

SRI in Japan

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JRI at a glance

- JRI is one of the major private think tanks in Japan.
 - Established in 1989, funded by Sumitomo Bank and Sumitomo Group companies.
 - JRI comprises System Engineering Division, Consulting Division, and Think Tank Division.

Outline	
Company Name:	The Japan Research Institute, Limited
Established:	February 20, 1969
Capital:	10 billion yen
Number of Employees:	3,429 (As of October 2003)
Shareholder:	Sumitomo Mitsui Financial Group, Inc.



Socio Incubation Cluster in JRI

- Socio Incubation Cluster (SIC) is now regarded as a team with distinguished expertise in SRI- and CSR (Corporate social responsibility)- related matters in Japan.
 - Providing screening service for SRI to both domestic and international financial institutions
 - Managing the website called “CSR achieves” which is the best-known information center on CSR and SRI in Japan
 - Entrusted research projects on SRI by governmental sectors
 - A special advisor to the environmental committee of Sumitomo Mitsui Financial Group



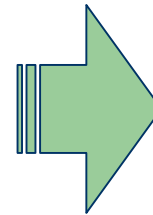
Our clients

- Screening service;
 - UBS Global Asset Management
 - UBS and JRI launched “Dr. Eco,” which is one of the first SRI funds in Japan.
 - Sumitomo Trust Banking Corp.
 - STB and JRI is managing the first corporate pension funds, with criteria on SRI.
- Research projects;
 - Ministry of the Environment, Japan
 - Comparison Study on SRI among Japan, USA, and UK (2002)
 - Ministry of Economy, Trade & Industry
 - Study on SRI and new individual money flow (2003)
 - Empirical Study on CSR and Corporate Financial Performance (2003)



SRI in Japan since 1999

- SRI is defined as an investing style where the investor takes into consideration CSR issues such as the environment, human rights, and economic development in addition to financial returns. Often times this is referred to as the triple bottom line – planet, people, profit.
- SRI is usually divided into three types.
 - **Screening**
 - **Shareholder Advocacy**
 - **Community Investment**



SRI has started since 1999 in Japan when the mutual funds were launched, which screen companies primarily on environmental issues into the investment process.

These funds are called “Eco funds”



Volume of assets on SRI funds

Market capitalization of SRI major funds (August 99 – December 02)



Other recent movements on SRI

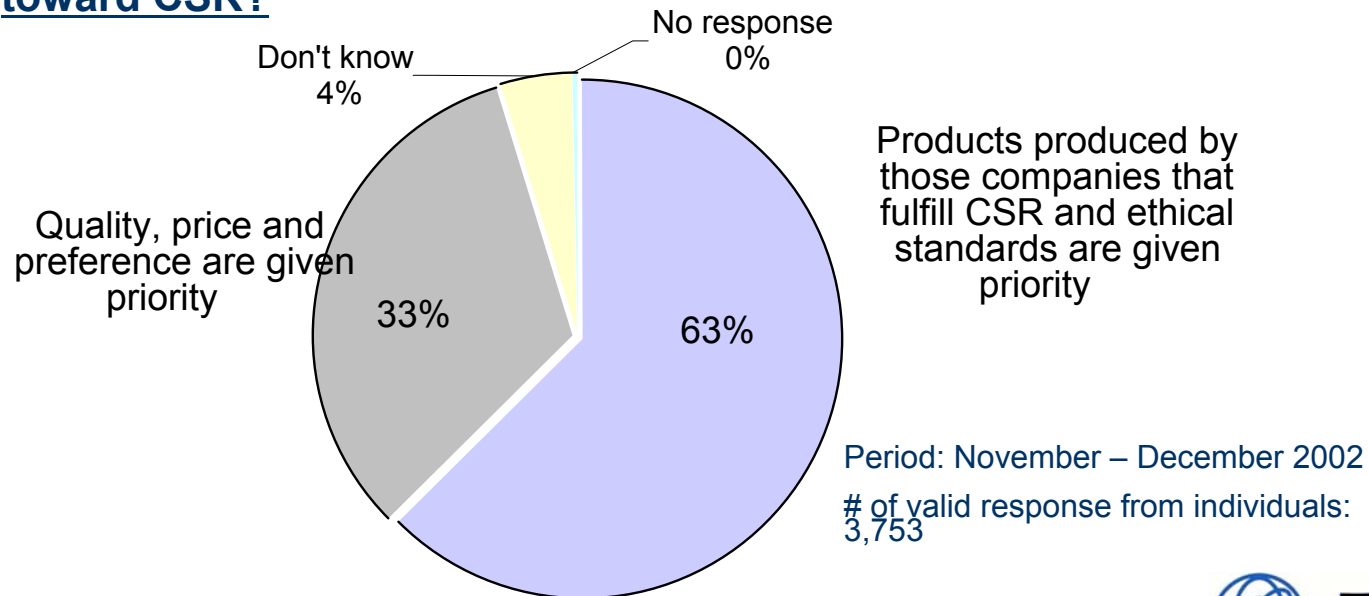
- In March 2003, the Mutual Aid Association for Tokyo Metropolitan Teachers and Officials launched the first SRI pension fund in Japan.
 - The Association, which serves about 112,000 public school teachers and officials in the Tokyo metropolis, committed two billion yen of its 84 billion yen pension portfolio to SRI strategies.
- In July 2003, Morningstar Japan launches the first SRI Index covering Japanese market exclusively.
 - The index screens companies based on their performance in five areas of corporate social responsibility (CSR): corporate governance, employment, consumer services, the environment, and social contributions.



