

# Adding a Social Perspective to Investment

By providing financial products to remedy social problems, raising awareness of socially responsible investment (SRI),\*<sup>1</sup> offering CSR-related investment information, and conducting emissions trading, we want to create a better society through the securities industry.



**Masaaki Goto**  
Corporate Executive Officer  
Daiwa Securities Group Inc.

The Daiwa Securities Group, through its core securities business, helps promote solutions to global problems such as poverty or the environment by adding a social perspective to investment.

We have taken the initiative to add a social perspective to investment. As set out in the United Nations undertakings UNEP FI\*<sup>2</sup> and PRI,\*<sup>3</sup> this is also the role that the international community expects financial institutions to play toward creating a sustainable society. Specific examples of the Group's activities in this area are described on the right.

Raising awareness of socially responsible investment is one contribution that the Group can make to create a sustainable society. The Group considers promoting socially responsible investment a material CSR issue.

## Adding a Social Perspective to Investment

### Development and Sale of SRI Financial Products

The Daiwa Securities Group develops and sells financial products to support projects addressing international issues, such as vaccine bonds, and other financial products to support enterprises actively engaged in CSR through the securities market, such as SRI funds.

### Financing for Enterprises with Environmental Technologies or Other Social Value

We support financing for companies with environmental technologies or companies engaged in socially significant activities.

### SRI Education, CSR-related Information

We will encourage investors to make investment decisions taking into consideration CSR activities, and provide useful information for investors wishing to invest in companies operating responsibly toward society.

### Involvement in Emissions Trading

We will contribute to activating market mechanisms to give depth to the emissions trading market and by doing so indirectly support the operation of mechanisms to off-set global warming.

\*1 Socially Responsible Investment (SRI) is an approach to investing in enterprises that considers not only financial performance and profit levels but also CSR performance such as environmental or social undertakings, ethical practices and so on. In addition to investment in SRI funds, SRI includes stock investment taking into account the target company's CSR performance, and investments that evaluate the social utility of capital use.

**Web Terms** \*2 United Nations Environment Programme Finance Initiative (UNEP FI)  
\*3 Principles for Responsible Investment (PRI)

## Issues and Targets for Fiscal 2007

- Promote the widespread practice of SRI.
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- Provide more information on socially responsible investment.

## Performance/Progress Achieved in Fiscal 2007

- Sold vaccine bonds, the Russell Global Environmental Technology Fund, and the Daiwa Eco Fund; conducted SRI education at symposiums such as the Eco-Products Exhibition.
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- Issued *Environment, Emerging Economies, New Technologies*, an investment information report on the environment, emerging markets and new technologies; expanded the research capabilities of the Daiwa Institute of Research Ltd.; communicated information on emissions trading, and arranged IR seminars focusing on the CSR activities of listed companies.

## Retail and Wholesale Business Initiatives

### Sales of Vaccine Bonds

In March 2008, the Daiwa Securities Group sold approximately 22 billion yen worth of vaccine bonds (South Africa rand denominated).

Every year, between two and three million children in developing countries around the world die from preventable infectious diseases. To address this problem, the Global Alliance for Vaccines and Immunisation (GAVI), a global private sector partnership carrying out vaccination programs, was formed, and vaccine bonds were issued by the International Finance Facility for Immunisation (IFFIm), the financial facility for GAVI. Using funds raised by vaccine bonds, GAVI provides free health care and vaccinations in 70 developing countries. The vaccine bonds are redeemed using funds donated by the governments of eight (as of May 2008) donor countries. The sale of vaccine bonds helped investors learn about the activities of these international bodies and raised funds to support their activities. The Daiwa Securities Group will continue playing an active role in developing and selling financial products that can help remedy other problems in the world.

### Stakeholder Comment

#### Thank You for Your Support of Vaccine Bonds

IFFIm's goal is to accelerate the availability of funds for the GAVI Alliance's immunisation programs in 70 of the poorest countries around the world. From 2006 to 2015, we expect that the funds raised by IFFIm bonds could immunise an additional 500 million people, and strengthen the health and immunization services in these countries. IFFIm's first Uridashi bond was a great success, and we thank Daiwa Securities for their hard work and Japanese investors for their investment in the first "Vaccine Bonds". We look forward to working together with Japanese investors again in future.



