



Adding a Social Perspective to Investment

Our goal is to incorporate the perspectives of the environment and society into investment decisions, but what is the awareness of investors and our sales force? What can the employees of the Daiwa Securities Group do? Employees directly involved in these matters discuss the situation. (Discussion held May 31, 2007)

One of the employee's material roles is to communicate the importance of a social perspective in investment.

Society in general still has a low awareness of environmental and social aspects.

Aoi: The Daiwa Securities Group's Daiwa Eco Fund investment trust is the largest in Japan. Although more and more of our customers are becoming interested in these types of products, most have no interest whatsoever. I feel that people generally have a low awareness of environmental and social issues when choosing investments.

Kawakami: We have more opportunities to talk with customers about companies that have improved performance through an active commitment to the environment, than opportunities to use the environment as an entry point for discussion. For example, if an auto maker launches a new hybrid car, I think that investors will only pay attention to the auto maker, and decide to invest in it, after they have some concrete evidence, such as improved performance or fund value.

Yanagisawa: I think this is also the same overall situation with institutional investors in Japan. The typical reaction is, "We understand the importance of SRI*", but we don't know what to do." Although some people manage SRI funds, they are a very small minority. The average fund manager might realize the importance, but doesn't know how to translate this into action by investors.

Hanaoka: I sometimes have opportunities to speak with customers, and just about the only thing they are interested in is whether share prices will rise or fall. If you don't tie in the environment to share prices, it's almost impossible to get them to listen.

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

Convince investors that environmental and social responsiveness improves a company's performance.

Kawakami: When customers are choosing a stock, they are extremely receptive to themes. Our customers consist mainly of people investing for the long term, and people investing for the short term. I feel that people looking at a company's growth potential over the long and medium term are very receptive to themes like the environment and society.

Hanaoka: We are currently focusing on getting people to rediscover the attraction of Japanese stocks, but the key to this rediscovery is the environment. Growth in China and other emergent economies harms the environment and creates energy problems. Customers are very receptive when I explain that the ability to be environmentally friendly is a big business opportunity for a company. This is because Japan has the world's highest level of environmental technology.





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Yanagisawa: Although I can't say this applies to all institutional investors, because each one, both inside and outside Japan, has its own ideas, but institutional investors also show a lot of interest when I explain to them that Japan has many companies with some of the world's top environmental technologies. They invest because they judge that they can profit from it.

Hanaoka: Companies that are environmentally friendly also often have scrupulous systems for internal management in addition to the environment, so I think that it is well worth investing in them. The company's scrupulous response to CSR earns it trust. I think one criterion for choosing stocks is the company's attitude.

Spreading the concept of incorporating a social perspective into investment is a business opportunity for a securities company.

Aoi: Given the fact that financial education in Japan still doesn't have enough penetration, I think that communicating the importance of investment from a social perspective is an important job for us. I think that improving financial education for young people and explaining the concept of SRI is one of the ways that we can contribute to society.

Kawakami: I feel that the philosophy of our company's top management has reached the employees. I believe that there is a heightened awareness among employees that what they can do individually is increase the recognition of SRI funds, eco funds, and the like, or get investors to turn their attention to companies promoting the environment and CSR, and I believe that this is our responsibility to society.

Yanagisawa: The environment has changed; today, we are able

to get institutional investors' interest when we talk about SRI. Our junior sales staff are planning and holding seminars for institutional investors on environmental issues on their own initiative, and they provide information on such topics as emissions trading and environmental measures by the government.

Hanaoka: We will actively publish investment information relating to environmental technologies and initiatives. I think that our Group's focus on the CSR of our companies is also important for getting people to understand us. I believe that if people understand us, then when it comes time to choose a securities company, they will choose us.

Aoi: I believe that the branches are the ones who put the CSR of Daiwa Securities into practice. Each of the 117 branches of Daiwa Securities Co. Ltd. nationwide collaborates with local public institutions, municipalities, local elementary and junior high schools, and others to promote CSR, including creating opportunities to think about environmental issues and CSR. I believe that this raises the awareness of each employee, and leads to concrete action.

Kawakami: Daiwa Securities Co. Ltd. has a President's Awards program, which recognizes employees. Starting this fiscal year, we created a Volunteer Award as part of this program. The Volunteer Award is given as a special prize recognizing people who have made significant achievements through volunteer activities. I think that this is one answer to employees' question of what they can do for society to help fulfill the corporate social responsibility of Daiwa Securities Co. Ltd. I think another of our biggest missions is to raise the awareness of as many investors as possible.



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Daiwa Securities Group's SRI funds

An SRI fund* is a financial product for investment with a social perspective. As of end-March 2007, the balance of assets of SRI funds sold by the Daiwa Securities Group was approximately 75.3 billion yen, accounting for more than about 20% of all SRI funds in Japan (total value of about 370 billion yen). This is the largest share of the SRI fund market in Japan. Two key SRI funds of the

* SRI fund: An investment trust managed based on the concept of socially responsible investment (SRI).

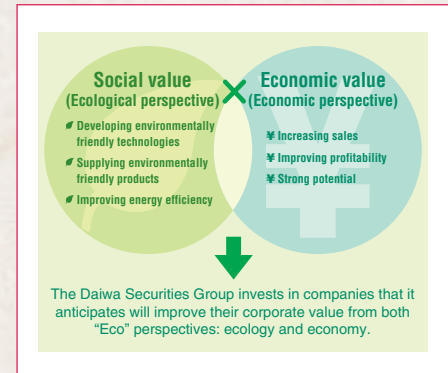
Investment performance by period (end-June 2007)

Period	Daiwa SRI Fund	Daiwa Eco Fund	TOPIX
3 months	+5.07 %	+5.14 %	+3.58 %
1 year	+11.38 %	+11.65 %	+11.84 %
Since fund establishment*	+63.32 %	-	+60.45 %
	-	+7.54 %	+10.54 %

* Daiwa SRI Fund was established in May 2004, and Daiwa Eco Fund was established in March 2006.

