JSIF

White Paper on Sustainable Investment in Japan

Japan Sustainable Investment Forum

2020

Japan Sustainable Investment Forum (JSIF)

JSIF's Sustainable Investment Standards

Sustainable investment is investment that considers environmental, social, and governance (ESG) factors in the investment analysis and investment portfolio decision-making process while taking into account the sustainability of the investment.

White Paper on Sustainable Investment in Japan 2020

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1 Sustainable Investment Survey 2020

Review of the JSIF Sustainable Investment Survey Results

Japan's Sustainable Investment Balance at Approximately ¥310.0 Trillion

According to the results of the 2020 Sustainable Investment Survey conducted by the Japan Sustainable Investment Forum (JSIF), Japan's sustainable investment balance was ¥310.0 trillion, a decrease of ¥26.0 trillion compared with the 2019 survey. The proportion of sustainable investment in total assets under management was 51.6%, a decline of 4.3%. The number of institutions included in the calculation of these figures rose to 47, up from 43 in 2019.

However, a different picture emerges when we view the balance by sustainable investment strategy. Year on year, ESG integration increased ¥27.4 trillion, to ¥204.9 trillion (up 15.4%), positive screening rose ¥2.9 trillion, to ¥14.6 trillion (up 25.3%), while sustainability-themed investment and impact investment climbed ¥4.6 trillion, to a combined total of ¥8.1 trillion (up 135.3%).

The past year has seen progress in joint initiatives with companies for engaging the United Nations Sustainable Development Goals (SDGs), as institutional investors strengthened their sustainable investment in practical terms. There was also progress in information disclosure by companies. In addition, sustainable investment grew significantly in financial products for individual investors.

The 2020 Japan Sustainable Investment White Paper focuses on topics of great interest, including recent impact finance trends, the impact of COVID-19 on investors and the exercise of voting rights, and sustainable real estate investment trends. Investment management companies that are JSIF members have contributed articles discussing the impact of COVID-19 on investors. We have also provided an explanation on the definition of ESG investment.

Factors Behind the Sustainable Investment Balance Decrease

When looked at by asset class, the factors behind the decrease in the sustainable investment balance are clear. The balance for Japanese stocks was ¥97.8 trillion, a decline of ¥30.0 trillion compared with 2019, while the balance for non-Japanese stocks decreased ¥31.3 trillion, to ¥50.1 trillion, a significant decline. The percentage of total funds under management accounted for by sustainable investment also fell from 55.9% in 2019 to 51.6% in 2020.

In terms of investment management strategy, exercising voting rights and engagement declined ¥19.8 trillion and ¥31.4 trillion, respectively. The slump in the Tokyo stock market and other major markets around the world from the second half of February 2020 through to the end of March due to the spread of COVID-19 played a major role in these declines in the 2020 survey calculations. Although stock prices subsequently recovered to reach record highs at the end of 2020, the slump across markets as a whole in March had a significant impact, as most of the institutional investors responding to this survey calculate their balances at the end of March, which is the end of the fiscal year. At the end of March 2020, the TOPIX, S&P 500, and EURO STOXX 50 indices were down 11.8%, 8.8%, and 16.9% year on year, respectively. Meanwhile, the market capitalization of the First Section of the Tokyo Stock Exchange at the end of March was down 11.3% year on year.

On the other hand, still looking at the balance by sustainable investment strategy, there were increases across the board, except for exercising voting rights and engagement, which were likely to have been affected by the slump in stock prices. In particular, ESG integration increased ¥27.4 trillion, up 15.4% year on year. Positive/best-in-class screening was up 25.3%, sustainability-themed investment jumped 131.3%, negative screening edged up 2.3%, and norms-based screening rose 10.7%.

Driving Force for the Increase in Sustainable Investment in Real Terms

Stock markets slumped temporarily because of the impact of COVID-19 on economies around the world. Subsequently, stock prices recovered to reach record highs at the end of 2020 as extensive monetary-easing measures were taken on a global scale. Speaking hypothetically, if we assume the TOPIX stock market at the end of March 2020 had been at the same level as it was at the end of March 2019, ESG integration would have grown 28.1%. Even though it did not grow compared with the growth seen during the preceding three years, it still continued to increase in real terms.

In terms of asset class, the vigorous growth in bonds of 406.0% year on year and the substantial increase in private equity (PE) of 514.0%, although limited in amount, stood out in last year's report. While not growing as strongly in 2020, bonds grew 23.2%, while real estate expanded 20.5% following last year's increase of 46.0%. Meanwhile, in terms of investment strategies, ESG integration increased 15.4%, positive/best-in-class screening was up 25.3%, while sustainability-themed investment jumped 131.3%.

In the past few years, there has been a conspicuous trend pertaining to sustainable investment in many assets other than stocks. This growth gained traction in 2020, though the growth rate seems to have abated compared with 2019, with the exception of that of sustainability-themed investment.

We made minor changes to some questions when sending out the 2020 survey, as follows. We did so to reflect our belief that institutional investors have expanded their sustainability initiatives.

1. As sustainability-themed investment and impact investment had been minor strategies in Japan, we had hitherto combined them in a single category when asking about these strategies. However, following the clarification of the definition of impact investment in the "Concept Paper on Impact Finance" published by the Ministry of the Environment in July 2020, we set impact investment as a separate category in the 2020 survey questions.

2. We divided the question on sustainability-themed investment into the three categories of stock investment, bond investment, and other assets. At 205.0%, stock investment grew significantly, but bond investment grew only 3.6%.

3. We newly established balances by type for bond investment. The balances for supranational bonds, corporate bonds, municipal bonds, and government bonds were ¥637.8 billion, ¥243.3 billion, ¥68.3 billion, and ¥18.2 billion, respectively.

4. Although negative screening leveled off in the 2020 survey compared with the previous year, it had increased sharply in the 2019 survey. Therefore, in this year's survey, we included a question on the reasons for the increase in negative screening and received the following responses.
   - Increased due to the clarification of responsible investment policy
   - Increased due to the establishment of a new fund for conducting negative screening
   - Increased due to the launch of negative screening for bonds

5. We asked about the norms being applied regarding norms-based screening. In response, the conventions mentioned were the Ottawa Treaty (1997) and the Oslo Convention (2008). Others included the UN Global Compact, OECD guidelines, and trade restrictions by the UN Security Council.

6. For engagement, we asked about examples of specific themes by ESG category.

7. Although we did not change the question on initiatives, 27 institutions (an increase of 17 year on year) responded by saying that they are signatories to, and participants in, the Task Force on Climate-related Financial Disclosures (TCFD). Other initiatives mentioned in responses were the Japan Stewardship Initiative (seven institutions), the 30% Club Investor Group (four institutions), Climate Action 100+ (three institutions), the Asian Corporate Governance Association (three institutions), and the Japan Climate Initiative (three institutions).

Challenges Going Forward

In the past year or two, an approach incorporating a sustainable perspective has become widespread in Japan, not only in investment but also more broadly in finance, including lending. In relation to this development, JSIF believes there are many challenges to be addressed, including the following.

1) Clarifying the Definition of ESG Investment

In Japan, where indirect finance plays a major role, the spread of sustainable finance and impact finance is highly remarkable. However, I am concerned that there is some confusion regarding the use of the term "ESG investment." As promoting the correct use of this term is an important issue, we have devoted a chapter in this white paper to establishing a definition of ESG investment.

2) The EU's Taxonomy Screening Criteria and Japan's Response

In four subcommittees, the European Commission's (EC) Technical Expert Group (TEG) on Sustainable Finance has examined (1) taxonomy, (2) an EU Green Bond Standard, (3) low-carbon benchmarks, and (4) non-financial disclosure guidelines, and published the TAXONOMY Technical Report in June 2019. Going forward, the TEG will advance discussions at the International Platform on Sustainable Finance, which was launched in October 2019, and advise the EU regarding matters such as the development of taxonomy technical screening criteria and policy development. Japan must understand these guidelines and reflect them in its own initiatives.

3) The EU Ecolabel for Retail Financial Products and the Need for Initiatives in Japan

The EU has published the draft of its ecolabel for sustainable financial products for individuals based on the Sustainable Finance Action Plan (SFAP). The EU ecolabel is a criterion indicating the environmental assessment of consumer products, excluding food items and medicinal products. The financial products covered by the draft include stocks, bonds, investment trusts, life insurance, and eco-deposits. Publication of the final version is slated for the first quarter of 2021. As discussed

in chapter 2 of this white paper, "Sustainable Investment in Financial Products for Individuals," it has recently become more difficult to ascertain which funds are for sustainable investment in investment trusts created for retail investors in Japan. While perhaps differing from the EU draft, it is likely Japan will require some form of criteria in this regard. To this end, investment trusts must clearly disclose their sustainability policies and initiatives while being required to disclose information including analyses on the relation between those policies and initiatives and investment results.

4) Discussion on the Mandatory and Non-Mandatory Disclosure of Non-Financial Information

In November 2020, it was announced that the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) would merge to form the Value Reporting Foundation in mid-2021. Meanwhile, in September 2020, the International Financial Reporting Standards (IFRS) Foundation, which creates global standards for financial reporting, published a consultation paper for discussion on a global approach to sustainability and whether the IFRS Foundation should play a role. I believe the progress of these discussions on the mandatory and non-mandatory disclosure of financial and non-financial information will affect Japan. Revisions to "Cabinet Office Ordinance on Disclosure of Information, etc. on Regulated Securities" are underway, while the issue of how to disclose ESG information that can be used as a key performance indicator (KPI) is expected to come to the fore going forward. I hope companies will make proactive efforts to address this issue.

5) Non-Ratification of Conventions of the ILO Declaration on Fundamental Principles and Rights at Work

In October 2020, Japan formulated its National Action Plan on Business and Human Rights. Meanwhile, the Principles for Responsible Investment (PRI) has begun to examine whether to include a business and human rights category in the annual reporting categories from its signatory institutions. Going forward, companies will be increasingly required to disclose information regarding human rights. JSIF participated in the deliberation committee to formulate the National Action Plan on Business and Human Rights. In regard to the non-ratification of the Abolition of Forced Labour Convention (No. 105) and the Discrimination (Employment and Occupation) Convention (No. 111) of the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work, committee members expressed the strong opinion that Japan should ratify these conventions.

Ultimately, the action plan only went as far as to state that Japan "would make continuous and sustained efforts toward pursuing the ratification of the Fundamental ILO Conventions and other conventions that are recognized as appropriate for ratification." It surprised me to learn that a significant number of people, including those involved in sustainable investment, were unaware that Japan has yet to ratify these conventions. I believe the lack of a clear explanation for non-ratification and the absence of public discussion on the issue are responsible for this lack of awareness. Wage disparities and the fact that public employees do not have the right to strike appear to be the reasons for non-ratification of these two conventions. However, as they were not ratified when other conventions were in the 1960s, one wonders if they ever will. We are now in an era when this matter could be resolved through domestic legislation and the introduction of such approaches as occupation-based wages. Japan should recommence discussions on the non-ratified conventions from the perspective of "business and human rights" in relation to the international competitiveness of Japanese companies, rather than not ratifying them because of certain, special limited exceptions. Six of the 10 principles of the United Nations Global Compact are related to human rights and labor, while the number of companies and organizations that are full members of the Global Compact Network Japan numbered 385 as at January 2021. There are also companies that clearly express their endorsement of all eight Fundamental ILO Conventions and refer to compliance therewith in their codes of conduct for officers and employees. Overseas, the COVID-19 pandemic has prompted the focusing of even more attention on working conditions and human rights in supply chains. I believe we must urgently carry out concrete discussions on these issues.

6) Issues Addressed by JSIF's Working Groups

Today, JSIF has three working groups (subcommittees), the initiatives of which are among JSIF's challenges. The three working groups address 1) public stewardship, which entails engagement and public comment with respect to government agencies and the Japan Exchange Group, 2) the integration of sustainability into financial education, which covers training for investment management companies and financial education provided at elementary and junior high schools, and 3) surveys of sustainable investment conditions, which involve improving the disclosure of the sustainable investment initiatives of investment management companies.

JSIF has been focusing its efforts on financial education over

the past three years. Although COVID-19, revisions, and other factors have delayed the Japanese version of the PRI Academy, it is scheduled for launch early in the new fiscal year. I believe the introductory course of the PRI Academy's curriculum will also be informative for the wider public. The basic and advanced courses will be useful for specialists at investment management companies, financial institutions, and other entities to gain basic knowledge. JSIF has also created an educational material with Kinzai Co., Ltd., "An Introduction to the SDGs for Implementing ESG Finance." The course is for those in charge of sales and underwriting of products at financial institutions to learn basic approaches and practices. In addition, JAPAN POST BANK Co., Ltd. implements visiting lectures on financial education for elementary and junior high schools and has created educational materials pertaining to knowledge about money. A JSIF subcommittee cooperated with JAPAN POST BANK in the preparation of an explanatory leaflet regarding ESG issues for inserting in these materials.

7) ESG Issues Originating in Japan

Almost all ESG issues originate in Europe or the United States. Yet, ESG issues should be discussed in light of the actual circumstances in each country around the world. I am sure that engagement by Japan's institutional investors to advance initiatives referencing global ESG issues originating in Europe and the United States is beneficial to Japanese companies and institutional investors. Considerable progress has been made in these efforts over the past two or three years. To proceed to the next stage, it is time to communicate ESG issues originating in Japan to global investors. One such issue that I believe could be suitable is the health and productivity management initiative. Japan has a solid foundation compared with other countries, as the structure of its health insurance system is widespread. Moreover, the Ministry of Economy, Trade and Industry has been carrying out questionnaire-based initiatives since 2015 to popularize health and productivity management and has accumulated over six years' worth of data in collected results. Currently, use of this data is limited to analysis by certain academic experts and other parties. However, the time is surely right for investors to use this data and incorporate it into active and passive ESG investment. Fortunately, investors have been involved in creating the questionnaires from the outset, a large portion of which covers data that has potential for use in investment. Recently, we have seen a significant increase in ESG investment trusts. Unfortunately, however, these trusts target global rather than Japanese stocks. While the right timing may be necessary, institutional investors could make it easier for the Ministry of Economy, Trade and Industry to provide the data by speaking up on the matter. I have hopes for its use in pension funds and exchange-traded funds that are based on long-term investment. Initiatives by companies and their supply chains in regard to the workstyles and wellbeing of employees have captured worldwide attention due to COVID-19. I am of the opinion there is a strong possibility that overseas pension funds could accept health and productivity management as an ESG initiative unique to Japan.

I believe JSIF is now able to identify detailed and specific ESG issues in this manner as the initiatives of Japanese institutional investors have become more oriented toward ESG investment over the past three years. Some initiatives of institutional investors in Japan in ESG investment have caught up with those of Europe and the United States. I believe that improving the quality of such initiatives will be a challenge going forward. At least in the Japanese market, there is no doubt that, in another three years or so, institutional investors will emerge that are more advanced in terms of the content and disclosure of their initiatives than overseas institutional investors.

Various government offices are taking proactive steps to achieve the 2050 carbon neutral target set by the Suga administration. Meanwhile, in corporate initiatives Japan leads the world for the number of companies supporting the TCFD recommendations and the number of companies to have been awarded 'A' scores for climate change and water security by the Carbon Disclosure Project. The activities of the newly installed Biden administration in the United States will also be a focus of attention. I am certain that initiatives by Japan's investors and companies will progress further over the next few years.

