

**PENSION AND LIFE FUND VIEW OF SRI**

**—— The Japanese Experience ——**

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# Impact of SRI Funds in Japan

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- *Growing number of **first-time investor** in investment trusts*
- *Increasing investors recognition by **bank channel distribution***
- *Growing interest and sensitivity on the part of the business corporations*
- *Gradual introduction of SRI by **pension funds** and **public sectors***
- *Possible adoption of SRI Funds as **401K products***

# Current Status of SRI in Japan

- *Still an early stage of development*

- *Pace of growth is lackluster*

*Because*

- 1. Poor Japanese equity market performance*
- 2. Lack of regulatory framework to facilitate CSR & SRI*
- 3. Lack of sufficient awareness of CSR & SRI*
- 4. Western SRI criteria is not directly applicable*

# Evolution of SRI Funds in Japan

## Ongoing Challenge

- *Benchmark*

*Development of **SRI benchmark***

- *Criteria*

*From “Ecology only” to broader “**Sustainability**”*

- *Research Coverage*

*Expansion of coverage to **small to mid.cap** companies*

- *Reliability / Objectivity*

*Introduction of **third-party** evaluation / appraisal*

- *Transparency*

***Disclosure** in terms of criteria, process & results*

- *Track Record*

# Broader Sustainability Issues

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*Increasing case of corporate failure & fraudulent activities spotlighted.*



