

Just think about what you can achieve with your money



The Nature of Money and Finance

What is finance?

Financial textbooks define finance as “making money available.” But what significance does making money available have for the economy and society? The role of finance in the economy is often compared to the role of blood in the body. Just as circulating blood keeps the body functioning, the flow of money through financial functions sustains the economy.

Changing money flows change society

Veins in the body keep blood circulating through a fixed route. Channels for money flow, though, change according to the economy and society. To which fields the money flows and in what form affects the functioning of the economy and society.

For example, investment has been increasing in emerging markets, such as China, as well as in environmental businesses over the past few years, due to their growth potential. Increased investment boosts

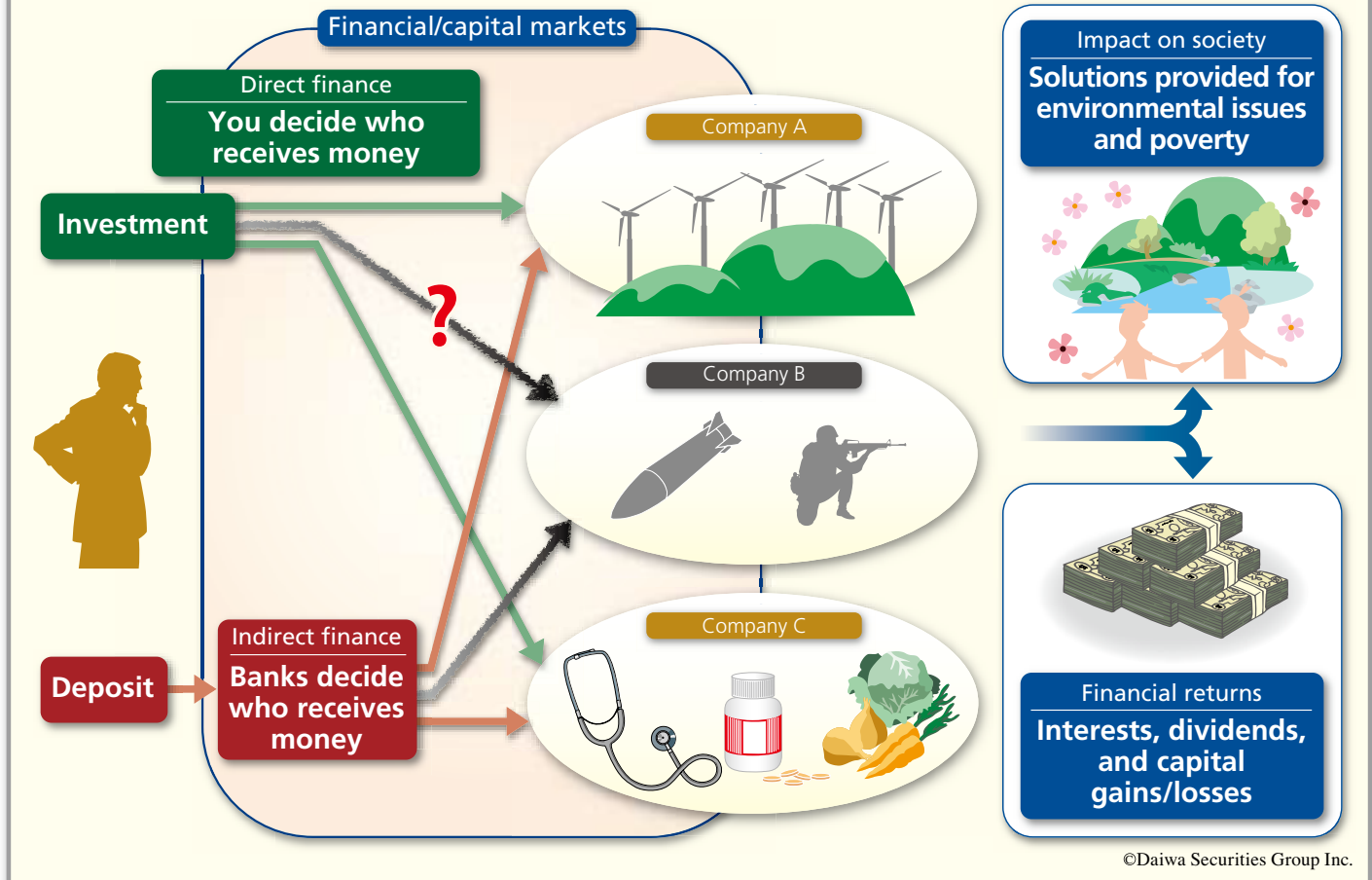
production thanks to the accumulation of capital, leading to higher incomes and accelerating economic growth. If the industries of emerging nations and environmental businesses expand, it can generate gains for investors. Progress can also be expected in environmental protection that reduces the burden on the earth.

