

1.2. Presentation 2:

“Eco Funds and Assessment of Sustainable Management”

Takashi Seo

General Manager, Department of Global Environment,
The Yasuda Fire & Marine Insurance Corporation Ltd., Japan

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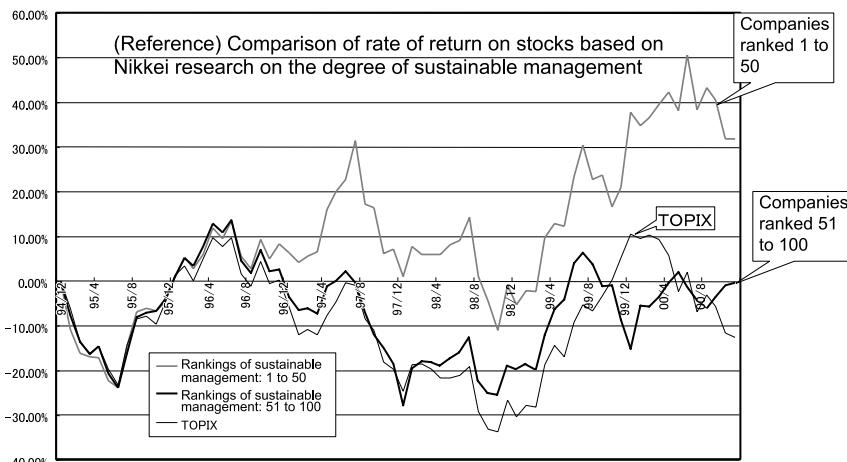
My name is Takashi Seo from The Yasuda Fire & Marine Insurance Co., Ltd.
Your cooperation is greatly appreciated.

I would like to talk about the actual situation and problems in assessment of sustainable management from the standpoint of a businessman that develops and sells eco funds.

1. Companies that practice sustainable management have high growth.

We put eco-fund under the nickname of “Buna no Mori” on the market in September 1999. In developing the eco fund, we set up a hypothesis that companies practicing sustainable management will grow in value for medium and long term. **Slide 1** gave support to this hypothesis.

Companies that practice sustainable management have high growth.



In a comparison of rate of return on stocks based on a survey (printed in the Nikkei Sangyo Shinbun) of the degree of sustainable management of 657 companies, those companies that aggressively pursued environmental policies in their business (companies with advanced sustainable management) ranked comparatively high.

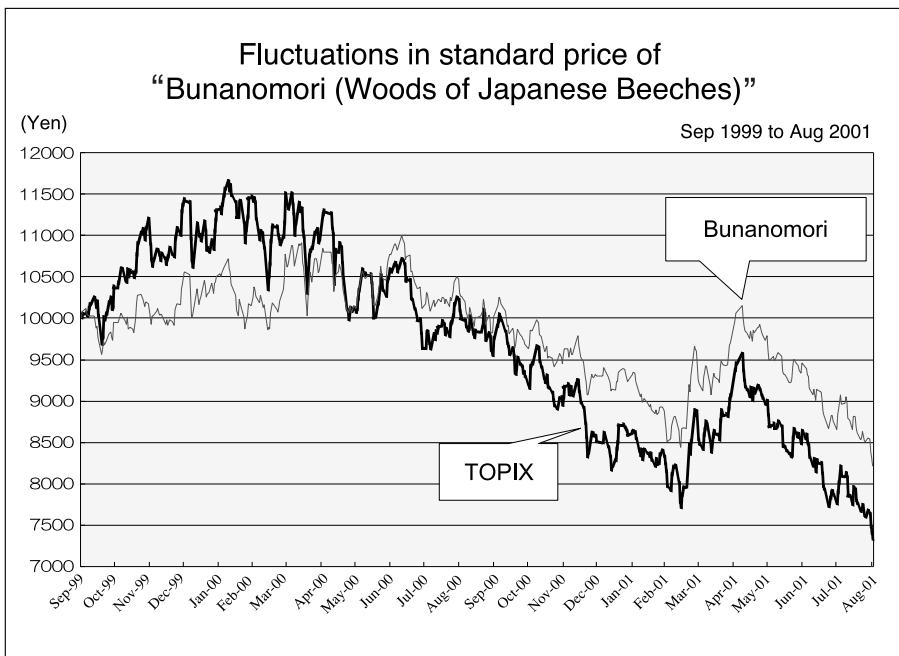
Note 1: Figures for the totals of equivalent amounts invested are indexed with December 1994 being equal to 100.