March 2021
Masaru Arai, Chair
NPO Japan Sustainable Investment Forum (JSIF)

Survey Distribution Methods

JSIF e-mailed survey requests to institutions for which it could verify contact information. The PRI Japan Network also assisted with distribution to domestic PRI signatories. Forty-five institutions responded. JSIF also estimated figures for two other institutions based on publicly available data and added these to the sustainable investment balance. Thus, this year's survey amounts reflect the investment balances of a total of 47 institutions (45 respondents and two estimates).

Institutions That Provided Investment Balances for the Sustainable Investment Survey

All 45 Respondent Institutions

- AD Investment Management Co., Ltd.
- Amundi Japan Ltd.
- Asahi Life Asset Management Co., Ltd.
- Asahi Mutual Life Insurance Company
- Asset Management One Co., Ltd.
- Comgest Asset Management Japan Ltd.
- Daido Life Insurance Company
- The Dai-ichi Life Insurance Company, Limited
- Daiwa Asset Management Co. Ltd.
- Daiwa House Asset Management Co., Ltd.
- DBJ Asset Management Co., Ltd.
- Fukoku Capital Management, Inc.
- Invesco Global Real Estate Asia Pacific, Inc.
- Japan Post Insurance Co., Ltd.
- Japan REIT Advisors Co. Ltd.
- J-STAR Co., Ltd.
- Meiji Yasuda Life Insurance Company
- Mitsubishi UFJ Kokusai Asset Management Co., Ltd.
- Mitsubishi UFJ Trust and Banking Corporation
- MS&AD Insurance Group Holdings, Inc.
- MU Investments Co., Ltd.
- Nippon Life Insurance Company
- Nippon Value Investors KK
- Nissay Asset Management Corporation
- NN Investment Partners (Japan) Co., Ltd.
- Nomura Asset Management Co., Ltd.
- Nomura Real Estate Asset Management Co., Ltd.
- Norinchukin Zenkyoren Asset Management Co., Ltd.
- Prologis REIT Management K.K.
- Resona Asset Management Co., Ltd.
- Secom Pension Fund
- Sekisui House Asset Management, Ltd.
- Sompo Asset Management Co., Ltd.
- Sompo Japan Nipponkoa Asset Management Co., Ltd.
- Sompo Japan Insurance Inc.
- Sophia University
- SPARX Asset Management Co., Ltd.
- Sumitomo Mitsui DS Asset Management Company, Limited
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- Taiyo Life Insurance Company
- T&D Asset Management Co., Ltd.
- Tokio Marine Asset Management Co., Ltd.
- Tokio Marine & Nichido Fire Insurance Co., Ltd.
- Two respondent institutions did not wish to have their company names published.

Institutions Included in Calculations Based on Publicly Available Information

- Government Pension Investment Fund (GPIF)
- Pension Fund Association for Local Government Officials

Previous Results

Overview

	2018	2019	2020
Total Sustainable Investment Balance (Millions of yen)	231,952,250	336,039,620	310,039,275
Sustainable Investment as Percentage of Total Assets under Management	41.7%	55.9%	51.6%
Number of Respondents	42	43	47

Sustainable Investment Balance by Investment Management Method

(Millions of yen)

	2018	2019	2020
ESG Integration	121,511,832	177,544,149	204,958,018
Positive Screening	6,425,278	11,685,122	14,643,189
Sustainability-Themed Investment	2,014,546	3,454,089	7,988,505
Impact Investment			140,363
Exercising Voting Rights	132,034,774	187,435,331	167,597,095
Engagement and Shareholder Proposals	140,754,582	218,614,475	187,170,342
Negative Screening	17,328,216	132,232,671	135,263,369
Norms-Based Screening	31,604,106	25,560,889	28,308,180

Sustainable Investment Balance by Asset Class

(Millions of yen)

	2018	2019	2020
Japanese Stocks	137,385,115	127,883,665	97,844,264
Non-Japanese Stocks	80,482,008	81,545,344	50,166,491
Bonds	28,891,704	146,178,377	180,123,263
Private Equity (PE)	281,901	1,732,175	1,129,313
Real Estate	4,637,032	6,775,910	8,162,100
Loans	10,236,320	10,455,582	10,421,862
Other	4,718,818	6,321,161	10,401,896

Notes: 1. The sustainable investment balances were calculated by avoiding duplication of the investment balances of investment managers and asset owners to the greatest extent possible. However, due to the difficulty of their calculations, the sustainable investment balances by investment management method and asset class are duplications of amounts entrusted to investment managers and amounts entrusted by asset owners. Moreover, multiple answers to the investment management method also contributed to the duplicate amounts, while some institutions did not specify the asset class. As a result, the sum of sustainable investment balance by investment management method and sustainable investment balance by asset class does not amount to the total sustainable investment balance.

2. We have included Government Pension Investment Fund (GPIF) amounts in calculations for the survey based on publicly available information. *FY2019 ESG Report*, published by GPIF, states that all assets under its management fall under the category of ESG-oriented investment. Nevertheless, in continuance with the previous year, we have excluded a total of ¥27.6 trillion from the survey calculations regarding private Japanese bonds (¥22.3 trillion), short-term assets (¥4.4 trillion), and investment and loan bonds (¥896.2 billion). We have excluded these amounts because Japanese Government Bonds account for the majority of GPIF's Japanese bonds under management; because JSIF believes that GPIF cannot efficiently conduct ESG integration and engagement in those bonds; and because GPIF has not yet published the details of these initiatives.

Survey Results

Survey questions can be found at:
https://japansif.com/JSIFsurvey2020qa.pdf (Japanese only)

Q1 (This question has been omitted as it pertains to a code for identifying respondent institutions.)

Although the responses to the following questions are basically those of 47 institutions (45 respondent institutions and two institutions for which estimates were conducted), the "total" given for each item reflects the number of institutions that answered the question, as some institutions did not respond to specific questions.

Q2 Please describe your role pertaining to capital management and capital structure.

Choices	2019	2020
Asset Owner	15	15
Investment Manager	28	32
Asset Owner and Investment Manager (both apply)	1	0
Total	44	47

The total number of respondent institutions was 45. Besides these, JSIF added to its calculations the investment balance figures for two asset owners based on publicly available information.

Q3 Which of the following initiatives have you adopted or are involved in?

Choices	2019	2020
Principles for Responsible Investment (PRI)	38	40
Equator Principles	2	2
Principles for Financial Action for the 21st Century (PFA21)	18	19
Principles for Sustainable Insurance (PSI)	3	3
Principles for Responsible Banking (PRB)	0	0
Carbon Disclosure Project (CDP)	14	12
ICGN (The International Corporate Governance Network)	10	10
Montreal Carbon Pledge	5	4
United Nations Environment Programme Finance Initiative (UNEP FI)	8	6
Task Force on Climate-related Financial Disclosures (TCFD)	10	27
United Nations (UN) Global Compact	9	10
Climate Action 100+	5	11

- The Task Force on Climate-related Financial Disclosures (TCFD), United Nations (UN) Global Compact, and Climate Action 100+ were added to the list of choices in the "Other" category for the 2019 survey.
- In "Other" responses, initiatives mentioned by several institutions were the Japan Stewardship Initiative (seven institutions), 30% Club Investor Group (four institutions), Climate Action 100+ (three institutions), Asian Corporate Governance Association (three institutions), and Japan Climate Initiative (three institutions).

Q4 Have you declared adoption of Japan's Stewardship Code?

Choices	2019	2020
YES	34	36
NO	10	11
Total	44	47

Q5 Do you have a formal policy on sustainable investment (ESG investment, responsible investment, etc.) specific to your organization?

Choices	2019	2020
YES	40	44
NO (currently in development)	2	1
NO (intention to discuss policy development)	1	0
NO (no plan for policy development)	0	0
Total	43	45

As it was unclear whether one institution included in the survey by JSIF based on publicly available information had such a formal policy, we did not include that institution in the total.

Q6 This is a question for institutions that answered "YES" to Q5. Is that policy publicly disclosed?

Choices	2019	2020
YES (disclosed to the public)	36	41
YES (disclosed only to clients and subscribers)	1	2
NO	1	2
Total	38	45

Q7 Are you engaged in sustainable investment (ESG investment, responsible investment, etc.)?

Choices	2019	2020
YES	44	45
NO (currently making preparations)	0	0
NO (intention to discuss implementation)	0	1
NO (no plan for implementation)	0	1
Total	44	47

While the two REITs answered "NO" to this question, both institutions replied "YES" to Q8. The "NO" answers are believed to apply to equity investments.

Q8 Are you able to disclose to us your sustainable investment balance under management?

Choices	2019	2020
YES	41	45
NO	3	2
Total	44	47

We included in the "NO" column the two institutions for which we calculated sustainable investment balance data based on publicly available information.

Q9 Q9–Q13 are on sustainable investment balances.

	2019	2020
Total Sustainable Investment Balance (Millions of yen)	336,039,620	310,039,275
Percentage of Total Funds under Management	55.9%	51.6%
Number of Respondent Institutions	43	47

Method for calculating sustainable investment balance

To avoid duplication of the investment amounts provided by asset managers and asset owners to the greatest extent possible, the ¥79,359,295 million trust amount from the pension funds of institutions that responded based on their role as investment managers was deducted from the total sustainable investment balance of ¥389,398,570 million for the 47 institutions.
¥389,398,570 million – ¥79,359,295 million = ¥310,039,275 million

Method for calculating sustainable investment balance as a percentage of total assets under management

Total assets under management for the 47 institutions were ¥754,997,547 million. Accordingly, the sustainable investment balance as a percentage of total assets under management was calculated as follows:
¥389,398,570 million ÷ ¥754,997,547 million = 51.6%

Data Collection Period

While we requested responses for the period ended March 31, 2020 as a general rule, we also accepted responses for other periods. Sustainable investment balances for those periods are included in the total. In Q10, we asked for those periods and amounts that fall outside the period ended March 31, 2020. The breakdown is as follows:

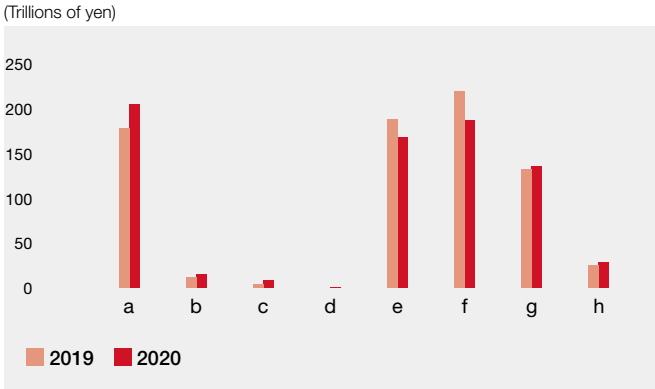
(Millions of yen)

End of December 2019	61,862,852
End of May 2020	1,357,641
End of June 2020	22,371,608
End of July 2020	3,172,643
End of August 2020	78,452
Total	88,843,196

Q14 If permitted, please tell us the proportion of the amount indicated in Q9 allocated to each of the asset management methods listed below.

(Millions of yen)

	Choices	2019	2020	% Change
a	ESG Integration	177,544,149	204,958,018	15.4%
b	Positive (Best-in-Class) Screening	11,685,122	14,643,189	25.3%
c	Sustainability-Themed Investment	3,454,089	7,988,505	131.3%
d	Impact Investment	–	140,363	–
e	Exercising Voting Rights	187,435,331	167,597,095	–10.6%
f	Engagement	218,614,475	187,170,342	–14.4%
g	Negative Screening	132,232,671	135,263,369	2.3%
h	Norms-Based Screening	25,560,889	28,308,180	10.7%



Impact investment has been added to the list of choices for questions specific to investment management method as a result of the clear definition of impact finance contained within the Concept Paper on Impact Finance, released by the Ministry of the Environment (MOE) in July 2020.

Notes: 1. In calculating the total sustainable investment balance, we have avoided duplication as much as possible. However, since it is difficult to determine the balance by investment management method, the figure contains a duplication of the trust amounts of investment management companies and the amounts entrusted by pension funds. Additionally, as there is some duplication because of multiple answers, the total for each investment management method is inconsistent with the total amount stated in Q9.

2. We divided the question on sustainability-themed investment into the three categories of equity investments, bond investments, and other assets. The breakdown is as follows:

(Millions of yen)

	2019	2020	% Change
Equity Investments	938,889	2,863,374	205.0%
Bond Investments	1,155,024	1,197,070	3.6%
Other Assets	1,360,176	3,928,061	188.8%

Defining investment methods

JSIF partially modified definitions based on Global Sustainable Investment Alliance (GSIA) calculation methods, the international standard, to reflect current conditions in Japan.

① ESG Integration

The investment that systematically incorporates ESG (environmental, social, and corporate governance) factors into regular management processes (e.g., ESG evaluation, screening, and due diligence prior to investment, and monitoring and engagement after investment)

② Positive/Best-in-Class Screening

Investment in corporations and other entities with high ESG-related ratings after comparing them with other corporations in the same industry

③ Sustainability-Themed Investment

- Equities: Investment that focuses on sustainability themes such as renewable energy, environmental technology, agriculture, empowerment of women, and the Sustainable Development Goals (SDGs)
- Bonds: Investment that focuses on sustainability themes such as green bonds and vaccine bonds
- Other assets: Sustainability-themed investment other than equity and bond investment (e.g., real estate investment, etc.)

④ Impact Investment

A type of investment that fulfills the following four conditions:

① Intended to adequately mitigate and manage significantly negative impacts on the environment, society, and economy while making a positive impact on one or more of these elements

② Assess and monitor impacts

③ Disclose details on the results of impact assessment and monitoring

④ Pursue an appropriate risk-return balance for each financial institution and investor over the medium to long term (based on the definition of impact finance provided by the MOE's Positive Impact Finance Task Force)

⑤ Exercising Voting Rights

Exercising voting rights

* Not limited to exercising voting rights regarding ESG
* Include judgments on the exercising of voting rights entrusted to voting advisory companies

⑥ Engagement

Engaging in constructive dialogues with corporations as a shareholder based on engagement policies or submitting shareholder proposals

⑦ Negative Screening

Abstention from investment in specific industries or corporations based on ethical, social, or environmental reasons

Note: The screening of investments that exclude companies with poor ESG ratings should be categorized as positive screening. Negative screening is a strategy that abstains from investing in such stocks by excluding them from the investment universe. Meanwhile, positive screening is generally utilized to determine the inclusion of stocks upon assessing a company's ESG factors during the screening and decision-making processes of investments. (The stocks to be excluded will automatically be decided once the stocks to be included are determined through positive screening.)

⑧ Norms-Based Screening

Investment based on standards set by international organizations (OECD, ILO, UNICEF, etc.) (e.g., abstention from investment in corporations affiliated with cluster munitions based on the Oslo Convention)

Q15 For those that provided an investment amount for Sustainability-Themed Investment 2 (Bond Investment) in Q14, what type of bond investment have you made? Please provide a breakdown or percentage of the amount if possible.

(Millions of yen)

International Agency Bonds	637,804
Corporate Bonds	243,389
Municipal Bonds	68,357
Japanese Government Bonds	18,280

Q15 has been newly added to specifically assess bond investments.

Q16 For institutions that provided a figure for sustainability-themed investment (other assets) in Q14, please provide a breakdown of that figure.