What happens if a preoccupation with high returns leads to massive funds flow to companies and industries cutting environmental protection costs by engaging in indiscriminate deforestation and discharging waste with no effort to prevent pollution, while reducing labor costs by using child labor at plants in developing countries? Investors will no doubt earn returns.

However, such money flows are highly likely to further destroy the environment, and expand the underclass hurt by cheap child labor in developing countries—burdening the earth and society. While investors may earn the same profits regardless, the

The destination of money

Building a sustainable society (when your money is used to finance a company)



nature of the businesses and industries in which they invest could have a major impact on future society.

Responsibilities in investing and lending

Investors need to treat their own returns seriously. At the same time, they have a social responsibility to be aware that their investments wind up affecting society in various ways. This also applies to banks' lending activities. Investments are made according to investors' decisions on where to invest their money based on risks and returns, while lending involves banks making decisions on depositors' behalf about where to direct their money.

If the money is provided to companies that are reducing environmental impact through renewable energy, preservation of forests, and development of environmental technology, or those working to improve society by helping reduce poverty in developing nations and providing educational and

medical support, it could generate returns for investors and depositors while also resolving environmental and social problems.

Daiwa Securities Group's Mission

Finance is commonly considered a method of asset management by the party providing the money, but its real role is to promote the development of society by directing funds to businesses resolving environmental and social problems or to the development of new technologies. The mission of financial institutions is to maximize the profits of the party supplying the money while also creating money flows that contribute to social development.

At the Daiwa Securities Group, we consider it our mission to offer investors financial products that contribute to society and the environment. Providing information about the environment and society that is useful in investing is also a significant task.

What Is Socially Responsible Investment?

SRI mechanisms and concepts
Investment decisions that lead to money flows improving environmental, social and corporate governance (ESG) issues

SRI is an approach to making equity investment decisions incorporating an assessment of a company’s environmental and social efforts—i.e., corporate social responsibility—in addition to financial data. It also includes taking an active role as a shareholder in prompting a company to become involved in social issues and operate ethically.

SRI started in the 1920s, when Christian churches in the US wanted to exclude businesses incompatible with their religious beliefs from their investments. Amid the anti-war and civil rights movements in the 1960s, the scope of SRI expanded to include shareholder advocacy—direct requests for companies to contribute to improving environmental issues and human rights. In the late 1990s, ESG became commonly accepted among investors as an essential part of assessing corporate value as firms’ efforts regarding environmental management, corporate ethics, child labor in developing countries, and corporate governance came into focus. These days it is also known simply as responsible investing.

This approach of reflecting ESG issues is also useful for bond and real estate investments. SRI, characterized by ESG criteria in screening and shareholder advocacy activity, is now applied not only to stock investments, but also to investments in bonds and investment trusts, as well as to project finance, real estate investment, and community investing (investment aimed at healthy development of local communities).

SRI is aimed at gaining financial returns through investments that take into account environmental and social issues. A new approach that has evolved from SRI in recent years is impact investing—making investments targeting clear and direct contributions to solving social challenges.

World trends in socially responsible investment
US and Europe ahead in SRI, Japan catching up

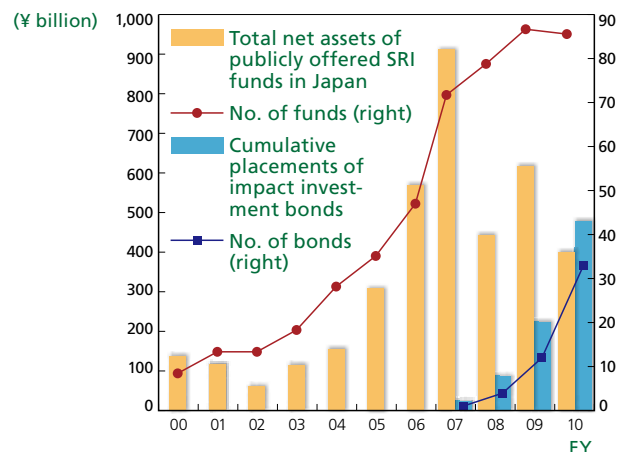
SRI has gradually transformed into investing with a focus on sustainability¹. Sustainable activities are those that fulfill the needs of current generations without reducing the capacity of later generations to meet their own needs. The question is how to address issues that