Note 2: Graph made by Yasuda Kasai Global Asset Management based on data from the Nihon Keizai Shinbun's Second Sustainable Management Survey. (Survey appeared on December 16, 1998).

(Slide 1)

First, based on the data from Nihon Keizai Shimbun's annual sustainable management survey in 1998, top 400 companies are ranked 1 to 50 and 51 to 100, and the stock prices of these two groups are compared for certain period, using TOPIX (Tokyo Stock Exchange Stock Price Index) in December 1994 as reference value. As shown in the graph, companies ranked 1 to 50 have the highest growth, followed by companies 51 to 100, TOPIX, and then 101 and below. Only from the above-mentioned result, we cannot conclude that companies which practice sustainable management have higher stock price than companies which don't so, but the result provided a powerful support to us.

Slide 2 shows the performance our eco-fund "Buna no Mori" from the release to now. For a certain time after start of selling, the eco-fund continued to show lower performance than TOPIX, but recently it has achieved a performance exceeding TOPIX.



As you know, due to the present stagnation of Japanese stock market, I'm sorry to say that gain or appraisal gain for the investors has not generated so far even if the fund outperform TOPIX. According to the current data,

however, this fund as a whole outperformed the benchmark TOPIX. Without monitoring in the medium and long term, we cannot arrive at a conclusion that companies which practice sustainable management have high growth. The current state is as above-mentioned.

In Japan, 11 kinds of so-called eco-funds, or funds referred to as SRI (socially responsible investment) funds are sold at the present, and new funds have gone on the market since 1999 and market of eco-fund is gradually expanding.

In **Slide 3**, the fund “Asu no Hane” developed by Asahi Life Asset Management Co., Ltd and Globe (A) and (B) developed by Nikko Asset Management Co., Ltd are not eco-funds so as to assess sustainable management from only environmental aspect. These funds can be identified as more socially responsible investment by focusing on triple bottom line to some degree, as explained by Mr. Bennett. Other funds are developed to simply assess sustainable management from environmental aspect.

SRI Funds sold in Japan		
Fund name	Date of issue	Total net assets as of end of August 2001 (Units: 100 million yen)
1. Nikko Eco Fund (Nikko Asset Management)	Aug. 99	729.1
2. Bunanomori (Yasuda Kasai Global)	Sep. 99	86.4
3. Eco Fund (DLIBJ Asset Management)	Oct. 99	94.8
4. Eco Hakase (Eco Professor) (UBS Asset Management)	Oct. 99	56.4
5. Midori no Tsubasa (Green Wings) (Partners Asset Management)	Jan. 00	44.8
6. Asu no Hane (Wings of Tomorrow) (Asahi Life Asset Management)	Sep. 00	82.6
7. Umi to Sora (Sea and Sky) (Mitsui Marine Asset Management)	Oct. 00	12.4
8. Globe (A) (Nikko Asset Management)	Nov. 00	46.6
9. Globe (B) (Nikko Asset Management)	Nov. 00	26.0
10. Mrs. Green (A) (Daiwa SB Investments)	Jun. 01	88.0
11. Mrs. Green (B) (Daiwa SB Investments)	Jun. 01	150.0

Total value of net assets: 141.7 billion yen

(Slide 3)

As a unique feature of Japanese eco-funds, total value of net assets reached to 140 billion yen in such a short period of 2 years. This noteworthy phenomenon cannot be found in other countries. In other words, eco-funds had a good sale, so I'd like to describe the significance of eco-funds from different three points of view.

2. Significance of eco-funds

Significance to investors comes first. It means there are great many so-called green investors who are concerned about a company's environmental protection activities, and actually this eco-fund had a past record of sales exceeding 200 billion yen during initial phase. Now, total assets have stabilized at the current value. Of

course, declining stock prices led to the reduction in total assets, but it's a fact that cancellation occurred in succession. At the beginning of sales, general investors sought higher yield and bought eco-funds. After a while, such general investors were screened out to some extent, so remaining investors are probably almost green investors.

Significance to company comes second. As Mr. Yamamoto stated earlier, I think that a company's stock price is increased through sales of stocks, and therefore eco-funds are regarded as means for supporting environmentally friendly companies. We are salesmen of eco-funds as well as staff of a company's environmental division, so we can understand the feelings of persons in charge of environment very well.

