



Index Insights | Sustainable investment | Equity

Evolution of corporate ESG disclosure and expansion of ESG investment

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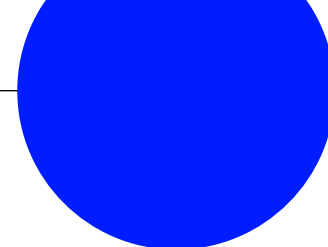
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Written in collaboration with SGX

SGX 
Equity Derivatives



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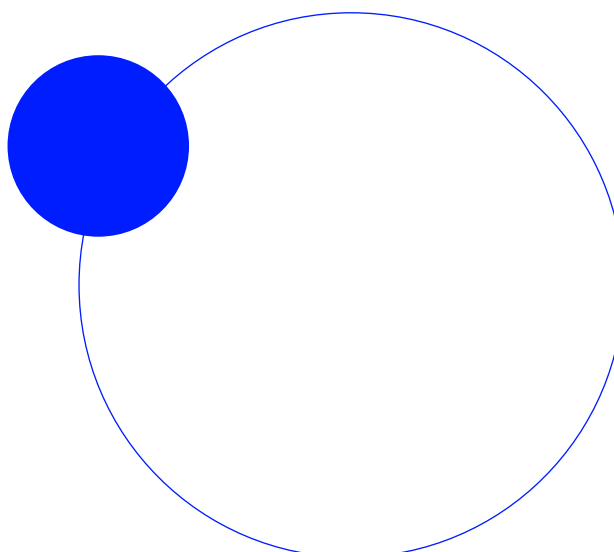


Quarterly analysis

ESG investment in Japan is being boosted by various tailwinds, including public pension funds signing the Principles for Responsible Investment (PRI) and the rollout of the Nippon Individual Savings Account (NISA). Supporting greater ESG investment opportunities, there are more high-ESG-scoring Japanese companies with substantially improved ESG disclosure.

Our latest edition of the Japanese sustainable investment and futures report, written in collaboration with SGX, explores the connection between increased disclosure and investment. We highlight some key, related performance milestones:

- The AUM of the FTSE Blossom Japan Index series in the GPIF portfolio reached JPY 2.9 trillion, a significant increase from a year ago
- The FTSE Blossom index series continues to outperform traditional market cap index
- SGX FTSE Blossom Japan Futures daily average volume was up by 26% year-on-year to hit a new high of US\$13.8 million in June 2024



More disclosure, more investment?

Japan’s former Prime Minister, Fumio Kishida, made two important announcements on ESG investing in Japan during his speech at the PRI in person conference last October. We outlined these announcements in our December 2023 report entitled [Why Japan? Why sustainable investments? Why now?](#):

- Kishida endorsed at least seven representative public pension funds in Japan, with a total of approximately JPY 90 trillion under management, which will sign the PRI.
- Kishida announced that “[Japan] will establish a ‘Dialogue on Enhancing Sustainability Investment Products’ within the year at the Financial Services Agency as an initiative for fostering GX (Green Transformation) and ESG investment by both individual and institutional investors”.

By the end of 2024, it is expected that more public pension funds will sign the PRI and expand ESG investment. In addition, positive tailwinds for Japanese stocks, such as the record high for Japanese stock prices since the bubble economy and the start of the expansion of NISA (Japan’s tax exemption scheme for individuals) may further boost the expansion of ESG investment.

According to GPIF’s Annual Investment Report FY2023 published in July 2024, GPIF’s assets under management (AUM) as of March 2024 were approximately JPY 245 trillion (approximately US\$1.64 trillion), an increase of approximately JPY 45 trillion from a year ago. The AUM of the FTSE Blossom Japan Index series in the GPIF portfolio reached approximately JPY 2.9 trillion (approximately US\$19.7 billion) – a significant increase of approximately JPY 900 billion from one year ago, or around 1.5 times the amount in one year. (US\$1 = JPY 150).

Figure 1. FTSE Blossom Index Series AUM and constituent count trends

Index	FTSE Blossom Japan Index		FTSE Blossom Japan Sector Relative Index	
	March 2024	March 2023	March 2024	March 2023
AUM (billion JPY)	1,522	1,030	1,441	1,001
Number of stocks	311	255	632	530

Source: FTSE Russell from GPIF Annual Investment Report FY2023, Annual Investment Report FY2022.