Backgrounds of the growth (1)

- A survey on consumers' view on corporation 2002

Q: When purchasing a product, to what extent do you consider whether or not its producer/provider has a corporate scandal, and its attitude toward CSR?

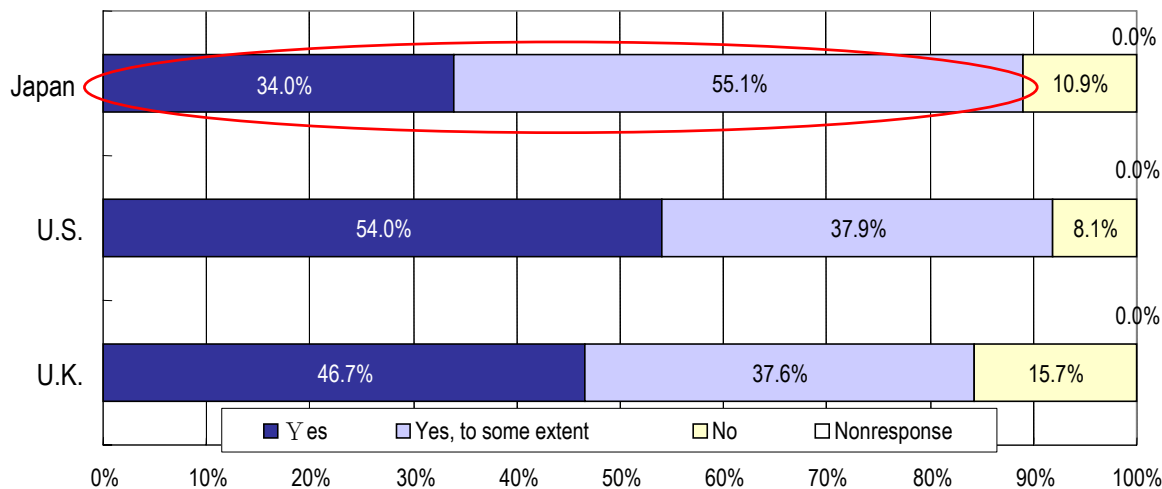


(Source) Japan Institute for Social and Economic Affairs

Backgrounds of the growth (2)

- A survey on individual investors' interest in CSR/SRI in Japan, US and UK

Q: Are you interested in CSR?



