

Responsible Investment in Japan

UNEP FI in Seoul

June 17, 2008

Mitsubishi UFJ Trust and Banking Corporation



Company Profile



Mitsubishi UFJ Financial Group

- World's largest financial services group by assets
- Created October 2005, following merger of Mitsubishi Tokyo Financial Group & UFJ Holdings
- Comprehensive financial services provider:
Asset management, Consumer finance, Leasing and Credit card businesses
- Presence across North and South America, Europe, the Middle East, Africa & Asia



Assets Under Management

- ✓ Total Assets Under Management of \$292 billion (as of end March 2008)
- ✓ Assets Under Management by Asset Class

US\$ billion

Japanese bonds	Active	37.1	Japanese equity	Active	18.3
	Passive	73.5		Passive	36.7
	Enhanced	7.2		Enhanced	2.7
	Other	28.0		Absolute Return	2.1
	Subtotal	145.8		Other	0.4
CB	Subtotal	0.0	Subtotal	60.1	
International bonds	Active	10.3	International equity	Active	10.6
	Passive	14.7		Passive	13.4
	Enhanced	2.5		Enhanced	0.8
	Other	0.1		Other	0.0
	Subtotal	27.6		Subtotal	24.9
Other	Subtotal	34.0	Total		292.5

Current Situation

① Market Size

- ✓ Total SRI Market Size as of September, 2007 : Approximately US\$ 8B
 - ⇒ US\$ 7B from Retail investors
 - ⇒ US\$ 1B from Pension funds

② Pension Fund Survey

- ✓ Awareness of SRI : 55% = Know 29% =
Heard
- ✓ Investment to SRI : 7% = Invested 25% =
Considering
- ✓ Negative Reasons : 31% = Lack of Information
: 15% = No Establishment as Investment Style
: 15% = No Incentives on SRI
- ✓ Positive Reasons : 27% = Assent on SRI Concept
: 23% = Accepted Proposal from
Asset Management
: 17% = Effectiveness of Diversified
Investment

(Source : SIF-Japan, The Research Institute for Policies on Pension and Aging).

Cooperation

□ Recognition through “Materiality Workshop”

Investor Point of View		Company Point of View
First Priority = Performance	Current Situation	“Materiality” = Spreading now
Don't Use CSR Report = Too Wide		Do CSR for Various Stakeholder = Wide
Keen on Value = “Materiality” is Important		Few Company = No Active on “Value” Disclosure

□ Examples of Investor Viewpoint

< Evaluation >

- ✓ CSR is effective criterion on “Quality of Management”

< Approach >

- ✓ “Logic” is the key to connect CSR with “Value”

< Method >

- ✓ Evaluate importance of CSR to “Value” = “Materiality”

(Source : Materiality Workshop).

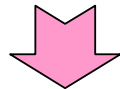
Approach Comparison

< A case of Financial Approach >

- ① Macro Analysis
the rate of economic growth, financial status, the movement of population, etc.
- ② Sector Analysis
the rate of industry growth, price trend, competition, technical trend, etc.
- ③ Company Analysis
the rate of sales growth, profitability, B/S analysis, etc.

+

Quality of Management, Strategy, Policy, Organization, etc



Evaluate both quantitative/qualitative factors which are important for future corporate earnings prospect

< A case of Extra financial Approach >

- ① Macro Analysis
climate change, the movement of population, globalization, etc.
- ② Sector Analysis
industrial regulation, industrial characteristic, etc.
- ③ Company Analysis
technical strength, CSR policy, etc.