(Millions of yen)

Real Estate Investment	2,572,122
Other	940,386

Q17 For those that provided an investment amount for Impact Investments in Q14, where (website URL, etc.) did you disclose details on the results of impact assessments and monitoring? Please provide specific examples if possible.

This question is intended to confirm whether or not information has been disclosed in accordance with the requirement to "③ disclose details on the results of impact assessments and monitoring" of impact investments in the aforementioned definition of asset management methods.

Of the seven institutions that provided impact investment amounts in Q14, two of them have already disclosed the information while one has carried out its investment and will disclose the information at a later date.

Q18 For institutions that provided an investment amount for negative screening in Q14, if permitted, please disclose the criteria being applied.

Respondents provided the following as specific exclusion criteria.

- Corporations that have engaged in antisocial conduct
- Corporations that contribute to the manufacture or sale of inhumane weapons (cluster munitions, anti-personnel mines, and biological and chemical weapons)
- Corporations that engage in coal-fired power generation and coal extraction activities (particularly for new investments)

Q19 According to last year's survey, the investment amount for negative screening soared 663% over the year before. For those that have seen a rise in the amount for negative screening from the previous year, please provide the reasons and details for this increase.

This question has been added on the grounds that the investment amount for negative screening remained unchanged from that of the previous year based on the 2020 survey, while it grew dramatically according to the 2019 survey. The following were specifically mentioned as the reasons for the difference.

- Clarification of responsible investment policy
- Establishment of new funds for negative screening
- Commencement of negative screening for bond investments

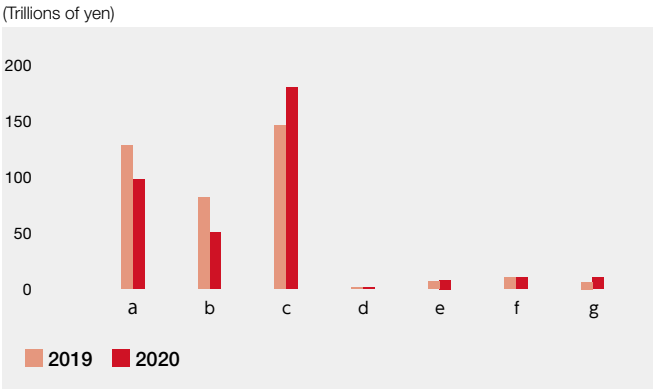
Q20 For institutions that provided an investment amount for norms-based screening in Q14, if permitted, please disclose the norms being applied.

The Ottawa Treaty (1997) and the Oslo Convention (2008) were also mentioned. In addition, trade restrictions and other measures enforced by the United Nations Security Council, the United Nations Global Compact, and the OECD Guidelines were put forward.

Q21 If permitted, please provide the breakdown in asset classes for the figure provided in Q9.

(Millions of yen)

	Choices	2019	2020	% Change
a	Japanese Stocks	127,883,665	97,844,264	–23.5%
b	Non-Japanese Stocks	81,545,344	50,166,491	–38.5%
c	Bonds	146,178,377	180,123,263	23.2%
d	Private Equity (PE)	1,732,175	1,129,313	–34.8%
e	Real Estate	6,775,910	8,162,100	20.5%
f	Loans	10,455,582	10,421,862	–0.3%
g	Other	6,321,161	10,401,896	64.6%



Note: We have avoided duplication as much as possible in calculating the total sustainable investment balance. However, since it is difficult to distinguish sustainable investment balances by asset class, the amount given contains a duplication of the trust amounts of investment management companies and the amounts entrusted by pension funds. For this reason, totals for each asset class are inconsistent with those for Q9.

Q22 If permitted, please provide specific asset classes and their totals for those that listed a balance in the "other" category in Q21.

Respondents provided the following as specific examples of "other" asset classes.

- Balanced funds
- Alternative
- Environmentally oriented REITs
- Investment in Renewable Energy Infrastructure

Q23 In the past year, how many domestic and international companies did you have engagement or purposeful dialogue with, as stipulated by Japan's Stewardship Code? Please exclude the exercising of voting rights.

Number of Companies	2019	2020
Under 100	6	7
100 to 500	8	11
500 to 1,000	7	6
Over 1,000	5	3

Q24 If permitted, please provide specific examples of engagement themes (multiple responses allowed).

Responses to environment-related engagement themes

Most responses concerned the extent of awareness of the issues surrounding climate change and the environment and the risks and opportunities they pose to corporate value over the medium to long term and whether this was being addressed, while also requesting improvements to information disclosure on this issue. More specifically, the responses concerned efforts toward the disclosure of greenhouse gas emissions and their reduction, marine plastic pollution issues, and responses to the TCFD.

Responses to society-related engagement themes

The most common responses continue to concern work environment initiatives, such as the cultivation of human resources, diversity, and responses to labor shortages. Added to such responses this year was the ensuring of employee safety due to the ongoing spread of the COVID-19 pandemic. There were also responses in regard to the supply chain and contributions to regional revitalization and local communities.

Responses to governance-related engagement themes

The most common responses concerned the effectiveness of the board of directors, policies on strategic shareholdings and parent–subsidiary listings going forward, and approaches to shareholder returns.

Q25 Please provide us with some commentary for disclosure pertaining to the systematic evaluation processes used in managing the amounts indicated in the previous questions (e.g., "ESG is implemented by the ESG evaluation team"; "screening is conducted through the use of outside assessment bodies or analytic data"; etc.). Alternatively, please provide a URL that gives access to disclosure materials.

We received responses from 34 institutions, of which 20 supplied URLs. These websites are accessible to the public.

Q26 The names of companies and funds that provided sustainable investment balances are to be disclosed in the report for this survey. Please let us know if you prefer that this information not be published.

Choices	Number of Responses
Agree to be disclosed	43
Prefer not to be disclosed	2
Added to calculations from publicly available information	2
Total	47

2 Sustainable Investment Related to Financial Products for Individuals

Originally, the investment balance of financial products for individuals was to be reported at the end of March 2020, to match the reference date for the sustainable investment survey for institutional investors; however, due to major changes that have taken place since that date, reporting is based on figures up to September 2020.

The total amount for investment trusts and bonds in each quarter from the end of March 2017 (covered in the previous white paper) to the end of June 2020 remained between ¥700.0 billion and ¥900.0 billion. However, this amount made a sharp spike upward as of the end of September 2020, to ¥1.8 trillion. (Figure 1-2-1)

This rapid increase was due to the Global ESG High Quality Growth Equity Fund, launched in July 2020, exceeding ¥600.0 billion in total net assets.

Figure 1-2-1: Investment Trust and Bond Totals
(Billions of yen)

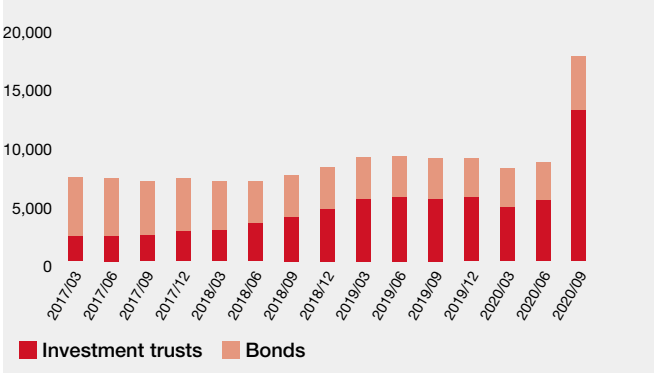
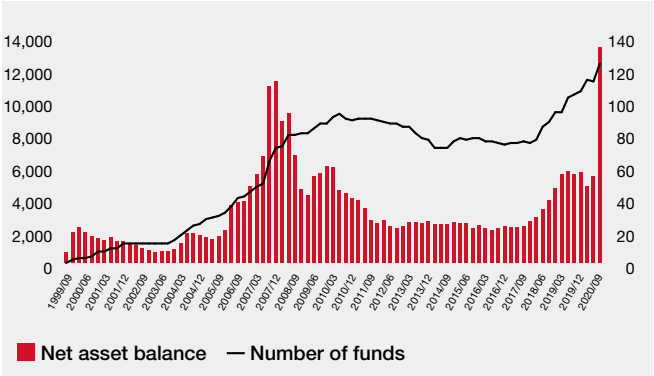


Figure 1-2-2: Total Net Assets of Investment Trusts and Number of Funds
(Billions of yen) (Number of trusts)



While several asset managers have stated that they will incorporate ESG-related issues in their decision-making processes for all equity investments, the belief is that utilizing the name of a fund or its prospectus published upon establishment is limited, both as a method for selecting a fund that engages in sustainable investment and as a basis for collecting statistical data.

For example, a fund established on September 30, 2016, the Global High Quality Growth Fund, was not included in statistics, despite being part of the same series as the Global ESG High Quality Growth Equity Fund, the cause of the aforementioned rise in the balance. However, the difference between these two investment trusts is not always clear when judging from monthly reports and other forms of disclosure post-establishment.

While it is notable that investment trust balances have been aggregated under these same conditions for many years, this method is gradually losing its efficacy. While improvements are necessary, effective measures are yet to be found.

As for bonds, the previous white paper put forth a bias toward issuing high-interest bonds in the currencies of emerging countries as a point of concern. However, in recent times there has been a rapid increase in bonds issued in Japanese yen*. Nevertheless, it is important to note that some yen-denominated bonds are issued as structured bonds with complicated conditions, and that these bonds may carry different risks from those associated with bonds issued in the currencies of emerging countries.

Investment trusts and bonds are aggregated quarterly and published on the JSIF website, so please refer there for details on the products included in the statistics.

Yoshitaka Yoshida

* Of the ¥195.2 billion worth of bonds sold from January to December 2020, ¥182.4 billion was denominated in yen.

3 Definition of ESG Investment

ESG investment has expanded to encompass a wide range of assets, including shares, bonds, private equity, real estate, and alternative assets. In addition, sustainable bonds and loans have also become established means of raising funds for companies and local governments. As a result, there have been several parties in finance engaged in a myriad of discussions over ESG investment in recent years. One point brought up amid these discussions is the notion that the term "ESG investment" is not always used correctly. At first, the belief was that this was a problem limited to statements and papers released by some NPOs, consultants, and government offices. However, there are also entities that have become involved in ESG investment relatively recently, including institutional investors, and consequently may not understand the term as well. Therefore, we have broken down and recast what is implied in this term with the hope that this explanation may be used as a reference in later discussions.

One source of confusion is the fact that the term "ESG investment," or "ESG investing," is in general use in Japan, whereas it is not typically used overseas, particularly among experts. Instead, the preferred terms outside of Japan are "ESG integration" and "ESG incorporation." These words, "integration" and "incorporation," have important meanings, but they are not well understood in Japan, therefore, the term "ESG investment" has taken root. The result is that the meanings of "integration" and "incorporation," which are part of the original terms, are no longer included, and that only some experts understand that these aspects are an integral part of ESG investment.

Over the last few years, active discussions centered in Europe have taken place regarding taxonomy. These discussions have mainly been part of an effort to clarify what counts as "green" and what does not. In response, the Global Sustainable Investment Alliance (GSIA), composed of major sustainable investment organizations in major countries around the world, has also reaffirmed its classification of sustainable investment methods. Classifications, definitions, and aggregated results put forth by the GSIA are utilized worldwide.

The classifications determined under the Principles for Responsible Investment (PRI) are also crucial when talking about ESG investment, since the PRI are the driving force behind spreading the concept and efforts of ESG integration and ESG incorporation. The GSIA engages in regular meetings with the PRI, and reaffirmed classifications during meetings in 2020.

As JSIF participated in these meetings as a member of the GSIA, the information presented in this white paper is based on the discussions held during said meetings as well as on classifications by both the PRI and GSIA.

PRI Classification

The PRI was established in 2006 to encourage the inclusion of ESG-related issues into investment processes, with a primary focus on pension funds and other asset owners. PRI signatory institutions include asset owners such as pension funds and insurance companies that possess their own investment funds, asset managers who are entrusted with and manage such funds, and service providers that offer information services related to investment indices and finance.

There are six Principles for Responsible Investment.

1. **We will incorporate ESG issues into investment analysis and decision-making processes.**
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress toward implementing the Principles.

Signatories are required to report their activities to PRI annually, based on the reporting framework. The terminology used under this framework is collected in the document "PRI Reporting Framework Main Definitions," published in November 2018.

In that document, terms used for reporting are classified and defined, of which the relevant entries are summarized below.

① ESG Incorporation

Principle 1 of the PRI calls for the incorporation of ESG issues into investment analysis and decision-making processes. Under the PRI reporting framework, "ESG incorporation" refers to the review and use of ESG information in the investment decision-making process.

The reporting framework addresses four ways in which this can be achieved.

1. Screening
2. Sustainability-themed investment (also referred to as environmentally and socially themed investment)
3. Integration of ESG issues
4. A combination of the above

Assets subject to an engagement approach only and not subject to any of the above strategies should not be included in ESG incorporation.

To improve standardization and communication in the responsible investment industry, the PRI is aligning its definitions with those of the GSIA.

The definitions of the three types of screening highlighted by the integrated reporting framework are defined below.

Investment Screening

a. Negative / Exclusionary Screening

The exclusion from a fund or portfolio of certain sectors, companies, or practices based on specific ESG criteria

b. Positive / Best-in-Class Screening

Investment in sectors, companies, or projects selected for positive ESG performance relative to industry peers

c. Norms-Based Screening

Screening of investments against minimum standards of business practice based on international norms

Sustainability-Themed Investing

Investment in themes or assets specifically related to sustainability (for example, clean energy, green technology, or sustainable agriculture)

Integration of ESG Issues

The systematic and explicit inclusion of material ESG factors in investment analysis and investment decisions

② Active Ownership and Engagement

Active ownership and engagement, referred to in **Principle 2**, are defined in this section.

Active Ownership

Active ownership is the use of the rights and position of ownership to influence the activity or behavior of investees. This can be applied differently in each asset class. For listed equities, it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g., fixed income), engagement may still be relevant while (proxy) voting may not.

Engagement

Engagement refers to interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) regarding ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.

(Proxy) Voting and Shareholder Resolutions

Voting refers to voting on management and/or shareholder resolutions as well as filing shareholder resolutions at a general shareholders' meeting. This includes the proposal of shareholder resolutions.

GSIA Classification

The GSIA has established the following seven classifications. The definition of each classification has been omitted in order to avoid confusion. However, definitions are essentially the same as PRI definitions despite slight differences in wording.

Figure 1-3-1

GSIA Classification	
Sustainable investment	ESG integration
	Corporate engagement and shareholder action
	Norms-based screening
	Negative / exclusionary screening
	Positive / best-in-class screening
	Sustainability-themed investing
	Impact / community investing

Comparison of PRI and GSIA ESG-Related Investment Methods

The following table organizes and compares the classifications put forth by the PRI and GSIA.

Figure 1-3-2

PRI Classification			Number
Principle 1	ESG Incorporation	Negative / exclusionary screening Positive / best-in-class screening	1
		Norms-based screening	2
		Sustainability-themed investing	3
		Integration of ESG-related issues	4
Principle 2	Active Ownership	Engagement	5
		Exercise of Voting Rights	6

GSIA Classification		PRI Classification Corresponding Number
Sustainable investment	ESG integration	4
	Corporate engagement and shareholder action	5, 6*1
	Norms-based screening	2
	Negative / exclusionary screening	1
	Positive / best-in-class screening	1
	Sustainability-themed investing	3
	Impact / community investing	*2, 3

*1 The GSIA classifications treat engagement and the exercise of voting rights as sustainable investment strategies, but the PRI classification lists them under Principle 2, and not as ESG incorporation.

