Research Report
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Scale of ESG Investment in Japan

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Abstract

This paper will introduce the overview of the results of a questionnaire survey of Japanese domestic investment managers that have signed the United Nations Principles for Responsible Investment (UNPRI) conducted by Nikko Research Center , for the purpose of clarifying the state of environmental, social, and government (ESG) investment in Japan. Until now, ESG investment market research has focused on investment products designed for individual investors and the state of investments including those by institutional investors was never fully understood. From the results of this survey, we learned that ESG investment assets in Japan amount to 46.0 trillion yen, which is an amount that greatly exceeds the scale of individual investor-focused financial products known up until now. In addition, among the ESG investment approaches , the engagement/proxy voting was dominant.

After examining the personnel structure related to ESG investment institutions, it was revealed that many institutions have the most personnel devoted to proxy voting operations. Furthermore, an examination into the characteristics of the clientele revealed that institutional investors such as pension funds are the main players in Japanese ESG investment.

When looking into the ESG fields of interest, greenhouse gases and climate change were brought up in the Environmental field (E), the effective use of human resource in the social issues field (S), and corporate board structure in the governance field (G). A review of the initiatives other than those of the UNPRI participated in by the respondents of the survey revealed the participation in the Principles for Financial Action for the 21st Century, Japan's Stewardship Code for financial institutions, among others. We also examined the key performance indicators (KPI) that are used to evaluate the promotion and success of women in companies that has become an area interest in recent years. Although only a minority of institutions had adopted specific KPIs, a relatively large number of the institutions in this subgroup had adopted KPIs concerning the number and ratio of female managers and directors related to a women's leadership within an organization, as well as the ratio of female employees.

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1. Introduction

This paper will provide an overview of the results of a questionnaire survey of Japanese domestic investment managers conducted by Nikko Research Center, for the purpose of revealing the state of environmental, social, and government (ESG) investment[1] in Japan. Ever since the United Nations Principles for Responsible Investment (UNPRI)[2] was proposed in 2006 to facilitate the incorporation of ESG factors into the investment processes of institutional investors, ESG investing has continued to expand globally as these principles have been recommended by numerous institutional investors that have adopted them. Surveys have also been widely conducted that target institutional investors to gain an understanding of the actual state of ESG investment, and various organizations around the world[3] publish the results of these studies regularly. In addition, the Global Sustainable Investment Alliance (GSIA)[4] has published a report summarizing the global state of ESG investment based on the results of these organizations' research. In the most recent report, the "2014 Global Sustainable Investment Review[5]", the global scale of ESG investment was estimated to be 2,235 trillion yen at the beginning of 2014, and EU, United States, and Canadian investment comprised 98.9% of this figure. Further, the breakdown of this investment was that 86.9% was attributable to institutional investors, while 13.1% was retail investors, revealing the fact that institutional investors comprise the majority of overseas ESG investment activity.

On the other hand, although the Japan Sustainable Investment Forum (JSIF)[6] conducts research activities related to ESG investment in Japan, the nature of ESG (SRI[7] as referred to by

[1] Abbreviation for environmental, social, and governance investing. Based on the premise that non-financial factors, such as the environment, social issues, and corporate governance, can influence a company's financial performance, and therefore corporate value.
[2] http://www.unpri.org/
[3] The affiliated organizations are as follows: EU: Eurosif, U.S.: USSIF, Australia/New Zealand: RIAA, Asia: AsrIA. For more information, please refer to the following URL. http://www.gsi-alliance.org/members-resources/
[4] http://www.gsi-alliance.org/
[5] http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf
[6] http://www.jsif.jp.net/
[7] One of the names of an investment that take into account non-financial factors. It was first used as an abbreviation mostly for "Socially Responsible Investment" in the 2009 JSIF survey, but as of late, it is being used more as