**Alan Gillespie**  
Chairman of the Board of Directors  
International Finance Facility for Immunisation

### The Russell Global Environment Technology Fund

In April 2008, the Daiwa Securities Group began selling the Russell Global Environment Technology Fund, which invests in companies providing environmental technologies and services.

This fund, following Russell Global Environment Technology Fund standards, invests in shares in companies in and outside Japan whose main business, such as clean energy or waste disposal, contributes to improving the global environment. Companies in which this fund invests include Vestas Wind Systems A/S (Denmark), which develops, sells and operates wind power generation systems, Veolia Water (France), which is involved in water purification and other water services, and other companies with superior technologies.

This fund is jointly managed by several fund management companies carefully selected by Russell Investments, the world's largest management rating company. The managers of the fund include Generation Investment Management LLP, a company founded by former U.S. vice president Al Gore.



Russell Global Environment Technology Fund prospectus

### Support for Listing China Boqi on the First Section of the Tokyo Stock Exchange

In July 2007, the Daiwa Securities Group acted as the lead manager for listing China Boqi Environmental Solutions Technology (Holding) Co., Ltd. (China Boqi) on the first section of the Tokyo Stock Exchange. China Boqi is the leading company in flue gas desulfurization projects and is making a major contribution to reducing sulfur oxide (SOx), nitrogen oxide (NOx) and other emissions from the continually growing number of coal-fired power generation plants in China.

Thanks to the strong support of numerous investors in China Boqi, we were able to participate in raising capital to help the company expand its environmental protection solutions business. Through our investment banking business, we will continue to act as an intermediary to finance projects that contribute to the global environment.

# Adding a Social Perspective to Investment

## In Our Asset Management Business

### Management of SRI Funds

The most representative SRI fund\* managed by the Daiwa Asset Management Co. Ltd. is the Daiwa SRI Fund (set up May 2004), which invests with a focus on CSR, and the Daiwa Eco Fund (set up March 2006), which takes into consideration environment-related activities and how shareholder capital is used. As of March 31, 2008, the Daiwa SRI Fund and the Daiwa Eco Fund had assets of 6.2 billion yen and 38.8 billion yen, respectively.

In fiscal 2007, we began managing two environment-oriented SRI funds—the Global Environment Foreign Bond Balance Fund and the Global Environment Equity Fund, which are sold mainly through Japanese regional banks. We will continue to provide timely information to and actively communicate with investors and financial institution staff selling investment trusts, to promote SRI funds as an accessible financial product.

\* SRI funds: investment trusts designed for socially responsible investment.

## In Our Research and Systems Business

### Environment Seminars for Corporate Clients

In February 2008, Daiwa Institute of Research Ltd. and Daiwa Securities SMBC Co. Ltd. were joint sponsors of the 5th Strategic Management Laboratory seminar on the theme of creating a low-carbon society. The seminar, attended by 240 participants, was titled “Eco-innovation: What Industry Needs to Do on Global Warming Issues and Creating a Low-carbon Society.”

At the seminar, Professor Ryoichi Yamamoto, the University of Tokyo’s Institute of Industrial Science, lectured on what can be done to alleviate global warming. The lecture was followed by a panel discussion on the effects of climate change issues and what enterprises are doing for the environment. Participants found the seminar thought-provoking, with one person saying that “the discussions helped renew my awareness of global warming issues and made clear the need for a long-term approach to solving the problems.”



Strategic Management Seminar

### Communicating CSR-related Investment Information

The Daiwa Securities Group employs various formats to communicate information allowing investors to make investment decisions from different viewpoints, such as environmental, social or governance considerations, as well as from the CSR perspective.

At Daiwa Institute of Research Ltd., the Management Strategy Research Department conducts research and communicates information concerning CSR and management. The Investment Strategy Department has analysts specializing in the environment, who draw up investment strategies centering mainly in this field and disseminate information through reports or seminars.

In April 2008, the Investment Strategy & Research Department of Daiwa Securities Co. Ltd. published an investment report titled *Environment, Emerging Economies, New Technologies* which many investors found very useful.

Meanwhile, Daiwa Investor Relations Co. Ltd. arranges seminars on CSR by listed companies for individual investors. In December 2007, two listed companies held CSR briefings. In March 2008, the company arranged a joint briefing by five listed companies whose heads took part in a discussion on CSR; this briefing attracted 810 individual investor participants.

