

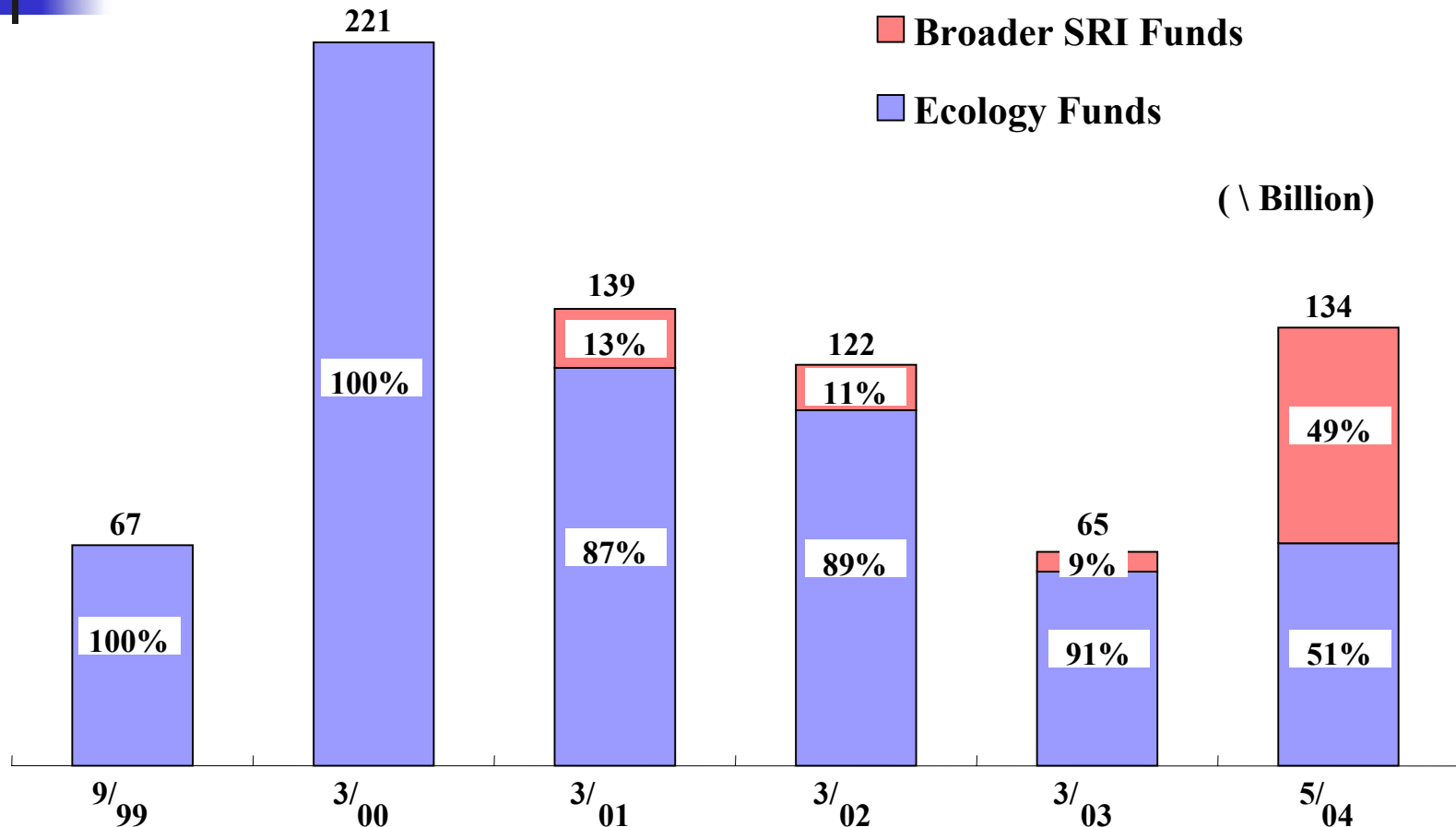


SRI in Japan
- Lessons from the Past -

July 15, 2004, Singapore

Masafumi Hikima
Nikko Asset Management Co., Ltd.