As of March 2024, 311 stocks were included in the Blossom Japan Index, which selects stocks with a FTSE ESG score of 3.3 or higher. The Blossom Japan Sector Relative Index selects the top 50% of FTSE ESG scores in each sector and consisted of 632 constituents. These numbers have been increased in both indices, indicating that there are more high-ESG-scoring Japanese companies with substantially improved ESG disclosure. We expect such improvements in ESG scores to bring positive impact on the corporate value of Japanese companies in the long run.

Seeking return and performance in ESG

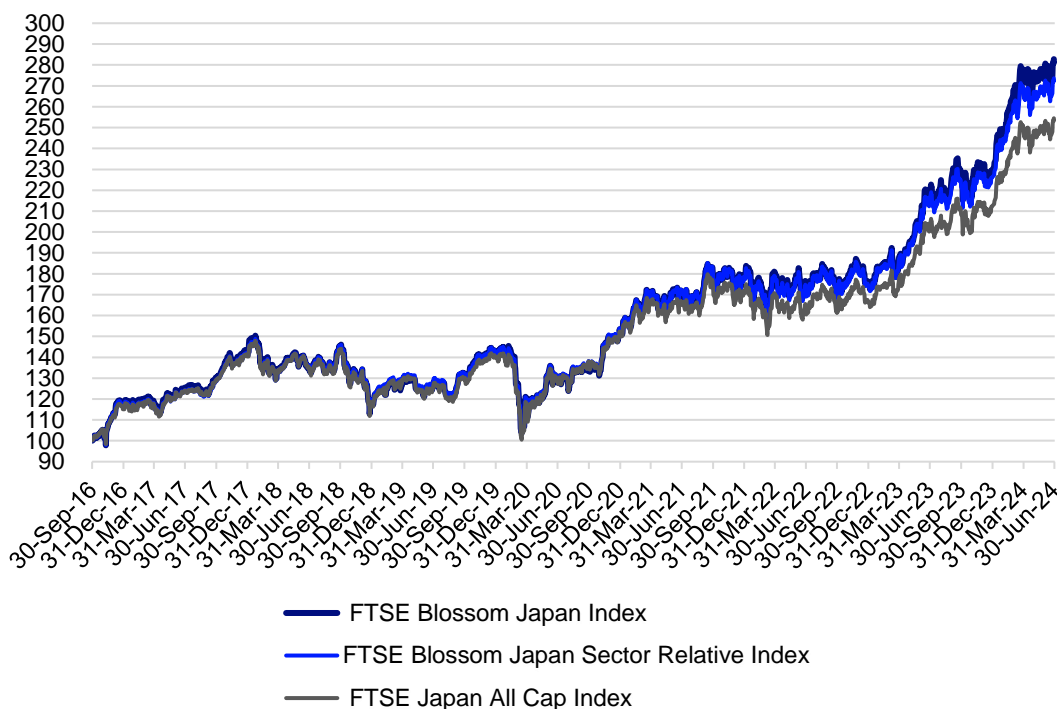
The performance of ESG investments is compelling for investors. According to the Annual Investment Report FY2023, the five-year annualised return of the Blossom Japan Index, as of March 2024, has exceeded market (benchmark) returns. Furthermore, in ESG investment, limited ESG disclosure and ESG practices by companies are considered as corporate risks and are negatively viewed in stock selection. ESG investments are known to be defensive in nature, which often brings merits to investors seeking long-term improvements in their portfolio's risk/return profile. This benefit has also been demonstrated in FTSE's performance attribution analysis.

FTSE Blossom Japan Index Series: Performance update

Both the FTSE Blossom Japan Index and the FTSE Blossom Japan Sector Relative Index continued to outperform their reference benchmark FTSE Japan All Cap Index in Q2 2024.

The FTSE Japan All Cap Index is FTSE Russell's traditional market-cap index for the Japan equity market, and it is known to perform similarly to other well-known Japanese market cap indices.

Figure 2. FTSE Blossom index series continues to outperform traditional market cap index



Source: FTSE Russell.

The long-term excess return for the FTSE Blossom Japan Index versus the FTSE Japan All Cap Index accumulated to 2,042 basis points for the December 2015 to June 2024 period, driven by the significant 1,875 basis points contribution from the ESG factor. The FTSE Blossom Japan Sector Relative Index also extended its outperformance versus the FTSE Japan All Cap Index, recording 1,118 basis points excess return for the December 2015 to June 2024 period. Of the 1,118 basis points, 1,043 were contributed by the ESG factor suggesting the strong relevance of the ESG factor to the long-term performance of the Japanese stock market during the analysed period.

