



Press Release

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### **Report of an Enquete to 127 Analysts and Fund Managers**

From the Result of “The Effects of Socially Responsible Investment (SRI) on Japanese Corporations”

- **76% recognized Socially Responsible Investment (SRI)**

In order of buy-side analysts (93%), fund managers (82%), and sell-side analysts (62%)

- **37% were feeling the effect of SRI on Report Making and Stock Selection**

50% of fund managers considered themselves “affected” by SRI

SRI (Socially Responsible Investment) is attracting attention. It makes CSR (Corporate Social Responsibility) a criterion in investment making decisions. There are currently nine SRI funds in Japan, and their net-asset is approximately 82 billion yen as of Nov. 28, 2002. The figure is expected to grow in the future. In the U.S., gross-assets working balance of SRI at the end of last year amounted to about 300 trillion yen.

Between Dec. 5 and Dec. 20, 2002, Daiwa Investor Relations, a member of Daiwa Securities Group and a consulting company specialized in investor relations, conducted a survey regarding “The Effects of Socially Responsible Investment (SRI) on Japanese Corporations”. 127 responses (from 34 fund managers, 30 buy-side analysts, 50 sell-side analysts, and 13 others) were gathered from institutional investors and research wings of both Japanese and foreign-owned leading security companies operating in Japan.

This investigation outline is as follows:

- Over three quarters of respondents (76.4%) either “know” or “know well” about SRI. Buy-side analysts’ 93.4% was the highest recognition rate followed by 82.3% from fund managers and 62.0% from sell-side analysts.

- Among SRI concepts, the item of the highest interest was “governance and accountability” (statute observance and information disclosure, etc.).
- The least understood and unfamiliar was the "taking measures beyond compliance."
- As for the effect of SRI on report making and stock selection, 37.0% were feeling they were "affected". The figures were 50.0% for fund managers, 43.3% for buy-side analysts, and 24.0% for sell-side analysts respectively. Fund managers' stock trade and stock selection, and analysts' stock price rating, coverage, etc. were affected.
- The degree of SRI index cognition was still low. DJSI, the top SRI index, was recognized only by 21.3%.
- Important bases in judging SRI were "coverage and interview" (55.1%), "environmental report" (32.3%), and "enterprise report" (26.0%).
- About the future of SRI in Japan, 55.9% were expecting it to spread while 36.2% were not.

## **1. The Degree of Cognition of Socially Responsible Investment (SRI)**

1. When asked about SRI, 76.4% replied they either “know” or “know well” about it suggesting the strong interest on this issue.
2. By occupation, 93.4% of buy-side analysts either “know” or “know well” about SRI, compared to 82.3% of fund managers and 62.0% of sell-side analysts. The number reveals that more attention is paid on the operating floor.

## **2. SRI Items of Interest**

Question was asked as to which of the five major SRI concepts they were interested.

1. “Governance and accountability“ (statute observance and information disclosure, etc.) came on the top with 67.7%, followed by 52.8% for “environment” (reduction of environmental risks and pollutants measures, etc.). Third was “market” (customer handling, client correspondence, consumer satisfaction, procurement policy, etc.) with 51.2%. The rest were 30.7% for “social contribution”(community contribution, collaboration with NGO, etc.), and 20.5% for “employment” (employment relationship, human resources development, protection of human rights, etc.).
2. By occupation, 67.6% of fund managers selected “environment”, 64.7% “governance accountability”, 52.9% “social contribution”, 50.0% “market”, and 29.4% “employment”.
3. Figures for buy-side analysts were: 80.0% “governance accountability”, 63.3% “market”, 50.0% “environment”, 20.0% “employment”, and 13.3% “social

contribution”. Their overall interest is high.

4. As for sell-side analysts, the first place was “governance accountability” (62.0%), followed by “market” (46.0%), “environment” (42.0%), “social contribution” (22.0%), and “employment” (20.0%). This reflects their relatively low interest out of three groups.