could threaten humanity’s survival, such as the problems of environmental destruction worldwide and poverty in developing nations. In the US and Europe, the SRI market is already worth several hundred trillion yen, backed by laws requiring the disclosure of SRI information to institutional investors and the spread of lifestyles of health and sustainability (LOHAS) among individuals. In Japan, the SRI market has not yet reached ¥1 trillion (as of end-December 2010). One of the various reasons for this is that awareness of the ability of finance to affect society is not as well established as in the West. However, there has recently been a renewed push for SRI. Japan’s Ministry of the Environment has decided to create guidelines for sustainable financial activities² and the Japanese Trade Union Confederation has issued Guidelines on Responsible Investment of Workers’ Capital³ to encourage pension funds to make socially responsible investments.

Another major reason SRI has not grown in Japan is that financial institutions have not developed enough SRI products or provided enough information. The Daiwa Securities Group has endeavored to communicate with various stakeholders, for example participating in the UNEP Finance Initiative and other international initiatives⁴ as well as in the drafting of the Ministry of the Environment’s guidelines, while making an effort to offer socially responsible investment products that are able to pursue financial returns.

- 1 Sustainability (sustainable development): A concept raised in a 1987 report entitled *Our Common Future*, published by the World Commission on Environment and Development (a.k.a. Brundtland Commission).
- 2 Guidelines for sustainable financial activities: please see page 16.
- 3 Guidelines on Responsible Investment of Workers’ Capital: Guidelines on the responsibility of workers (unions), as owners of financial assets, to support fair markets. The guidelines prohibit the investment of capital contributed by or on behalf of workers in corporate activities that are harmful to society or the environment.
- 4 Other international initiatives: please see page 15.

Total Net Assets of Publicly Offered SRI Funds in Japan and Cumulative Placements of Impact Investment Bonds



Daiwa Securities Group's Engagement in SRI

The Daiwa Securities Group has developed and offered products aimed at promoting socially beneficial investment. This section introduces some of the innovative products we have offered so far in SRI and impact investment.

SRI funds support companies that exercise social responsibility

SRI funds evaluate potential component stocks and bonds for their social and environmental efforts, ethics, and other non-financial performance as well as the level of sales and profit. These include eco-funds, for which the only non-financial criteria relate to environmental performance or those that invest only in companies operating environment-related businesses. Investing in such funds enables investors to indirectly support countries and firms actively engaged in environmental conservation efforts and CSR activities via the financial market.

Total net assets held in the Daiwa Securities Group's SRI funds stood at ¥74.3 billion at end-March 2011¹.

Impact investment bonds help resolve society's problems through bond issues

Impact investing differs from SRI in that it places emphasis on investments directly affecting society. It is a way of allocating assets solely to activities targeted at resolving society's problems, such as poverty and environmental issues, in combination with generating economic gains.

As a financial institution, we have supported the resolution of problems in society by selling various types of impact investment bonds.

Cumulative sales of impact investment bonds in Japan amounted to ¥482.4 billion as of end-March 2011, of which ¥334.4 billion, or 69% was sold by the Daiwa Securities Group².

Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds

Share in net assets of SRI funds in Japan¹

Daiwa Securities
¥74.3 billion (end-March 2011)

18%

Total ¥399.4 billion

- Global Eco Growth Fund Course A
- Global Eco Growth Fund Course B Sold (redeemed)

- Six Asset Balance Fund (distribution type)
- Six Asset Balance Fund (growth type)
- Daiwa Eco Fund

- Daiwa SRI Fund
- DC Daiwa SRI Fund

- Daiwa Energy Technology Fund (limited open-type fund)
- Russell Global Environmental Technology Fund

- Global Environment Equity Fund
- Global Environment Foreign Bond Balance Fund

- Daiwa/Blackrock Green New Energy Fund
- Next-Generation Environmental Business Fund
- "Eco Business Japan Stocks Open"

- Daiwa Microfinance Bonds

2001

2004

2006

2007

2008

2009

2010

2011

- CO2L Bonds

- World CO2L Bonds
- Vaccine Bonds

- Ecology Bonds (2 times)
- Microfinance Bonds (IFC)
- Education Bonds for Africa
- Poverty Reduction Bonds for Latin America and the Caribbean

- Microfinance Bonds (IFC)
- Vaccine Bonds

- Microfinance Bonds (EBRD)
- Water Bonds
- Vaccine Bonds
- Green World Bank Bonds

- Poverty Reduction Bonds for Latin America and the Caribbean

Share in cumulative sales of impact investment bonds²

Daiwa Securities
¥334.4 billion
(end-March 2011)

69%

Total ¥482.4 billion

¹ Based on Social Investment Forum Japan data.

