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UNEP Finance Initiatives

Emerging Markets, Sustainable Development, and Investment Strategy

Status of Japanese Investors

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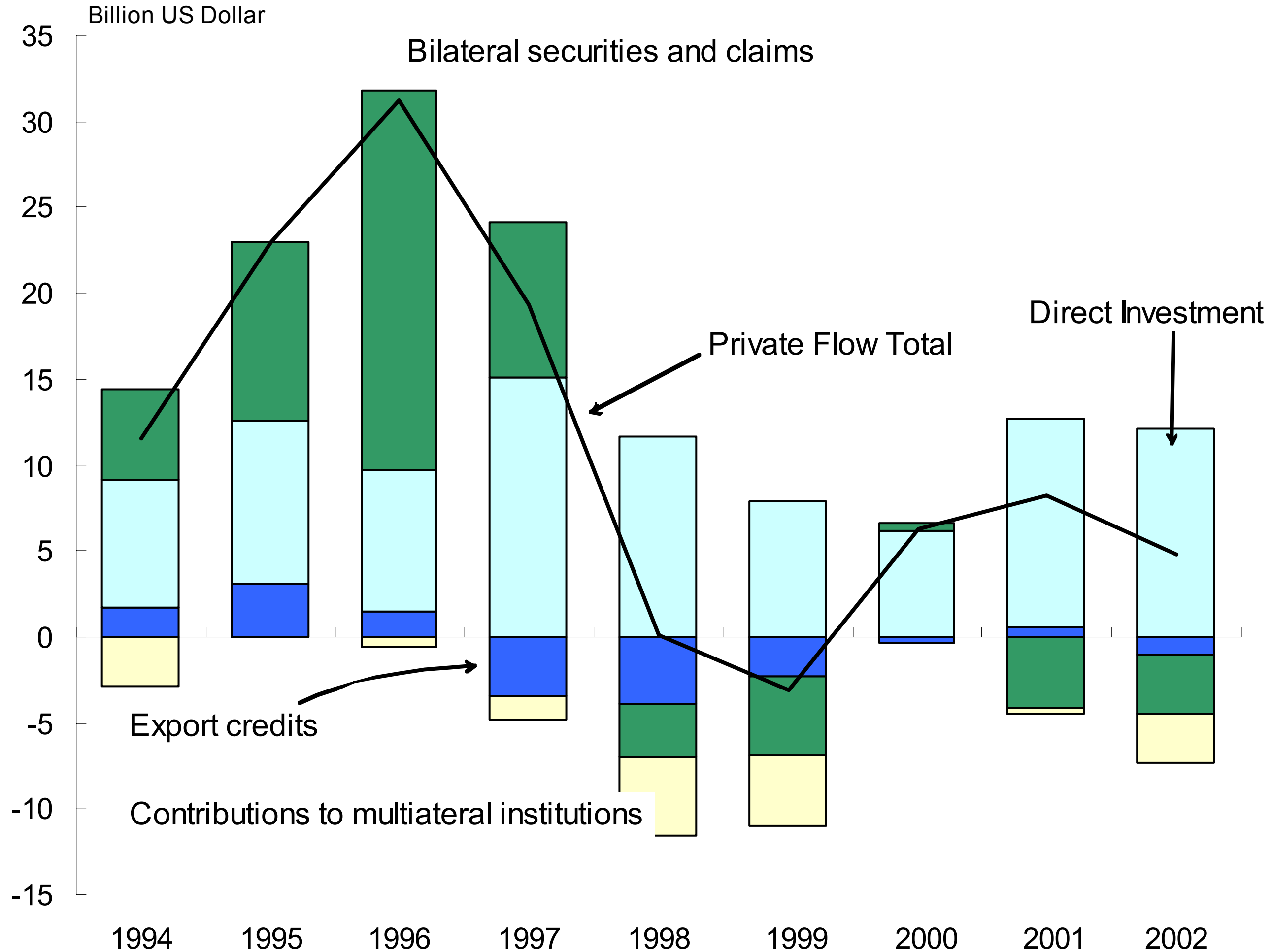
Financial flows from Japan to developing countries：
Fairly constant direct investment and divesting trend of short-term capital