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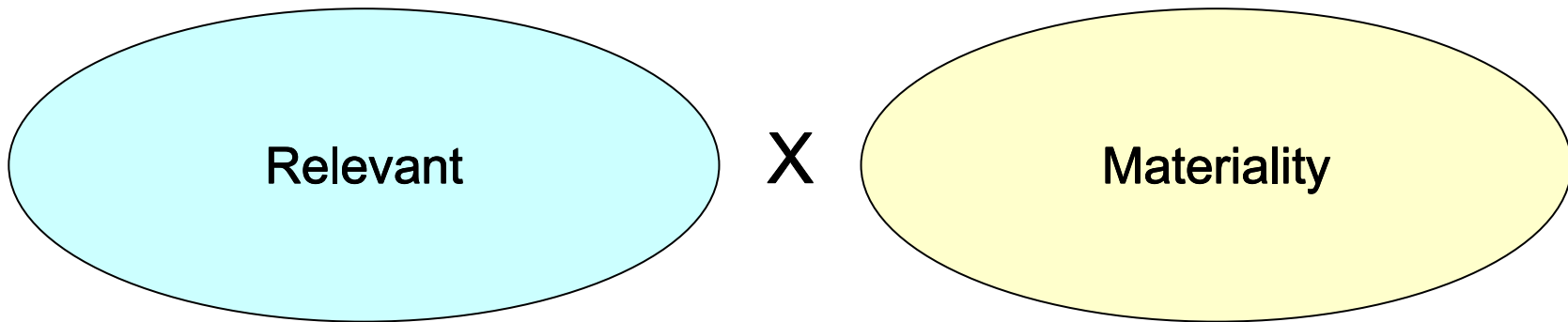
CSR Strategy, Contribution to ESG issue, etc.



It is important to pay attention to ESG factors which important to corporate earnings, same with financial approach.

Movement

□ View of Target



□ CSR Impact Shift

- ✓ CSR activities could have impacts on Company Earnings.
- ✓ We think that it is important to evaluate CSR activities from Earnings viewpoint.

Company Value = E P S (Earning Per Share) × Valuation
(PER)

① Key findings of Our ESG factor analysis

Responsible Investment can compete with other investment methods economically, same with the report results.

② Supportable findings to “Fiduciary Duty”

Our conclusion from the study with Professor Morito under the Japanese Law System is that Fiduciary Duty does not prevent investors from taking ESG factors into account in the portfolio management process, if responsible investment (“RI”) can compete with other investment methods.

③ How to evaluate ESG factors? Is “RI” special?

Mainstream investors evaluate both quantitative and qualitative factors which are important for corporate earnings prospect.

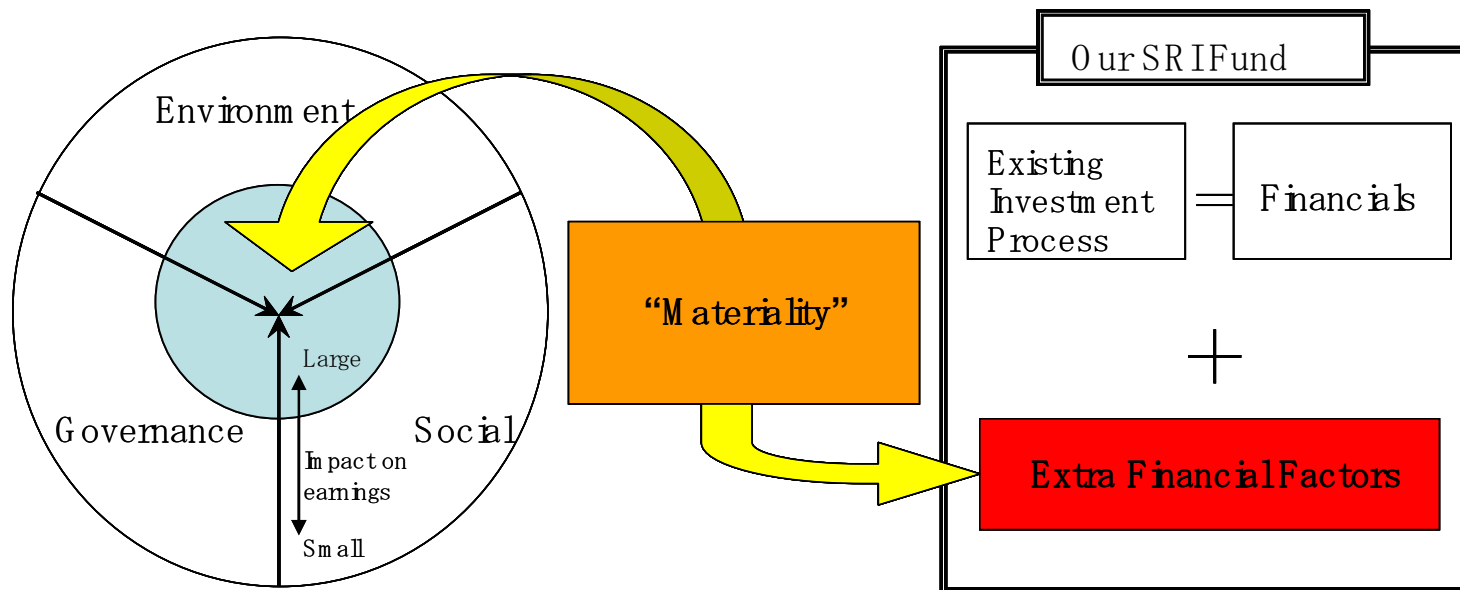
It is important to evaluate material factors which could impact to corporate earnings/company value even in mainstream and “RI” along with continuous studies on “RI” contribution to performance.