*2 The corresponding PRI classifications listed above are true for active strategies, however, in the section on passive strategies in the document "PRI Reporting Framework Main Definitions," microfinance and impact investing are treated as sustainability-themed investing.

*3 The term "community investing" is not utilized in PRI definitions.

① ESG Incorporation and Sustainable Investment

The terms "ESG incorporation" and "ESG integration" have the following differences as they pertain to ESG, the focus of this chapter.

- PRI classifications use both the terms "ESG incorporation" and "ESG integration" (Principle 1), whereas the GSIA only uses the latter term, which is utilized in the same manner.
- The GSIA does not use the term "ESG incorporation" in its classifications. The GSIA uses the term "sustainable investment" to describe investment strategies as a whole, and engagement and exercise of voting rights, which fall under Principle 2 of the PRI, are also included as a sustainable investment strategy.
- PRI classifications cover four investment methods that achieve ESG incorporation under Principle 1, one of which is ESG integration.
- Investment strategies categorized under ESG incorporation fulfill PRI Principle 1. Engagement and exercise of voting rights are not categorized as ESG incorporation, and are instead included under active ownership, which is aimed at fulfilling Principle 2. In other words, investment strategies that involve only engagement or exercise of voting rights are not considered ESG incorporation.

② Impact Investing

Another difference is related to impact / community investing. As of late, impact investing is a topic of much discussion in Japan. This is true overseas as well.

- While the GRI includes impact / community investing as sustainable investment strategies, the PRI does not include it as ESG incorporation.
- In "PRI Reporting Framework Main Definitions," the section on passive strategies categorizes impact investing and microfinance as sustainability-themed investments.
- As explained on the PRI website and in other documents, the reason why impact investing is not included under ESG incorporation is that impact investing traditionally emphasizes results in terms of impact, and does not necessarily consider risk and return profile. Recently, however, some pension funds are not excluding impact investing as a form of ESG incorporation, and have worked toward such investments within the risk and return profile of their portfolios.

- To understand what is happening here, one must know that the goal of the PRI is to promote the inclusion of ESG-related issues in investment processes. Fiduciary duty and the prudent person rule are core responsibilities for trustees of pension funds. Without going into detail, incorporating ESG-related factors into investment decisions was previously thought to sacrifice investment returns, which acted as a bottleneck for ESG incorporation into pension funds. Now that the PRI's activities have become widespread and understood, however, there has been a reverse of this perception to the point where neglecting ESG could be considered a breach of fiduciary duty. With that said, pension funds are still not allowed to sacrifice returns.
- As times have changed, pension funds have also taken up impact investing, but at this time they are investing within the range of their risk-return profile that fulfills their fiduciary duty. I personally believe that the PRI may revise its classifications and definitions somewhat going forward.
- On the other hand, impact investing has long been a part of the GSIA's classifications. SIFs have followed the trends in sustainable investment since the 1920s, when it was referred to as socially responsible investment. Since its establishment in 1991, UKSIF (UK Sustainable Investment and Finance Association) has covered major investment strategies used throughout history, including those employed by investors outside of the pension sector.

Summary and Recommendations

This is a good point to return to the term used in Japan, "ESG investment." The term came into use due to the unfamiliarity with the terms "ESG integration" and "ESG incorporation." However, the ambiguity of the term "ESG investment" has led to a growing number of people who do not realize the meaning of integration and investment implied therewith. This has brought about the following developments in recent years.

- Increasingly, the term "ESG investment" is discussed without being clear as to whether it refers to "ESG integration" or "ESG incorporation."
- While opportunities to discuss impact investing are on the rise, it is not understood that impact investing does not fall under PRI classification, outside of certain passive cases. However, impact investing that fulfills fiduciary duty is being discussed.

In closing, I, personally, would like to make a proposal.

- I would like financial experts to have a clear understanding of "ESG integration" and "ESG incorporation" (i.e., sustainable investment), and to discuss the two concepts properly.
- When having discussions that are not limited to financial experts, perhaps it would be useful to distinguish between "ESG investment in the narrow sense" and "ESG investment in the broad sense."

Basically, "ESG investment in the narrow sense" would be synonymous with the PRI's definition of ESG integration, whereas "ESG investment in the broad sense" would be akin to the PRI's definition of ESG incorporation (or the GSIA's definition of sustainable investment, which has some minor differences).

There are two reasons for this proposal.

① First, it looks like it will be difficult to stop non-financial experts from using the term "ESG investment" from here on out.
② Second, when people currently use the term "ESG investment," they are typically referring to "ESG investment in the broad sense," so it is not such a difficult change to make.

When rigorous discussion is required, there should be awareness of both "ESG investment in a narrow sense" and "ESG investment in a broad sense."

- When discussing impact investing, attention should be given to whether an investment is aimed at a certain investor, such as a pension fund, as well as to the degree of impact and return sought.
- Furthermore, "impact" has become an important part of ESG investment as of late; however, clarification is now needed regarding the impact achieved by the various investment strategies included under "ESG investment in the broad sense," and it must be noted that this is not the same as impact investing strategy.

Masaru Arai

Section 2

1. Impact Finance
2. The Influence of the COVID-19 Pandemic on Investors
   - Sumitomo Mitsui Trust Asset Management Co., Ltd.
   - Nissay Asset Management Corporation
   - Asset Management One Co., Ltd.
   - AXA Investment Managers
3. Engagement and Stewardship
4. Trends in Sustainable Real Estate Investment

1 Impact Finance

1. The Fundamental Idea behind Impact Finance

In July 2020, the Ministry of the Environment published a report entitled "Concept Paper on Impact Finance." This was the first accomplishment of the first Positive Impact Finance Task Force, which was established under the ESG Finance High-Level Panel.

The ESG Finance High-Level Panel was established in February 2019 as a place for discussions about ESG financing by leading members of the finance and investment industries. At the second meeting, held in March 2020, two task forces were created under the panel with the aim of substantially implementing its activities: the ESG Regional Finance Task Force and the Positive Impact Finance Task Force. The purpose of the latter is to form the concept of impact finance in order to popularize it throughout Japan and provide guidelines for conducting actual impact assessment.

After the "Concept Paper on Impact Finance" was made public by the Ministry of the Environment, it was submitted to the Third ESG Finance High-Level Panel in October 2020. After reviewing the report and accepting its findings, the high-level panel adopted "Declaration on Creating Positive Impact through Deepening ESG Finance" and declared, among other statements, "in order to create a positive impact on the environment and society through ESG finance, each financial body will work with essential stakeholders to popularize and implement impact finance." We will introduce the main points of the report below.

(1) Fundamental Stance

The "Concept Paper on Impact Finance" was created with the following three stances that constitute a basic policy. The first stance is international mutual recognition. As many approaches and initiatives in the fields of impact finance and impact investing already exist, rather than creating something not particularly worthwhile or making proposals that do not reflect global financial and investment trends, we have formulated fundamental ideas that are applicable to a variety of initiatives.

The second stance is to respect independent approaches. Since impact finance is still a developing field, we are aiming to further develop this field through global market participants' optional and independent approaches, not mandatory requirements.

The third stance is to consider impact finance from the perspective of Japanese companies. In the future, it is hoped that impact finance will be increasingly adopted by all participants, including those involved in regional finance. However, at present impact finance is expected to become a standard component of business activities because of major financial institutions and institutional investors that possess abundant financial and human capital. In order to make it easier for these entities to incorporate impact finance into their core business activities, consideration was given to circumstances specific to Japan.

(2) Definition of Impact Finance

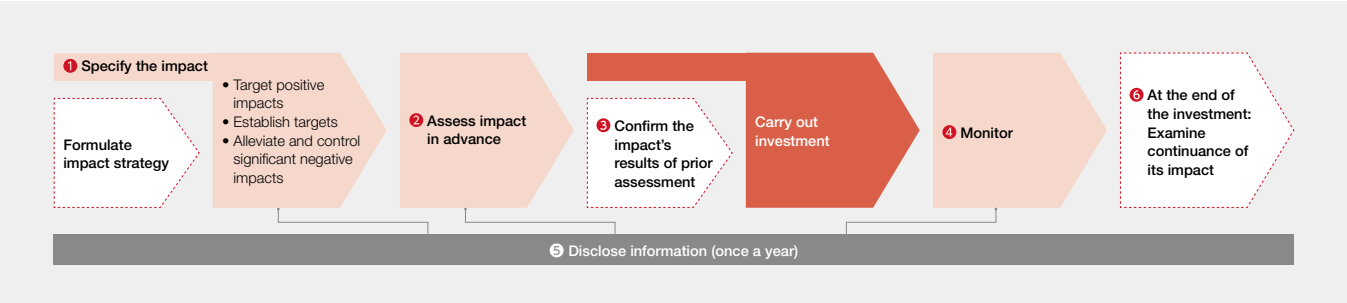
The United Nations Environment Programme Finance Initiative's Principles for Positive Impact Finance (UNEP FI) define positive impact finance as that which serves to finance positive impact business and serves to deliver a positive contribution to one or more of the three pillars of sustainable development—economic, environmental, and social—once any potential negative impacts to any thereof have been duly identified and mitigated. Additionally, the Global Impact Investing Network defines impact investing as investments made with the intention of generating positive, measurable social and environmental impacts alongside a financial return.

Based on these definitions, the report frames impact finance in terms of four components: (i) appropriately manage negative impacts, with the intention of creating positive impacts, (ii) assess and monitor these impacts, (iii) disclose information on said impacts, and (iv) ensure appropriate risk–return profiles.

(3) The Basic Flow of Impact Finance

While impact finance may involve a variety of investment and loan methods and asset classes, the basic flow common to all of them is shown in the diagram below (2-1-1). In other words, before making an investment, financial institutions and investors identify the impact of the investment and make an assessment ex-ante, continue monitoring as the ex-post assessment throughout the period of an investment or loan, and disclose the information.

Figure 2-1-1 The Basic Flow of Impact Finance



Source: Taken from p.11 of the Ministry of the Environment's "Concept Paper on Impact Finance"

2. Types of Impact Finance

What has become apparent during discussions by the task forces is the sheer size of the concept of impact finance. In the report, there are two types of impact finance: "comprehensively grasping the diverse impacts of a company" and "targeting specific positive impacts on a project or fund basis."

Investing in privately owned companies whose direct mission is resolving certain social issues is probably the most widely regarded function of impact finance. However, such an action alone will not be enough to increase the size of the market. This is where impact investing funds that target listed stocks come in. However, investing in listed companies operating various businesses requires a comprehensive grasp of their impacts.

In addition, in the Principles for Responsible Banking published by the UNEP FI in 2019, Principle 2 states that banks will "continuously increase positive impacts while reducing negative impacts on, and managing the risks to, people and the environment resulting from our activities, products, and services." This is where the overall impact of investing and lending becomes a problem.

Many participants want to foster impact finance within mainstream finance. But what does it mean for impact finance to become mainstream? Can we regard impact finance as a specific investment or loan product, and the growth of the market to a certain scale "mainstream"? Or, since every investment and loan has some kind of impact, should impact finance be considered an aspect of all investments and loans? Although both of these viewpoints are important, it is vital to understand that other points of view exist.

3. Future Prospects and Problems

The Positive Impact Finance Task Force will continue to work toward the development of the Green Impact Assessment Guide, which is due to be published in the first half of 2021. In the meantime, separate from the task force, the Financial Services Agency and the Global Steering Group for Impact Investment began co-hosting the Impact Investing Roundtable from June 2020. This roundtable is held approximately once every two and a half months and has already taken place three times. The founding roundtable consists of 35 members, mostly practitioners involved in impact investing, and attracts almost 100 participants at each session, including observers. In practice, the creation of listed equity impact investment funds, in addition to the practice of private equity (PE) impact investing, has been progressing, while interest in impact finance and impact investing is expected to increase in the future.

The challenge going forward is maintaining the quality of impact finance. Calling an activity impact finance through self-reporting and whether this truly produces a positive impact has become a problem. So, what kind of framework can be used to maintain quality in regard to impact finance? Ideally, a mechanism from the market for checking such quality based on extensive information disclosure would work. However, for this to happen, a prerequisite calling for appropriate impact assessment would need to be established. What does it mean to appropriately assess impacts amid diverse social and environmental issues? The evolution of impact assessment methodologies is an issue for the future.

(The author is chair of the Positive Impact Finance Task Force and the Impact Investing Roundtable. However, this report is not intended to represent either position, and any opinions expressed are the author's own.)

Takeshi Mizuguchi

2 The Influence of the COVID-19 Pandemic on Investors

In this chapter, we asked asset management companies that are members of the Japan Sustainable Investment Forum to submit written contributions based on the following three questions.

1. What kinds of ESG-related discussions have become even more important due to the COVID-19 pandemic? Examples of such discussions include changes to investment targets and policies (investment in social bonds, etc.), specific engagement issues (safety and health of employees, workstyles, etc.), and the exercising of shareholder rights.
2. Has the COVID-19 pandemic caused you to reexamine your asset management philosophy and policies and your initiatives toward sustainable investment (or do you plan to do so in the future)?
3. What important issues do you believe will have an impact on Japan going forward?

Sumitomo Mitsui Trust Asset Management Co., Ltd.

1. What kinds of ESG-related discussions have become even more important due to the COVID-19 pandemic?

Due to restrictions on the movement and actions of people resulting from the COVID-19 pandemic, a broad range of economic activities are now faced with an extremely challenging reality. In addition, the pandemic has further shed light on various social issues, such as medical treatment and poverty, on a global scale. Meanwhile, in the blink of an eye, the pandemic has also brought about changes that we previously thought would take years to occur, including new workstyles, such as teleworking, and new ways of living, as well as many irreversible changes. These changes have created opportunities for corporations to provide new value, and we believe that companies capable of providing products and services accordingly are the ones that will be able to enhance both their social and economic value. ESG before the pandemic centered on investment methods that took into account the perspective of downside risk. However, in the post-COVID-19 era, not only will the "S" (social) in "ESG" assume greater prominence, there will also be an increased focus on upside potential. We therefore expect a rise in ESG investment styles supporting companies that are able to balance the resolution of social issues with an economic return.

Also, in light of the spread of COVID-19, we are starting to see bacterial infectious diseases with antimicrobial resistance (AMR), a medical issue, emerge as a new theme for social issues. Bacterial infectious diseases with AMR occur when antibiotics are used against bacteria over a long period of time, causing the bacteria to develop a resistance thereto. This in turn causes antibiotics to lose their efficacy. Each year, approximately 700,000 people die due to the spread of such diseases, and it is believed that this number will grow if we do not take action soon. This is not simply a medical issue; it also affects livestock and fishing industries, where antibiotics are overused. In response, the Access to Medicine Foundation (based in the United Kingdom), which engages in activities to help improve access to medicine, and the FAIRR (Farm Animal Investment Risk & Return) Initiative teamed up to launch the Investor Action on Antimicrobial Resistance (AMR) Initiative. Going forward, this initiative plans to begin engagement activities with corporations that it is targeting for investment.

2. Has the COVID-19 pandemic caused you to reexamine your asset management philosophy and policies and your initiatives toward sustainable investment?

