

Good Morning, ladies and gentlemen,

I am Masayasu Ohi, Principal Executive Officer of Daiwa Asset Management. It is a great honor for me to participate in this panel of ASrIA today.

Daiwa Asset Management is one of the largest investment trust management company in Japan with asset under management of over 55 billion US dollars, most of which is invested in Japanese equities and fixed income securities.

In May this year, we launched our first SRI product, Daiwa SRI Fund. This Fund invests in Socially Responsible companies in Japan. The Fund size has been growing constantly, and now is the largest SRI fund focusing on CSR in Japan, with 264 million US dollars.

Now there are 14 SRI funds in Japan with the total asset of 1.5 billion US dollars, including SRI pension funds. This is a far smaller figure compared with 2,100 billion US dollars in US, and 400 billion US dollars in Europe. And in terms of the ratio of assets invested in SRI mandates to the total asset of investment trusts and pensions in Japan is less than 0.1%.

Why? Because the idea SRI itself is quite new to Japanese investors, and SRI Funds are yet to prove themselves to the investment community.

Today, I would like to talk about the development of Socially Responsible Investment in Japan, focusing on the following topics: First, the environment awareness and the birth of eco funds; Second, the recognition of Corporate Social Responsibility, and Finally, the Socially Responsible Investment in Japan now and where it is going.

First, I will discuss the background for the development of eco funds. During the rapid economic growth of 1970s, pollution became a social problem in Japan. Through the oil crisis, we realized that world resources are limited. Yet, we thought that we could overcome the problems by developing smoke control systems and waste-fluid equipment, by improving fuel efficiency or by alternative-energy development, such as atomic power. For a long time, Japanese corporations gave productivity and profitability the first priority, and did not consider possible effect on co-existing society, including environment.

Awareness of environmental issues increased among Japanese people in the 1990s, with the Earth Summit held in Rio de Janeiro in 1992, followed by the Kyoto Protocol in 1997. The recognition in the corporate society was one year earlier in 1996, when International Organization for Standardization defined ISO14001. ISO14001 is the specification which defines how to build an environmental management system. Companies which desired to acquire the ISO 14001 certification increased substantially.

Before that time, anti-pollution measures were merely a burden for companies because it would require additional cost. Time has changed, however. Toyota's hybrid car "Prius" created a new market, proving that environmentally friendly product could be a success. Corporate managers recognized that management which works on environmental issues can strengthen its competitiveness through technical innovation, and it could improve corporate image.

The first "Eco fund," which invests in environmentally friendly companies, was launched in 1999 by our competitor Nikko Asset Management and today's panelist Mr. Hikima, for the first time in Japan. Their fund introduced the concept of SRI to the investment community in Japan, valuing companies using factors other than financial statements.

In this way, SRI funds in Japan started from environmental viewpoint. Now I will discuss the second topic, the recognition of Corporate Social Responsibility.

As the bubble economy collapsed in the 1990s, Japanese companies were obliged to slash excess facility, employment, and debt. As the result of tumbling return on equity, the stock prices dropped. Furthermore, due to poor management during bubble period, corporate failures came out one after another, and investors started to distrust corporate management.

During this period, the government introduced financial de-regulation, which helped accelerate the selection process of companies. It burdened not only managers but also employees who overlooked the poor corporate governance. In addition, the mark-to-market accounting method, introduced to meet the global accounting standard, put an end to the cross-shareholding system which had made corporate governance lose substance.

These structural changes have awoken corporate managers and other stakeholders to the practical corporate governance, and corporate managers started to seriously deal with investor relationship. However, the corporate governance at this stage was still considered to be the main issue to shareholders, and has not yet arrived to the concept of CSR, in which accountability should be upheld to all stakeholders.

In the year 2000, when Japan's recovery was still in vague, corporate scandals shook the safety of food and nuclear plants. Especially the case of a branded steady food company collapsing due to lost confidence of consumers, shocked Japanese corporate managers. Out of such background, Corporate Social Responsibility was strongly acknowledged among corporate managers and became regarded as a concept which includes both "sustainable growth" and "corporate governance."

Now I will move on to the final topic, SRI in Japan.

For corporate managers, CSR has become an important issue today as I mentioned. But, for investors, it is difficult to recognize the effectiveness of SRI. They have more specific image of realizing better society as consumers through consumer activity, rather than investing in Socially Responsible companies as investors.

In Japan, the history of SRI is not long. As I mentioned earlier, the first series of SRI funds emerged as Eco funds, which focused on environmental issues. The second series, focusing on CSR, started only last year. There are not enough track records, so investors are not confident that SRI could generate excess return.

Although the existence of excess return of SRI is yet to be proven, at least the risk of sudden failure of a company in the portfolio could be avoided. Furthermore, as Keynes famously described the stock market as a beauty contest, investors who are interested in SRI will increase, resulting in more demand for SRI stocks, which will likely to give us excess return. As a final note, I will briefly comment on the future of SRI funds in Japan. I am quite confident.

Currently, stocks and investment trusts account for only 10% of the 12.7 trillion US dollars financial assets of the Japanese households. This is very small compared with 47% of U.S., 41% of France, 25% of Germany, and 19% of United Kingdom. While, Japanese hold 55% of their financial assets in cash or deposit. In recent years, the government is tackling to increase the share of stocks and investment trusts in household financial assets, through introducing several measures such as tax advantages.

In December 1998, banks were permitted to sell investment trusts, and this made it easier for investors to move money from bank deposits to investment trusts. In just five years, the amount of stock investment trusts sold by banks has caught up with the securities firm. If this pace continues, and Japanese household's investment trusts ownership share rises from 2.4% to 5%, the same level as U.K, we can expect a 318 billion US dollars increase in stock investment trusts.

Ministry of the Environment of Japan carried out an interesting survey on SRI funds. The result showed that the individuals who were interested in SRI funds reached 76%. If Japanese interest

is this high, it may not be an empty dream that a large percentage of the 318 billion US dollars will be invested in SRI funds.

Still, we hear the investors' comment such as "the contents of the investment are unclear" and "hard to distinguish from other products" as reasons for keeping distance them from SRI funds. We intend to fulfill accountability so that investors with keen interest in SRI funds will not be disappointed.

Thank you .