Period: Dec 12, 2002 – Jan 31, 2003

of valid response from individual investors:

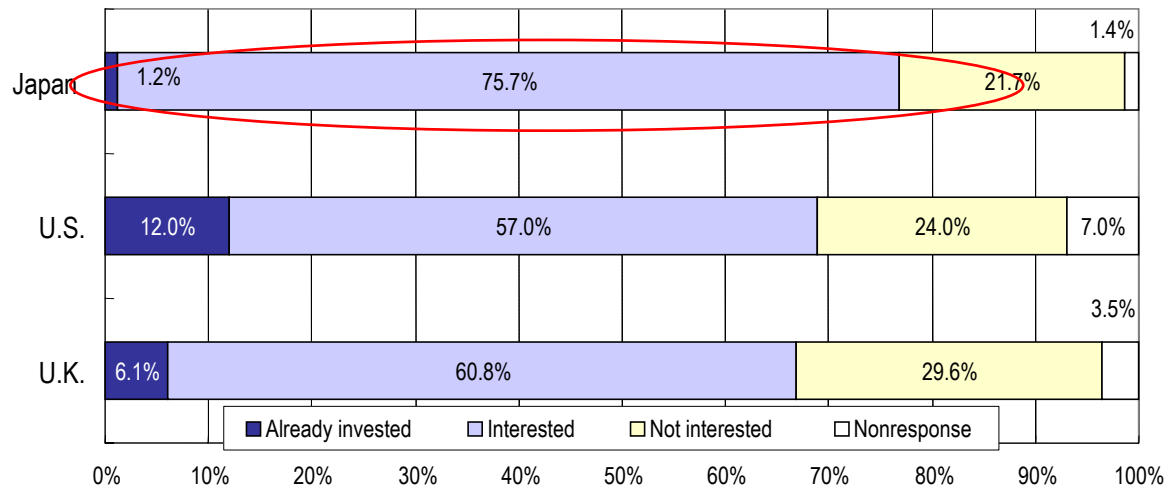
Japan = 1,670, US = 309, UK = 306

(Source) Ministry of the Environment, Japan

Backgrounds of the growth (3)

- A survey on individual investors' interest in CSR/SRI in Japan, US and UK (be continued)

Q: Are you interested in SRI fund?



Period: Dec 12, 2002 – Jan 31, 2003

of valid response from individual investors:

Japan = 577, US = 100, UK = 115

(Source) Ministry of the Environment, Japan

Backgrounds of the growth (4)

- A survey on Japanese corporate pension plan sponsors' interest in SRI

Q: What is your attitude towards SRI ?

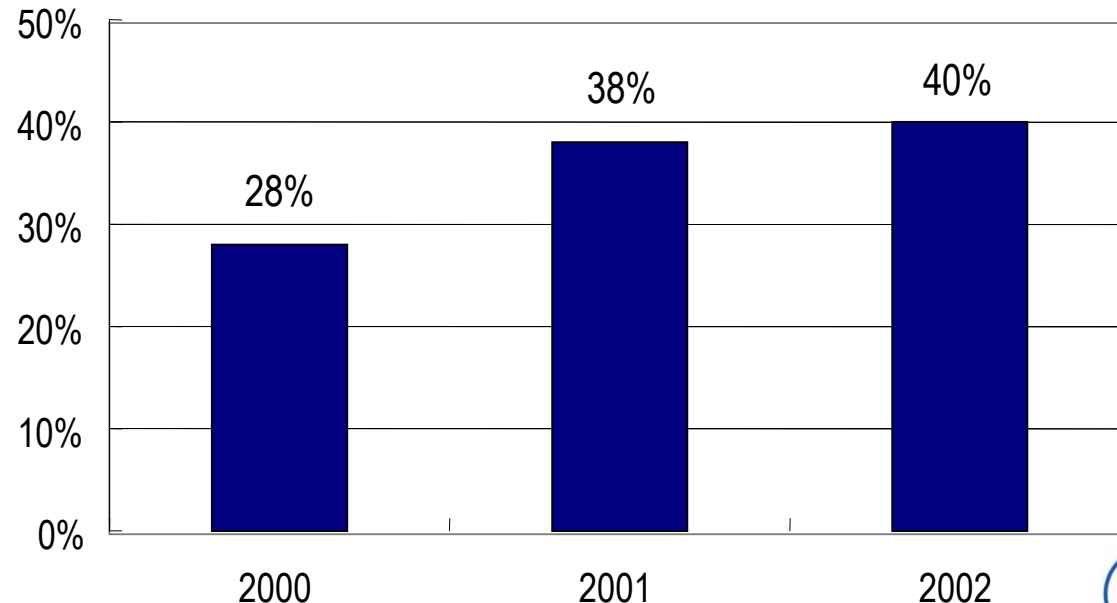
	# of response	Do you think SRI can be a source of active return?				
		Yes	No	Don't know	Others	Nonresponse
Under positive consideration	5	5				
Want more information	11	8	1	2		
To consider as a choice	57	33		19	4	1
Not interested	24	7	1	15	1	
No response	25	4		1		20
Total	122	57	2	37	5	21