Our ESG activities boast the following three strengths: (1) the thorough investigation of ESG-related issues through collaboration between specialists from the Steward Ship Promotion Division, who are savvy in ESG matters, and analysts from the Research Management Division, who are well versed in corporate and industrial activities; (2) the incorporation of industry-leading ESG activities overseas through our participation in numerous international initiatives from the outset; and (3) one of Japan's most advanced operational structures enabling experts from our Japanese headquarters and our offices in the United Kingdom and United States to pursue ESG research and engagement on a global basis.

We have not revised our asset management philosophy and policies due to COVID-19. However, to leverage our strengths related to ESG activities under these kinds of circumstances, we are working to enhance our lineup of ESG products. We used our own capital to launch and commence operation of the Japan Impact Investment Fund in 2019 and the Global Impact Investment Fund in 2021. These funds focus on investments in corporations that clearly align their business policies over the medium to long term with the resolution of social issues and whose management are committed to resolving social issues. By investing in companies that are making more concrete contributions to the resolution of social issues, these funds aim to both resolve such issues and realize an economic return.

3. What important issues do you believe will have an impact on Japan going forward?

Climate change is one of the major themes we are focusing on within our ESG activities. We believe that making proactive

efforts to address this issue is essential for a corporation to survive and grow over the medium to long term. We signed on to the Principles for Responsible Investment (PRI) in 2006, and soon after we began serving as the lead manager of the PRI Working Group. Our participation in various international initiatives started with the PRI and continues to this day. Through these initiatives, we collaborate with asset owners and asset management companies based overseas. In addition, as a Japanese asset management company, we are simultaneously able to offer our expertise and advice and actively incorporate advanced ESG activities from overseas. Recently, as part of our PRI-related activities, we engaged in dialogue with the Brazilian government regarding environmental conservation activities in areas alongside the Amazon River. We were actually the only organization from Asia to participate in this dialogue. Moreover, as part of our efforts toward environmental conservation, we pursued engagement activities with the Indonesian government (the Indonesian ambassador to Japan) regarding the country's approval of mass revisions to mining laws that could potentially accelerate deforestation. Additionally, within the Climate Action 100+ initiative, we are participating in a steering committee comprising 10 representatives from countries around the world. Meanwhile, through our participation in a wide range of international initiatives, we have started to gain an understanding concerning the differences between global approaches and local approaches, and the COVID-19 pandemic has further amplified these differences in certain areas. To that end, as a Japanese asset management company, it is essential that we remain active on the global stage and continue to engage in thorough dialogue with organizations worldwide.

On October 26, 2020, Prime Minister Yoshihide Suga announced Japan's goal to achieve net zero greenhouse gas emissions by 2050 at his first general policy address. Until then, the Japanese government had been aiming for an 80% reduction. This bold move to now clearly indicate the year in which the country aims to achieve net zero emissions has received high praise from the international community. Leveraging the insight we have gained through our global activities, we will move forward with climate change-related engagement activities in Japan.

Stewardship Development Department
Sumitomo Mitsui Trust Asset Management Co., Ltd.

Nissay Asset Management Corporation

Growing Importance of Employee Engagement within ESG Analysis

1. Discrepancies in ESG Performance That Have Become Clear during the COVID-19 Pandemic

More and more companies are starting to consider ESG activities indispensable in achieving sustainable growth. However, there is still a firmly rooted opinion that ESG activities merely represent an additional cost to corporations. Many of those skeptical of ESG activities believed the pandemic would put a brake on corporate efforts and diminish public interest in ESG. Nonetheless, if we take a closer look at the current situation, we can see that the exact opposite is true. Many companies that are passionate about ESG have further accelerated their ESG-related initiatives even amid the pandemic, and there is now a clear difference in the stock market valuation of companies focusing on ESG and ones that are not. This difference can be seen in the share price performance within the ESG ratings that we independently assign to Japanese companies. A company's ESG rating and share price performance have hitherto tended to have a positive relationship (2-2-1, left). In addition, this relationship has become even more apparent since January 2020, when news of the COVID-19 pandemic surfaced, as illustrated by the chart on the right (2-2-1, right).

Since 2008, Nissay Asset has been independently analyzing ESG initiatives that contribute to corporate value enhancement, in order to determine how such initiatives reinforce a corporation's source for growth. By doing so, we have endeavored to ascertain corporate sustainability. Companies boasting a high ESG evaluation—or, in other words, companies with a solid foundation for growth—are able to appropriately respond to social changes and are less likely to be negatively impacted thereby. The COVID-19 pandemic has clearly highlighted the differences between companies placing ESG initiatives at the center of their management and making serious efforts accordingly and those that have approached ESG initiatives in a superficial manner.

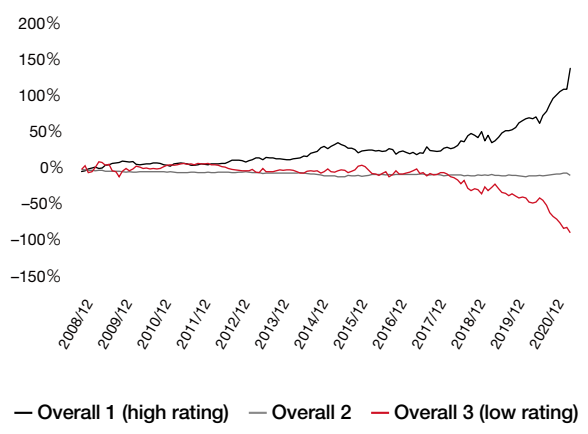
2. Growing Importance of Employee Engagement Due to COVID-19

The "S" (social) in "ESG" greatly impacts a company's ESG performance. An important concept in this regard is "employee engagement." People tend to confuse "employee engagement" with "employee satisfaction." However, it refers to "employees understanding and empathizing with the vision of a company and having an awareness regarding how they

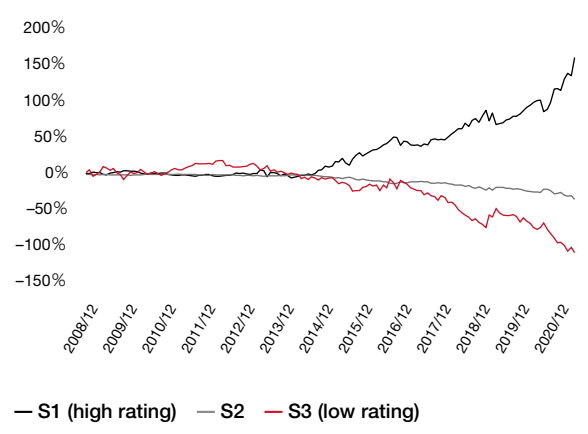
Figure 2-2-1: ESG Ratings and Stock Price Performance of Japanese Corporations

Investment Return Universe (Period: December 2008 to November 2020)

Cumulative Excess Return (Simple Average) of ESG Ratings

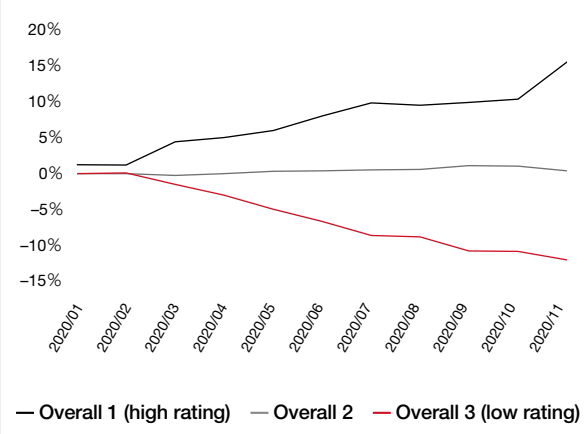


Cumulative Excess Return (Simple Average) of S-Ratings

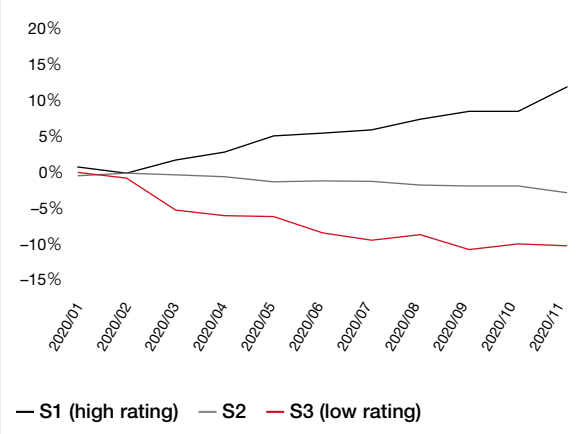


Investment Return Universe (Period: January 2020 to November 2020)

Cumulative Excess Return (Simple Average) of ESG Ratings



Cumulative Excess Return (Simple Average) of S-Ratings



Note: Cumulative excess return represents the investment return universe (calculated using the simple average method). Nissay Asset Management Corporation's ESG ratings are ranked according to three stages, in order from high to low. The data shown above represent the results of past estimates and should not be construed as a guarantee of future returns on investments due to the likelihood of their fluctuation as a result of market conditions.

Source: Prepared by Nissay Asset Management based on data provided by the Tokyo Stock Exchange

can contribute to achieving this vision on their own accord." As society as a whole is attempting to figure out what the "new normal" era will entail, in order for a corporation to respond swiftly to change, it is most important that its employees independently and proactively work toward achieving the goals clearly indicated by management. Face-to-face communication has been declining due to the ongoing dissemination of teleworking. As a result, employees are losing the experience of working in an office together, and the sense of belonging to a corporation is fading. Amid these circumstances, a key issue is figuring out how to improve employee motivation.

* Source: *Engagement: Back to Basics!—Why Engagement Has Been the Focus of Employee Awareness Surveys in the Past 10 Years*, Willis Towers Watson Public Limited Company

3. Enhancing Employee Engagement

To enhance employee engagement, it is important that a company's top management recognizes the importance of employee engagement and wholeheartedly enables such engagement as a management strategy. Furthermore, top management needs to encourage all employees to understand the company's corporate philosophy and vision and to work proactively toward realizing them.

For example, there is a company involved in the operation of websites that is very particular about employing only persons who empathize with its corporate philosophy. The company's top management also attends sales meetings and other meetings to ensure that employees are running their business operations in accordance with the aforementioned philosophy. In fact, the company is gradually rolling out new businesses that utilize the internet, and the company's high level of employee engagement is one of its sources of growth.

Some companies also have the post of chief human resource officer. In this way, companies are steadily recognizing the importance of employee engagement.

4. In Closing

In recent years, ESG has become more widespread. However, to ensure that ESG does not become just a fad, awareness of asset management performance is important for both corporations and investors. One of the keys to enhancing performance in this regard is employee engagement, and the COVID-19 pandemic has made such engagement increasingly important. As an investor, Nissay Asset will continue to thoroughly assess the human resource strategies of investee companies that lead to enhanced corporate value, while taking into account their management strategies and the business environment.

Takuya Iyoda

Asset Management One Co., Ltd.

The global spread of COVID-19, which began in early spring 2020, has still not subsided and is having a significant impact on both the economy and society. In addition, we are now also facing the challenge of transitioning to a new society brought on by this crisis while finding ways to strike a balance between further infection prevention and economic activities.

To ensure that Asset Management One fulfills its stewardship responsibility as an institutional investor under these circumstances, we made an announcement regarding our stewardships activities in early May in consideration of the impact of the COVID-19 pandemic'. These activities focus on the short-term perspective of crisis response and virus containment and the medium- to long-term perspective thereafter, and summarizes our approach to future stewardship activities from short-, medium-, and long-term stances.

Under this policy, with the aims of encouraging investee companies to operate in a manner that considers customers, employees, and society and supporting financial operations that make adherence to this policy possible, we confirmed the impact of this crisis on companies through engagement. We then flexibly applied criteria for evaluating agenda item proposals, focusing on capital allocation related to performance standards and proposals regarding the election of directors. In this way, the short-term response has been to focus on governance dialogue and voting rights. However, under the "With-COVID-19" and "Post-COVID-19" environments, we believe that dealing with environmental and social issues will become even more important.

In March 2020, the Financial Services Agency amended the Stewardship Code to specify consideration for not only governance-related issues but also issues related to the environment and society. Topics such as creating a highly resilient supply chain that takes into account various stakeholders and changing to a more diverse, flexible working style—as well as actively utilizing IT to make these changes possible—have been raised during the COVID-19 pandemic. These are high-priority issues to be addressed when considering the sustainability of Japanese companies facing a rapidly declining birth rate and aging population. Our policy is to place further focus on

climate change and other environmental issues, which are coming increasingly more important, in addition to heightening engagement in social issues such as human capital management, the supply chain, and digital transformation.

Asset Management One established a new Sustainability Investment Team (SIT) in the Investment Division. SIT, in addition to the Responsible Investment Group that has hitherto been in charge of stewardship activities, serves as a body for accelerating initiatives that address these kinds of environmental and social issues. We also established the Corporate Sustainability Office in the Corporate Division, which functions as an organization helping us promote corporate sustainability as an asset management company. SIT conducts research into whether corporate sustainability initiatives—including those that address environmental and social issues—can be a source of excess returns, as well as executing investments. The role of the Corporate Sustainability Office is to promote effective cooperation both inside and outside the company to make a positive impact on the environment and society through investment, while incorporating a sustainability perspective into its business activities. At the same time, the office engages in effective communication with various stakeholders. We are confident that the company's environmental and social initiatives will be further strengthened through this kind of organic collaboration between the Investment Division and the Corporate Division, which helps showcase the expansion of our sustainability initiatives throughout the Company.

(The details of these initiatives can be found in our 2020/2021 Stewardship Report [Japanese only]:
http://www.am-one.co.jp/img/company/36/stewardshipreports2020-2021.pdf)

Figure 2-2-2

Reponses to the crisis and recovery from Covid-19

- **Impact assessment on short-term performance**
- **Engagement on considerations for employees' health & safety, customers, suppliers and local communities in companies' capital allocation and business decisions**

Medium to long term strategies beyond the crisis

- **Turning the current challenging environment into opportunities for enhanced sustainability and resilience, through engagement on key ESG topics**

Environment	❶ Climate Change
	❷ Circular Economy
Social	❸ Human Capital Management
	❹ Digital Transformation (DX)
	❺ Supply Chain Management
	❻ Regional Development in Japan
Governance	❼ Capital Allocation
	❽ Effectiveness of the Board
	❾ Risk Management

On December 11, 2020, Asset Management One participated in the launch of a new initiative for global asset management companies—the Net Zero Asset Managers Initiative. This initiative commits to supporting the target of net-zero greenhouse gas emissions by 2050 in accordance with international efforts to limit the rise in the global average temperature to well below 2ºC, compared with pre-industrial levels, and restrict temperature rises due to global warming to 1.5ºC in order to meet the targets of the Paris Agreement.

The impact of climate change is becoming apparent in various fields and we recognize the significant role of asset management companies in accelerating the global shift to net-zero emissions.

Thus far, the Company has been utilizing engagement activities to help investee companies transition to a business model that responds to a decarbonized society. By promoting the shift to net-zero emissions in close cooperation with customers and other related organizations and by participating in the Net Zero Asset Managers Initiative as a Japanese asset management company, we will strive to appropriately fulfill our fiduciary responsibilities.

Toru Terasawa

AXA Investment Managers

COVID-19—Accelerating the Trend of Responsible Investment and Expanding Investment Opportunities for Climate Change Mitigation Measures

Initially, 2020 was expected to mark the start of the 10-year transition period toward a low-carbon society, which would be associated with responsible investment. While there were fears that the COVID-19 pandemic, which has been dealing a heavy blow to the global economy, would delay the transition to a post-carbon-based society, it has actually provided a tailwind for the trend toward responsible investment.