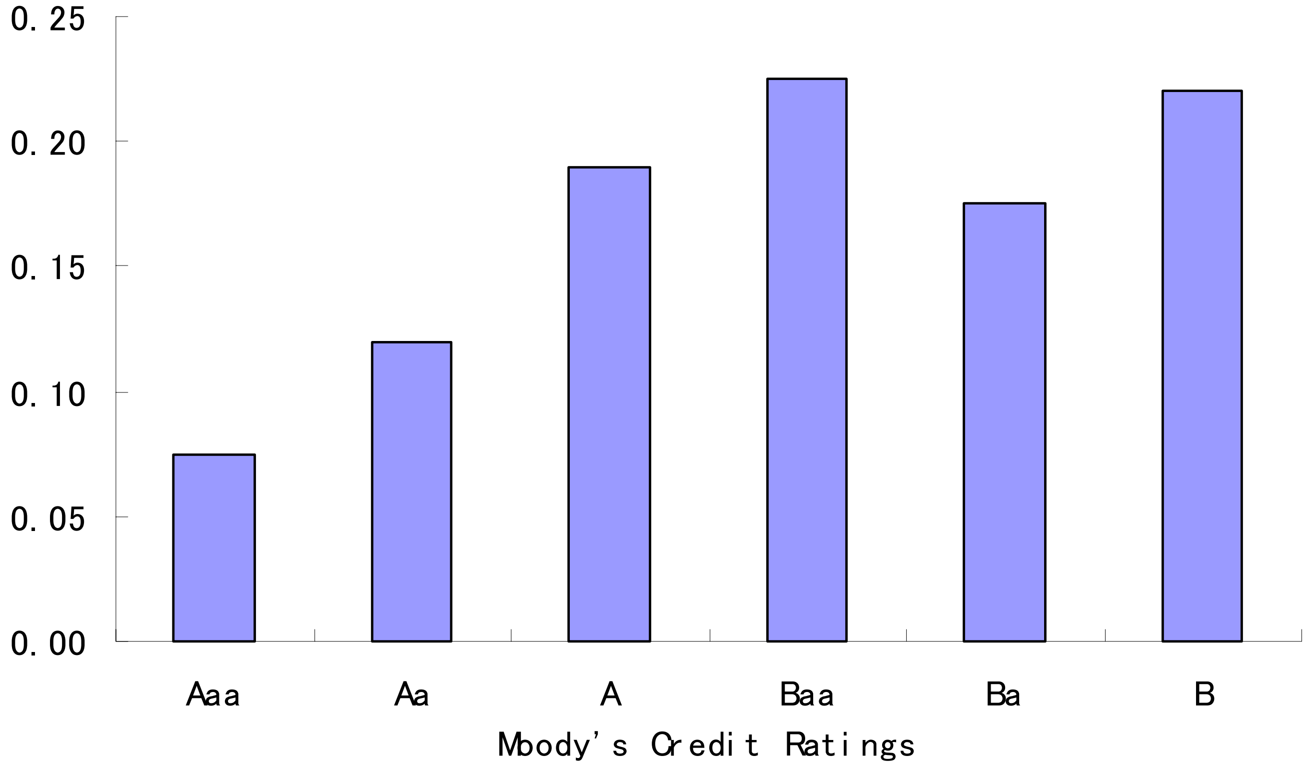
Note: Including flows to eastern European countries, more advanced developing countries and EBRD

Source: Ministry of Finance Japan

Investors prefer to operate directly instead of relying on local markets

FDI's share in total inflows is higher in countries with weaker credit ratings

(Shares of FDIin total inflows)



Source: Albuquerque (2000)

"Asian equity boom" was over

Market value of east Asian equities managed by Japanese investment trusts

(USD Mil.)

	Hong Kong	Singapore	Malaysia	Thailand	Korea	Taiwan	Others	Total
1995	3,777	1,180	1,446	1,149	8	0	438	7,997
1996	1,954	500	942	691	12	0	397	4,496
1997	940	166	97	135	5	0	64	1,408
1998	675	191	76	183	61	47	46	1,278
1999	945	284	54	323	291	241	69	2,207
2000	827	223	28	107	132	180	25	1,522
2001	1,097	109	30	88	168	193	11	1,697
2002	1,350	82	27	93	167	131	12	1,862

Source: Calculated from *Toshin Geppo*, Nihon Toshi Shintaku Kyokai

Why has outward portfolio investment been inactivated?