the JSIF) investment as conducted by institutional investors remained unknown as JSIF's survey had focused on ESG investment as public investment trusts and social impact bonds for retail investors. On this backdrop, the concept of ESG investing had not yet spread in Japan when a survey including institutional investors was conducted by the JSIF in 2009, and because pension funds, a type of institutional investor did not exceed 10% of the total SRI market worth 0.6 trillion yen, it can be pointed out that ESG investment by institutional investors was believed to be limited[8]. At present, even the results of a published survey reveal the total amount of Japanese assets to be 0.8 trillion yen[9], while the amount of EU assets is 1,424 trillion yen and U.S. assets is 688 trillion yen. Therefore, it can be said that compared to the global ESG investment market worth more than 2,200 trillion yen, Japan continues to lag significantly behind other nations with respect to the spread of ESG investment (Table 1).

Table 1 Scale of global ESG investment markets

Region	ESG Investment Assets		Share in World ESG Assets (%)	ESG Investment Share in Regional All Assets (%)
	($bn)	(¥trn)		
Europe	13,608	1,424	63.7	58.8
United States	6,572	688	30.8	17.9
Canada	945	99	4.4	31.3
Australia/NZ	180	19	0.8	16.6
Asia(Inc. Japan)	53	6	0.2	0.8
Global	21,358	2,235	100	30.2

Source: Prepared by Nikko Research Center based on the GSIA "2014 Global Sustainable Investment Review"

However, since the formulation and subsequent announcement of Japan's Stewardship Code and Corporate Governance Code in 2014 and 2015 respectively, ESG investment has been gaining momentum in Japan. The Nikko Research Center therefore conducted this questionnaire survey targeting investment managers. Specifically, while 22 of the investment managers based in Japan were targeted and had signed the UNPRI implemented in Japan in September 2015, 4 mangers that conduct private equity investments or do not focus on listed enterprises were excluded from our sample. This resulted in questionnaire surveys being sent

"Sustainable and Responsible Investments". In order to avoid confusion, this paper attempts to describe this as an investment that takes into account ESG factors, utilizing ESG investments.

8 http://media.wix.com/ugd/ebcda8_a52f2e029ca94402b3f502feedca6d79.pdf

9 http://japansif.com/1509sridata.pdf

to 18 managers in October 2015, of which 15 provided valid responses[10].

The reason for targeting the UNPRI signatories for this research was because we believed that as of April 2015[11], the 1,380 global investment institutions holding a total asset of 59 trillion dollars (7,075 trillion yen), covered the majority ESG investors. The reason for excluding asset owners such as pension funds from the signatories sampled was to avoid duplicate counting of investment managers' ESG investment assets. While there is a method for carrying out an assessment of asset owners only, because UNPRI signatories were few in number with only 9 owners as of January 2016, financial products geared towards individual investors fell outside the scope of our survey. Also, since most asset owners in Japan are outsourced, it became possible to capture asset owners that are not UNPRI signatories by surveying investment managers. Accordingly, we decided to focus our survey on investment managers.

Table 2 Major ESG investment approaches

Approach	Definition
Corporate engagement and shareholder action	Strategy employs shareholder power to influence corporate behavior through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.
ESG Integration	Explicit consideration of environmental, social and governance factors in the investment decision-making process.
Negative/exclusionary screening	When companies are sold from a fund portfolio because they no longer meet the ESG criteria for that fund, or for purely financial reasons.
Sustainability themed investing	Strategy that addresses specific sustainability issues such as climate change, food, water, renewable energy/clean technology, agriculture, etc.
Positive/best-in-class screening	Refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.
Norms-based screening	Screening of investments based on compliance with international norms and standards such as issued by OECD, ILO, UN, UNICEF, etc. May include exclusions of investments that are not in compliance with norms or standards or over and underweighting.
Impact/community investing	Targeted investments, typically made in private markets, aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.

Source: Prepared byNikko Research Center based on publicly disclosed materials

[10] We collected a response in a different format, and thus, it is not included in the valid responses. The questionnaire survey results will contain our interpretations or revisions based on the survey forms collected.