### **3. SRI Concepts That Is Hard to Understood**

1. Overall first place was “taking measures beyond compliance” (33.9%). The rest were “addressing issues like employment, labor problems, and basic human rights” (29.9%), “covering global operations” (23.6%), “head office managing subsidiaries and associated companies” (20.5%), and “others” (4.7%).
2. Fund managers listed “compliance” by 35.3%, “employment” by 29.4%, “global operation” by 26.5%, and “subsidiaries” by 18.2%.
3. Both buy-side and sell-side analysts considered “employment” the hardest (33.3% and 34.0%). Following it were “compliance” and “subsidiaries” for buy-side analysts (26.7%), and “compliance” for sell-side analysts (30.0%).

### **4. The Effect of SRI on Report Making (Stock Rating) and Stock Selection**

1. With 3.9% answering “heavily affected” and 33.1% “affected”, 37.0% of recipients were feeling the effect of SRI. On the other hand, 33.9% considered they were “not affected”, and 24.4% “do not know”.
2. By occupation, 8.8% of fund managers were “heavily affected” and 41.2% were “affected”, constituting 50% in total.
3. 43.3% of buy-side analysts were “affected”, 26.7% were “not affected”, and 23.3% said they “do not know”. The influence was less evident than fund managers.
4. Sell-side analysts were least affected with 24.0% “affected”, 40.0% “not affected”, and 30.0% “do not know”.

### **5. Specific Effects Selected Out of Five by 47 “Affected” respondents (multiple response)**

1. Overall result was “stock rating” (36.2%), “stock trade” (25.5%), “universe” (19.1%), “coverage” (17.0%), and “other” (6.4%).
2. 52.9% of fund managers selected “stock trade”, and 35.3% selected “universe”. With voices like “I do not want to make investment based solely on profit” and “Companies that may be socially problematic deserve lower rating”, there appear to be material effects.

3. Buy-side and sell-side analysts chose “stock rating” (53.8% and 58.3%) and “coverage” (23.1% and 25.0% respectively). Some comments hinting effects on stock report and stock selections they cover were:

“Companies not including SRI concepts in their corporate culture have potential risk of drop in share prices.”

“Business results are affected if companies are in trouble.”

“High risk is expected for companies with insufficient disclosure.”

#### **6. Degree of Cognition of Four Major SRI Index (multiple response)**

1. Overall degree of cognition is low. DJSI was recognized by 21.3%, FTSE4Good by 11.8%, Domini by 7.9%, and Ethibel Sustainability Index, 5.5%.
2. By occupation, buy-side analysts’ 30.0% and fund managers’ 20.6% for DJSI were the only figures above 20%.

#### **7. SRI Index Being Watched (multiple response)**

1. “Do not know” dominated the responses by marking 50.0%. Following it were FTSE4Good (18.4%), DJSI (15.8%), Domini (7.9%), and Ethibel Sustainability Index (7.9%), reflecting rather sparse interest.
2. Regardless of positions held, “Do not know” lead the results. The figures were 37.5% for fund managers, 54.5% for buy-side analysts, and 33.3% for sell-side analysts. However, the second place varied from fund managers’ DJSI, FTSE4Good, and Ethibel Sustainability Index (25.0% each) to buy-side analysts’ DJSI and FTSE4Good (both 18.2%), and to sell-side analysts’ FTSE4Good (25.0%).

#### **8. Important Factors in Judging SRI (multiple response)**

1. “Interview and coverage” marked overwhelming 55.1%. Following it were “environmental report” (32.3%), “business report” (26.0%), “internet homepage” (11.8%), “indexes” (7.9%), and “sustainability report” (7.1%).
2. Although the emphasis was on interview, environmental report, a publication with growing popularity, and traditional business report were also highly regarded. The permeation of sustainability report that communicates three sides of corporate operation, the economic, social, and environmental, waits for the future.

## 9. Whether SRI be established in Japan

1. 55.9% answered “yes” while 36.2% said “no”. 7.9% did not respond. Regardless of occupation, over half of respondents replied “yes”.
2. Fund managers who answered “yes” were feeling “It will promote the risk awareness among companies not meeting social responsibility” and “In the long-term, it will permeate. But the understanding of SRI on investors’ side, especially individual investors, will take a long time.”
3. Analysts who replied “no” were critical, seeing it as “shallow trend”, a move “without concrete policy or philosophy for each fund”. Another point raised was “Because in Japan, culture based on ‘shame’ and internal norm of companies prevail over social moral code, SRI in Western sense would not take root.”
4. Majority expect overall SRI to spread but with some time.

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