Benchmarking for Foreign Equity:

MSCI KOKUSAI as "de facto" standard

ASIA ex Japan	1.2
HONG KONG	0.8
SINGAPORE	0.4
NORTH AMERICA	65.8
EUROPE	30.8
AUSTRALIA	2.2
NEW ZEALAND	0.1
MSCI KOKUSAI(World ex Japan)	100.0

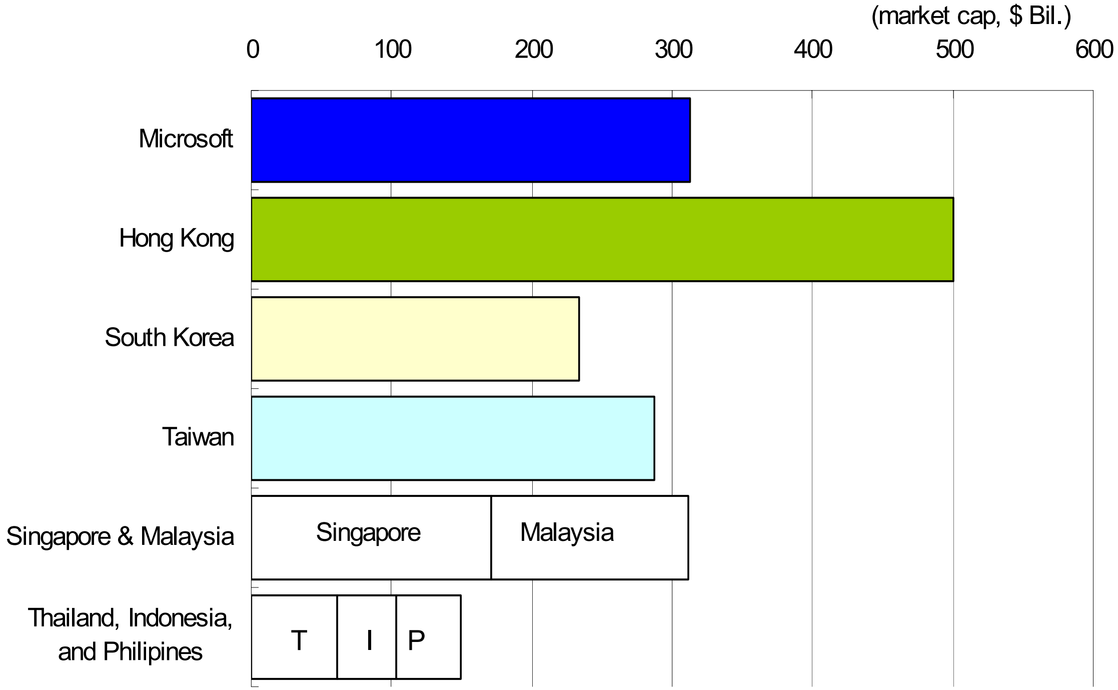
Note : As of August 2003

Source: MSCI

- **End of boom in Asian stock trading: Shift from "Overweight" to "Neutral"**
- **Hong Kong and Singapore as "emerging markets": Nothing else**
- **Move toward passively managed funds: Investment weight bound by the benchmark**
- **Active funds also follow the benchmark: Tracking errors around 2 percent**