² Source: Daiwa Securities

SRI Efforts in Product Development and Sales Teams

Developing products acceptable to customers and investors and ensuring they are understood before being purchased are important in promoting SRI. Here, we introduce how employees designing and selling SRI products view SRI.

In product development

Believing in the power of money and developing products with new themes

So far, I have been involved in designing vaccine and microfinance bonds. I was confident we would be able to sell these products because they have high credit ratings and an easily understood structure in addition to the potential to benefit society. Still, I was surprised at the extent of the response these bonds received—people in their 30s and 40s, as well as female customers overall, showed especially strong interest. I also sensed that such products capture the interest of people who have not previously considered securities investments.

In the future, I would like to develop products with new themes or capacities to solve problems in Japanese society. For example, I am hoping to create mechanisms that use the power of finance to alleviate food supply problems and counter the declining birthrate, centered on the private sector. I am also interested in products that are low in risk and seem familiar to customers—for example, products denominated in yen rather than foreign currencies. I hope to enliven the market by encouraging individual investors to buy more SRI products and by cultivating SRI business from institutional investors.



Sayaka Ikegami
Director,
Product Planning Department,
Daiwa Securities Co. Ltd.

Fine-tuning until bond issuance to ensure money used for intended purpose

My job is to convince international institutions such as the IFC to issue bonds designed in Japan.

To determine which is the most important of the projects under way at international institutions, we hold repeated discussions with the institutions' employees. The most important thing is that structures are put in place to ensure the money raised is used appropriately. We repeatedly discuss and revise plans to ensure this happens.

I expect to see more microfinance and other products funding water supply and educational support for poor communities, as well as climate change mitigation. Before issuing bonds, I research exhaustively, together with the employees of the issuer entities, to assess how effectively the bonds can rectify social problems so that the issuer can fully appreciate the significance of the bonds.



Carlos Perezgrovas
Executive Director
Daiwa Capital Markets Europe
Limited

We first give explanations to the organization issuing the SRI bond, to have them understand our aims regarding things like providing finance to poor people and supporting developing countries, and then hold repeated negotiations to converge our aims and those of that organization. Microfinance bonds have so far made the strongest impression on me. I have heard many times about the importance of education and clean water from my parents who are migrants from Cuba. I keep my parents and relatives in Cuba in mind when I explain such things to bond issuers.

I am proud that my work makes a contribution in areas like these, and consider it my mission to keep facilitating the issuance of bonds that solve problems.



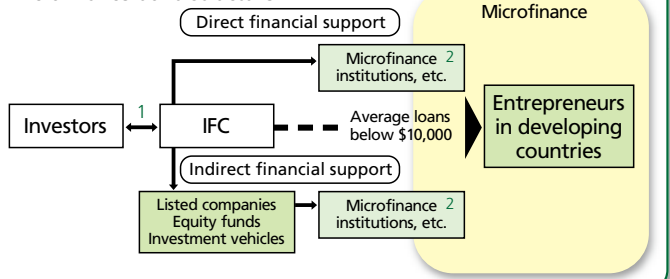
Jose Padilla
Executive Director,
Daiwa Capital Markets
America Inc.

Microfinance bonds

Bonds issued by the IFC to fund micro-entrepreneurs to foster economic independence by offering small-scale financial services without collateral. The Daiwa Securities Group arranged and sold the first microfinance bonds in November 2009.

- 1 Microfinance bond interest and principal paid based on creditworthiness of IFC alone.
- 2 Financial institutions providing microfinance.

Microfinance bond structure



In sales

Proposing meaningful ways to use money in simple terms

I believe SRI products are essential in conveying the role and importance of financial service companies as providers of social infrastructure and ensuring people know about our efforts to contribute to society.