Case Study



Our SRI Philosophy: Focusing on Factors Impacting Earnings

- Impact of **Extra Financial Factors** on corporate earnings vary
- ✓ We focus on materiality, those corporate social responsibility activities, which help grow corporate earnings in the mid to long term.
- ✓ We invest from a longer term viewpoint by focusing on such **Extra Financial** factors, in addition to the purely financial outlook.



SRI – Investment Process

All Listed Companies
(Around 3,900 companies)



Research Universe
(Around 900 companies)



SRI Universe
(Around 300 - 400 companies)



SRI Portfolio
(Around 50 - 100 companies)



Screening

Extra -Financial
Database

Extra -Financial
Analysis

Extra Financial Rating

Financial Analysis

Investment Rating

- 1.Credit Risk
- 2.Market Cap

- 3.ROI
- 4.Earnings Growth

- 1.Publicly Available Information
- 2.Questionnaires
- 3.Interviews



- 1.Weighting of Social / Environmental Issues
- 2.Impact of Extra Financial Factors



1. Rating A ✓
2. Rating B ✓
3. Rating C ×

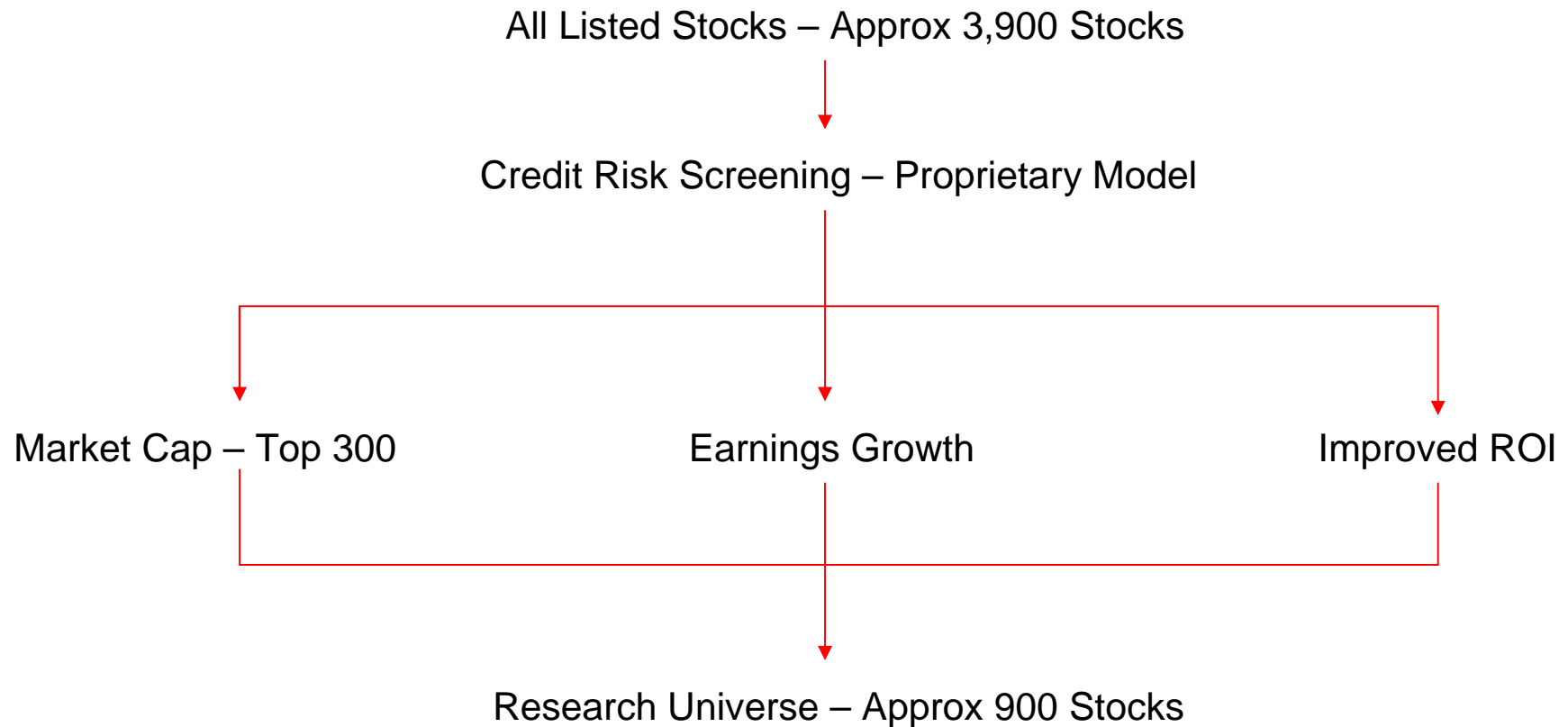
- 1.Interviews
- 2.Earnings Model
- 3.Valuation Model
- 4.Share Price Target



