Asset Management Business
Trends of ESG-related investment in Japan

This third issue of the report on asset management business focuses on trends in ESG investment, which has attracted a great interest as an investment theme in recent years, and touches on market conditions, movements of major institutional investors, and government initiatives.

1. Overview of ESG investment market
1.a. Scale of ESG investment
ESG investment in Japan has been expanding since 2016, and ESG-related asset reached US$2.11 trillion (approx. 231 trillion yen) in 2018. Since Japan is a latecomer compared to Europe and the United States, the investment amount is smaller than these countries. However, the compound average growth rate (CAGR) between 2014 and 2018 is 308%, which is significantly higher than other major countries.

1.b. Investor Trends in ESG Investment
In addition, the types of investment products are diversifying, and the issuance of sustainable loans such as green bonds is increasing. The amount of green bonds issued by domestic companies has grown by an average of 76.4% annually between 2014 and 2020, reaching US$ 9,819 million (1,016.9 billion yen).

1.c. Trends in ESG action by investees

As a result of the rapid growth of ESG investment, the ratio of ESG assets to total AUM in Japan increased by 14.9% between 2016 and 2018. ESG is becoming more important in the Japanese asset management business.

Changes in the Ratio of ESG Assets to Total AUM

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Total Amount of Green Bonds Issued by Japanese Companies

Source:
2. Green bond issuance promotion platform, Market penetration (domestic / overseas) (1USD=103.56JPY (As of 12/31/2020))
1.b. Investor Trends in ESG Investment

Japanese institutional investors have a strong interest in ESG investment. The number of institutional investors signing the PRI (Principles for Responsible Investment) * has increased seven-fold between 2010 and 2019. It is expected that more investors will shift their AUM to ESG-friendly investments.

As a result of the progress of information disclosure such as TCFD, Japanese companies’ advanced efforts for climate change are highly evaluated by the world. According to a survey conducted by CDP *** on the disclosure of climate-related information on companies in 2020, the number of Japanese companies that received the highest A rating was the world’s largest, along with American companies. It is expected that ESG investment decisions will become easier and ESG investment will become more active in Japan as information disclosure on the corporate side advances.

1.c. Trends in ESG action by investees

Among the Japanese investees, efforts to disclose and use climate-related information such as "TCFD (Task Force on Climate-related Financial Disclosures) **" are expanding rapidly. The number of TCFD supporting organizations in Japan has increased sharply since 2019, and as of January 2021, the number of supporting organizations is 338, which is the largest in the world.

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* PRI (Principles for Responsible Investment): A series of investment principles published by the United Nations in 2005 and signed by member institutional investors to address the basic problems of their investment portfolio.
** TCFD: Established in 2015 by the Financial Stability Board. An international framework that encourages companies to disclose information on climate-related risks and opportunities.
*** CDP: A British non-governmental organization that collects information on corporate environmental management and discloses it to institutional investors.

Source:
2. TCFD, Supporters, Browsed on 2021/1/25;
3. CDP, CDP Climate Change Report 2020
2. Examples of individual trends of institutional investors

2.a. Pension fund

Since pension funds have traditionally considered non-financial information that contributes to improving corporate value from a long-term perspective, they are compatible with ESG investment and are actively investing in ESG.

Government Pension Investment Fund (GPIF)

Japan's ESG investment is driven by the Government Pension Investment Fund (GPIF), the world's largest pension fund with an asset management value of US$ 1.4 trillion (151 trillion yen)\(^1\).

The fact that GPIF signed the PRI in September 2015 and announced that they would allocate assets under management to ESG-related investment is a turning point for accelerating ESG investment in Japan. Furthermore, in 2017 GPIF began managing assets based on ESG indices. The increase in GPIF's AUM encourages companies to disclose information and respond to evaluation agencies with an awareness that they will be selected for ESG indexes.

GPIF also announced its support for TCFD in December 2018, and promoted the disclosure of climate-related information by disclosing the results of portfolio analysis of greenhouse gas emissions and scenario analysis in their ESG activity reports.

2.b. Financial institution

In recent years, following the movement of GPIF, financial institutions have been accelerating ESG investment, and their investment methods and products have also diversified.

The Dai-ichi Life Insurance

Dai-ichi Life plans to introduce ESG evaluation into investments with total assets of approximately 36 trillion yen by 2023, aiming to contribute to solving social issues and improve investment returns over the medium to long term. In particular, Dai-ichi Life has set climate change as one of its priority themes and built an integrated evaluation method for climate-related information. They invest in and lend to renewable energy businesses, engage in green bonds, and set credit ranks based on carbon tax impact analysis and stranded asset impact analysis.