Higher operational costs, similar performance

Does size matter?: Microsoft vs. Asian Markets



Note: End of 2002

Source: Devised by FRC, Nomura Securities, based on Bloomberg Data

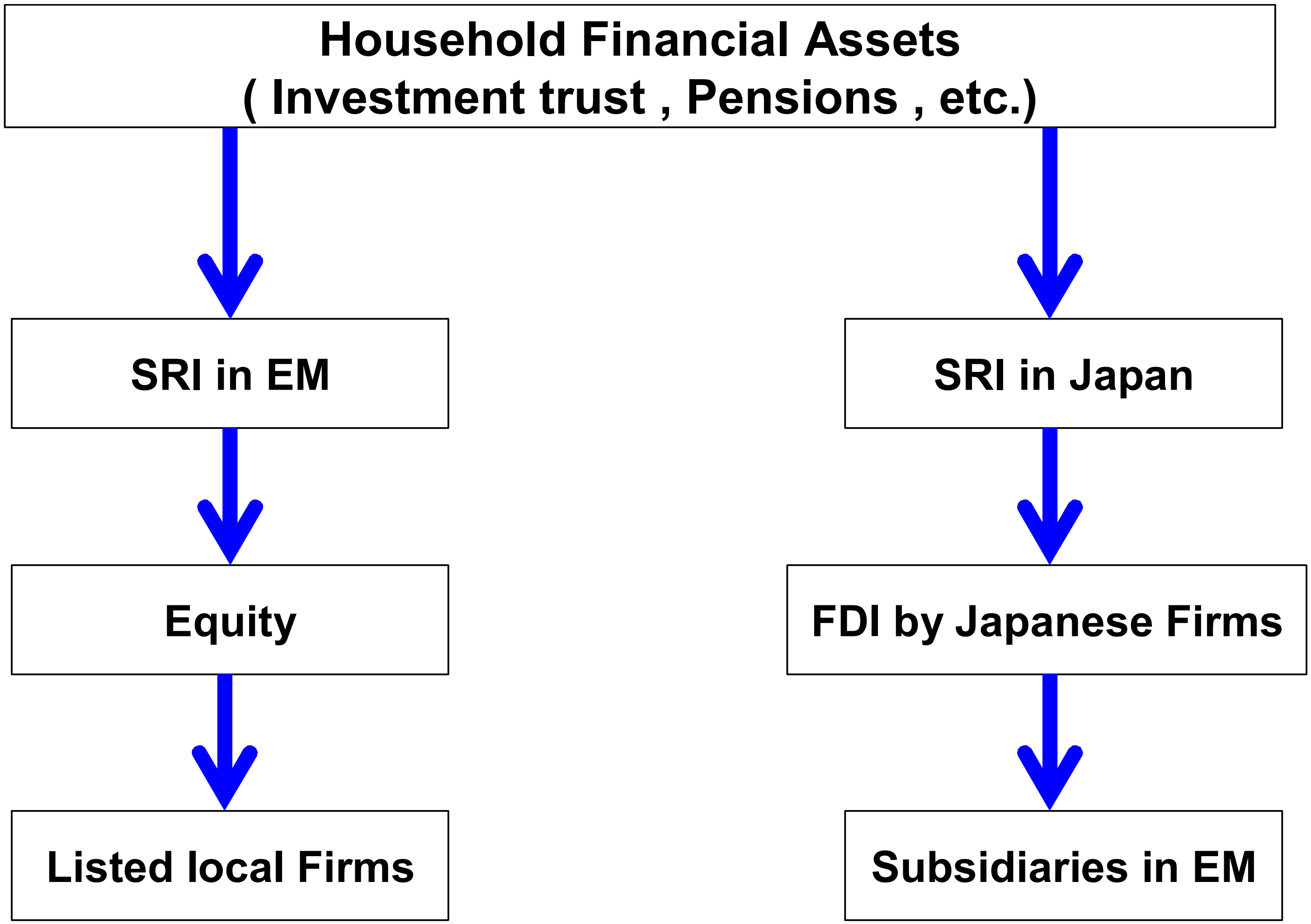
Are they really heterogeneous assets?: Correlation coefficients with Microsoft's return

TOPIX (Japan)	0.781
KOSPI (South Korea)	0.591
TWSE (Taiwan)	0.794
STI (Singapore)	0.712

Note: Calculated on weekly data from Oct. 1998 to Oct. 2003 (n=261)

Source: FRC, Nomura Securities

Channels of Socially Responsible Investing in Emerging Market



Source : Nomura Securities Financial Research Center

SRI in Japan: Just getting started

Global SRI assets, 2001

	($ bn)
United States	2332.0
United Kingdom	326.0
Canada	31.4
Europe	17.6
Japan	1.9
Australia	1.1
Total	2710.6

Source: Spratt, Sparkes (2002)

- **Seven SRI-type mutual funds of Japanese equity as well as two global funds**
- **Most of them are so-called "Eco funds"**
- **A SRI product for pension fund launched in July 2003**
- **New products might as well come on to**
- **Main focus is on Japanese equity**

SRI in Emerging Markets: A Step Too Far

Practical Solutions

- Benchmarking
- SRI in Japanese equity as an alternative way
- Clarification of basic rules, definitions, etc.
- Improvement of investment environment in emerging markets

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