- 1.Outperform ✓
- 2.Neutral △
- 3.Underperform ×

Research Universe

- ✓ Screen all listed stocks to construct attractive research universe of around 900 companies

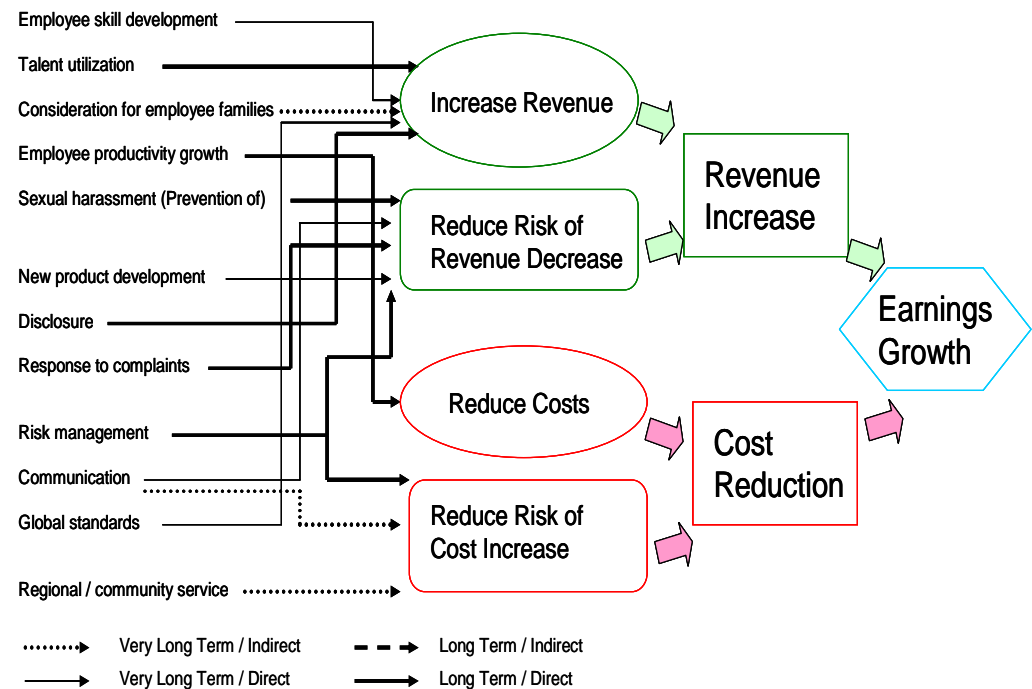


SRI – Investment Strategy

- ✓ Social & environmental issues form part of the fabric of the environment in which companies operate. However, some issues are more important than others, and these change over time

