



*Sustainable Investment Strategies
for Pension Funds*

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Typical SRI Initiatives by Institutional Investors

- **Negative Screening**
 - ◆ Eliminates certain segments
 - ◆ Emphasis on ethical elements
- **Positive Screening**
 - ◆ “Best in class” approach
- **Engagement**
 - ◆ Dialogue with companies
 - ◆ Open questionnaire
- **Proxy Voting**
- **Community Investing**
 - ◆ Promote industries/projects of specific regions

Typical SRI Initiatives by Institutional Investors

	U.S.				U.K.				Japan			
	Public Pensions	Private Pensions	Inv. Trusts	Ins.	Public Pensions	Private Pensions	Inv. Trusts	Ins.	Public Pensions	Private Pensions	Inv. Trusts	Ins.
Negative Screening	●	●	●		●	●	●					
Positive Screening	●	●	●		●	●	●	●	△	△	●	△
Engagement	●	●	●		●	●	●	●				
Proxy Voting	●	●	●				●		△	△	△	△
Community Investing	●	●	●								△	

Inv. Trust - Investment Trusts

Ins. - Insurance Companies

● - Initiatives perceived to be conducted on a sizable scale

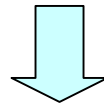
(Source: Ministry of Environment in Japan)
Nikko Asset Management



Fiduciary Responsibility and SRI

➤ **SRI and Investment Returns**

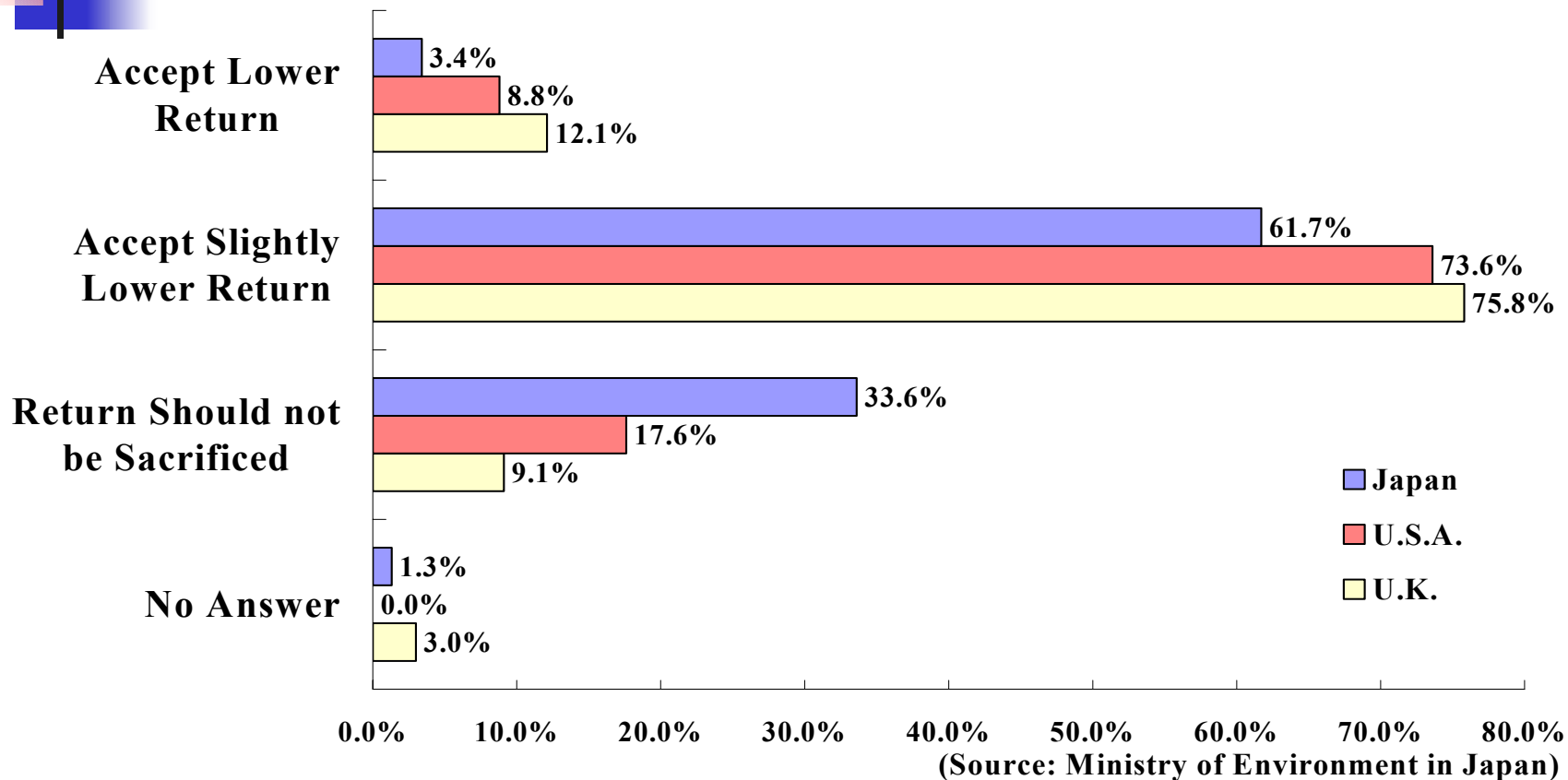
- ◆ **CSR is a risk/opportunity factor which affects corporate business performance.**
- ◆ **Negative Screening ⇒ Positive Screening**
- ◆ **Ethical Criteria ⇒ Broader CSR/Sustainability**