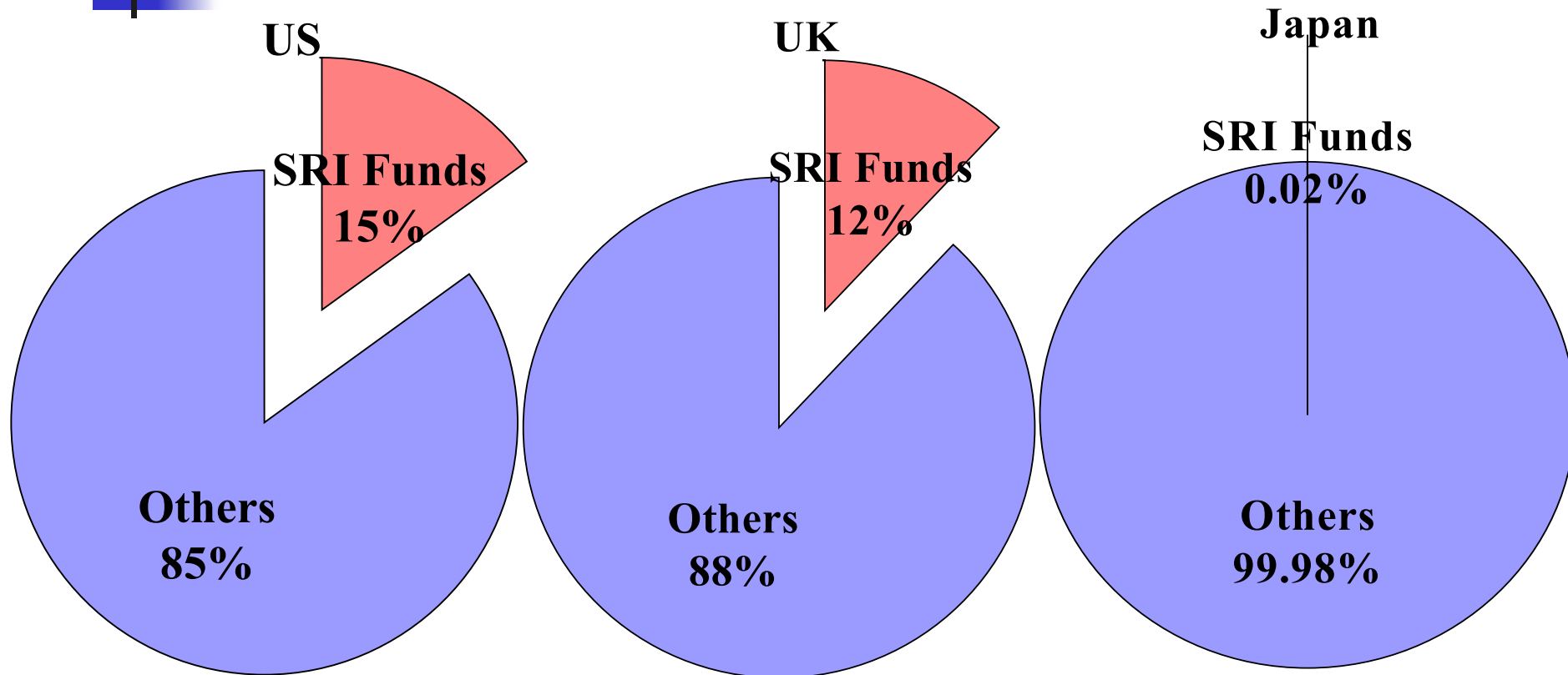
Market Size of Japanese SRI Funds



* Figures include all publicly-offered SRI investment trusts in Japan and do not include discretionary separate accounts.

The Total Value of SRI Funds

- as % of The Entire Market -

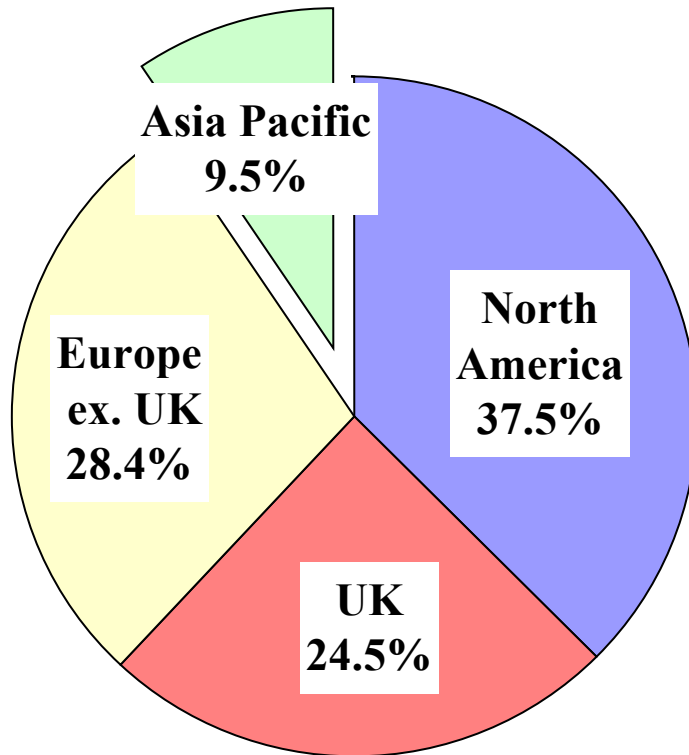


Source: Association for Sustainable & Responsible Investment in Asia (ASrIA)