The Company has come to a major conclusion in regard to the impact of COVID-19: Our conviction on ESG themes has grown even stronger during this crisis. For some time, we have been involved in research and engagement related to climate change, biodiversity, human capital management, gender inequality, public health, and corporate governance. We have been able to leverage these initiatives to explore the changes that the COVID-19 pandemic may bring to the industry and our asset management methods. For example, we have been conducting research into COVID-19 bonds, carbon emissions during lockdowns, and the resilience of ESG pioneer companies during the market downturn (compared with companies that are lagging behind in ESG). This research has given us a practical opportunity to verify corporate sustainability.

Additionally, this research was also an opportunity to call on the asset management industry to contribute to the realization of "green-recovery" (environmentally conscious recovery) and consider the development of new financial products that will support the balance of building resilience against the pandemic and establishing sustainable businesses for the future.

AXA Investment Managers is earnestly promoting the transition toward a low-carbon society as an institutional investor. The Company has pledged to withdraw from coal investments in OECD countries by the end of the 2020s and in the rest of the world by 2040.

The Importance of Raising the Level of Sustainable Investment

As investors, we understand that global society is running out of time when it comes to promoting climate change countermeasures. Giving consideration to the structural energy transition that is currently underway, it is becoming more and more important to take a long-term view of low-carbon solutions. As sustainable investors, we manage the risks that accompany climate change while taking advantage of the investment opportunities presented by the energy shift.

In our experience, companies that are ahead of the curve with their responses to climate change have shown higher resilience to the challenges it poses, in comparison with companies in the same industry that are lagging behind in this regard. Both companies and investors understand the need for change, and global trends support this idea.

Individual investors and companies are searching for sustainable investment solutions. Strategies that focus on gaining the resilience needed to overcome uncertain market conditions related to both COVID-19 and climate change have been garnering attention. Previously, ESG investment was, if anything, more of a risk mitigation strategy. However, it is now also being seen as a strategy for seizing investment opportunities, especially in area of climate change. In this manner, investors' long-term investment goals are being substantially integrated with urgent climate change measures.

A Positive Outlook for the Green Bond Market

In addition, in terms of bonds and loans, apprehensiveness about a significant stagnation in green project financing when the COVID-19 pandemic first hit proved to be unfounded. In 2020, the European Union announced that, within their budget for recovery measures, they dedicated approximately €550 billion (¥68 trillion) to green initiatives, a single action of an unprecedented scale aiming to address climate change.

Even during the COVID-19 pandemic, we have not forgotten the issue of climate change, and we believe the pandemic will actually accelerate plans to address the threat. Since bonds need to be redeemed at a certain point in addition to interest payments, the bond itself must be sufficiently sustainable (sustainable until it can be redeemed). Accordingly, we need to make it our mission to fight climate change and invest in renewable energy, green buildings, and projects aimed at preserving biodiversity. The current recovery plan takes all of these factors into account, which is extremely positive.

In recent years, the green bond market has shown strong growth with the continued introduction of new issuers and investment products. According to data from the Climate Bonds Initiative, the amount of green bonds issued broke records in 2019, rising 50% year on year from US$171 billion to US$259 billion. The number of issuers rose from 347 to 506. The green bond market is expanding steadily, and we predict that the overall market size will reach US$1 trillion in 2021.

Expectations for Japan's Technological Contributions to the World

We believe that Japan's role has become extremely important in light of various trends toward decarbonization under the Paris Agreement, such as Prime Minister Yoshihide Suga's declaration of Japan's aiming to achieve zero greenhouse gas emissions by 2050. Furthermore, Japan's financial institutions and government offices have become more serious about sustainable finance initiatives, similar to Europe several years ago. In particular, we anticipate Japan's various contributions to environmental technology.

In the meantime, we are continuing engagement with Japanese companies regarding gender diversity promotion and confirming their progress. Former Prime Minister Shinzo Abe introduced various policies regarding gender equality in his "womenomics" plan, which current Prime Minister Suga is continuing to carry out. Despite this, many employment opportunities for women are still in the form of irregular or part-time work, and appointments to management positions are limited. We are also encouraging Japanese companies to improve this situation through means such as exercising voting rights.

3 Engagement and Stewardship

1. Developments in Corporate Governance Reforms

Corporate governance in Japan made great strides under the second Abe administration, which began in December 2012. As part of the growth strategy comprising the third arrow of Abenomics, the administration unveiled the "Japan Revitalization Strategy—JAPAN is BACK—" in June 2013. The strategy, compiled by the Industrial Competitiveness Council and approved by the Cabinet, initiated highlighted corporate governance reforms. With the formulation and implementation of two codes—the Stewardship Code aimed at institutional investors and the Corporate Governance Code targeting listed companies—corporate governance garnered attention as a key focus of the Abe government. Other aspects of corporate governance reforms include the Government Pension Investment Fund (GPIF), responsible for a major part of asset investment and asset management within the first tier of Japan's pension system, becoming a signatory to the Principles for Responsible Investment (PRI) as well as the establishment of JPX Nikkei Index 400. The ongoing introduction of outside directors at Japanese companies as well as and other initiatives implemented since 2013 show great progress in Japanese corporate governance, which up to that point was thought to be in a longtime state of stasis, and this advancement has been widely noted both in Japan and overseas. Both the Stewardship Code and the Corporate Governance Code are reviewed on a regular basis, with the former revised in 2020 and the latter scheduled to be revised in 2021.

Over time, the Japan Revitalization Strategy and the Industrial Competitiveness Council have seen incremental changes both nominally and in structure, processes that continue to the present day. In September 2016, the Industrial Competitiveness Council was reorganized and revamped to form the Council on Investments for the Future, while in June 2017, the Future Investment Strategy 2017 was established as part of reforms to realize Society 5.0, replacing the Japan Revitalization Strategy. In July 2020, the cabinet then in power approved the Action Plan of the Growth Strategy, dissolved the Council on Investments for the Future, and launched the Growth Strategy Council. This framework has been maintained following the inauguration of the Suga administration in September of the same year. Specific measures planned for the future include changes in the market classification of stock exchanges, the strengthening of the functions of outside directors, and investigations into introducing virtual-only general shareholders' meetings, in addition to evolving and further disseminating the two aforementioned codes.

Refer to the following links for the latest version of the Stewardship Code and the Corporate Governance Code.
https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf
https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jdy-att/20180601.pdf

Figure 2-3-1 Key Corporate Governance Measures and Related Activities

Institutional Investors	Government Affiliations / Stock Exchanges	Asset Owners	Advisory Service Providers
2013	Japan Revitalization Strategy—JAPAN is BACK is announced		ISS adopts standard for the election of at least one outside director
2014	Stewardship Code is launched Ito Review	GPIF review of asset managers "Selection of Distinctively Active Investment Institutions"	
2015	Corporate Governance Code is launched	GPIF becomes signatory to the Principles for Responsible Investment (PRI)	ISS adopts ROE standards
2016		GPIF joins 30% Club	ISS adopts standard for the election of at least two outside directors
2017 Commenced disclosure on individual basis Determined according to guidelines	Stewardship Code is revised Guidance for Collaborative Value Creation is formulated	GPIF begins ESG investments with custom ESG indices	
2018	Corporate Governance Code is revised Guidelines for Dialogue Between Investors and Companies are formulated	GPIF joins Climate Action 100+ and becomes supporter of TCFD	
2019	Cabinet Office Ordinance on the Disclosure of Corporate Information, etc. is revised (strategic shareholdings, officer remuneration, etc.) Practical Guidelines for Corporate Governance Systems are implemented Companies Act is revised (requirements for outside directors, restrictions to shareholder proposals)	GPIF establishes implementation status of "ESG integration" as criteria for asset manager evaluation	GL adopts standard for the election of female officers ISS adopts standard for outside directors to comprise one-third of all directors for companies with Audit and Supervisory Committee
2020 Greater emphasis on qualitative decision-making due to the impact of COVID-19	Stewardship Code is further revised Practical Guidelines for Business Transformations and Practical Guidelines for Independent Directors are formulated	GPIF continues and strengthens monitoring of asset managers (stewardship, ESG)	ISS tightens standards for the independence of outside director (candidates from strategic shareholders)
2021 Continued or greater emphasis on qualitative decision-making	Market segments of the Tokyo Stock Exchange are reclassified Corporate Governance Code is further revised		GL adopts standards for strategic shareholdings
2022-			ISS adopts standards for director candidates from strategic shareholdings and standards for outside directors to comprise one-third of all directors

Sources: Created by Japan Shareholder Services Ltd., based on various reports and articles from the websites of the Prime Minister of Japan and His Office, GPIF, the Tokyo Stock Exchange, ISS(Institutional Shareholder Service), GL(Glass Lewis) et al.

Figure 2-3-2 Promotion of Corporate Governance Reforms

Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023 to Fiscal 2025	Minister in Charge	KPI
Plan budget Propose tax system reform / Fall to year-end	Ordinary parliamentary session				
Promotion of Corporate Governance Reform					
The Corporate Governance Code will be revised in 2021 upon taking into consideration a variety of issues. These include improving the quality of outside directors and further promoting management through the formulation of business portfolio strategies and other measures to reduce capital costs (coordination with the practical guidelines to promote business transformations under iii will also be considered), with the aim of further enhancing corporate value over the medium to long term. Other issues to be considered include the strengthening of group governance through such means as properly engaging with listed subsidiaries, ensuring credible audits, and realizing medium- to long-term sustainability.	Promote the revised Corporate Governance Code.			Prime Minister (Minister of State for Special Missions, Cabinet Office (Finance))	Aim to raise ROA of major corporations listed on TOPIX500 to levels unparalleled by European and North American corporations, which averaged 4.8% in fiscal 2019, by 2025
Companies on initial public offerings in prime markets (tentative name) are expected to raise the level of their governance in relation to other markets as revisions are made to the Corporate Governance Code and with the need for governance standards that are in proportion to a primary investment target in this country. Accordingly, revisions to the Corporate Governance Code, which will take place in 2021, will call on companies to step up their level of governance toward the Tokyo Stock Exchange's reclassification of segments in April 2022.		Establish markets in line with newly classified segments in April 2022.			
Newly formulate the Practical Guidelines for Independent Directors in July 2020.	Instill an awareness of the Practical Guidelines for Independent Directors, which set forth best practices concerning the roles of outside directors and specific codes of conduct at board of directors' meetings, etc., to enhance the performance of outside directors, who play a critical role in supervising a company's board of directors.			Prime Minister (Minister of State for Special Missions, Cabinet Office (Finance), Minister of Justice, Minister of Economy, Trade and Industry)	
Promote the revised Stewardship Code, which came into effect in March 2020, and announce the number of institutional investors and other signatories to the revised code during fiscal 2020. In addition, underpin the efforts of corporate pension funds to promote stewardship activities.	Further promote the revised Stewardship Code.			Prime Minister (Minister of State for Special Missions, Cabinet Office (Finance), Minister of Health, Labour and Welfare)	
In addition to raising the profile of hybrid-type virtual shareholder meetings, which were introduced in February 2020, examine the possibility of increasing the use of digital tools at general shareholder meetings, including for completely virtual meetings, and promoting measures such as for enhancing information disclosure through such meetings, and draw some conclusions accordingly by the end of fiscal 2020.	Respond appropriately in accordance with the conclusions drawn.			Prime Minister (Minister of State for Special Missions, Cabinet Office (Finance), Minister of Justice, Minister of Economy, Trade and Industry)	

Source: "Cabinet Office: 2020 Action Plan of the Growth Strategy" (Japanese only)

2. Engagement Trends

There has been an increase in dialogues between institutional investors and companies—known as "engagement"—that coincides with the progression of corporate governance reforms. While such engagement initially centered on matters pertaining to corporate governance, it is becoming increasingly related to climate change and environmental issues. This change has come in recognition of the importance of climate change to financial stability following the adoption of the Paris Agreement at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCC) between November and December 2015, and in recognition of the subsequent recommendations put forth by the Task Force on Climate-related Financial Disclosures (TCFD), which was created under the umbrella of the Financial Stability Board (FSB), an international body of central banks and other institutions from multiple countries. In the last year or two, there has also been engagement regarding labor, human rights, and other social issues. Looking at this trend, companies are taking steps to disclose information related to these matters as well. Following are a series of good examples published by the Financial Services Agency.

Figure 2-3-3 Successful Case Studies of ESG Disclosure (Securities Reports and Integrated Reports)

	No.	Securities Code	Company	Priority Theme	Details
Management policy, business environment, and issues to address	1	2802	AJINOMOTO CO., INC.	–	• Quantified ESG-related indicators • Designated measures and targets for resolving ESG-related issues in relation to management strategies • Established and announced company-specific, business-related indicators for non-financial targets centered on social contributions
	2	8252	MARUI GROUP	SDGs	• Defined efforts to realize the SDGs in relation to management strategies based on the company's management policies
				Climate	• Announced organizational system for examining and deliberating on basic policies concerning climate change • Defined preconditions for calculating the financial impact of climate change and announced its numerical results • Reported the details of risks and opportunities associated with climate change and their numerical impact on profits • Designated indicators and targets for addressing climate change
				–	• Specified key measures according to numerical targets and results
	3	8031	MITSUI & CO., LTD.	SDGs	• Clarified relationship between management philosophy and critical issues concerning business strategy to address over the medium to long term and incorporated "sustainability management / advancement of ESG initiatives" into management strategies
				Human resources	• Identified and reported on financial strategies in regard to the allocation of capital to existing businesses and businesses underpinning new sources of earnings, such as energy solutions • Identified specific measures toward reinforcing business management capabilities and ensuring competitiveness upon designating human resource strategies as a part of management strategies
				Climate	• Identified and defined specific targets for tackling climate change
	4	1812	KAJIMA CORPORATION	SDGs	• Explained relationship between the business environment and the materiality prescribed to realize sustainable growth • Designated measures to resolve critical issues
	5	6754	ANRITSU CORPORATION	Diversity	• Announced sustainability- and diversity-enhancement initiatives in relation to management strategies • Introduced concrete measures to promote gender diversity (Provided region-specific results particularly for the ratios of female employees and women in management positions)
	6	9005	TOKYU CORPORATION	Diversity	• Reported on diversity management in relation to management philosophy and management strategies • Disclosed numerical targets and current results for women in management positions and ratio of childcare leave taken by male employees
	7	5332	TOTO LTD.	Diversity	• Declared efforts to realize the SDGs in relation to management strategies in the wake of the business environment • Reported on initiatives and specified targets for its three globally adopted themes of cleanliness and comfort, the environment, and relationships, in addition to current results
	8	3407	Asahi Kasei Corp.	Diversity/ DX	• Declared measures that serve as a platform for the empowerment of employees and promote digital transformation as a companywide strategy • In addition to implementing Companywide strategies, identified management issues for each segment given the operating environment and specifically defined and shared throughout the company its management policies and strategies in response to such issues from a sustainability point of view
					• Declared efforts to realize the SDGs in relation to management strategies in the wake of the business environment • Announced sustainability-based themes for each segment • Provided concrete details on the methods used to analyze and assess the status of businesses pertaining to its priority fields for providing value