[11] http://www.unpri.org/whatsnew/signatory-base-aum-hits-59-trillion/

A trend can be seen among some Japanese asset managers to regard ESG-themed active funds (as if to represent “eco” funds or the like) as the only form of ESG investing. A reason for this may be, as described in footnote 7 of the JSIF survey results, the fact that the concept of ESG investment had not yet become widespread as of 2009 in Japan, and SRI consisted mainly of ESG related public investment trusts. The most recent research subjects of JSIF are ESG-themed public investment trusts and impact investments including social impact bonds. However, as shown in Table 2 below, the GSIA, which publishes and investigates the scale of the global ESG investment market, has proposed various approaches to ESG investing, indicating that ESG-themed investments comprise only a small segment.

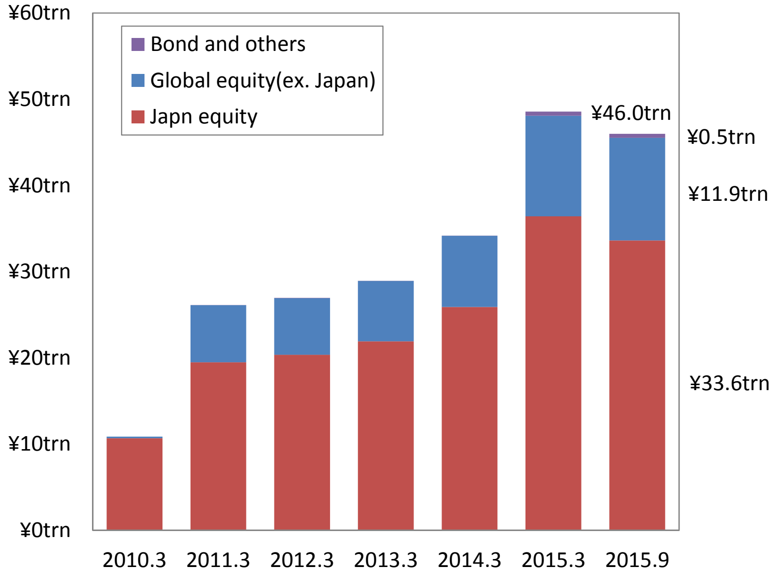
2. Overview of the ESG investment market

Table 3 describes the shifts in the scale of ESG investment assets by the respondent managers. The scale of the assets is on an increasing trend, and as of September 2015, the scale of ESG investment assets when the class was limited to listed stocks only, was 33.6 trillion yen worth of domestic stocks, and 11.9 trillion yen worth of foreign stocks. The sum of ESG investment assets including bond securities was 46.0 trillion yen. These figures greatly exceed the scale of invested assets previously believed to be attributable to ESG investment products intended for retail investors, and the core of ESG investment in Japan is estimated to be attributable to institutional investors, similar to the EU and U.S.

However, when comparing this scale of 46.0 trillion yen to the 13 trillion, 6.08 billion dollar (1,424 trillion yen) market in the EU, and the 6 trillion, 5.72 billion dollar (688 trillion yen) market in the U.S. described in Table 1, Japan appears to be lagging behind in terms of the spread of ESG investment. In the developed countries, the inclusion of pension funds into ESG investment (which have a duty of stewardship) has advanced the undertaking of ESG investing by investment managers. Even in Japan, the Government Pension Investment Fund (GPIF) which manages public pension assets signed the UNPRI in September 2015[12], has led to attention being placed on ESG investing in the context of the future of asset management in Japan.

12 http://www.gpif.go.jp/topics/2015/pdf/0928_signatory_UN_PRI.pdf

Table 3 Shifts in the scale of Japanese ESG investments



Source: Prepared by the Company based on the results of the questionnaire survey

3. Shares of ESG investments by approach

Our questionnaire survey asked for the total value of the participants' assets devoted to ESG investments as well as asset utilization by investment approach. With respect to the listed stock, Table 4 displays the total amount of ESG investment by approach, as well as the share of each total asset value. In addition to the results of our survey, Table 4 also provides a side-by-side listing of the EU and U.S. aggregate data compiled in footnote 5 by the GSIA's 2014 Report. Here, the total assets and the sum attributable by each approach differ because of the overlap arising from cases such as the adoption of multiple ESG investment approaches by the same fund. Another approach was identified in the answers from Japan, which was adopted by 11 of 15 institutions.