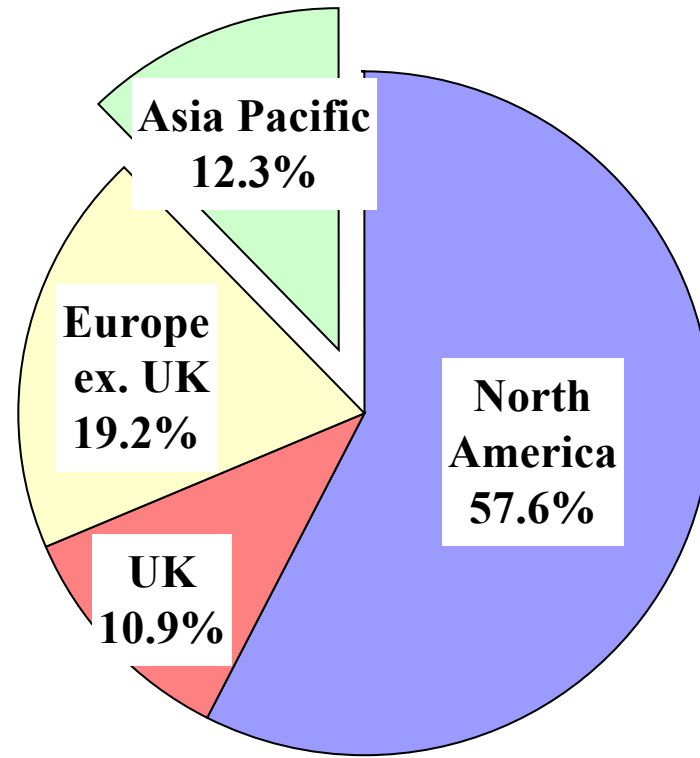
Global SRI Benchmark - Market Cap. Weightings -

December 2003

SRI Benchmark *



Global Market Cap. *



* SRI Benchmark represented by Dow Jones Sustainability Group Index

* Global Market Cap. By MSCI World Index

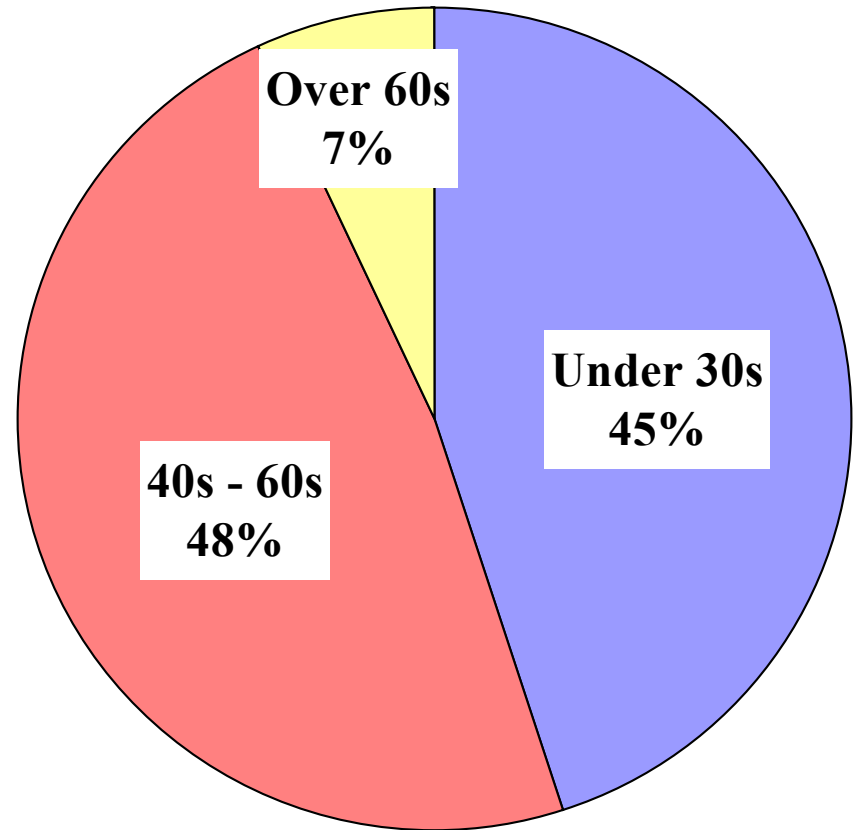
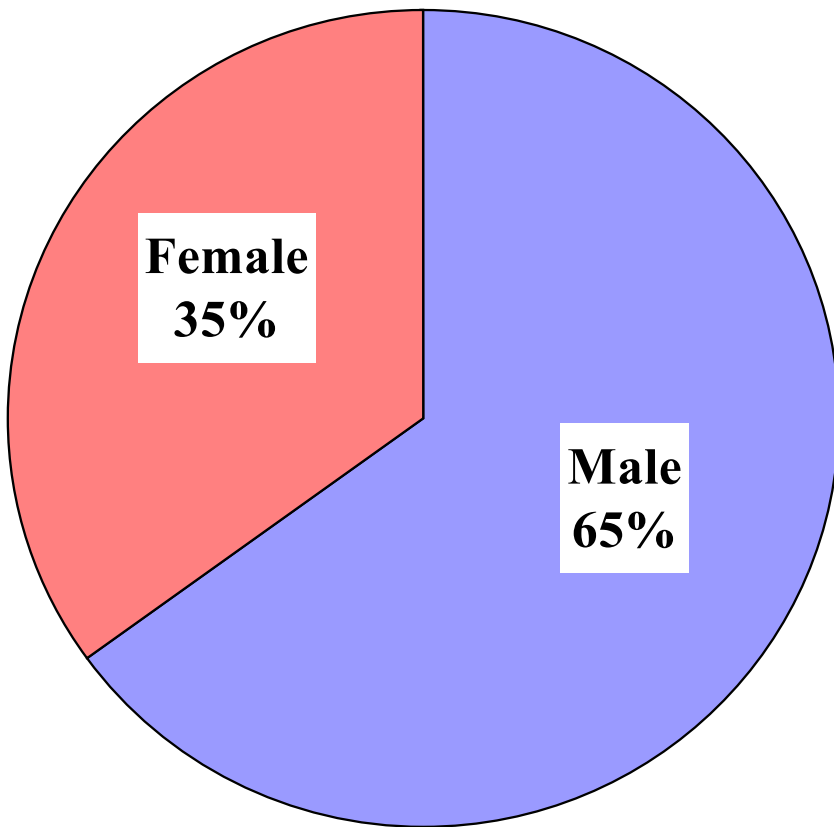