Sompo Japan Insurance

Sompo Japan provides climate change adaptation businesses such as disaster prevention and mitigation cost insurance and weather index insurance both in Japan and overseas. In particular, disaster prevention and mitigation cost insurance provided to local governments is insurance that compensates for various costs to local governments by issuing evacuation advisories in the event of a natural disaster, and is attracting attention as a service that promotes the response of local governments to natural disasters.

Source:
1. Government Pension Investment Fund, 2019 ESG Activity Report (1USD = 107.54JPY (as of March 31, 2020))

(https://www.dai-ichi-life.co.jp/)

(https://www.sompo-japan.co.jp/)

(https://www.gpif.go.jp/)
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3. Government Initiatives

3.a. Initiatives by Japanese government

Revision of "Responsible Investor" Principles (Japanese Stewardship Code)

The Financial Services Agency revised the principles of “responsible investors” in 2020, requiring institutional investors to engage in accurate understanding of the status of non-financial information including ESG factors of investee companies. The regulation was formulated in 2014 and is currently accepted by more than 280 institutional investors. In 2018, the corporate governance code was also revised.

Publication of “Guidance on climate-related financial information disclosure (TCFD guidance)"

In 2018, the Ministry of Economy, Trade and Industry published "Guidance on Climate-related Financial Information Disclosure (TCFD Guidance)" as a commentary on TCFD’s recommendations. This increased the momentum for responding to TCFD recommendations, and the TCFD Consortium was established in May 2019 under the initiative of the private sector. The consortium is discussing efforts to enable companies to disclose information more effectively and financial institutions to use the disclosed information to make appropriate investment decisions.

Ministry of the Environment "ESG Finance Award"

The Ministry of the Environment is aiming to popularize and expand ESG finance by establishing the "ESG Finance Award" in 2019 and commending financial institutions and organizations that are making advanced ESG finance initiatives in Japan.

3.b. Initiatives by Tokyo government

Establishment of Tokyo ESG Fund

In 2019, the Tokyo Metropolitan Government (TMG) established the "Tokyo ESG fund" with a total fund of 5 billion yen, and started efforts to popularize and promote ESG investment by diversifying investment in domestic renewable energy power generation facilities. The TMG investment amount is 500 million yen, and the remaining investment amount is solicited from the private sector, and asset management is also outsourced to the private sector. Part of the management fee will be donated to the "Social Angel Fund" and will be used to support businesses with high social contribution.

Issuance of Tokyo Green Bond

TMG was the first local government in Japan to issue a green bond in 2017, and is strongly promoting environmental measures such as energy saving of water and sewage facilities, introduction of environment-friendly buses and maintenance of parks by raising funds from the citizens of Tokyo and companies. In order to make the bond appealing to investors, TMG has obtained an evaluation by a third-party organization after complying with all four items stipulated in the Green Bond Principles of the International Capital Markets Association (ICMA), and it ensures eligibility and transparency as a green bond.

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ROBECO JAPAN

Robeco, a global asset management company based in Rotterdam, the Netherlands, entered Japan in 2005. Robeco provides ESG investment management strategies for institutional investors and manage sustainability-themed and impact-type products for individual investors.

Robeco SAM, a Robeco group company, has been a leader in sustainability investment since the 1990s. They perform sustainability assessments of more than 4,600 companies worldwide each year and have developed the Dow Jones Sustainability Index in collaboration with S & P Dow Jones Index in the United States.

In addition to systematic efforts that integrate ESG elements, Robeco is highly evaluated for its contribution to ESG finance in Japan, such as holding events to popularize and promote ESG investment. They received the "Tokyo Financial Award ESG Investment Category" selected by the TMG in 2018, and the Silver Award in the Investor Category at the "ESG Finance Award" selected by the Ministry of the Environment in 2019.

Neuberger Berman

Newberger Berman, an independent asset management company founded in New York, USA, has been providing investment management services to Japanese institutional investors since 2004, and established a base in Japan in 2008. They started to form funds for individual investors in 2011.

Taking advantage of the group companies' nearly 80 years of ESG investment experience, Newberger Berman engages in a wide range of private companies, stocks and bonds that are less likely to be subject to ESG engagement.

Newberger Berman, a signatory to the United Nations Principles for Responsible Investment (PRI), received the highest score of A+ in the PRI's assessment report. Their Japanese subsidiary has been highly evaluated for its ESG initiatives, including receiving the "Tokyo Finance Award 2018 ESG Investment Category" from Tokyo Metropolitan Government.