*Growing awareness of CSR & Corporate Governance*

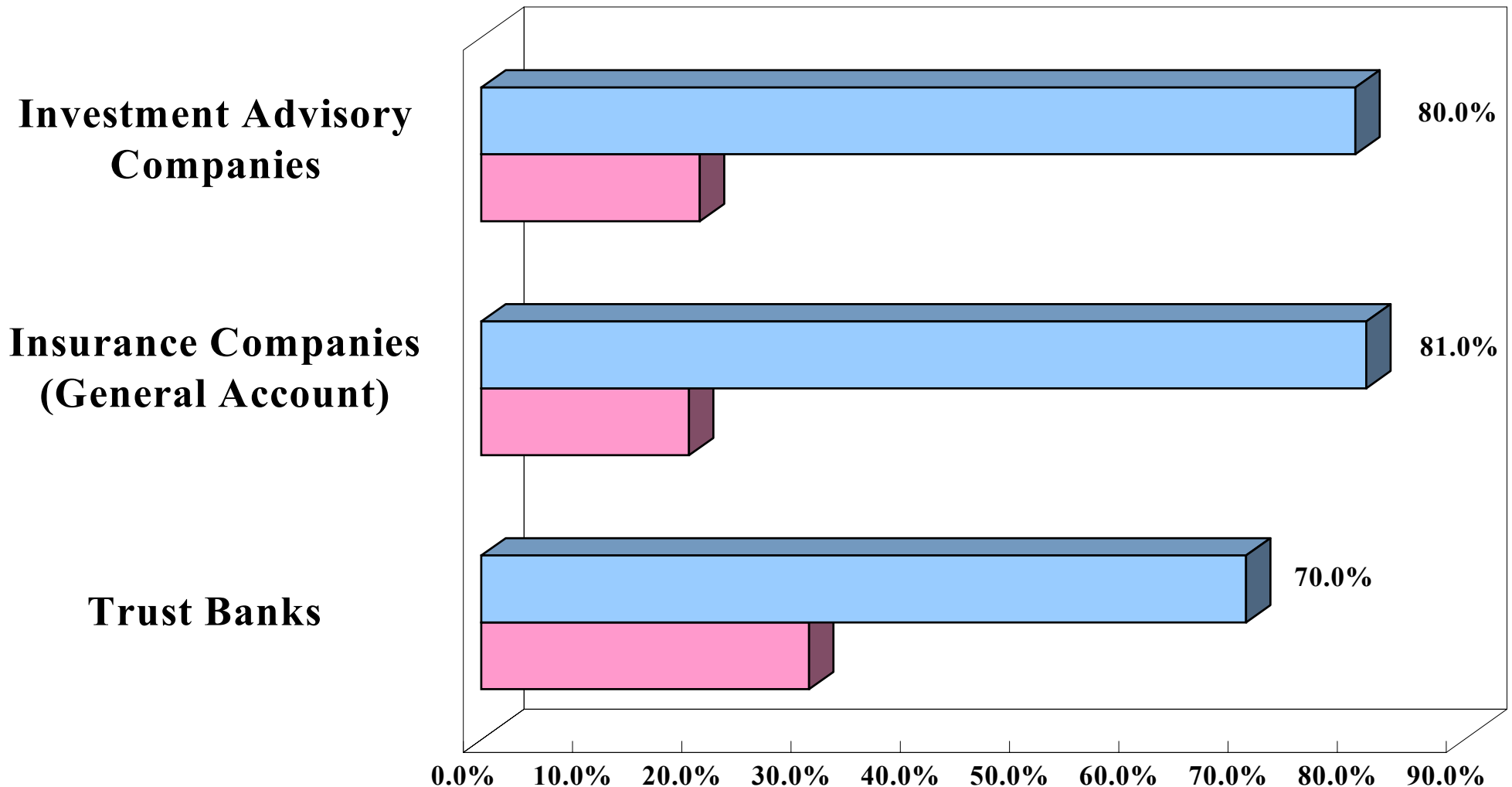


- *Corporate Governance Structure*
- *Compliance Manual*
- *Shareholder Activism*
- *Proxy Voting*

# Proxy Voting

## Perception of Institutional Investors in Japan

*From “Whether to Exercise” to “How to Exercise”*



■ Should (or Preferably) Exercise Proxy Voting  
■ Others

Source: Ministry of Finance,  
Policy Research Institute

# Growing Significance of Proxy Voting

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- *Governance function by “Main Bank” has gradually been loosened.*
- *Expansion of Passive Management*
- *Long-term Positive Effect on Shareholder Value and Investment Performance*
- *Monitoring Function Toward Corporate Activities*

# Topical Events on Proxy Voting

- *Establishment of Proxy Voting Guidelines by Plan Sponsors*

*ex.) Pension Fund Association*

*Government Pension Investment Fund*

*Public Employees Pension Fund*

- *Establishment of Self-Regulatory Rules by Industry Association*

- *Review of Proxy Voting Guidelines and Committees by Asset Management Companies*

- *Has Become One of the Manager Selection Criteria by Plan Sponsors*

# Challenges & Perspectives on Proxy Voting

- *Streamlining of Regulatory Framework*
- *Increasing Cost of Exercise*
  - \* *Problem of “Free-Rider”*
- *Time Constraints*
  - \* *Concentration of Shareholders Meetings*
  - \* *Insufficient Disclosure by Companies*
- ➔ *Electronic Processing*
- ➔ *Establishment of Screening Guidelines*
- *Exercise on Foreign Companies*
  - ➔ *Use of Third-Party Advisory Information*
  - ➔ *Information Sharing by Global Institution*