When offering microfinance bonds, I felt many customers agreed with the bonds' objectives, but felt uneasy about providing finance in developing countries or could not imagine how the product could produce profit. My customers are individual investors and many are elderly. I see it as my job as a professional to give people a deeper understanding of the bonds and convince them that the bonds duly provide returns. There is no obligation to provide bond buyers with performance reports, but I believe it is important to report to buyers of impact investment bonds the use to which money has been put to demonstrate their effects. I think such efforts will help spread SRI products and increase confidence in Daiwa Securities.

I hope sales personnel and the product-planning staff continue to cooperate to develop proposals that will make meaningful use of customers' money.



Takeshi Yaguchi
Executive Director,
Asset Consultant Department,
Daiwa Securities Co. Ltd.

Reconfirming our own position in the flow of money

SRI products easily catch people's interest when I start to explain, but even if they support the aim of the product, this does not readily turn into a decision to buy. For example, many customers, when told that microfinance bonds are designed to provide funds to poor people in developing countries, become doubtful about borrowers' capacity to repay. There are also customers that say the explanations are difficult to understand because there are many unfamiliar terminologies. These factors suggest the products are not yet well understood.

Customers are most interested in investment returns, but many would also like to know how the money they have invested is being used. I think mechanisms for feedback to clients about the use of the capital are needed to further increase uptake of SRI products. Meanwhile, I would like to continue providing customers with correct information about SRI and communicating the Daiwa Securities Group's vision.

In our day-to-day sales activities, we tend to forget the ability of money flows to solve problems troubling the world and our own part in that money flow. I am happy that SRI products have given me a renewed opportunity to appreciate how meaningful my work is.



Aki Takeuchi
Asset Consultant Department,
Ikebukuro Branch,
Daiwa Securities Co. Ltd.

Not only bonds—Daiwa Microfinance Fund launched

We launched the Daiwa Microfinance Fund in February 2011.

The fund directly invests in microfinance institutions (MFI) and in bonds issued by international institutions working to change MFI's operating environment. The fund thus directly contributes capital to alleviate poverty in developing countries.

It combines the advantages of a strong social contribution, convenience, and reliability—customers who buy shares in the fund are sent asset management reports, and day-to-day trading is possible. The fact that the fund targets investments that contribute to society makes it no less beneficial for investors compared to conventional foreign bond funds.

It should be possible to use money flows to correct society's flaws and change the world. Finance has that power. We are hoping to spread this idea among more people.

Shuichiro Tanaka

Director, Investment Trust Department, Daiwa Securities Co. Ltd.

Please visit our website for more details. <http://www.daiwa.jp/products/fund/microfinance/>

Fulfilling Our Social Responsibilities as a Financial Institution

The Daiwa Securities Group has agreed to international initiatives to create mechanisms to direct money flows to activities supporting the creation of a sustainable society. As a financial service company, we have also integrated our research analysis unit into our ESG unit in order to provide information useful for investing.

Corporate social responsibility

Participant in UN Global Compact

In 2010, the Daiwa Securities Group became the first Japanese securities company to join the UN Global Compact, which is a global framework to create sustainable growth.

Members are required to work to adhere to the compact's ten principles. These principles are in accord with the Daiwa Securities Group's principles and most of their spirit is already reflected in our practices. However, we continue to make a group-wide effort to become a higher-quality company trusted by society.

On April 25 and 26, 2010, the UN Global Compact held a "Public Forum on the Role of the Private Sector for Peace and Development." Mariko Kawaguchi, Managing

Director of CSR Promotion at the Daiwa Securities Group, joined an expert workshop on day one. Also, as a panelist in a panel discussion, then-Executive Officer Keiko Uehara spoke about the impact investment products we have developed and offered.



Keiko Uehara speaks during panel discussion

Promoting SRI

Participating in Carbon Disclosure Project

The Carbon Disclosure Project (CDP), which has been set up by institutional investors interested in climate change, requires global companies to disclose their stance on and actions regarding environmental problems. The Daiwa Securities Group became a member of the CDP as an investor in March 2004. Daiwa Asset Management has been a member since July 2009.

Joined UNEP Financial Initiative

The United Nations Environment Programme Financial Initiative (UNEP FI), a partnership between UNEP and the global financial sector, works to identify and promote the adoption of the best environmental and sustainability practices in operating financial institutions based on the knowledge that environmental problems cannot be significantly improved without the participation of financial institutions.

Having become a UNEP FI member in November 2004, the Daiwa Securities Group also signed the Declaration on Climate Change by the Financial Services Sector in May 2007.