Business-related and other risks	9	2802	AJINOMOTO CO., INC.	SDGs	• Reported on material management risks including from an opportunity point of view • Detailed the relationship between its material management issues and the SDGs and disclosed the impact of such issues on its management strategies, the significance and anticipated timing of that impact, and changes in the materiality levels of such issues from the previous fiscal year
	10	3086	J. FRONT RETAILING Co., Ltd.	Climate	• Described its organizational system for overcoming environmental issues and provided specific details on the matters to be discussed and the frequency of meetings held by each committee • Indicated and outlined risk management schemes • Under its primary materiality issue "Contribution to a low-carbon society," classified risks and opportunities as either a 1.5°to 2°scenario or a 3°scenario and provided details, such as references to existing scenarios, while specifying the financial impact of each risk • Quantified the financial impact of the important parameters identified through the scenario analyses in each of the 1.5°to 2°and 3°scenarios • Provided details (target year and content) of its initiatives going forward based on the assumptions used to calculate the financial impact and its results
Director / Officer remuneration, etc.	11	2802	AJINOMOTO CO., INC.	–	• Described the role of its non-financial targets (employee engagement, ESG targets) set forth in the new medium-term management plan as an evaluation indicator for medium-term, company performance-linked stock compensation
Integrated report	12	4183	Mitsui Chemicals, Inc.	Management	• Provided concrete details on sustainability management and climate change response through the eyes of management in its CEO message
	13	2503	Kirin Holdings Company, Limited	Management	• Identified sustainability issues from the vantage point of management and its management strategies in response to such issues in its message from top management
	14	5411	JFE Holdings, Inc.	Climate	• Stated the details of its scenarios and the results of their analyses in accordance with the TCFD framework • Prescribed the material factors impacting its business and countermeasures in response to the results of scenario analyses

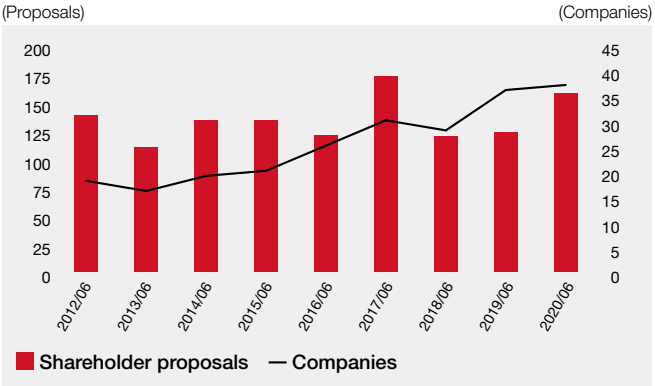
Note: **Priority Theme** (for successful case studies in particular)
SDGs: Disclosure of information regarding relationship between the company's business and the SDGs; diversity: disclosure of information pertaining to the promotion of diversity; climate: disclosure of information related to climate change; human resources: disclosure of information concerning human resource development and investment
DX: Disclosure of information associated with digital transformation; and management: disclosure of information with respect to management messages
Source: Financial Services Agency, *Successful Case Studies for the Disclosure of Narrative Information 2020* (Japanese only)
Created by Japan Shareholder Services Ltd., based on https://www.fsa.go.jp/news/r2/singi/20201106/01.pdf

3. Trends in ESG-Related Shareholder Proposals in Japan

As stipulated by Article 303, Paragraph 2, and Article 305, Paragraph 1, of the Companies Act of Japan, shareholders possessing either over 1% of the total voting rights or more than 300 voting right units for the preceding six months from the record date are able to propose agenda items for a general shareholders' meeting in their position as shareholder, which is known as a shareholder proposal. The ability to make a shareholder proposal applies to both a single shareholder and a group of shareholders, who, collectively, fulfill the above requirements. However, it should be noted that the Companies Act stipulates what matters may be resolved at a general shareholders' meeting. For example, a proposal calling for the suspension of nuclear power plants is not an agenda item stipulated by the Companies Act, and would therefore be submitted in the form of an amendment to a company's articles of incorporation, because such amendments require approval at a general shareholders' meeting according to said act. Amendments to a company's articles of incorporation are special agenda items that require over two-thirds of the total number of voting rights held by attending shareholders, including prior submission, to be approved. Agenda items such as those involving the appropriation of retained earnings related to dividend amounts or the appointment of directors or corporate auditors are regular agenda items that require only a majority vote to be approved. Although a shareholder proposal submitted as a special agenda item is rarely approved, shareholder proposals submitted in this manner have been passed in recent years.

Also, the majority of shareholder proposals in the United States are made as non-binding agenda items, which can be rejected by a company's board of directors even if they hold a majority vote for approval at a general shareholders' meeting. However, in Japan all resolutions at general shareholders' meetings are legally binding, and this is an issue that needs to be looked at carefully. The number of companies receiving shareholder proposals has been on the rise in recent years.

Figure 2-3-4 Shareholder Proposals (for Companies Listed on the First Section of the Tokyo Stock Exchange That Held a General Shareholders' Meeting in June 2020)



Note: Election and dismissal of directors is counted as one item (the number of candidates is not counted)
Source: Created by Japan Shareholder Services Ltd., based on information from QUICK Corporation, Bloomberg L.P., company quarterly reports, other company disclosures, et al.

Until the 1990s, the majority of shareholder proposals were put forth by so-called "movement-driven shareholders" related to nuclear abolishment or labor unions. From around the year 2000, however, there has been an increase in proposals from activist funds and other activist investors (known as *mono iu kabunushi*, or "vocal shareholders"). There are also cases of shareholder proposals stemming from internal conflicts within companies. Figure 2-3-5 lists the shareholder proposals submitted to general shareholders' meetings held from July 2019 to June 2020.

Figure 2-3-5 List of Shareholder Proposals from July 2019 to June 2020

Company	Securities Code	Listing	Meeting Date	Proposal Contents (Number of proposals)
PRAP Japan, Inc.	2449	JASDAQ	2019.11	Disposal of surplus (total of one proposal)
Inui Global Logistics Co., Ltd. (extraordinary meeting)	9308	TSE First Section	2019.11	①Revision to director compensation, ②disposal of surplus, ③dismissal of one (1) director, ④acquisition of treasury stock (total of four proposals)
KAWAKAMI PAINT MANUFACTURING CO., LTD.	4616	TSE Second Section	2020.02	Disposal of surplus (total of one proposal)
Zojirushi Corporation	7965	JASDAQ	2020.02	Appointment of one (1) director who is not an audit and supervisory committee member (total of one proposal)
Leopalace21 Corporation (extraordinary meeting)	8848	TSE First Section	2020.02	Appointment of one (1) director (total of one proposal)
Kirin Holdings Company, Limited	2503	TSE First Section	2020.03	①Acquisition of treasury stock, ②revision to director compensation (revision to restricted stock compensation system), ③revision to director compensation, ④appointment of two (2) directors
TEIKOKU SEN-I CO., LTD.	3302	TSE First Section	2020.03	①Disposal of surplus, ②acquisition of treasury stock (total of two proposals)
Tera Probe, Inc.	6627	Mothers	2020.03	①Decline in amount of reserves, ②partial amendments to the articles of incorporation(1), ③disposal of surplus, ④partial amendments to the articles of incorporation(2) (total of four proposals)
GMO Financial Holdings, Inc.	7177	JASDAQ	2020.03	①Partial amendments to the articles of incorporation, ②appointment of one (1) director (total of two proposals)
Sekisui House, Ltd.	1928	TSE First Section	2020.04	Appointment of eleven (11) director (total of one proposal)
SUNCORPORATION (extraordinary meeting)	6736	JASDAQ	2020.04	①Appointment of two (2) directors who is not an audit and supervisory committee member (proposal by the company), ②dismissal of four (4) directors who are not audit and supervisory committee members and ③the appointment of three (3) directors who are not audit and supervisory committee members (total of three proposals) have been approved
Kitanihon Spinning Co., Ltd. (extraordinary meeting)	3409	TSE Second Section	2020.05	①Dismissal of three (3) directors and ② appointment of three (3) directors who are not audit and supervisory committee members (total of two proposals) ①was rejected while ②was approved, resulting in the change of one (1) director
SANYO SHOKAI LTD.	8011	TSE First Section	2020.05	Appointment of seven (7) directors (total of one proposal)
Chugai Mining Co., Ltd.	1491	TSE Second Section	2020.06	①Dismissal of one (1) director, ②appointment of one (1) director (total of two proposals)
HAZAMA ANDO CORPORATION	1719	TSE First Section	2020.06	①Acquisition of treasury stock, ②partial amendments to the articles of incorporation (total of two proposals)
WATANABE SATO CO., LTD.	1807	JASDAQ	2020.06	①Partial amendments to the articles of incorporation, ②disposal of significant non-core assets, ③acquisition of treasury stock (total of three proposals)
ASANUMA CORPORATION	1852	TSE First Section	2020.06	①Partial amendments to the articles of incorporation(disposal of strategic shareholdings), ②disposal of surplus (total of two proposals)
SEIKITOKYUKOGYO CO., LTD.	1898	TSE First Section	2020.06	①Partial amendments to the articles of incorporation, ②disposal of surplus (total of two proposals)
OOTOYA Holdings Co., Ltd.	2705	JASDAQ	2020.06	Appointment of twelve (12) directors (total of one proposal) Candidates proposed by the company have been approved while those who were not have been rejected
TORAY INDUSTRIES, INC.	3402	TSE First Section	2020.06	Partial amendments to the articles of incorporation (total of one proposal)
DENSAN CO., LTD.	3640	TSE First Section	2020.06	①Partial amendments to the articles of incorporation (1), ②partial amendments to the articles of incorporation(total of two proposals)
Ekitan & Co., Ltd.	3646	Mothers	2020.06	①Appointment of seven (7) directors, ②appointment of two (2) substitute corporate auditors (total of two proposals) have been approved
Japan Asia Group Limited	3751	TSE First Section	2020.06	①Partial amendments to the articles of incorporation(1), ②disposal of surplus, ③partial amendments to the articles of incorporation(2)(total of three proposals)
Techno Mathematical Co., Ltd.	3787	TSE Second Section	2020.06	①Disposal of capital reserves, ②disposal of other surplus funds, ③disposal of surplus(total of three proposals)
PATH Corporation (extraordinary meeting)	3840	TSE Second Section	2020.06	①Dismissal of five (5) directors, ②Appointment of five (5) directors (total of two proposals) have been withdrawn due to the absence of a quorum
Sun A. Kaken Co., Ltd.	4234	JASDAQ	2020.06	①Partial amendments to the articles of incorporation, ②acquisition of treasury stock (total of two proposals)
TAC Co., Ltd.	4319	TSE First Section	2020.06	①Appointment of one (1) director, ②~⑥partial amendments to the articles of incorporation(1)～(5), ⑦appointment of one (1) director(total of seven proposals)
Takeda Pharmaceutical Company Limited	4502	TSE First Section	2020.06	Appointment of one (1) director who is an audit and supervisory committee member (total of one proposal)
NISHIKAWA RUBBER CO., LTD.	5161	TSE Second Section	2020.06	Acquisition of treasury stock (total of one proposal)
Arisawa Mfg. Co., Ltd.	5208	TSE First Section	2020.06	①~③Amendments to the articles of incorporation (1)~(3) (total of three proposals)
NIPPON STEEL CORPORATION	5401	TSE First Section	2020.06	①~②partial amendments to the articles of incorporation (1)~(2) (total of two proposals)
MITSUI MINING & SMELTING CO., LTD.	5706	TSE First Section	2020.06	①Dismissal of one (1) director, ②~⑩partial amendments to the articles of incorporation (1)~(9) (total of ten proposals)
Nippon Shindo Co., Ltd.	5753	TSE Second Section	2020.06	①Partial amendments to the articles of incorporation, ②disposal of surplus (total of two proposals)
TOAMI CORPORATION	5973	TSE Second Section	2020.06	①Partial amendments to the articles of incorporation, ②disposal of surplus, ③dismissal of two (2) directors, ④dismissal of accounting auditor (total of four proposals)
SINTOKOGIO, LTD.	6339	TSE First Section	2020.06	Appointment of one (1) director (total of one proposal)
FUJITEC CO., LTD.	6406	TSE First Section	2020.06	①Partial amendments to the articles of incorporation, ②cancellation of treasury stock (total of two proposals)
Hitachi Zosen Corporation	7004	TSE First Section	2020.06	①Dismissal of one (1) director (total of one proposal)
ASTMAX Co., Ltd.	7162	JASDAQ	2020.06	Revision to director compensation (total of one proposal)
MUSASHI CO., LTD.	7521	JASDAQ	2020.06	Acquisition of treasury stock (total of one proposal)
Kyodo Printing Co., Ltd.	7914	TSE First Section	2020.06	①Prevention of anti-takeover measures, ②partial amendments to the articles of incorporation (total of two proposals)
TENMA CORPORATION	7958	TSE First Section	2020.06	Appointment of eight (8) directors who is not an audit and supervisory committee member (total of one proposal)
CHORI CO., LTD.	8014	TSE First Section	2020.06	①~③Amendments to the articles of incorporation(1)~(3), ④disposal of surplus, ⑤~⑥partial amendments to the articles of incorporation(4)~(5) (total of six proposals)
KYOKUTO BOEKI KAISHA, LTD.	8093	TSE First Section	2020.06	①~②Partial amendments to the articles of incorporation(1)~(2) (total of two proposals)
Shinsei Bank, Limited.	8303	TSE First Section	2020.06	Appointment of one (1) director (total of one proposal)
The Iyo Bank, Ltd.	8385	TSE First Section	2020.06	①Dismissal of three (3) directors who are not audit and supervisory committee members and ②dismissal of one (1) director who is an audit and supervisory committee member (total of two proposals)