A questionnaire was responded by those corporate pension plan sponsors who participated in the “Pension investment in the deflationary period” organized by Sumitomo Trust in July 2003

(Source) Sumitomo Trust Banking Corp.

Backgrounds of the growth (5)

- Shareholder activism in Japan
 - The proportion (note) of opposition voting or abstention from voting for the company's proposals has reached 40% in 2002.



(Source) Monthly equity market survey by Quick Business Research Corp.

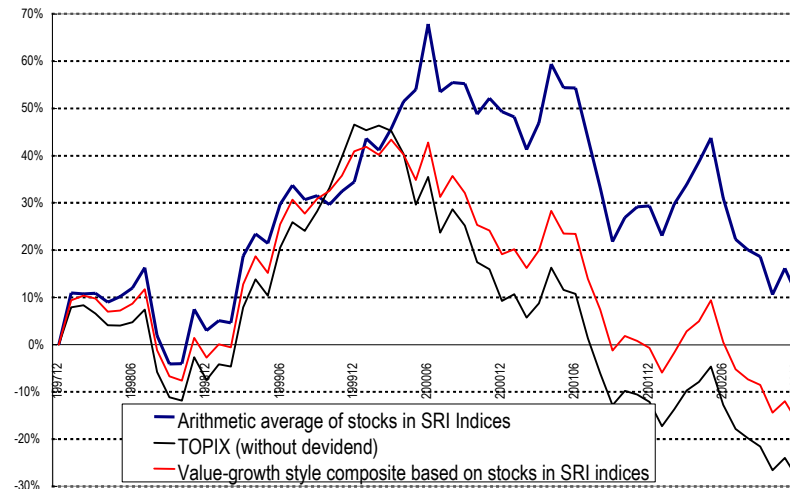


Backgrounds of the growth (6)

- Good performance

- Stocks in SRI indices(*) showed resilience in the weak market.
- (*) Dow Jones, FTSE and Ethibel

“CSR companies” return (January 1998(*) - December 2002)