# Examples of Sustainability Rating Criteria

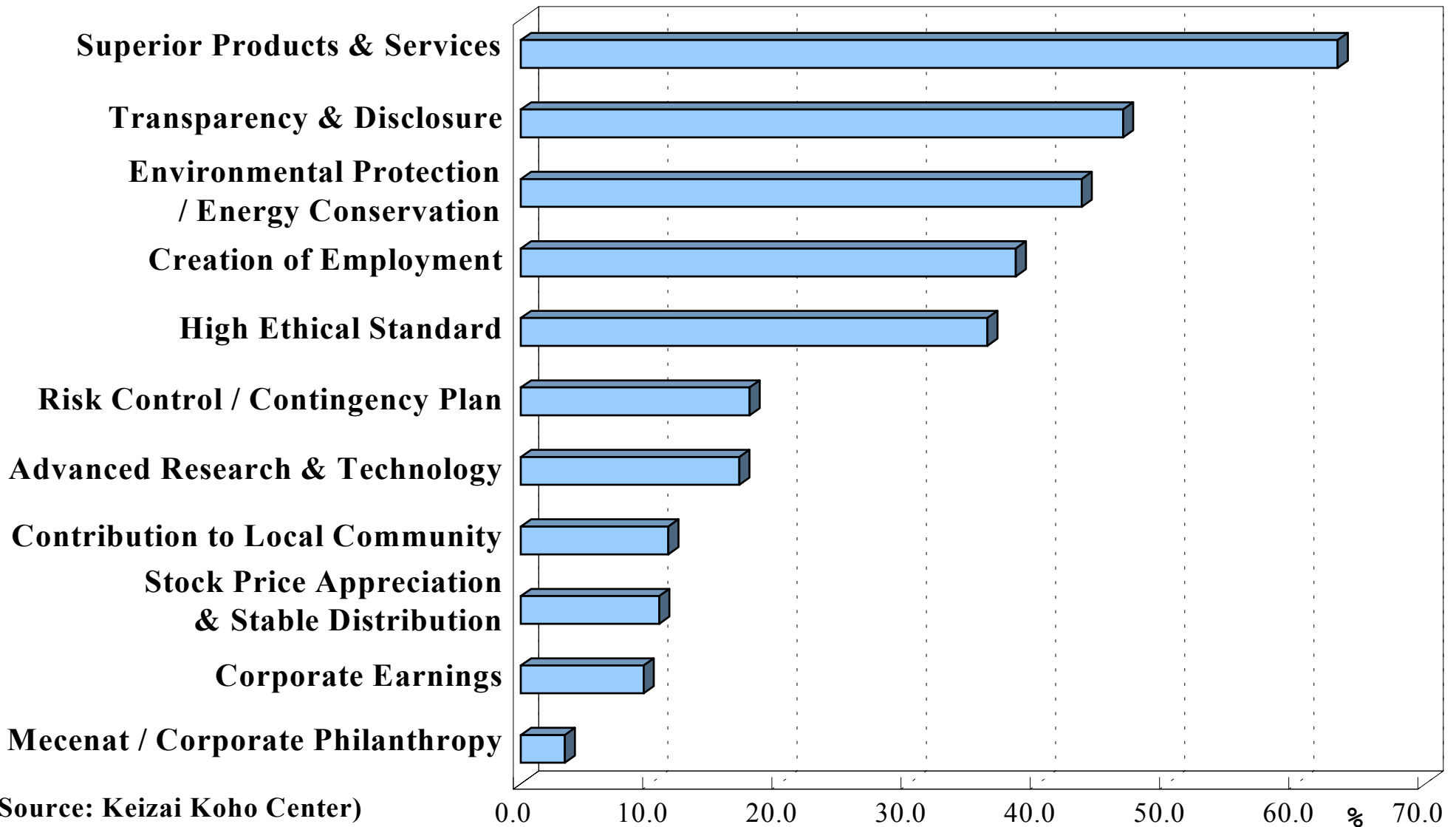
## Nikko Global Sustainability Fund

	<i>Opportunities</i>	<i>Risks</i>
<i>Economic</i>	<ul style="list-style-type: none"><li>■ Strategic Planning</li><li>■ Quality Management</li><li>■ Knowledge Management</li></ul>	<ul style="list-style-type: none"><li>■ Corporate Governance</li><li>■ Risk and Crisis Management</li><li>■ Supply Chain Management</li></ul>
<i>Environmental</i>	<ul style="list-style-type: none"><li>■ Environmental Reporting</li><li>■ Eco-Design of Products</li><li>■ Eco-Efficiency</li></ul>	<ul style="list-style-type: none"><li>■ Responsibility Board Level</li><li>■ Environmental Management</li><li>■ Environmental Performance</li></ul>
<i>Social</i>	<ul style="list-style-type: none"><li>■ Remuneration</li><li>■ Employee Development</li><li>■ Stakeholder Dialog</li></ul>	<ul style="list-style-type: none"><li>■ Responsibility Board Level</li><li>■ Anti-Discrimination</li><li>■ Anti-Corruption Procedures</li></ul>

(Source: SAM Sustainability Group)

# Diverse CSR Criteria

## *Vital Factors for CSR*



(Source: Keizai Koho Center)

# Comparison of SRI among U.S.A., Europe and Japan

	<i>U.S.A.</i>	<i>Europe</i>	<i>Japan (Nikko Asset Management)</i>
<i>Religion</i>	<b>Important</b>	<b>Less Important</b>	<b>Less Important</b>
<i>Screening Method</i>	<b>Negative Screening</b>	<b>Positive Screening</b>	<b>Positive Screening</b> Nikko Eco Fund - Environmental Protection Nikko Global Sustainability Fund - Economics, Social, Environmental
<i>Corporate Profit</i>	<b>Less Important</b>	<b>Important</b>	<b>Important</b>
<i>Corporate Governance (Execution of Shareholder Voting)</i>	<b>Important</b>	<b>Important</b>	<b>Becoming Important</b>
<i>Client</i>	<b>Private Investor &amp; Corporate Investor</b>	<b>Private Investor &amp; Corporate Investor</b>	<b>From Private Investor To Corporate Investor</b>

*The table above only illustrates the typical tendency of SRI in each region, and may not be appropriate in specific cases.*