Figure 3. Excess return attribution analysis for Blossom and Blossom SR

Attribution analysis for FTSE Blossom Japan Index (bps)									
Period	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess	
2015/12/31-2024/3/29	-178	203	-158	-214	402	1,612	277	1,945	
2018/12/31-2024/6/28	-250	210	-157	-221	319	1,875	266	2,042	
Quarterly Change	-72	6	1	-7	-83	263	-12	97	

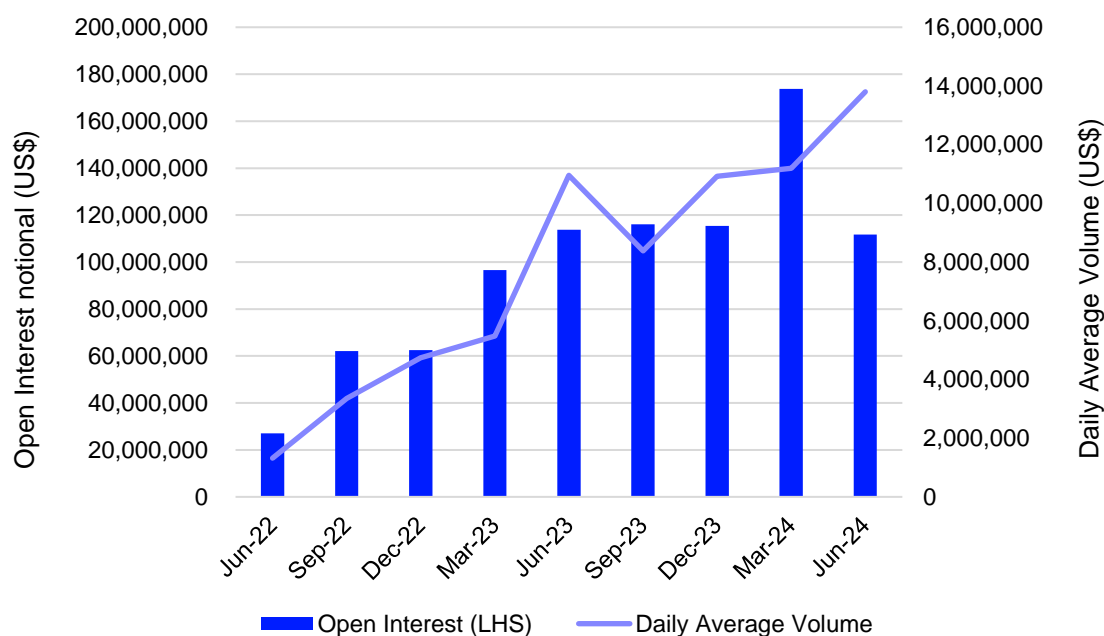
Attribution analysis for FTSE Blossom Japan Sector Relative Index (bps)									
Period	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess	
2015/12/31-2024/3/29	16	40	-171	-74	356	911	25	1,102	
2018/12/31-2024/6/28	-45	44	-174	-75	335	1,043	-11	1,118	
Quarterly Change	-60	4	-3	-1	-21	132	-36	16	

Source: FTSE Russell.

Healthy orderbook supports roll activities of SGX Blossom Futures

After reaching a record open interest of US\$ 173.7 million in March 24, SGX FTSE Blossom Japan Futures daily average volume hit a new high of US\$13.8 million in June 24 (+26% yoy).