Even when assessing each approach, the Japanese ESG investment market exhibits different trends than the EU and U.S. markets, where the primary ESG investment approach in Japan was found to be engagement/proxy voting. We can highlight on this backdrop that investment managers have exercised proxy voting held in the past as well. Investment managers were required to disclose the results of their proxy voting after 2010 in accordance with industry regulations placed by the Investment Advisers Association and this change is believed to have stimulated their active proxy voting. In addition, Japan's Stewardship Code which was announced in 2014 expected institutional investors to be engaged, and the increased number of institutional investors adopting the Code has also had a strong influence in the expansion of engagement/proxy voting. Table 5 shows the information pertaining to the growth of assets devoted to engagement/proxy voting following the start of self-regulation by industry groups and the announcement of Japan’s Stewardship Code.

Negative screening is the most widely used method of approach in the EU, whereas in the U.S it is the second most widely used method, but in Japan its implementation has been limited. A proposed reason for this is because institutional investors are legally prohibited to invest into companies involved in the manufacturing of cluster bombs in some European countries , as well as the presence of asset owners in the U.S. such as church funds which do not invest in stocks related to “tobacco”, “alcohol”, or “Sudan”. In contrast, there is no legal policy or asset owner in Japan demanding negative screening.

Only companies involved in the manufacturing of cluster bombs were excluded from the investments of Japanese investment managers which was observed in 3 of 15 respondents. The reasons for this include Japan's ratification of the Oslo Convention, which prohibits investments in companies involved in the production of cluster bombs, and the frequent publication by overseas NGOs about Japanese financial institutions who invest in such companies . Although other sectors such as nuclear power and other specialized industries were also rated as “negative” by the respondents, there were no data that could be directly excluded from the investments.

ESG integration is an ESG investment approach that is most widely used in the U.S, and the second most widely used in EU. Beneficiary demand is also a contributing factor in a manner similar to the increase in institutions that have signed the UNPRI, which prescribes the incorporation of ESG concerns into investment decision-making, as well as how ESG stock investing by pension funds has become a requirement of trade unions in some EU nations. However, this approach has never advanced beyond limited adoption in Japan.

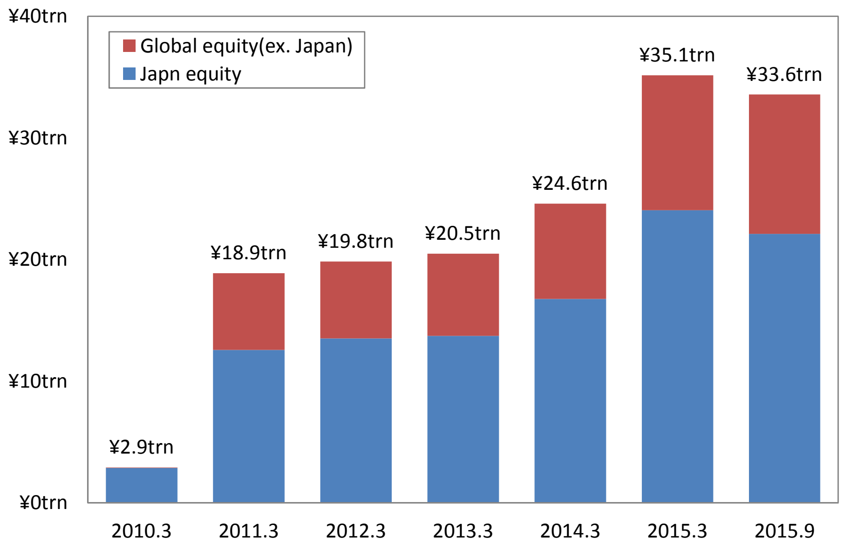
Table 4 Prevalence of ESG investment approaches by country/region (Sept. 2015)