Third comes significance to financial institutions. It is conventionally said that financial institutions are far behind in dealing with environment. Today's panelist, Mr. Saburo Kato always gives to our company or financial institutions harsh words. Under such circumstances, we have created these products and contributed to environmental matters through our business. It's so significant.

Significance of eco funds

◆Significance to investors

→ Eco funds are welcomed by private investors who are concerned about a company's environmental protection activities (green investors).

◆Significance to company

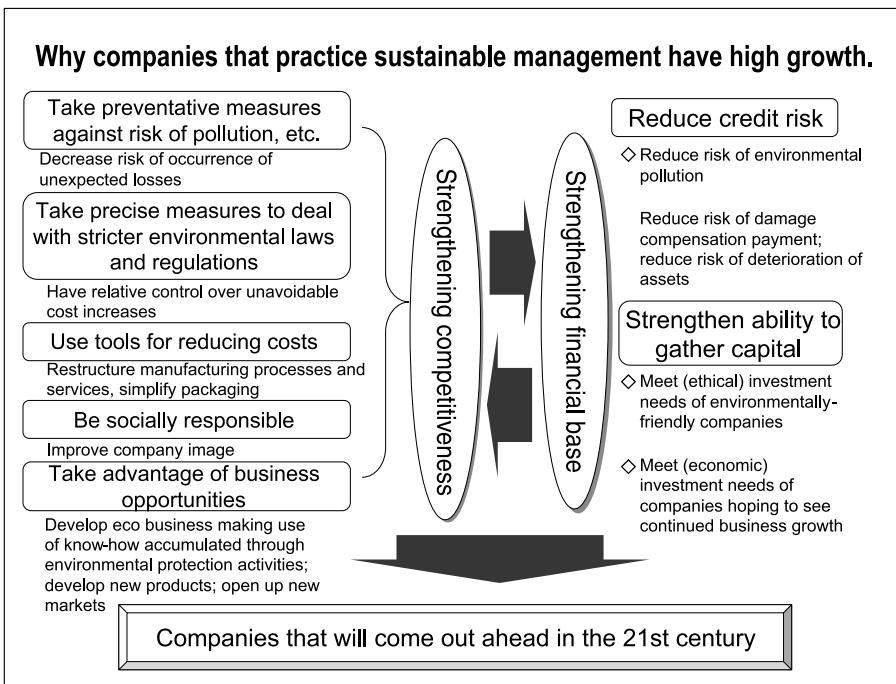
→ Eco funds support environmentally-friendly companies by providing capital through sales of stocks.
• Stock price increases.
• Funds provide capital for a company's environmental division.

◆Significance to financial institutions

→ Eco funds contribute to environmental improvement through the products and services of financial institutions.

3. Why do companies that practice sustainable management have high growth?

Why do companies that practice sustainable management have high growth? (**Slide 4**). As Mr. Yamamoto also pointed out, it is because a company's competitiveness is strengthened in various ways by addressing environment. Specifically, environmental pollution, in particular soil pollution has now come under close scrutiny and it is significant to take preventative measures against risk of pollution. Moreover environmental laws and regulations have been gradually improved with stricter provisions and it is also important to take precise measures to deal with stricter laws and regulations. Furthermore, environmental measures serve as tools for reducing costs. To be socially responsible for environment conservation can improve corporate image, thereby building up clientele, and new market will be opened up through the development of new products such as low pollution car, energy-saving white goods and so on. All of these things lead to strengthening corporate competitiveness, resulting in strengthening financial basis of company, for



(Slide 4)

example, reducing credit risk and strengthening ability to gather capital. This in turn enhances company competitiveness again. That's virtuous circle. In conclusion, ideally speaking, companies will come out ahead in the 21st century by practicing sustainable management.

4. How to measure the degree of sustainable management

Then, how do we measure the degree of sustainable management? All companies that sell eco-funds do not adopt the same method. We assess sustainable management from three viewpoints as below. (**Slide 5**)

How to measure the degree of sustainable management - Main items of environmental assessment standards -	
○ Level of environmental management	Assess whether there is a system in place that allows the entire company to move ahead with environmental protection activities in its business. <Assessment points> Establishment of environmental policy, how well company managers work on environmental issues, creation and operation of sustainable management system, ISO 14001 certification, etc.
○ Disclosure of company environmental information and communication with general public	How much environmentally-related information regarding business activities does a company make public? As well, does a company try to inform stakeholders about in-house environmental information? <Assessment points> Whether company publishes environmental reports, contents of environmental information released, communication with the public, whether company carries out activities that contribute to improved environment for society.
○ Reducing environmental load and improving environmental efficiency	Whether a company is reducing the load that its business activities place on the environment, and what it is doing to reduce such environmental load in future. <Assessment points> Environmental friendliness of company's manufacturing divisions, environmental friendliness of products, efforts to make products that use less energy and require fewer resources to make, management of chemicals, environmentally-related research and development, efforts to reduce waste.