Daiwa Securities Group are the Daiwa SRI Fund, which focuses on a commitment to CSR, and the Daiwa Eco Fund, which focuses on a commitment to the environment and return on equity.

The approach of the Daiwa Eco Fund



Achieving a sustainable society with the Daiwa Eco Fund

Yuka Suzuki, who is in charge of communication with investors and sales representatives, interviewed Katsuya Kikuchi, a fund manager for the Daiwa Eco Fund, and Tadashi Kitahara, an analyst who performs corporate analysis and surveys industry trends, about how the Daiwa Eco Fund—currently a focus of the Daiwa Securities Group—helps to achieve a sustainable society. (Interview held May 28, 2007)

Evaluating how environmental technologies tie into performance

Suzuki: The Daiwa Eco Fund invests in companies whose commitment to the environment will be reflected in future performance. What points do you focus on in particular when choosing stocks to include in the fund?

Kikuchi: The first thing is sales of environmentally friendly products. Also, when a company reduces its usage of energy and raw materials in its corporate activities, it leads to lower costs or greater profitability.



Yuka Suzuki
Social Responsibility Investment Coordinator
Investment Planning Department
Daiwa Asset Management Co., Ltd.

Suzuki: Can you give an example of a company whose commitment to the environment has resulted in improved performance?

Kikuchi: One example is a manufacturer of gauges that measure materials that impact the environment. The EU has recently enacted a series of regulations on chemicals, including RoHS*1 and REACH*2. Companies that manufacture or import products in the EU must investigate whether those products contain harmful substances, and for this reason, companies that produce fluorescence X-ray systems are seeing real increases in sales. Recycling of precious metals from mobile handsets and other electronic devices, and sales of energy-efficient office equipment are also increasing.

Fund managers go out to collect information themselves

Suzuki: What kind of information do you use to actually evaluate companies' environmental initiatives?

Kikuchi: I choose stocks to include in the fund based on corporate assessment data from specialized institutions, and also use information from other analysts in the company, and the

results of my own studies. I also sometimes visit companies together with analysts. There, I interview people in charge of environmental technologies and CSR directly. This gives me access to information that is not available through questionnaires or corporate publications and press releases.



Tadashi Kitahara
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Suzuki: What points to you pay particular attention to on your visits?

Kikuchi: I would say it's whether an awareness of CSR has reached all employees. In companies where this awareness has penetration, employees work actively, and on their own initiative, to develop and sell environmentally friendly products, and reduce environmental impact at the factory. Specifically, I ask about such things as the R&D process for environmentally friendly products, the environmental education curriculum, and the mechanism for providing feedback on the results of environmental efforts.

Suzuki: How do you use the information gained through this perspective to make investment decisions?

Kikuchi: While such factors as environmental education and a commitment to environmental activities may be difficult to tie into short-term sales or profits, I believe that they can reduce the risk of investment. When companies have practical environmental initiatives, it shows that they have excellent crisis-management capabilities and that management policy has thorough penetration. When I visit a company, I want to get a sense of whether its initiatives are effective, and whether the organization has a commitment to environmental and social issues in its DNA. Such a company is "sustainable," and in particular, I can deem that it is an appropriate medium to long-term investment.

Friendliness to the environment is a necessary factor for measuring corporate value

Suzuki: Viewing the actions of companies from an analyst's perspective, do you feel that companies' commitments to the environment have changed?

Kitahara: I think they have changed a great deal. A significant number of companies have already incorporated a commitment to the environment into the management strategies, and over 80% of corporations have created specific targets or action plans for

reducing their environmental impact. Quite a few companies also include environmental information in their annual reports.

Suzuki: So on the question of how companies' attitudes have changed, would you say that the perspective of responsiveness to environmental issues has come to be incorporated into investment in general, rather than just eco funds?

Kitahara: Out of the three factors of environment, society, and governance, the need to include governance as a factor in the measurement of corporate value is fully recognized. In the same way, the ability to respond to environmental issues is coming to be an essential element. But it's difficult to evaluate commitments to the environment and social issues quantitatively. I think we need a way to view companies from a different angle than conventional company analysis.

Funds that support companies committed to the environment

Suzuki: Companies with a large impact on the environment are striving to minimize this impact, in order to achieve a sustainable society. According to the results of a survey^{*3}, nearly 90% of investors in Japan support the idea that they should consider a company's social responsibility when deciding where to invest their hard-earned money. I believe that it is an important duty of Daiwa Asset Management Co. Ltd. to publish information that moves the hearts of as many investors and fund salespersons as possible.



Katsuya Kikuchi
Senior Fund Manager
Japanese Equity Management Department
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Kikuchi: I believe that through investment in the Daiwa Eco Fund, we have expanded the group supporting companies that are strongly committed to the environment to include individual investors as well. I will also continue to stress that a commitment to the environment increases a company's value.

^{*1} The RoHS Directive stands for the Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment. It was enacted by the EU in July 2006.

^{*2} REACH stands for Registration, Evaluation, Authorization and Restriction of Chemicals. It was enacted by the EU in June 2007. The program centralizes the registration, evaluation, and authorization of chemicals, and requires entities handling chemicals to perform safety assessments and other measures.

^{*3} Japanese Ministry of Environment, "Socially responsible investment comparison report among Japan, the United States and United Kingdom." http://www.env.go.jp/policy/kinyu/rep_h1506/index.html (In Japanese only)