Signatory to Principles for Responsible Investment

The Principles for Responsible Investment (PRI), announced in April 2006 by the UNEP FI and the UN Global Compact, is a set of investment principles for institutional investors incorporating ESG into the decision-making process.

Daiwa Asset Management signed on to the PRI in May 2006 in the belief it should take the initiative as an asset management company. It had established many SRI funds and other investment trusts incorporating ESG considerations. Signing on to the principles also prompted Daiwa Asset Management to revise its guidelines for exercising shareholder voting rights, promote internal communications, and organize a non-financial information evaluation system. There were 18 Japanese signatories as of April 2011.

Daiwa Securities Group's efforts

Established investment policy against cluster munitions producers

Since the implementation of the Oslo Convention on Cluster Munitions in August 2010, Daiwa Asset Management, as an asset management company operating in a signatory country, has followed the principles outlined below when investing in or otherwise dealing with cluster munitions producers.

1. Do not include the securities of cluster munitions producers in active funds. Promptly sell those already included.
2. In exercising voting rights associated with shares issued by cluster munitions producers, vote in favor of any shareholder proposals to withdraw from, or scale down, cluster munitions production.

Specialist lectures were given to units in the field.

Further, we have removed companies to which the criteria apply from lists of stocks allowed to be offered to customers and those eligible for investment.

Helped draft principles for sustainable finance

The principles for sustainable finance are aimed at promoting financial activities that take into account ESG in the Japanese context. The Daiwa Securities Group has been involved in drafting the principles from the early stages.

Providing information useful in resolving society's problems

Daiwa Institute of Research's ESG Research Section

The world we live in is facing major challenges such as the rising risk posed by global warming and other climate change and global energy and food shortages as emerging nations' economies grow. These conditions are changing the roles and functions expected of companies in creating sustainable social and economic systems. Meanwhile, investors, who underpin corporate finance, are engaging with SRI, which uses a multifaceted approach to valuing companies.

With the limited supply of natural resources available for human use, it will be increasingly important for companies to create true wealth on a global scale by tackling human rights problems and social inequalities. We believe capital markets should correctly value companies adopting a proactive stance on such issues.

In August 2010, Daiwa Institute of Research established an ESG Research Section within its Capital Market Research Department. Its main purpose is to enliven capital markets by presenting the new role and activities of companies, stating new approaches to valuing companies, and providing information about new methods of communication between companies and investors.

There are many solutions to the many problems facing society. SRI, which attempts to provide solutions through finance, also encompasses many themes and activities. To make SRI more familiar without sacrificing any of that diversity, the ESG Research Section of the Capital Market Research Department aims to provide information to promote investments that will create a better society while also focusing on value and the interests of customers.

Selected research reports

Is There Further Upside to Green Stocks?
Current ESG Data Disclosure and Issues—Effectively Using Information
China's Social Problems and CSR—Government-driven CSR Measures Spreading
Monthly ESG News

This is just a sample of the reports published.

Exploiting information in asset management and product design

Daiwa Asset Management research structure

Daiwa Asset Management has directed asset management and research staff, among others, to undertake research and development for evaluation of non-financial information since March 2010. Purposefully evaluating non-financial information, which has been merely one indicator of corporate value, makes evaluations more accurate.

In fiscal 2010, we held internal and external discussions as part of preparation to install a non-financial information evaluation system befitting an asset management company. We carried out in-depth discussions on evaluation of Japanese stocks with our analysts and fund managers, referring to studies of ESG and other non-financial information disclosures. It will be necessary to evaluate the corporate value provided by non-financial measures such as reducing environmental impact or contributing to society from a long-term perspective. We hope to focus on building a foundation for evaluating the intrinsic value of companies by analyzing non-financial information.

Employee Round Table Discussion

Ways to Promote SRI

Using finance to support sustainable social systems—socially responsible investment is the key to accomplishing this important task. On February 15, 2011, Daiwa Securities Group employees exchanged opinions on why SRI has not taken off in Japan as well as future challenges and possibilities.

* Positions are those held at time of discussion

SRI a return to basics for valuing companies; yet to gain popularity, momentum

Moderator: What are your impressions of SRI in your work?

Kikuchi: I have been involved in SRI since we established our Eco Fund in March 2006. The strongest impression I have of managing SRI funds is that it constitutes a return to basics. It is a fund manager's job to gauge companies' value. Rather than just looking at profits, SRI gives us the opportunity to revisit companies' characteristics and strengths, which are the source of those profits.