(Slide 5)

(1) Three assessment points

The first point is level of environmental management in a company. It includes establishment of environmental policy, how well top management works on environmental issues, whether a company obtains ISO 14001 certification or not, etc.

The second point is disclosure of company environmental information or communication with general public. It includes whether a company publishes environmental reports, adopts environmental accounting, or seeks to communicate with society.

The third point is reducing environmental load, improving environmental efficiency, that is, what a company is doing to reduce environmental loads which occur with business activities. The assessment point includes environmental friendliness in the manufacturing process, usage process of products and how to dispose wastes.

We measure the degree of sustainable management from these three assessment points in proportions of 30%, 30%, and 40% in this order. But, as companies have progressed in environmental measures year by year, each company has its own standards for environment and company's management shows an understanding very well, so with respect to the level of environmental management, all companies get good marks and have little difference. I think assessment standards are developed and reinforced as the progression of corporate environmental measures, so it is a big problem how the standards will be further developed. I will explain this matter later.

(2) Assessment process

Next, I'd like to explain about assessment process. Firstly, we examine company's released environmental information such as environmental reports, media reports, etc.

Secondly, we send questionnaire to companies and assess the answers. I'm afraid that a lot of similar questionnaires sent from various eco-fund sales agencies invite frowns of disgust, but many companies cooperate with us even in busy schedule.

Thirdly, we visit companies and ask about details. Without this process, it seems difficult to grab accurate facts.

5. What remains to be done.

(1) Problems with release of a company's environmental information

One of the current problems with release of a company's environmental information is that uniformity in data does not exist. When examining a company's environmental reports from year to year, we can keep track of the historical transition of the company's environmental activities. When examining the reports of companies A, B, and C, respectively, however, it is very difficult accurately and fairly to make comparisons across companies, for example, company A is superior to company B or company B is better than company C. Furthermore, There is a possibility that released information does not include all of data. The released information is limited to a certain extent and only covers a portion of a company's activities.

(Slide 6)

Problems with disclosure of a company's environmental information

Current state → Each company voluntarily discloses information based on its own judgments.
<Problems>

- ◆ With no standardization of figures for environmental load, etc., makes accurate and fair comparisons across companies difficult.
- ◆ Released information may not include all main data of a company's environmental load.
- ◆ Released information may cover only a portion of a company's activities.



Improvement of comparability is expected.

(Slide 6)

(2) State of environmental assessment and problems

Thus, as a matter of fact, our assessments are mainly qualitative ones that give added weight to level of environmental management or publicly released information. For the future, we must address the third point of how to assess company's performance. The main problems are as follows. Which item of various environmental loads is significant for the company? Are reductions in environmental load and improvement in environmental efficiency assessed by using absolute values or basic unit, or their combination? How does the integrated assessment of reduction in environmental load and improvement in

environmental efficiency carried out in the whole process including manufacturing, delivery and usage?

Of course, as weighting varies depending on type of industry, it becomes necessary to make assessments according to the type of industry without applying a uniform judgment standard.

Current state of environmental assessment and what must be done

<Current state>

- Qualitative assessments based on publicly released information are dominant.
- Until now the emphasis has been on creating systems and releasing information.

<What to do>

- ◆ How to assess reduction of environmental load and improvement of environmental efficiency
 - (1) Priority list of environmental loads and their seriousness
 - (2) Assessment of reduction of environmental load and improvement of environmental efficiency
(Assessment using absolute values / assessment using base unit of net sales)
 - (3) How to carry out integrated assessment of reduction of environmental load and improvement of environmental efficiency in manufacturing processes and distribution; and reduction of environmental load and improvement of environmental efficiency of manufactured products.

(Slide 7)

As to hearing, we wish to avoid one-way argument and continue dialogue with companies in order to establish the standards for more sophisticated environmental assessment that corresponds to each company or its characteristics. (**Slide 7**)

Thank you for your kind attention.