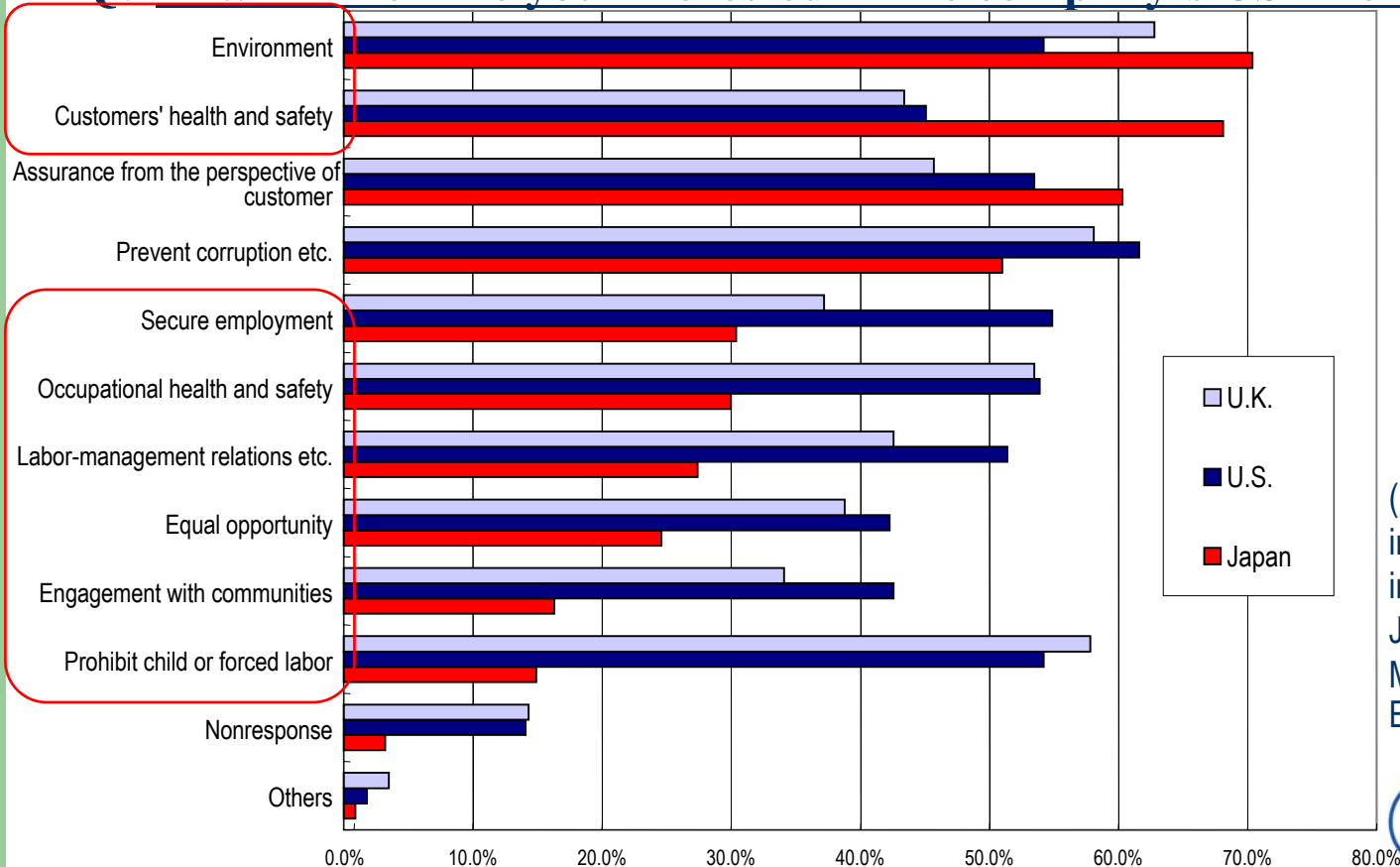
38.59%
(Annualized: 8.41%)

(Source) Sumitomo Trust Banking Corp.



What criteria does SRI adopt?

Q: In what area are you interested in the company's CSR activities?



(Source) A survey on individual investors' interest in CSR/SRI in Japan, US and UK, Ministry of the Environment, Japan



Positive screening or Native one?

- A Empirical study has proven that negative screening had negative impact on performance for all cases.

(October 1994 – June 2003)

	Return	Relative return	Standard deviation
Benchmark (TOPIX)	-5.458%	—	17.691%
(a) Exclude "tobacco"	-5.464%	-0.006%	17.717%
(b) Exclude "alcohol"	-5.482%	-0.024%	17.736%
(c) Exclude "weapon" (note2)	-5.475%	-0.017%	17.649%
(d) Exclude "nuclear power" (note3)	-5.689%	-0.231%	18.401%
(e) Exclude all ((a) through (d))	-5.743%	-0.285%	18.449%

(note 1) Back-test utilizing those portfolios that exclude relevant stocks from TOPIX as of the end of March 2003.