Experiences of the Launch of the Nikko Eco Fund

- **A large number of participation by younger generations, female and first-time investors in investment trusts.**
- **New demand creation rather than marketing-driven.**
- **Widespread acceptance by bank channel.**
- **Increased sensitivity on the part of the business corporations.**
- **Growing introduction toward 401K product-lineup.**



Owners of Nikko Eco Fund





SRI in Japan Now

- **Growing Recognition ↔ Limited Implementation**
- **Heightened Awareness on CSR ↔**
Slow Growth on SRI
- **Affected by the trend of the Japanese equity market**
- **Predominantly Retail Product – Driven**
- **Ecology Only to Broader SRI**



SRI Issues of Strong Interest

	Japan	U.S.A.	U.K.
Compliance with Law & Regulation	51.6%	36.2%	26.0%
Eco-Friendly Products & Services	84.2%	63.8%	71.4%
Recycling & Energy Conservation	79.7%	60.9%	70.1%
Employment / Equal Opportunity for Women	18.9%	42.0%	31.2%
Employment / Equal Opportunity for the Handicapped	23.4%	42.0%	31.2%
Tobacco	14.2%	34.8%	39.0%
Weapon	32.2%	39.1%	59.7%
Child Labor / Forced Labor	19.1%	58.0%	77.9%
Animal Experiment / Animal Abuse	12.4%	33.3%	54.5%
Community Contribution	37.6%	55.1%	45.5%
Others	1.8%	0.0%	2.6%
No Answer	2.5%	2.9%	1.3%



Characteristics of the Japanese SRI

- **Positive Screening Only**
- **Emphasis on**
 - **Ecology / Environment**
 - **Compliance / Governance**
 - **Consumer Protection / Product Safety**
- **Less Emphasis on**
 - **Human Rights**
 - **Employment / Labor Issues**
 - **Community Contribution**



Performance Issues in Japanese SRI

- **Still short-term track records.**
- **Yet to see the strong case of superior performance.**
 - *Launch was coincided with the burst of the IT bubble.*
 - *Sector and size characteristics of the portfolio were adversely affected.*
 - ✓ *Manufacturing (TMT) biased*
 - ✓ *Large-cap. biased*
- **Difficulty of performance attribution**



Toward The Next Stage of SRI Growth

Retail

- **Promotion of Investment Trust itself**
- **Good Performance / Track Records**
- **More Publicity / Disclosure**
- **Inclusion of SRI Funds in 401K Line up**

Institutional

- **Consensus on the issue of "Fiduciary Responsibility"**
- **Integrated approach of "Proxy Voting", "Engagement" and "SRI Screening"**
- **Transparency on evaluation process**
- **Establishment of legislative framework**