Suzuki: I also see SRI as a return to basics. Among the variety of factors that need to be considered in evaluating companies' profit are ESG activities that could present risks. With investors now using a broader range of factors to evaluate companies, I think the importance of environmental and social factors is growing.



Katsuya Kikuchi

Senior Fund Manager, Equity Management Department,
Daiwa Asset Management Co. Ltd.

Tanaka: My approach to SRI incorporates an NPO perspective, as I am a director at an NPO bank in a private capacity. I also take into consideration the direct effects on society. For the first time, we have been able to establish a fund that contributes directly to society by channeling capital straight to microfinance institutions. I would like to create a structure in which we are able to contribute directly to social objectives through core operations, like this microfinance fund.

Yanagisawa: I believe institutional investors have become aware of concepts such as CSR and ESG through seminars for institutional investors and corporate IR officers. However, their views and what they put into practice differ widely.

Saito: Right now, the sales teams are putting effort into selling microfinance funds. It seems that the importance of such funds is now much better appreciated. But it seems that, in contrast to the sales staff's high sense of purpose, awareness of SRI is still limited among individual investors.

Sluggish Japanese issues one reason SRI not growing; this offers potential for breakthrough

Moderator: Why do you think SRI hasn't caught on in Japan?

Yanagisawa: One possible reason, for products centered on the stock of Japanese firms, exists at a more basic level than SRI—the prolonged unpopularity of Japanese issues.



Kikuchi: Japanese stocks have been among the most sluggish in major global markets for the past five years. But a focus on SRI could trigger renewed interest. In Japan, the environmental and social components of ESG still tend to be viewed in terms of costs, but it is quite likely this is exactly where firms' unrecognized efforts lie. The SRI perspective could be the catalyst for an end to the despair enveloping Japanese companies.

Suzuki: ESG factors certainly come into play in the low valuations of Japanese issues. In rankings based on quantified measures of governance, Japanese companies rank behind not only European and US companies, but also most emerging countries. I believe governance in Japan being seen as so poor internationally means improvement could attract new investment.

Recently announced requirements by the Tokyo Stock Exchange for reporting on governance and the possible reform in the presentation of financial statements means new information will be available for evaluating companies. This should provide more fertile ground for investment decisions incorporating ESG considerations.

Presentation of information, ambivalence of term "SRI"; further improvements necessary

Suzuki: There is probably some ambivalence about the term "SRI." I think it tends to lead to misconception that the products give more weight to social contributions and disregard investment returns, creating hesitation among investors seeking to maximize their investment gains.

Moderator: The word "SRI" gives the wrong impression, as many people have been saying. I think it gives the impression that you sacrifice your own returns to contribute to society.

Tanaka: None of the SRI funds I have designed have even slightly sacrificed returns. Unfortunately though, SRI funds as a whole have not performed well. Many funds concerned with global warming set up before the global financial crisis have declined steeply since the crisis. This is because they had a high proportion of small-cap venture stocks, which are more sensitive to market conditions. That is, their decline had nothing to do with their being SRI funds.

Moderator: How do individual investors react to the terms "SRI" and "social contribution?"

Yanagisawa: We have the responsibility to provide proper explanations to individual investors to help them understand financial products and make investment decisions. Yet the fact is that SRI is still not widely understood or even known.



Naoko Saito
Senior Managing Director,
Daiwa Securities Co. Ltd.



Hiroshi Suzuki

Senior Researcher, Environment and CSR Research Section,
Capital Market Research Department, Daiwa Institute of Research Ltd.

Kikuchi: I have recently become painfully aware of the need for a change in the way information is presented. For example, I feel investment sentiment has been frozen by overblown claims about the dire consequences for the earth of not reducing CO₂ emissions. I believe information should be presented in a way people can relate to—indicating how intertwined our daily lives and companies’ activities are with global issues.

Consideration of non-financial gains to expand SRI

Moderator: Daiwa held a seminar for institutional investors and invited representatives from the Japanese Trade Union Confederation, which released the Guidelines on Responsible Investment of Workers’ Capital. What are these guidelines, and how was the response from investors?