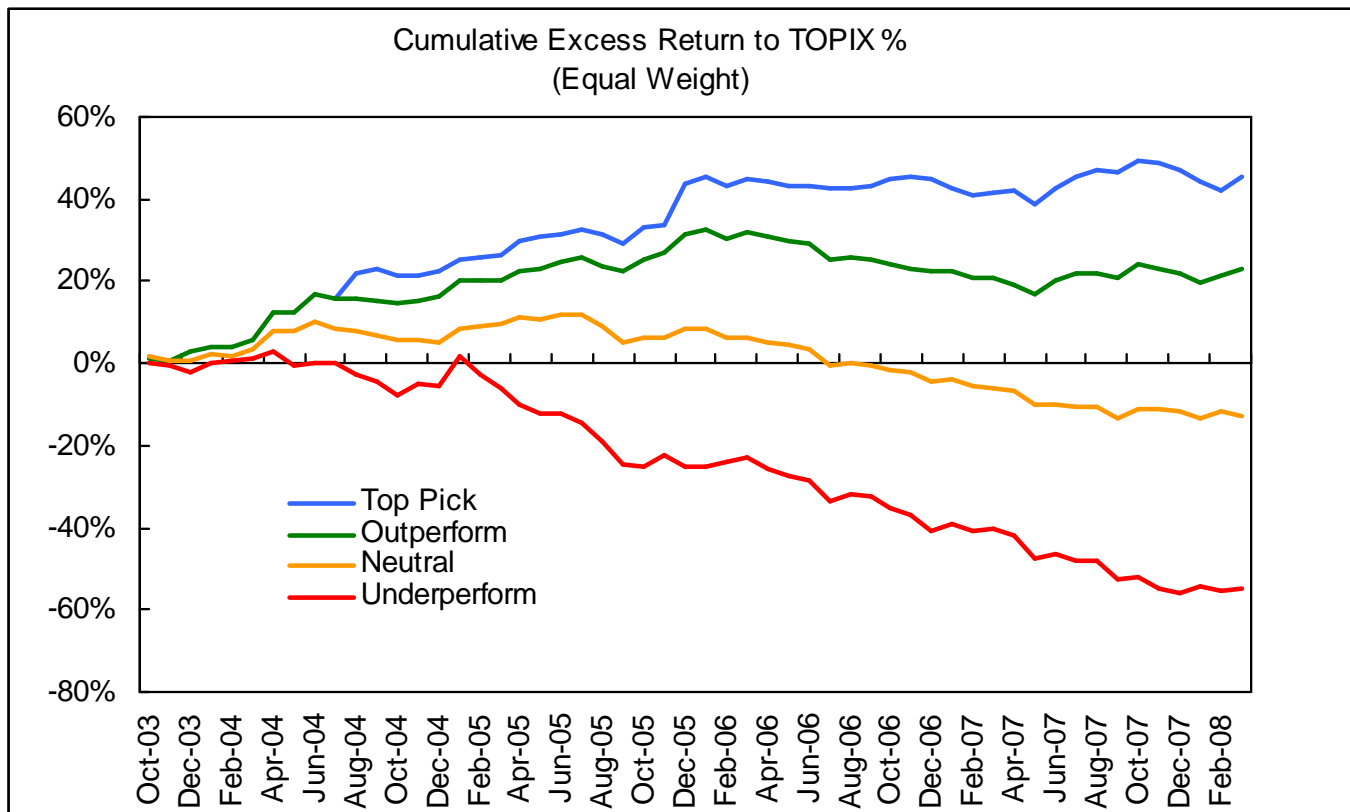
Issues	Company →Issue	Issue →Company
Society		
Market		
Globalization	✓	✓
Business Practices	✓	✓
Labour		
Demographics	✓	✓
Child Labour	△	×
Consumer		
Safety	✓	✓
Choice	✓	✓
Global/Regional		
Developing Countries	×	△
Regional	△	×
Other		
Risk Management	✓	✓
Disclosure	✓	✓
Global Peace	×	×
Art & Culture	△	×
Environment		
Renewable Resources	✓	✓
Environment	✓	✓
Pollution	✓	✓

