The Future of SRI in Japan

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Japan has only a short history of SRI.

- By contrast with US and Europe, Japanese religious groups and private schools have not been really interested in stock investment.
- Stakeholders such as consumer groups, trade unions and other activists have had less influence comparatively.
- However, on August 20, 1999, the first Eco-fund was launched in Japan.
Why did “Eco-fund” first start as a SRI product in Japan?

- “Eco-fund” is a mutual fund which invests companies screened from environmental aspects.

- Though it was a foreign-made concept, people in Japan have been conscious about environmental issues, because of serious environmental pollution during the 1970s.

- Companies also came to understand that good environmental performance can enhance their own credibility in the competitive market.
It is easy for Japanese to understand the concept “Eco-efficiency”.

- “Eco-efficiency” means combining economical and environmental efficiency.

- The environmental efficiency pays on business in the following contexts.
  - Saving materials and energy means saving cost.
  - Environmental consciousness can avoid the future cost.
  - Green products contribute the growth of business.

- A growing number of companies now recognize that eco-efficient practices are very important as their corporate strategies.
### Current Status of “Eco-fund” in Japan

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Inception</th>
<th>Screening</th>
<th>Price Y (31 Oct 01)</th>
<th>Net asset Value (Y mil)</th>
<th>Price Y (18 Oct 02)</th>
<th>Net asset Value (Y mil)</th>
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</thead>
<tbody>
<tr>
<td>Nikko</td>
<td>Nikko Ecofund</td>
<td>Domestic equity</td>
<td>20 Aug 99</td>
<td>Environment</td>
<td>6,731</td>
<td>68,796</td>
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<td>Sompo Japan</td>
<td>Domestic equity</td>
<td>30 Sep 99</td>
<td>Environment</td>
<td>7,158</td>
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<td>6,555</td>
<td>7,959</td>
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<tr>
<td>DIAM</td>
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<td>29 Oct 99</td>
<td>Environment</td>
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<td>8,971</td>
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<td>Environment</td>
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<td>UFJ</td>
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<td>Environment</td>
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<td>4,141</td>
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<td>Asahi Life</td>
<td>Domestic equity</td>
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<td>Environment, employment, consumer, social contribution</td>
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<td>8,038</td>
<td>6,798</td>
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<tr>
<td>Mitsui Sumitomo</td>
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<td>31 Oct 00</td>
<td>Environment (global warming)</td>
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<td>1,218</td>
<td>8,334</td>
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<td>Nikko Globe A</td>
<td>Global equity</td>
<td>17 Nov 00</td>
<td>Economy, social, environment</td>
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<td>4,149</td>
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<td>2,295</td>
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<tr>
<td>Daiwa SB Investments</td>
<td>Mrs Green A</td>
<td>Global equity</td>
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<td>Environment</td>
<td>8,582</td>
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<td>6,987</td>
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<tr>
<td>Daiwa SB Investments</td>
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<td>Environment</td>
<td>8,834</td>
<td>14,096</td>
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<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>133,545</strong></td>
<td><strong>86,782</strong></td>
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</tbody>
</table>
Four types of “Eco-fund”

- Only environmental criteria, investing domestically
- Environmental and other social criteria, investing domestically
- Only environmental criteria, investing globally
- Environmental and other social criteria, investing globally
SRI in Japan to the second stage.

- Full-fledged SRI products will be launched soon.
  - Expanding criteria into whole field of corporate social responsibility including employment, human right, relationship with stakeholders and so on.
- Integrex inc. (an independent advisor group) has already started a comprehensive survey on the compliance of Japanese companies.
  - Providing the result to Japanese asset management firms.
Positive impact to business leaders

- There actually exists some misunderstanding that SRI is an antibusiness activism within economic circle.
- However, business leaders cannot ignore these movement any longer because US and European investors have a great influence on Japanese stock market.
- Japan Federation of Economic Organizations and Japan Association of Corporate Executives have already started their own study group responding to CSR and SRI matters.
Positive impact to investors

- Several pension funds and institutional investors are getting more interested in SRI.
  - Jupiter Asset Management in conjunction with Commerz International Capital Management (Japan) has launched a new SRI investment fund. Called the Jupiter World SRI Fund it is targeted at Japanese institutional investors and has already raised 3 billion Yen ($25.6m).
The future of SRI in Japan

- SRI in Japan will expand into the following categories soon;
  - Shareholder Engagement
    - Investors can use their status as shareholders to improve a company’s behavior.
  - Project Investment
    - Supporting a particular sustainable project or activity by financing it by investment or loans.

Focusing on the attractive projects
Some evidences related to this movement

- Community investment fund could establish a wind-power plant in Hokkaido.
- Some Japanese companies have already started to invest in the afforestation projects.
- The World Bank's Prototype Carbon Fund is supported by several Japanese companies.
What are the attractive projects?

- Water
- Energy
- Health
- Agriculture
- Biodiversity

Forests as environmental assets
SRI in Japan is still in the gray of the daybreak and not headed for the investment in forests. However I believe the sustainable and responsible money in Japan will flow into this kind of investment in near future.

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