Yanagisawa: The guidelines relate to pension funds, which is, in a broad sense, workers’ capital. Aimed at establishing workers’ governance over the funds, they call for ESG considerations to be incorporated into decision making, and performance monitored and followed up. While most participants responded positively, some were negative. Naturally, some asset management companies insisted that performance is inevitably the focal point in managing assets. Institutional investors’ main mission is to maximize performance. While it is ideal to take long-term growth into account when evaluating companies to make investment decisions, they actually need to deliver performance in a month or two.

Still, if fund managers at representative institutional investors such as GPIF¹ and influential pension funds refer to SRI factors when selecting stocks, I think it will have a domino effect and instantaneously change the environment.

Suzuki: I believe most investors’ true opinion is that performance is everything in managing funds, but I think that investment gains are not limited to just performance, but also the positive feedback the investment creates. People that invest for such feedback are probably interested in generating positive returns for society rather than being purely money-orientated. I think SRI will spread when investors consider profits that cannot be measured numerically.

Saito: That said, it remains the case that investors exist because there are profits to be made. On the other hand, we have recently witnessed the social phenomenon of people spontaneously sending school backpacks to orphanages around Japan. I think this shows that people need to feel connected with others even in a so-called fragmented society. By explaining in simple words to individual investors that connecting with society is a social contribution and that participation in society can occur through investment, we can probably create a win-win relationship, which will probably help spread SRI.

Tanaka: Customers can directly relate to the microfinance funds I am currently selling. I think there is extremely strong potential demand for the funds among customers ranging from individuals with a strong interest in the market to business investors.

¹ Government Pension Investment Fund: The world’s largest institutional investor, said to be managing ¥88.5 trillion in Japanese bonds (end Dec. 2008).

Giving meaning to money; much expected of financial institutions

Moderator: The lack of financial education in Japan means many people believe making money is the antithesis of contributing to society. However, the two are compatible and using money meaningfully can build a sustainable society. I believe money flows will change if we educate people about this.

Kikuchi: I am currently participating in the Multi-stakeholder Forum on Social Responsibility for a Sustainable Future², which has brought together diverse stakeholders to resolve society’s problems. The composition of stakeholders is unique in that the

financial sector is grouped separately from other companies. This stems from the idea that financial institutions, which are responsible for money flow, act as infrastructure.

To me, this shows that there are extremely high expectations of financial institutions to give meaning to money flow. I received the extremely strong impression that actors from non-financial sectors such as government, NPOs and NGOs, consumer groups, and labor organizations expect financial institutions to redirect money flows and gradually change the world through proactive initiatives and the creation of frameworks such as impact investing.

2 Multi-stakeholder Forum on Social Responsibility for a Sustainable Future: Please see page 22.

Examples of successful group coordination; the shortcut to spreading SRI

Moderator: What should the Daiwa Securities Group do to spread SRI?

Kikuchi: I think it is extremely important to broaden the range of products offered. This could be bonds or direct capital flows, but I think the important thing is to develop a wide range of products and devise an effective way of communicating information. Also, we should provide basic information such as an explanation of impact investing rather than just product information, using whatever means possible to coordinate information between group companies and steadily pump out information.

Tanaka: I want to continue steadily developing funds that benefit investors and play a useful role in business.



Shuichiro Tanaka
Director, Investment Trust Division,
Daiwa Securities Co. Ltd.



Shiko Yanagisawa
Managing Director, Global Equity Sales,
Daiwa Securities Capital Markets Co. Ltd.

However, I think we need to raise awareness even within the Daiwa Securities Group, as there are variations in the understanding of, and interest in, SRI even in our company.

Saito: I strongly feel that we need to make a coordinated effort to create examples of win-win investments generating profit for investors, employees, and the Daiwa Securities Group as a whole.

Suzuki: Changes in capital flows should also change the stance of companies. I think we should therefore also facilitate positive communication between investors and companies.

Yanagisawa: I think it is also important to offer investors information on companies that are at the leading edge of socially responsible activities, but whose initiatives are not widely known, and educate equity analysts who carry out corporate research.

Suzuki: In my opinion, when we provide information to institutional investors, we need to indicate how changes in society affect individual companies' value. The most powerful way to appeal to investors would be to provide examples of successful investments in which positive social returns rebounded in investment gains. Still, because there are as many examples of failure as success, it would also be acceptable to urge customers to make such investments with an understanding of this overall picture.

Moderator: Thank you all for your highly constructive insights. We will take them into account in the Daiwa Securities Group's future activities.

Moderator: Mariko Kawaguchi
Managing Director of CSR Promotion,
Corporate Communication Department,
Daiwa Securities Group Inc.