japan

## Global Leadership Forum for Elementary, Junior High and Senior High School Teachers

The Daiwa Securities Group has been supporting the Global Leadership Forum for Elementary, Junior High and Senior High School Teachers, sponsored by Junior Achievement Japan, since fiscal 2003. At the fourth annual forum held on February 26, 2005, with about 500 teachers in attendance, Yoshinari Hara, Chairman of the Board of Daiwa Securities Group Inc., gave a lecture entitled, "Why Companies Should Support Economic Literacy Education for Youth."

### Why Companies Should Support Economic Education for Youth

An important focus of corporate social responsibility activities today is investment in the future to ensure sustainable growth. The Daiwa Securities Group is emphasizing support for financial and economic literacy education as an important pillar of its CSR activities. As professionals in the field of finance and economics, we are promoting education for youth, in the conviction that helping to create a better society also contributes to the development of our own corporate group.

Japan lags behind other parts of the world in economic education, even though we now live at a time when market economies are rapidly taking sway. This is an issue that the entire Japanese society needs to address in order to improve our future competitiveness and economic development. I hope that the elementary, junior high and senior high school students of today, who are also the leaders of tomorrow, will learn that society should be based on peace and mutual prosperity, that the actions of individuals can create value for society, and that individual autonomy and moral values are indispensable for economic activities.



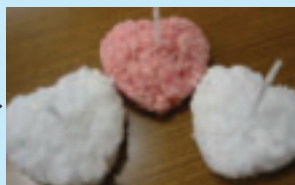
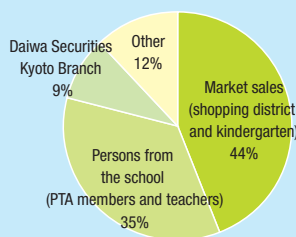
Yoshinari Hara  
Chairman of the Board  
Daiwa Securities Group Inc.

## Student Company Program (SCP)

The Daiwa Securities Group has been supporting the Student Company Program (SCP) since fiscal 2003. This hands-on practical business education program is run by Junior Achievement, and is being provided as a regular course at Ritsumeikan Senior High School in Kyoto.

In fiscal 2004, 20 alumni of the second year of the course set up a joint-stock company with capital of ¥10,000. They then began developing, producing, and selling products, and after 16 weeks they announced the results at a general meeting of shareholders. For the second year in a row, three employees/retirees from Daiwa Securities Group participated in the classes each week by serving as "outside directors" for the students' company.

Sales activity details



Product: Angel Heart candles



Product sales on the street



Joint general shareholders meeting

### Overview of activities

September 16, 2004	Established Ichigan Inc.
December 12, 2004	Started product sales
January 24, 2005	Sales at the Daiwa Securities Kyoto Branch
January 29, 2005	Sales at the Takatsuki Futaba Kindergarten
February 2, 2005	Fifth sales event at the Otesuji shopping district in Fushimi-ku, Kyoto
February 3, 2005	Activities completed
March 25, 2005	Reported results to President Suzuki at Daiwa Securities Group Inc. headquarters
March 26, 2005	Announced results at the joint general meeting of shareholders

### Income Statement for Ichigan Inc. (for the period from September 16, 2004 to February 3, 2005)

Revenues and Expenses	
Sales	183,745
Cost of sales	28,580
Paraffin wax	17,500
Paint	550
Metal washers	2,110
Wrapping supplies	2,117
Other costs	6,303
Gross profit	155,165
Sales and general administrative expenses	43,775
Salaries	28,135
Employee bonuses	7,500
Facilities and equipment expense	2,380
Transportation	1,060
Other expenses	4,700
Operating income	111,390
Revenues and Other Income and Expenses	
Non-operating income	70
Other expenses	15,000
Income before taxes	96,460
Income tax	32,796
Net income	63,664
Retained earnings for the period	63,664

(¥)

### Stakeholder comment

#### Participating in the Student Company Program

I helped out with this hands-on practical business education program by playing the role of an outside director, over a period of 16 weeks.

Since all of the activities in the program were ones that actually occur in the real world, I personally learned a lot of things even though I was there to help teach the young people, and the experience was very worthwhile. I was also amazed by how much the students grew through these activities.

I think the Student Company Program provides both students and business people the opportunity to learn and grow. All employees of Daiwa Securities Group should experience this program if they have the chance.

Kenji Kawamura  
General Manager,  
Corporate Communications Department  
Daiwa Securities Group Inc.



## Production support for the Japanese version of *Financial Fitness for Life*

The Daiwa Securities Group provided support for the production of the Japanese version of *Financial Fitness for Life*, a teaching material that is widely used for economic and financial literacy education in junior high schools in the US. Among the volunteers who participated in the translation of the text were 44 employees from the Daiwa Securities Group.

By employing a consistent theme that economics is based on choices, the goal of this textbook is to enable children to use economic concepts in their daily decision making and future career

paths. To enable effective learning, it is comprised of three parts: one for students, one for teachers, and one for parents.

In the Japanese version, the translators strived to adapt the original US text to better reflect the culture and customs in this country, and to make it easier for Japanese children to understand. Junior Achievement Japan plans to utilize this Japanese version in its programs.



The Japanese version of *Financial Fitness for Life*. (Trial version)