We will continue actively approaching companies in these ways, to enable us to provide data on market trends and information meeting investors’ needs.



*Environment, Emerging Economies, New Technologies* investment report

## In Our Emissions Trading Business

### What the Daiwa Securities Group is Doing

Because we want to help take measures against global warming through our business, we are involved in the emissions trading business through self-investment.

Trading in emissions credits is a useful means for preventing global warming. The emissions credit market encourages the global economy to shift to a sustainable economy that takes environmental worth into consideration. A price is assigned to greenhouse gas emissions costs, and incentives to reduce those costs lead to reducing global warming. Our role is to create and nurture an emissions credit market and make the market mechanism work, and also to help raise financing for business ventures that reduces greenhouse gas emissions.

Investing in emissions trading is a business that starts with identifying projects that reduce greenhouse gases. The business takes a long time to develop and does not yield immediate profits, but I believe that involvement in projects to preserve the environment for future generations is very worthwhile. Another consideration is that using our financial know-how to stop global warming helps us meet our social responsibility as a financial institution. With the cooperation of companies in the Daiwa Securities Group, we are making steady progress in creating finance for the future.



**Toshihiko Onishi**  
Deputy President  
Daiwa Securities SMBC Principal  
Investments Co. Ltd.

See pp. 15–16 for more details on the Daiwa Securities Group's emissions trading business.

### Sale of World CO2L Bond Developed Jointly with the World Bank

In June 2008, we launched sales of the Certified Emission Reduction (CER) Linked USD Denominated Uridashi Bond (World CO2L [Cool] Bond).

The World CO2L Bond is a US dollar-denominated bond that pays interest to investors calculated according to emissions-reduction performance of specific greenhouse gas reduction projects and emissions credit prices. Emissions

credits are bought from hydro power generating businesses in China, which are then sold on the market before payment of bond interest. Transparency regarding the interest paid to investors is ensured as the interest is calculated according to a disclosed formula. This bond has the advantage of offering individual investors, who cannot usually participate directly in emissions trading, a chance to do so indirectly. It is also expected to provide a steady source of profits for greenhouse gas reduction projects.

### Fiscal 2008 Targets and Action Plans

The Daiwa Securities Group will continue to develop financial products with a social perspective, help finance companies with social value, and actively pursue the emissions trading

business. We will also further expand communication of corporate environment and CSR information to investors and endeavor to promote SRI.

## The Daiwa Securities Group's Emissions Credit Trading Business

Daiwa Securities SMBC Principal Investments Co. Ltd. has been investing in emissions credits since August 2004. Further, following the September 30, 2007 implementation of the Financial Instruments and Exchange Law codifying handling of emissions trading by financial products dealers, Daiwa Securities SMBC Co. Ltd. also began handling this business in earnest in October of the same year. Ahead of other companies in the industry in Japan, three Daiwa Securities Group companies are currently involved in emissions trading. The following is an excerpt of a discussion on April 22, 2008 among employees of those companies about the significance of the emissions trading business.



**Yuko Manabe**

Consultant  
Business Advisory Group  
Daiwa Institute of Research Ltd.



**Shizuka Jinno**

GHG Business Team  
Daiwa Securities SMBC  
Principal Investments Co. Ltd. ("PI")



**Misa Yuki**

Specialised Finance Section  
Structured Finance Department  
Daiwa Securities SMBC Co. Ltd.

### Group-wide Involvement in CDM\* Projects

**Manabe:** At Daiwa Institute of Research, my job is to handle the initial stage of drawing up CDM projects (steps 1 and 2 in the diagram on p. 16). I also research various projects throughout the world to evaluate those that can be registered as CDM projects with the United Nations (UN) and draw up business plans.

**Jinno:** PI identifies and evaluates various projects. Working together with Daiwa Institute of Research, we participate in projects and obtain emissions credits (steps 3–8) after carefully researching what the projects actually involve. In our role as a project participant, we also keep track of the various steps in the process of issuing emissions credits—obtaining approval from the national governments and certification organizations involved, applying to the UN for registration, and

monitoring and verifying emissions reduction.