SRI is not unrelated to investment returns.

It is expected to enhance financial returns or, at least, not to sacrifice them with additional non-financial benefits.

SRI and Investment Returns



*** UK investors tend to be more tolerant about investment returns of SRI funds than those in the other two countries.**



SRI and Pension Fund Management

- **SRI mutual funds are qualified 401K products.
(U.S. – ERISA, 1998)**
- **Plan sponsors are required to disclose their SRI
policy in their investment policy statement.
(U.K., July 2000)**
- **“Just Pension Project” (U.K.)**



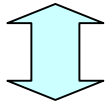
Further Challenges of SRI Research

- **Research Coverage**
 - ◆ **More small/mid cap. companies**
- **Research on a Global Perspective**
- **Reference Index/Benchmark**
 - ◆ **Transparency & Accountability**
- **Absolute or Relative Criteria**
- **Insufficient Disclosure/Public Information**
- **Feed back of Assessment to Companies**
- **Combined Approach of “Screening” & Engagement**



Role of SRI Regulatory Framework

U.S. – Very few government regulations



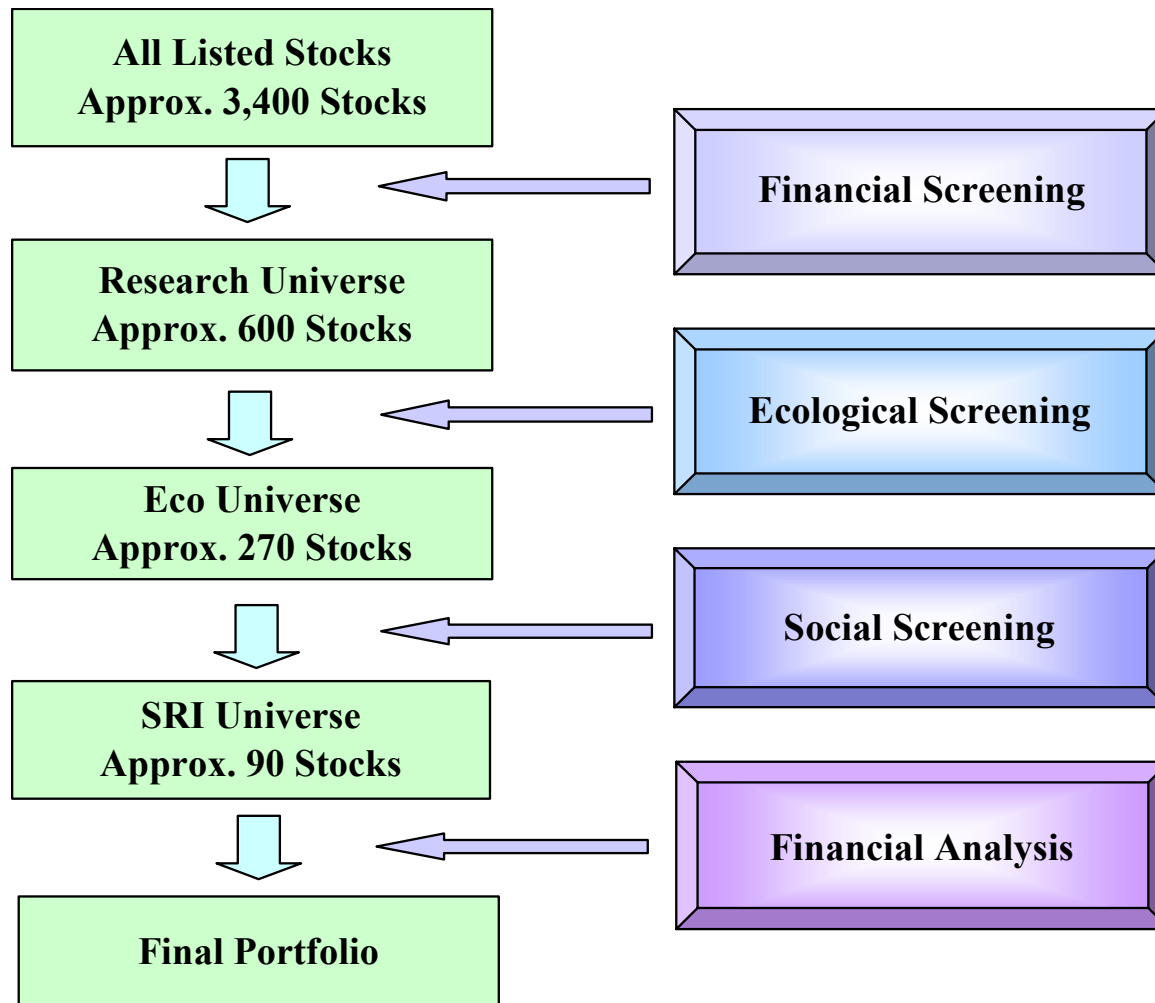
U.K. – Public initiatives and regulatory framework

Significance of Regulatory Framework

- ◆ **Framework to promote disclosure further**
- ◆ **Framework to promote corporate initiatives**
- ◆ **Possible tax incentives**

Screening Process

- Example of SRI Pension Fund in Japan -





Topical Events on Proxy Voting

- **Establishment of Proxy Voting Guidelines by Plan Sponsors**
 - Ex.) **Pension Fund Association**
 - Government Pension Investment Fund**
 - Public Employees Pension Fund**
- **Establishment of Self-Regulatory Rules by Industry Association**
- **Review of Proxy Voting Guidelines and Committees by Asset Management Companies**
- **Has Become One of the Manager Selection Criteria by Plan Sponsors**



Challenges & Perspectives on Proxy Voting

- **Streamlining of Regulatory Framework**
- **Increasing Cost of Exercise**
 - ◆ **Problem of “Free-Rider”**
- **Time Constraint**
 - ◆ **Concentration of Shareholders Meetings**
 - ◆ **Insufficient Disclosure by Companies**
- ➡ **Electronic Processing**
- ➡ **Establishment of Screening Guidelines**
- **Exercise on Foreign Companies**
 - ➡ **Use of Third-Party Advisory Information**
 - ➡ **Information Sharing by Global Institution**