

Initiatives Based on the Daiwa Securities Group's Core Business Initiatives for Socially Responsible Investment

Daiwa Securities Group's approach to SRI and related initiatives

In its Medium-term Management Plan announced in April 2006, the Daiwa Securities Group listed its targets, including the promotion and popularization of SRI. Educating the public about SRI involves highlighting the importance of a company's impact on society, and how that, as well as profitability, should also be considered as an investment criterion. Indeed, this has become one of the main pillars in the Group's CSR efforts related to its core business.

SRI initiatives are specifically encouraged through the following three approaches.

1. Product development and marketing

Investment managers for SRI funds carefully screen potential companies for investment, based on environmental and social responsibility evaluations. The sales of such funds are the Group's most important effort towards the promotion of SRI. In addition, the Group is developing and selling regional support funds that invest in companies that are based in particular regions in Japan. Further, products that enable investors to access the emissions trading market, such as CO2L Bonds (Cool Bonds)*, are being marketed to customers.

2. Self-financing investment

The Group invests its own money in the Community Development Carbon Fund, a fund created by the World Bank, as well as regional corporate recovery funds which are designed to help revitalize regional economies.

3. Supporting organizations that promote SRI

The Group supports NPOs that organize SRI-awareness events, either in Japan or overseas, such as Social Investment Forum Japan (SIF-Japan), and Association for Sustainable & Responsible Investment in Asia (ASrIA).

As an investor focusing on social consciousness in its decision making, the Daiwa Securities Group hopes to fulfill its social mission and promote the practice of making investment choices with a social perspective among individual investors. Once this concept becomes widespread, companies will be encouraged to resolve social issues in response to its investors' demands.

* Cool Bonds: See pages 9 and 10 for more details.

Daiwa Securities Group SRI funds

On March 31, 2006, the Daiwa Securities Group SRI funds were worth ¥78 billion. This is about 30% of the total value of SRI funds in Japan (¥260 billion) and represents the largest share of the Japanese market.

The Daiwa SRI Fund and the Daiwa Eco Fund are the Daiwa Securities Group's flagship SRI funds. The following are comments from investment managers from each of these funds.

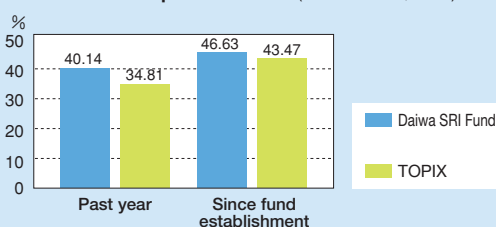
Daiwa SRI Fund

Initial fund establishment: May 20, 2004

The Daiwa SRI Fund is a stock investment trust that invests in issues that are selected based on their CSR efforts and growth strategy.



Investment performance (as of June 30, 2006)



Companies with outstanding CSR efforts also have strong management

Launched in May 2004, the Daiwa SRI Fund has outperformed the market since the rally in early 2005. By the end of the second year in May 2006, we were able to pay a dividend of ¥2,500 per unit. The companies selected for investment by this fund were picked for their active CSR approaches and also have good management teams. Specifically, the executives of these companies define clear CSR policies and management strategies, educate their employees about them, and construct systems and processes to check on the proper implementation of these policies. By publicizing the companies' stance and clearly stating strategy and initiatives in the areas of the environment, society and other concerns, these companies are able to secure the support of stakeholders. They are also able to achieve medium and long-term growth by increasing the awareness of their management's business and social strategies. I think most of the companies with outstanding CSR efforts operate globally and are among the most competitive in the international market.

In addition to seeking good returns on investments, I hope that investors will take a look at investing in companies that fulfill their social responsibilities.

Ryoji Takaoka
Senior Fund Manager
Daiwa Asset Management Co. Ltd.



Socially responsible investment (SRI) is an approach to investing in companies, considering not only the company's financial performance, but evaluating its efforts to deal with environmental issues, social programs, and ethical practices.

Daiwa Eco Fund

Initial fund establishment: March 9, 2006

The Daiwa Eco Fund is a stock investment trust that invests in issues based on the improvement of corporate values such as return on equity (ROE) performance and measures to address environmental issues.



Regional support funds

The Daiwa Securities Group is creating and selling regional support funds that aim to revitalize regional economies through the investment in companies active in certain regions of Japan. The Daiwa regional support funds have won the approval of local investors and financial institutions, and have grown from ¥21.2 billion (5 funds) at the end of June 2005, to ¥84.3 billion (16 funds) at the end of June 2006.

Achieving both environmental goals and profit growth

The Daiwa Eco Fund was launched in 2006, which has become an extremely important year for corporate environmental initiatives worldwide. This is because a comprehensive set of environmental regulations now in effect obligates corporate management to be environmentally responsible. The RoHS Directive*, which took effect in Europe on July 1, is representative of this type of legislation. In order to meet the requirements of the new environmental regulations, it is necessary for companies to build excellent supply chains that cover all suppliers of raw materials and parts to ensure that hazardous substances are not incorporated into the final products. This means companies are now confronted with the difficult task of instituting and requiring compliance from themselves and their suppliers. Indeed, we have now reached the point where a company's ability to be environmentally conscious and implement proper and comprehensive initiatives will determine its future.

Japanese companies are actively promoting measures to comply with environmental regulations, as well as developing new technologies to achieve environmental-friendly outcomes such as the new hybrid vehicles. I believe companies that have products and technology with superior environmental features will see better performance and further progress.

* RoHS Directive: An EU directive to limit the use of six hazardous substances including lead and mercury in electrical and electronic devices.

Katsuya Kikuchi
Senior Fund Manager
Daiwa Asset Management Co. Ltd.



CSR practices lead to sustainable development

Yoshinari Hara, Chairman of the Board of Daiwa Securities Group Inc., has also been serving as the Chairman of the Committee for Promotion of CSR Management (CSR Committee) at the Japan Association of Corporate Executives since fiscal 2004. This committee was established in order to encourage corporate management to focus on CSR practices. The corporate executives on the committee engage in discussion based on the latest developments and successful cases of CSR management in and outside Japan. The following is an excerpt of an interview with the Chairman that appeared in the March 2006 edition of *Keizai Doyu*, the official bulletin for the Japan Association of Corporate Executives.

I believe the most important issue for the 21st century is sustainability. We need to put CSR as a top priority for corporate management, and only those companies that emphasize and practice CSR will be able to enjoy sustainable development. The best approach for companies is not superficial treatment of the subject, but to incorporate the concept of CSR into their core businesses. This means that top executives must steer their companies with a strong hand to achieve their goals on the basis of efficiency and compliance.

In the future it will continue to be necessary to educate all on the importance of sustainability, and to take the steps needed to attain it. For example, SRI funds in Japan are still at the several hundred billion yen level. If they grow to the size of several tens of trillions of yen, as they have overseas, their impact on the economy will be quite powerful. We would like to prepare mechanisms and tools to encourage this kind of endorsement from capital markets.

Finally, I would like to emphasize the point that the market has already shifted towards a focus on CSR. As is clear from our survey, analysts and fund managers today do not make investment decisions based on statistics and financial results alone, but also consider other factors that are often overlooked by the market. Therefore, executives need to carefully respond to questionnaires sent by fund managers assessing companies for investment in the establishment of new SRI funds. On the whole, executives will definitely need to be more aware of CSR and SRI issues.



Yoshinari Hara
Chairman of the Board
Daiwa Securities Group Inc.