**Yuki:** Daiwa Securities SMBC provides services that match customer needs, handing over emissions credits as is to Japanese companies, or using our expertise to create financial products with higher added value. As a financial products dealer, our role is to create an emissions trading market and to generate ideas for meeting Japan's emissions credit needs.

\* CDM: Clean Development Mechanism

### Focusing on Environment-related Issues and Social Value, Not Just on Reducing Greenhouse Gases

**Manabe:** CDM projects need to meet various criteria to be registered with the UN. But the most important criterion is that the project contribute to sustainable development in the developing country implementing it. Paying attention to social aspects—does the project risk destroying the surround-

### The Kyoto Mechanism and Emissions Credits

When countries ratifying the Kyoto Protocol are unable to meet reduction targets for CO<sub>2</sub> and other greenhouse gases compared to 1990 levels on their own, they can make use of the Kyoto Mechanism, a market-based mechanism for acquiring the reduction volumes of other countries. The Kyoto

Mechanism includes the Clean Development Mechanism (CDM),<sup>\*1</sup> Joint Implementation (JI)<sup>\*2</sup> and Emissions Trading.<sup>\*3</sup>

<sup>\*1, \*2</sup> Clean Development Mechanism (CDM), Joint Implementation (JI): mechanisms whereby an industrialized country and a developing country (in the case of CDM), or industrialized countries (in the case of JI) implement an emissions-reduction program certified by the UN and through which the investing countries acquire the reduced emissions volume in the form of emissions credits.

<sup>\*3</sup> Emissions trading: emissions credit transactions between countries or enterprises through the carbon market.

ing natural environment; are human rights being protected—is also essential. In evaluating projects, we need to consider many environment-related issues, as well as social value. Other aspects to be considered include profitability as a business and the availability of local technicians to carry out the project. We select projects after carrying out field studies to evaluate all these issues.

**Jinno:** When projects are registered as CDM, close attention is paid to meeting the requisite criteria and also to adverse effects the project could have on the local environment or society. Meanwhile, going ahead with a project means that we need to deal with the developing country party handling the project, so we proceed after evaluating and taking steps to mitigate risk.

### Explaining the Quality of the Emissions Reduction Product

**Yuki:** In Japan, enterprises and other entities are not legally required to reduce greenhouse gas emissions yet, and there are also no clear guidelines for doing so. Many companies are starting by doing what they can on their own, and only a handful have clear guidelines for buying emissions credits. When we call on companies, they often tell us that they want to start by taking their own measures to reduce emissions and that buying emissions credits is the next step. That's not a bad approach, but I feel that enterprises in this country view emissions credits as something to buy in order to meet their reduction targets. To companies thinking of trading emissions credits, we explain all the steps in the process leading to creation of emissions credits and let them know that through their indirect participation in greenhouse gas projects through the purchase of emissions credits, they can help stimulate the growth of the emissions credits market and contribute to meeting Japan's Kyoto Protocol targets.

**Manabe:** I believe that the Kyoto Mechanism is an excellent system. For emissions credits generated by emissions reduction projects, each ton of emissions is assigned a serial number which makes it possible to identify where the emissions credit was generated. Enterprises are becoming more

particular about the quality of the project (emissions credit) and if we can market this properly, I think the business has the potential of growing beyond simply buying and selling. I also feel that input from businesses can help improve the quality of CDM projects.

### Speeding Up Prevention of Global Warming

**Jinno:** To expand the emissions trading business, it is important for us to be fully aware of the impact that generation of emissions credits has locally, the risks attached to emissions credits and other issues, and to communicate this information to customers and society in general. I believe this is an area where the Daiwa Securities Group can play a role.

**Manabe:** We also need to be aware that it's important for companies within the Group to work well with each other from upstream to downstream in the emissions trading business.

**Yuki:** The emissions trading business has inherent risks, naturally. Therefore, we need to develop and provide financial products and transaction schemes that reduce the risks of price volatility and ensure stable volume, all the while sharing with our customers understanding of how the market for this business works and how it can help prevent global warming.

**Jinno:** The original aim of the emissions trading business is to prevent global warming. It's a business so it needs to make profits, but I feel that it is our role, through business, to help accelerate the movement to prevent global warming.



#### CDM Project, from Inception to Generation of Emissions Credits

