

“What is ECO Fund?”

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Sustainable and Responsible Investment (SRI), also known as Socially Responsible Investment, is investment which allows an investor to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations. It is investment based on environmental and social/ethical objectives, as well as financial returns—what we call *the triple bottom line*.

There are four reasons why SRI is growing:

First is SRI's fundamental rationale. Current rates of consumption and production do not appear sustainable. If everyone in the world had the same standard of living as people in the OECD, under current patterns of production and consumption, we would require three planets. Shifting to new patterns is the challenge and the opportunity. Japanese industry and finance can help make the shift.

Second is the performance of SRI funds. If you compare the S&P 500 to the Domini Social Index, the DSI has outperformed the S&P 500 over the last 10 years.

Third is legislation being passed in support of SRI. The US Department of Labor now supports SRI strategies. The British government passed the 1995 Pensions Act, which, in Section 35, requires all UK private pension funds to consider SRI and voting rights as part of their overall investment policy. The EC is considering provisions too. A driver for this type of legislation is that fiduciary responsibilities of pension trustees have been clarified to allow SRI within acceptable policies. And pension funds are seen as the ultimate investment vehicle, so they should reflect long-term thinking. Accordingly, we have seen enormous growth; SRI funds have grown by 87% in the US since 1997 to \$2.16 trillion.

Finally, there has been a push from the West and a pull from Asia for SRI. Pension funds are delegating the implementation of any SRI policy to their fund managers. SRI is now a determinant in winning contracts. In Asia, there is pressure on businesses to adopt higher corporate governance standards, especially post 1997. SRI is seen as good

governance.

Mizue Tsukushi

CEO

The Good Bankers Co., Ltd.

The Good Bankers is an independent social advisory company in Japan. The Nikko Group created Japan's first socially responsible investing product, "the Nikko Eco-Fund," in 1999. Our company provides the Nikko Group with the environmental screening results for Japanese corporations.

The popularity of these funds has created a sensation in Japanese financial services. Over 90% of investors are individuals, including women and younger generations who have not traditionally been major players in the stock market. These are new investors.

Are eco funds just a fashion? No, SRI is appropriate for Japanese investors and for Japan because it helps improve society. It fits the Japanese culture. "Green consumerism" has become a widespread trend in Japan. A 1998 Keidanren study found that 90% of women surveyed in Japan would be willing to lower their standard of living to protect the environment. The number of corporations that have achieved ISO 14001 accreditation has jumped from 44 in March 1996 to over 3,500 in 2000—the highest in the world.

I see Japan becoming the leading country in this field and, therefore, a leader in global society. Japan has great potential.

Question & Answer

Q: Isn't there a trade off between environmental protection and cost?

There is a lot to be learned from accounting standards and practices. Standards should become harmonized, whereby an environmental matrix is included. UNEP is working on software accounting models that can report companies' CO2 emissions for example.

Q: What are your criteria for investment? Is there a risk that eco funds are just a fashion?

In the early 1990s, several funds, which no longer exist, were launched claiming to be environmental and invested in waste management because they thought it would be non-cyclical. However the funds which have lasted and performed well take a long-term and systematic view of markets which is in line with global trends. Through research we come up with ratings which we give to fund managers. Look at innovestgroup.com

Q: If accounting practices change, therefore changing profits, will the motivation for responsible investing change too?

If we could get an accounting system that takes into account the externalities from pollution and that people trust, it would revolutionize financial analysis. Our purpose is to let people know that they can change policy and society through the market. Maybe ministries should issue their own bonds in Japan so that people could buy, say, METI bonds.

Q: What is the most promising green technology and market? Is Japan a capital or technology importer?

Japan has great potential. Japan should be an exporter of technology and leads in three important industries: mass transit, solar electric and microelectronics. Solar electric has a lot going for it because it is easy to install and not intrusive. Solar is likely to grow. Merrill Lynch launched a renewable energy fund.

Q: What is your view on nuclear power?

Most SRI funds do not invest in nuclear. Nuclear power, in my opinion, is out of date thinking, reflecting the centralized planning of the 1950's.

Q: Is it more profitable to include NGOs and international organizations to invest in developing countries or to focus on big cities in developing countries for new green businesses?

It is not "either or." Solar PV has just entered a new product development stage and it is ready to make great leaps; for example, there is talk of a solar jacket that you can plug your portable devices into. Solar electric (PV) paneling is already price competitive as an office cladding; use of PV can only grow

Q: Where do you draw the line between advocacy and stock tips?

The fund manager decides based on investment disciplines and what their customers want. They use ethical issues as points of differentiation.

Q: Which does your company prefer, a company that has a highly aggressive environmental strategy but low environmental performance or vice versa?

It is not that clear cut. Different funds take different views.

Q: What are the prospects of environmental venture firms?

There are not as many as there should be. Eco venture finance is possible.

-The RIETI editorial department is responsible for this article.