- ✓ Focus on extra financial factors expected to contribute to long term, sustainable earnings growth



Investment Ratings

- ✓ Analyst ranks companies within their coverage sectors - Top Pick, Outperform, Neutral, Underperform
- ✓ Fund Manager Team places analyst ratings in market context



Source: Mitsubishi UFJ Trust and Banking

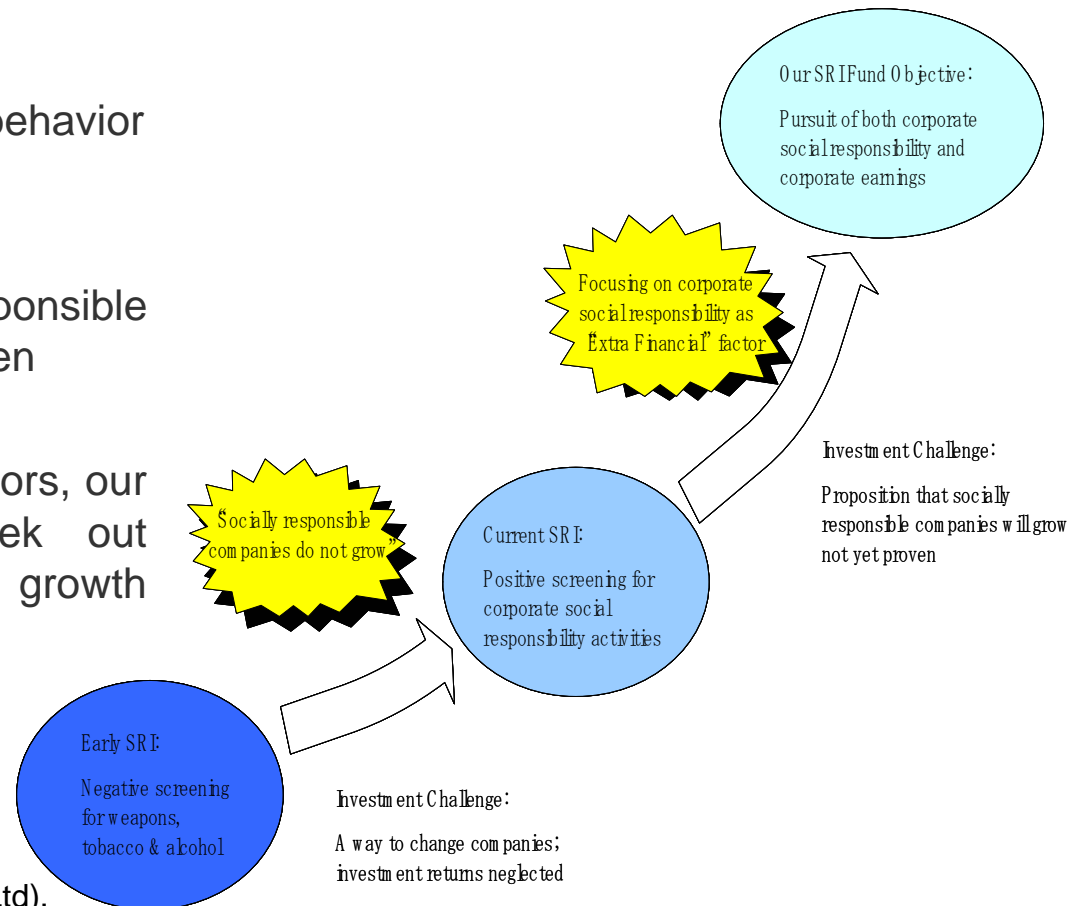
Positioning of New SRI Fund

□ Overcoming the challenges of traditional socially responsible investing

✓ Early challenge:
SRI was a way to change corporate behavior

✓ Current challenge:
Proposition that “socially responsible companies will not grow” not yet proven

⇒ By focusing on Extra Financial factors, our new SRI Fund will actively seek out companies who combine earnings growth with corporate social responsibility.



(Source : Mitsubishi UFJ Research & Consulting Co., Ltd).

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