	Corporate Engagement and Shareholder Action	ESG Integration	Negative/ exclusionary screening	Sustainability themed investing	Positive/ best-in-class screening	Norms-based screening	Impact/ community investing	(Over-lapping)
Japan	85%	9%	6%	0%	0%	0%	0%	8%
Europe	17%	27%	35%	0%	2%	19%	0%	49%
United States	15%	41%	39%	0%	4%	0%	1%	43%

Note:Those percenteges ignore duplication and non-respondent effect. Europe and the United States are tabulated by GSIA data. Approach definitions and survey years might not be standaized across regions.

Source: Prepared by the Company based on the GSIA “2014 Global Sustainable Investment Review”

Table 5 Shifts in the scale of assets utilized by engagement/exercise of voting rights in Japan



Source: Prepared by the Company based on the results of the questionnaire survey

4. Personnel structure

When practicing ESG investing, since various approaches as shown in table 2 as well as operations associated with those said approaches exist, we conducted investigations on the actual situation of staff allocated in Japan. ESG investment fund managers are required when managing the assets under their control in accordance with the ideas of ESG. ESG research analysts are staff employed by investment managers who conduct independent investigations on the actual ESG condition of individual companies. Although the attributes and universe of scale of a given target company will differ, the number of staff needed increases due to the need to review and consider each ESG-related voting proposal and implement proxy voting. In addition, staff must also be devoted to shareholder engagements for conducting engagement activities as a shareholder such as attending meetings with the investee companies.

Table 6 displays the results of respondents' answers to our inquiries regarding the number of personnel that are placed in full-time or full-time equivalent positions at their managers. Cases where personnel worked in multiple positions were rounded down to the nearest decimal point in the respondents' answers. 10 of 15 respondents reported that employees were allocated to operations related to proxy voting, which was the most frequent response. The median and mean values were both high with respect to ESG investment fund managers. Respondents also reported devoting a certain number of staff to shareholder engagement, due to some influence from Japan’s Stewardship Code in 2014, which encourages engagement by institutional investors.

Table 6 Personnel structure for Japanese ESG investments
(full-time staff/total respondents, Sept. 2015)

	Number of Organizations with ESG staff	Number of Staff (FTE)			
		Median	Average	Max	Min
ESG Investment Fund Manager	8	1.5	2.6	15.0	0.0
ESG Research Analyst[1)]	5	0.0	1.4	11.0	0.0
Proxy Voting	10	1.0	1.5	6.0	0.0
Shareholder Engagement[1)]	8	0.7	1.0	3.0	0.0

Note: A respondent who counts all analyts in a firm as ESG staff because every anlayst involves ESG activities somehow, is excluded.

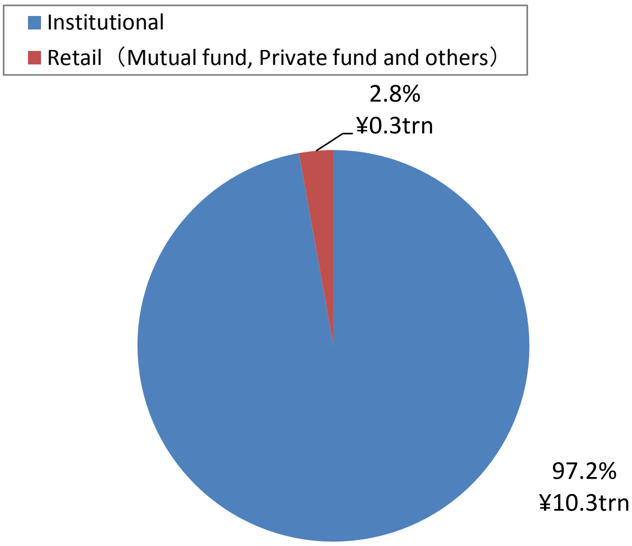
Source: Prepared by the Company based on the results of the questionnaire survey

5. Client characteristics

To date, institutional investors were believed to not be actively engaged in ESG investment activities, as suggested by surveys focused on the Japanese ESG investment market primarily targeting investment products geared towards individual investors. However, the Japanese ESG investment market has expanded in recent years in areas other than individual-focused investment products, such as the increase in engagement/proxy voting activities, as shown in Table 5.