(note 2) Top 5 contractors based on materials by Japan Defense Agency

(note 3) All 9 electric power companies that utilize nuclear power



Conclusion; SRI as a tool for sustainability

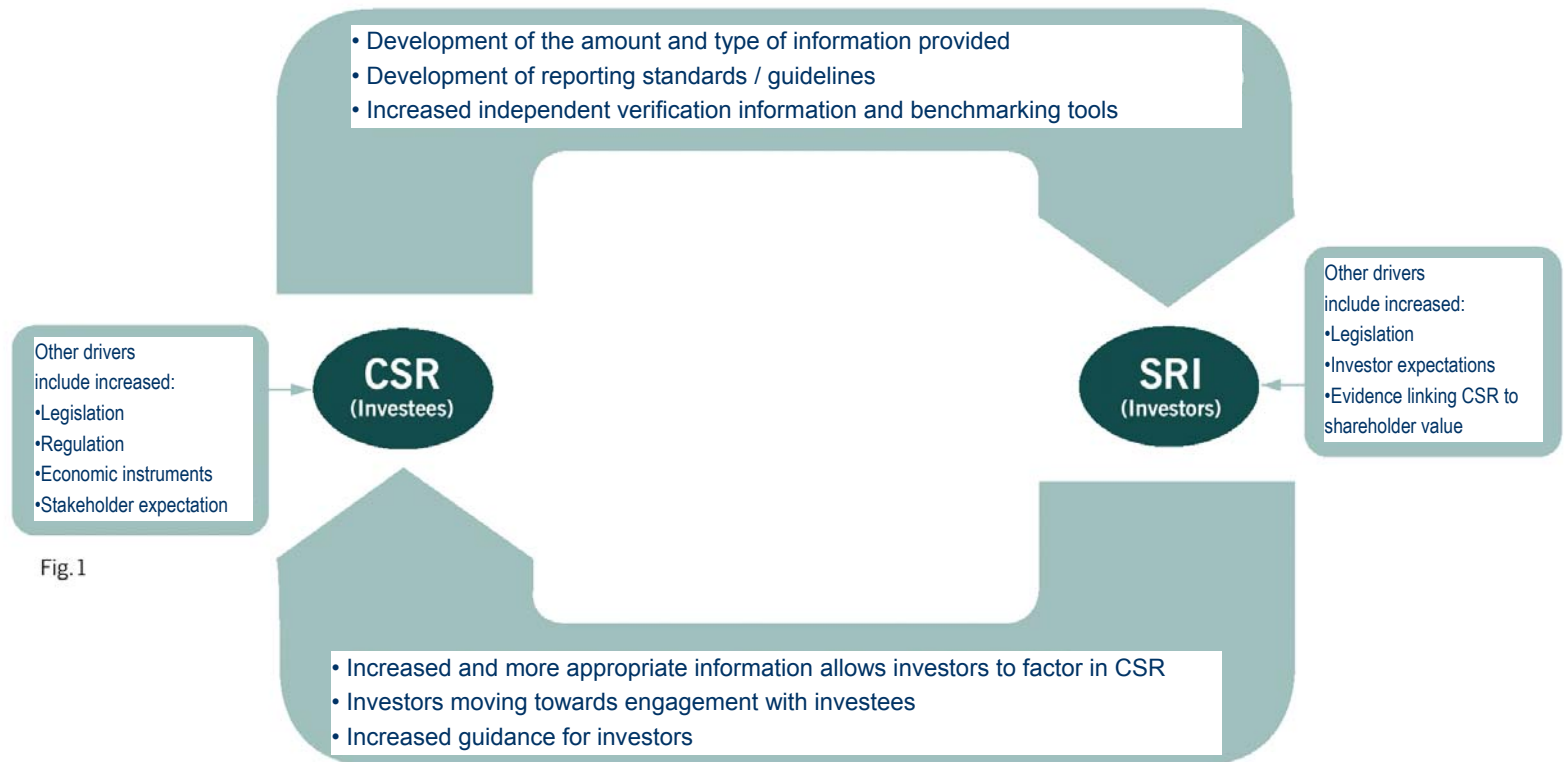


Fig. 1

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(Source) Association of British Insurers



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