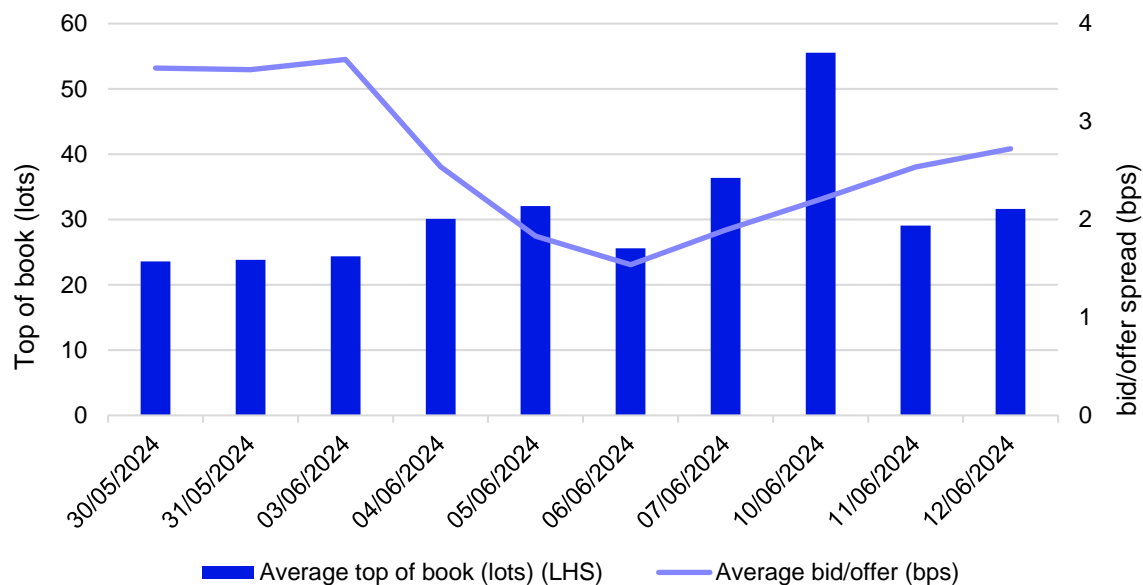
Figure 4. Open Interest (LHS) and Daily Average Volume



Source: SGX. Past performance is no guarantee of future results. Please see end for important legal disclosures.

In June, roll activity was supported thanks to a healthy orderbook, an average top of book size and spread of respectively 31 lots and ~2.5bp. Around 40% of June positions were converted into cash on the day of the expiry and the remaining positions were rolled out to September maturity in the days before the last trading day. Post-roll, approximately 75% of positions were held on September 2024 and ~25% on December 2024 expiries.

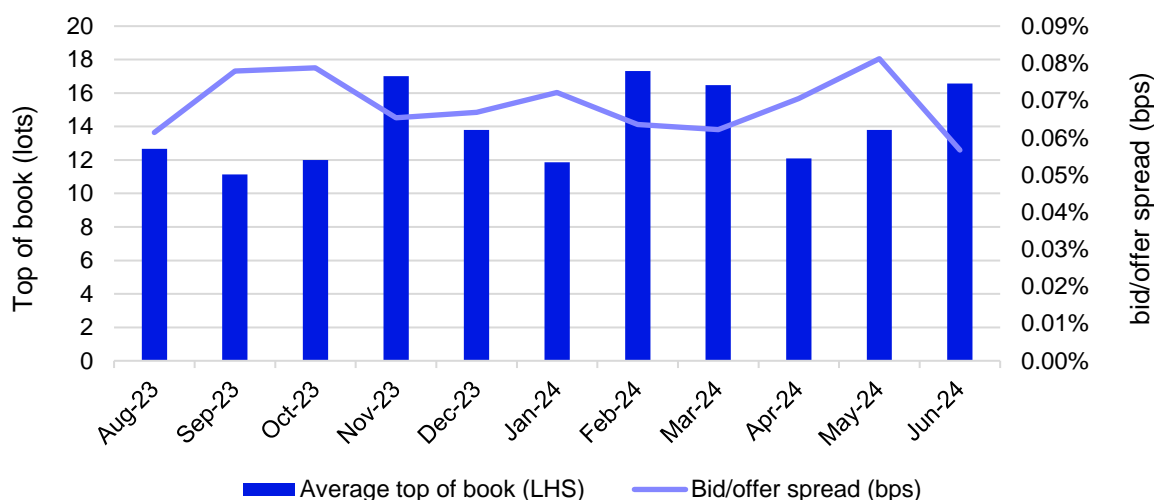
Figure 5. Calendar roll average top of book (LHS) and bid/offer (bps)



Source: SGX. Past performance is no guarantee of future results. Please see end for important legal disclosures.

The top of book liquidity is back to the highs of the past 12 months while the bid/offer has tightened further, facilitating any trading activities for risk management.

Figure 6. Futures top of book liquidity (LHS) and bid/offer spread



Source: SGX. Past performance is no guarantee of future results. Please see end for important legal disclosures.

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