Table 7 describes the characteristics of the clients of the responding institutions. Institutional investors comprised 97.2% (10.3 trillion yen), while individual investors comprised 2.8% (0.3 trillion yen). Even though only 10 out of the 15 institutions surveyed were responsive to the questions concerning client characteristics, and although this differs from the scale of assets described in Table 3, the core of ESG investments in Japan appeared to be attributable to institutional investors based on our responses related to client characteristics as well, contrary to the conventional understanding.

Figure 7 Share of assets by client characteristic of Japanese investment managers (Sept. 2015)



Note: Since the reply of the client attribute serves as 10 in 15 respondents organization, it differs from the numerical value of the figure 3.

Source: Prepared by the Company based on the results of the questionnaire survey

6. Materiality tracked by domestic ESG investors

Materiality is a widely accepted concept among ESG investors that has become an issue of focus in the world of asset management. The concept of materiality in this context is that non-financial factors included within the fields of the environment, social issues, and corporate governance can have a significant impact on financial factors. Identifying the materiality from a broad range of non-financial issues is important in ESG investing.

In this investigation, we asked respondents to freely describe the materiality they are considering in their ESG investments. Table 8 displays the materiality concerns within each field of ESG with respect to the investment targets highlighted by the respondents. 11 of 15 respondents provided specific materiality concerns. In compiling the results, materiality concerns with similar meanings were considered to be the same.

When looking at the materiality concerns with a large number of respondents, those drawing public attention seemed to stand out. In the environmental field, issues related to greenhouse gases and climate change, as well as closely related issues such as energy efficiency, waste management, and enterprises' environmental competitiveness were most prevalent. In the social field, the effective use of human resources, occupational safety, support of minorities such as women, labor conditions in supply chains and a healthy relationship with contractors comprised the most responses. In the governance field, issues regarding the board structure comprised the most responses. This has also been addressed in the Corporate Governance Code, which is a topic that has attracted attention in the asset management industry. Reviewing the respondents' individual answers regarding the board structure revealed that external directors and auditors, and board system such as separation between supervision and execution were concerns for many respondents. In addition, one institution indicated female directors as a concern. Other concerns in the governance field that stood out included executive compensation, internal controls, and whistle blowing systems.

Table 8 Materiality in ESG investment by Japanese investment institutions

ESG	Materiality	num
Environmental	GHG/Climate Change	7
	Energy Effiency	5
	Waste Management	5
	Business Environmental Competitiveness	5
	Environmental Pollution	4
	Environmental Legal Risk	3
	Concern for Biodiversity and Ecosystem	3
	Water Efficiency	2
	Conflic Mineral	1
Social	Effectiveness of Human Capital	6
	Labour Safety	5
	Minority Support (Inc. Women)	5
	Labor Condition in Supply Chains	5
	Prudent Trade Relationship	5
	Human Resource Development	4
	Retention Ratio	3
	CSR through Business	2
	Bid-rigging and Cartel Prevenion	2
	Child Labor	2
	Consumer Protection	2
	Philanthropy	2
	Social Security Cost Control	1
Governance	Board Composition	8
	Non-executive Directors and Auditors	6
	Board System (e.g. Separation of Supervision and Execution)	5
	Female directors	1
	Executive Compensation	4
	Internal control, Whistle-blower System	4
	Returning to Shareholders and Stakeholders	3
	Risk Management	3
	Response to Corporate Misconducts	3
	Corporate Philosophy	3
	Bribery and Fraud	2
	Shareholder and Stakeholder Dialogue	2
	Disclosures	2
	Capital Efficiency (ROIC)	1
	Anti-takeover Measures	1
	Ownership Structure	1
	Succession Planning	1

Source: Prepared by the Company based on the results of the questionnaire survey

There were some institutions that responded "focus on elements affecting the financial condition of the company" without referring to a specific materiality concern. These are aspects of materiality designated specifically for a given company to focus on. With regard to the International Integrated Reporting Framework (which is a guideline for preparing annual reports integrating ESG factors), establishing materiality concerns specific to each company is being recommended[13], and the thought process of materiality being different depending on the characteristics of the business, is being reflected as becoming mainstream in recent years..

7. Initiatives participated in by domestic ESG investors

A vital portion of engagement/proxy voting activity by the major ESG investment approaches described in Table 2 is comprised of a method referred to as "collective engagement (collaboration)". This method promotes the improvement of ESG factors such as information disclosure in a target company by getting groups of institutional investors that invest in multiple companies to cooperate and exert influence. Initiatives that gather parties that share common ideas are tools used in implementing the collective engagement

As our investigation targeted those managers that are UNPRI signatories, the managers that provided a response are all UNPRI signatories. Table 9 shows the participation by respondents in the initiatives other than those by UNPRI. 10 of 15 respondents reported participating in initiatives other than those by UNPRI. The most respondents reported adopting the Principles for Financial Action for the 21st Century (6 institutions) by the Ministry of the Environment. 193 institutions were recorded as having adopted the Principles since March 2015.

The initiative with the second most participation by respondents was Japan's Stewardship Code, introduced by the Financial Services Agency of Japan. 201 institutions were recorded as having adopted the Code by the end of November 2015. The International Corporate Governance Network (ICGN), which is an international initiative by institutional investors for the purpose of promoting corporate governance, also follows this principle. Other initiatives include domestic efforts such as the JSIF, and overseas initiatives include the CDP, which promotes the disclosure of climate change-related information by companies that has gathered participation by a couple of managers.

[13] http://integratedreporting.org/wp-content/uploads/2015/03/International_IR_Framework_JP.pdf

Table 9　The participation in initiatives by Japanese UNPRI signatories

Initiative	num
Principles for Financial Action for the 21st Century, by Ministry of the Environment (Japan)	6
Japan's Stewardship Code, by Financial Services Agency (Japan)	3
ICGN(The International Corporate Governance Network)	3
CDP	2
JSIF（Japan Sustainable Investment Forum）	2
ACGA（Asian Corporate Governance Association）	1
Environmental Information Disclosure Platform Making Project 2015, by Ministry of the Environment (Japan)	1
Montreal Carbon Pledge	1
Forum of Investors Japan, by Ministry of Economy, Trade and Industry (Japan)	1
Sustainability Investment Forum of Japan, by Ministry of the Environment (Japan)	1
UN Global Compact	1
UNEP Finance Initiative	1

Source: Prepared by the Company based on the results of the questionnaire survey

8.　KPIs related to the promotion and success of women tracked by domestic ESG investors

Quantitative indicators are useful for investors to actually evaluate companies with respect to materiality as discussed previously. These indicators are called Key Performance Indicators (KPI).

The importance of diversity within companies has long been touted both in Japan and overseas. National policies such as "Abenomics" have also recognized the promotion and success of women in companies as an important topic. Thus, we asked respondents to freely describe the KPIs they have adopted to track the promotion and success of women in order to learn what specific factors are used to evaluate the promotion and success of women by institutional investors within companies.

Table 10 provides information from respondents related to KPIs concerning the promotion and success of women by ESG investments.　Similar answers were counted together as the same KPI, just like the materiality of data shown in Table 8. 6 of 15 respondents reported utilizing specific KPIs, despite all respondents being UNPRI signatories actively engaged in ESG investments. This result indicated the number of managers that have adopted KPIs related to the promotion and success of women is a minority.

In examining the breakdown of KPI adoption, the largest number of respondents reported having adopted KPIs related to the ratio of female employees, as well as the number and ratio of female managers and female board members related to female leadership roles, was 4 managers. 3 managers also reported utilizing other KPIs related to the ratio and number of female executive managers.

Figure 10 KPIs related to the promotion and success of women at Japanese investment managers

KPI	A	B	C	D	E	F
Female employment rate of graduates				○		
Female employee ratio	○		○	○	○	
Female manager ratio	○			○	○	○
Business management officer female raito, Executive Director female ratio and headcount	○			○	○	
Female director ratio and headcount	○	○		○	○	
Institutions to support balance of work and life, such as childcare				○		○
Existence of a diversity policy						○
Existence of special diversity depertment						○
Existence of management training for a woman				○		

Source: Prepared by the Company based on the results of the questionnaire survey

9. Conclusion

Based on the results of a questionnaire survey of Japanese domestic investment institutions that have signed the UNPRI, this paper revealed the actual state of ESG investments in Japan's institutional investors, which until now had not been clarified. The results of our survey revealed that the scale of ESG investment assets held by respondent institutions was 46.0 trillion yen, far higher in comparison to the previously understood total value of assets devoted to financial products for individual investors of 0.8 trillion yen.

Additionally, examining the scale of assets utilized by each ESG investment approach reveals that the engagement/proxy voting was the predominant approach; this may be the result of the impact of widespread acceptance in Japan of proxy voting as a fiduciary duty of investment managers as well as Japan's Stewardship Code devised and announced in 2014, which sought after the practice of engagement by investment managers. On the other hand, negative screening which encompasses the largest segment of assets invested in the EU and the United States, does not carry a particularly sizable share of the assets invested in Japan. The absence of a legal framework in Japan prohibiting the investment into companies related to the manufacturing of cluster bombs, in addition to pressure from asset holders to refrain from investing into specialized industries can be highlighted under this backdrop.

Examining the personnel structures utilized by investment managers active in ESG investment revealed that a relatively large number of employees were devoted to ESG fund management and operations related to proxy voting, while a certain number of personnel were placed in the developmental fields such as research and engagement with individual companies as well. Even when looking at the characteristics of the clientele of the investment managers, ESG investments are primarily made up of institutional investors, while the share attributable to individual investors was small.

The ESG field that gathered the most attention by the responding investment managers was the materiality involving the structure of the board of directors within the governance field. The next ESG field which stood out as indicated by the respondents were social topics gathering a lot of public attention such as issues related to greenhouse gases and climate change in the environmental field. A review of the participation by respondents in initiatives other than those related to UNPRI revealed that the most prevalent initiatives were the Principles for Financial Action for the 21st Century (6 institutions), Japan’s Stewardship Code (3 institutions), and various initiatives introduced by the Japanese government. The organization that garnered the second-highest number of participation from respondents alongside Japan’s Stewardship Code was the International Corporate Governance Network (ICGN), an entity that works to organize institutional investors that strive to advance principles of corporate governance. With regard to KPIs related to the promotion and success of women, 6 of the 15 responding managers indicated having adopted such KPIs. Further, 4 of these respondents reported having adopted KPIs related to the ratio of female employees, and female presence on management and board. It is the first time these results of this investigation have been revealed, and although these findings are not exhaustive, we believe that this information will be helpful in gaining at least a broad understanding of the state of ESG investments in Japan. For the future, broadening the range of our research, as well as elucidating the same level of information as other developed countries such as EU and the United States will become necessary to establish a basis for discussing the implementation of ESG investment.

Improving the comprehensiveness and accuracy of the range of our survey has been proposed as future tasks for this investigation. For example, a method of determining the scale of the ESG investment market could consist of an assessment of both asset owners and investment managers while eliminating the duplicates. However, in order to conduct such an investigation in Japan, both institutional investors and main investigators would likely need to continue their endeavors, while allowing for the accumulation of results.　We also believe there is a need to investigate specifically how materiality and KPIs that have been revealed by this research are being utilized.

Lastly, we would like to express our gratitude to each investment managers that cooperated with our investigation.

End of Report