The Shikoku Bank, Ltd.	8387	TSE First Section	2020.06	①Dismissal of four (4) directors who are not audit and supervisory committee members, ②dismissal of two (2) directors who is an audit and supervisory committee member(total of two proposals)
Mizuho Financial Group, Inc.	8411	TSE First Section	2020.06	①Partial amendments to the articles of incorporation(1), ②partial amendments to the articles of incorporation(2), ③~⑥partial amendments to the articles of incorporation (total of six proposals)
Tokai Tokyo Financial Holdings, Inc.	8616	TSE First Section	2020.06	Dismissal of one (1) director who are not audit and supervisory committee members (total of one proposal)
Keihanshin Building Co., Ltd.	8818	TSE First Section	2020.06	①Appointment of one (1) director, ②partial amendments to the articles of incorporation, ③transfer of significant assets, ④partial amendments to the articles of incorporation(2) (total of four proposals)
Kyushu Railway Company	9142	TSE First Section	2020.06	①Partial amendments to the articles of incorporation, ②~④dismissal of one (1) director who are not audit and supervisory committee members(total of four proposals)
Mitsubishi Logistics Corporation	9301	TSE First Section	2020.06	①Acquisition of treasury stock, ②~③appointment of one (1) director, ④~⑤partial amendments to the articles of incorporation (1)~(2) (total of five proposals)
Inui Global Logistics Co., Ltd.	9308	TSE First Section	2020.06	①Partial amendments to the articles of incorporation, ②dismissal of three (3) audit and supervisory committee members, ③~④partial amendments to the articles of incorporation(1)~(2) (total of four proposals)
MEIKO TRANS CO., LTD.	9357	NSE Second Section	2020.06	Dismissal of three (3) director (total of one proposal)
TV Asahi Holdings Corporation	9409	TSE First Section	2020.06	Acquisition of treasury stock (total of one proposal)
Tokyo Electric Power Company Holdings, Inc.	9501	TSE First Section	2020.06	①~⑨Partial amendments to the articles of incorporation(1)~(9) (total of nine proposals)
Chubu Electric Power Co., Inc.	9502	TSE First Section	2020.06	①~⑤Partial amendments to the articles of incorporation(1)~(5) (total of five proposals)
The Kansai Electric Power Co., Inc.	9503	TSE First Section	2020.06	①~⑥Partial amendments to the articles of incorporation(1)~(6), ⑦removal of stock compensation system for executive officers, ⑧disposal of surplus, ⑨dismissal of one (1) director, ⑩~⑯partial amendments to the articles of incorporation(7)~(13), ⑰~⑲partial amendments to the articles of incorporation(14)~(15), ⑲~㉑partial amendments to the articles of incorporation(16)~(17), ㉑~㉕partial amendments to the articles of incorporation(18)~(22), ㉖partial amendments to the articles of incorporation(total of twenty-six proposals)
The Chugoku Electric Power Co., Inc.	9504	TSE First Section	2020.06	①~⑤Partial amendments to the articles of incorporation(1)~(5) (total of five proposals)
Hokuriku Electric Power Company	9505	TSE First Section	2020.06	①~⑥Partial amendments to the articles of incorporation(1)~(6) (total of six proposals)
Tohoku Electric Power Co., Inc.	9506	TSE First Section	2020.06	①~⑥Partial amendments to the articles of incorporation(1)~(6) (total of six proposals)
Shikoku Electric Power Co., Inc.	9507	TSE First Section	2020.06	①Dismissal of all directors, ②~④partial amendments to the articles of incorporation(1)~(3) (total of four proposals)
Kyushu Electric Power Co., Inc.	9508	TSE First Section	2020.06	①~⑥Partial amendments to the articles of incorporation(1)~(6) (total of six proposals)
Hokkaido Electric Power Co., Inc.	9509	TSE First Section	2020.06	①~⑨Partial amendments to the articles of incorporation(1)~(9) (total of nine proposals)
Wilson Learning Worldwide Inc.	9610	JASDAQ	2020.06	①Provision of special financial aid, ②disposal of surplus (total of two proposals)

Note: Shaded areas represent shareholder proposals that were passed at the meetings
Source: Created by Japan Shareholder Services Ltd., based on Document No. 437 "Case Analysis of Shareholder Proposal Rights (1)," produced by Shojihomu

A notable case among the shareholder proposals submitted in 2020 is the one submitted to Mizuho Financial Group, Inc. by Kyoto-based NPO "KIKO Network." This NPO, which focuses on issues related to climate change, deliberately purchased shares on a scale that would allow them to make a shareholder proposal. This action would typically be in line with the aforementioned "movement-driven shareholders." However, until that point, such shareholders had mainly been individual shareholders. What is particularly notable is that the shareholder making the proposal was an NPO and not a fund. While the proposal was ultimately rejected, it did garner some support, with 34% voting in favor of the proposal.

Figure 2-3-6 Vote summary for the Shareholder Proposal to Mizuho Financial Group

Item		Proxy Advisor	Recommendation
Approval rate	34.00%	ISS	Approved
Result of resolution	Rejected	Glass Lewis & Co., LLC	Approved

Shareholder Composition (as of March 31, 2020)	Composition Ratio (%)
Financial institutions	30.02%
Foreign corporations, etc. (excluding individuals)	21.32%

Japanese Institutional Investors

Investor	For/ Against	Investor	For/ Against
Nomura Asset Management Co., Ltd.	For	FIL Investments (Japan) Limited	For
Asset Management One Co., Ltd.	For	Tokio Marine Asset Management Co., Ltd.	For
Sumitomo Mitsui Trust Asset Management Co., Ltd.	Against	Nissay Asset Management Corporation	For
Mitsubishi UFJ Trust and Banking Corporation	Against	Sompo Asset Management Co., Ltd.	Against
Nikko Asset Management Co., Ltd.	Against	Pension Fund Association	Against
Daiwa Asset Management Co., Ltd.	Against	JPMorgan Asset Management (Japan) Limited	Against
BlackRock Japan Co., Ltd.	Against	Meiji Yasuda Asset Management Company Ltd.	Against
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	Against	Asahi Life Asset Management Co., Ltd.	Against
Resona Asset Management Co., Ltd.	Against	Ichiyoshi Asset Management Co., Ltd.	Against
Sumitomo Mitsui DS Asset Management Company, Limited	Against	Shinkin Asset Management Co., Ltd.	Against

Foreign Institutional Investors

Investor	For/ Against	Investor	For/ Against
The Vanguard Group	Against	TIAA Investments	For
State Street Global Advisors	For	Schroder Investment Management	For
Legal & General Investment Management	For	CPP Investment Board	For
Norges Bank Investment Management	Against	APG Asset Management	For
Goldman Sachs Asset Management	For	UBS Asset Management (UK)	For
Northern Trust Global Investments	For	Charles Schwab Investment Management	For
Dimensional Fund Advisors	For/ Against	AQR Capital Management	For
T. Rowe Price International	For	Franklin Templeton Investments	For
Geode Capital Management	For	Aberdeen Standard Investments (Standard Life)	For
AllianceBernstein	For	LSV Asset Management	For

Source: Created by Japan Shareholder Services Ltd., based on shareholder reports and disclosure from Mizuho Financial Group, FSA filings, and SEC filings of individual institutional investors

It is possible that more NPOs similarly aligned with civic movements will become shareholders and submit shareholder proposals to companies in the future. As shown in Figure 2-3-6, the number of institutional investors that vote in favor of shareholder proposals is increasing, with the belief that this is partly due to shareholder proposals becoming more logically sound.

4. The Impact of COVID-19

Following the initial outbreak of COVID-19 in China, the disease grew on a global scale, making consultations, meetings, conferences, press events, and other face-to-face interactions problematic. The move to avoid gatherings of people has had a major impact on dialogues between institutional investors and companies and general shareholders' meetings as of the end of 2020.

For general shareholders' meetings, efforts have been made to address two issues: the format in which these meetings are held and their scheduling, such as meeting postponements and the holding of extraordinary general meetings. To address the matter of meeting format, many general shareholders' meetings held during spring 2020—the usual season for these meetings in areas such as the United States, the United Kingdom, and Europe—took place as virtual meetings held online. In Japan, however, the Companies Act requires companies to specify a location for general shareholders' meetings, therefore, a completely virtual meeting is not possible. As a result, meetings were held by companies with their chairpersons and some officers present at the venues, while other officers attended these meetings via video conferencing in separate locations. In addition, the number of shareholders in attendance at meetings was limited, and they were broadcast online. In most cases, meetings were simply broadcast for viewing purposes, but in a small number of cases it was possible to field questions from shareholders in virtual attendance. Regarding the scheduling of general shareholders' meetings, they are typically held within three months of the end of the fiscal year. However, in some cases meetings were postponed until after July, or an extraordinary meeting was held in addition to the ordinary meeting. These decisions were made because of worries that accounts would not be settled in time for the meetings for a variety of reasons, such as difficulties in conducting audits at domestic and overseas subsidiaries due to movement restrictions imposed due to COVID-19. In reality, 57 companies postponed general shareholders' meetings, four companies held a separate ordinary meeting and an extraordinary meeting, and 31 companies held "continued meetings," a format in which deliberations on the election of directors took place at the ordinary meeting in June and deliberations on items related to dividends occurred at the continued meeting held after June. Number of the companies also held both Annual and extraordinary meetings was four.

Akemi Yamasaki

4 Trends in Sustainable Real Estate Investment

Sustainable real estate investment increased from ¥2.7 trillion in 2017, when the previous white paper survey was conducted, to a balance of ¥8.2 trillion in 2020, roughly tripling over three years. However, only 17 companies who responded to the survey, including eight investment companies that specialize in real estate, provided responses related to real estate. Considering that there are 62 J-REITs alone (as of December 2020), this balance only represents a fraction of the sustainable real estate investment market. Additionally, green bonds and other financial products focused on sustainable real estate have also expanded significantly in recent years.

Bearing this in mind, this chapter will provide a summary of Japan's participation in the 2020 GRESB Real Estate Assessment (hereinafter, "GRESB Assessment") as well as an estimate of the size of Japan's sustainable real estate market. This chapter will also look at new developments that have taken place over the past three years with an outline of trends in financial products and sustainable finance markets that employ GRESB Assessments and green building certification.

1. Trends in GRESB Assessments and Estimate of Sustainable Real Estate Investment Balance

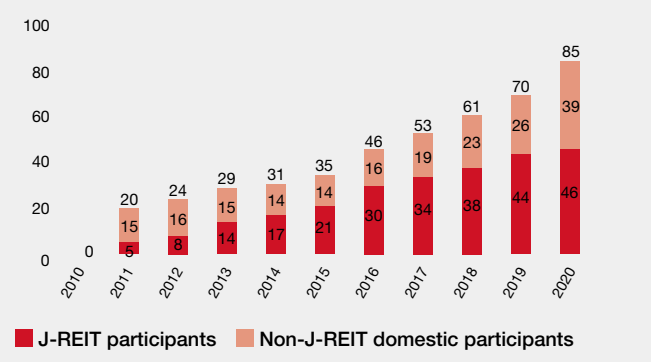
The number of participants that took part in a GRESB Assessment (which evaluates the ESG efforts of real estate companies and funds) rose from 53 in 2017 to 85 in 2020, a 60% increase. This number, which is a 2.5-fold increase compared with 35 participants in 2015, shows that ESG investment is spreading through the real estate sector at a rapid rate.

Real estate companies and funds that participate in the GRESB Assessment are awarded a Green Star if they receive a score of 50% or higher for both their ESG-related management and policies (the Management Component) and ESG-related efforts and performance within their real estate portfolio (the Performance Component). Similar to the previous white paper, if we are to assume that assessment participants with a Green Star are engaged in sustainable real estate investment, and ESG integration in particular, then the 44 participants with Green Stars in 2017 represent ¥15.5 trillion in assets under management, which has expanded to 61 participants with Green Stars in 2020, representing ¥28.2 trillion in assets under management (as calculated by CSR Design Green Investment Advisory Co., Ltd.).

Furthermore, in 2017 only one investor, the Development Bank of Japan Inc., took the GRESB Assessment into account when making investment decisions, but as of December 2020, this number has since grown to five, including the Government Pension Investment Fund (GPIF), which began doing so in March 2020. GPIF is expanding ESG investment in all asset classes, and in its ESG Report states that "GPIF engages in dialogue with managers to encourage them to actively use GRESB Assessment in their real estate investment and management processes to enhance the disclosure of ESG information and constructive dialogue across the market."

Up to this point, participation in GRESB Assessments took place mainly at the request of overseas investors, primarily focused on J-REITs. As a result, in 2020 the participation rate of J-REITs reached 92.0% based on market capitalization. This marks a growth rate of about 35% between 2017, with 34 participating J-REITs, and 2020, with 46. On the other hand, the number of participants other than J-REITs, such as private funds, private REITs, and developers increased from 19 in 2017 to 39 in 2020, which is thought to be in part a reflection of GPIF's adoption of the GRESB Assessment as an investment metric.

Figure 2-4-1: Number of Participants in GRESB Assessments from Japan (from 2010 to 2020)



Source: GRESB

2. Utilization of GRESB Assessment and Green Building Certification for Financial Products

With the growth of sustainable real estate investment, which is rooted in the GRESB Assessment, the Assessment, green building certification, and related credentials are being used increasingly as an indicator for inclusion in financial products and other decision-making processes.

1) Adoption of the GRESB Assessment in Passive Indices and as an Indicator in Active Funds

In recent times, GRESB investor members Sumitomo Mitsui DS Asset Management Company, Limited and Norinchukin Zenkyoren Asset Management Co., Ltd. have both adopted the GRESB Assessment as an indicator for inclusion of J-REITs in their active funds. Both companies determine their weighting

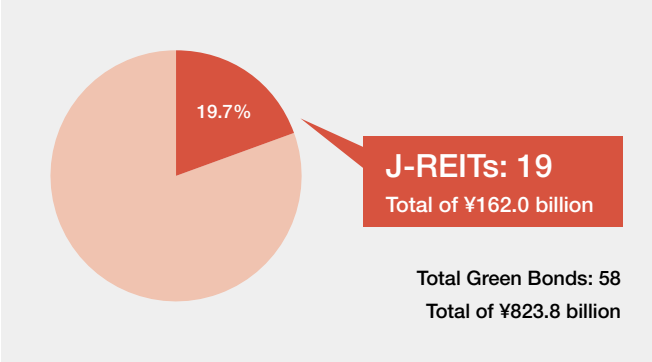
of J-REITs based on their own analysis as well as the GRESB Assessment results.

The GRESB Assessment is also seeing greater usage for indices geared toward passive investing. In 2019, S&P Dow Jones Indices launched the Dow Jones Japan Green RESI, which includes the real estate listings of its parent index weighted according to GRESB scores and ratings. Moreover, in July 2020, Nikkei Inc. launched the Nikkei ESG-REIT Index, the first index from Japan to utilize GRESB Assessments. Market capitalization weights for J-REITs listed in the index are weighted according to their GRESB rating, ranging from one to five stars.

2) Expansion of Green Bonds and Other Sustainable Financing in the Real Estate Sector

Green bonds targeting green buildings and other sustainable real estate were first issued by the Japan Retail Fund Investment Corporation in 2018 and now occupy about 30% of the Japanese green bond market. In 2019, a total of 58 green bonds were issued in Japan, totaling ¥823.8 billion. Among these, 19 bonds were issued by J-REITs, accounting for approximately 20% of this total, amounting to ¥162.0 billion. This large subsection of green bonds can be considered a form of positive screening or thematic investing, as they are used to acquire or refinance real estate with a CASBEE or DBJ Green Building Certification of a certain rank or higher. In some cases, green bonds are also used to invest in energy-efficient retrofits for existing buildings, thus working as a form of engagement.

Figure 2-4-2: Percentage of Green Bonds Issued by J-REITs in Japanese Green Bond Market (2019)



(Source: Created by CSR Design Green Investment Advisory Co., Ltd., based on Ministry of the Environment website)

Other sustainable bonds have been issued in recent times as a response to the declining birthrate, aging population and other concerns. Social bonds, issued by Kenedix Residential NEXT Investment Corporation and others, are aimed at elderly care facilities and similar facilities. Sustainability bonds, issued by GLP J-REIT, combine green (green buildings) and social (disaster prevention agreements with local governments) elements.

Developers, such as Mitsubishi Estate Co., Ltd. and Hulic Co., Ltd., are also working on sustainability-linked loans and bonds. Generally, these loans and bonds follow a system in which interest rates are be reduced if certain targets, such as reduction of CO_2 emissions, are achieved. Overseas real estate companies and REITs have also issued sustainability linked loans and bonds with the goal of reaching GRESB Assessment targets, and similar efforts are expected to be seen in Japan from 2022 onward.

These trends show the steady presence of the real estate sector in green bonds and other facets of the sustainable finance market. It is likely that these trends will develop into impact finance/investment, aimed at creating a positive impact on the environment, society, and the economy while mitigating negative impact.

Ryuichi Horie

Author Biographies

Section 1

Sustainabile Investment Survey 2020

Review of the JSIF Sustainable Investment Survey Results

Definition of ESG Investment

Masaru Arai

Chairman of NPO Japan Sustainable Investment Forum (JSIF)
Senior Advisor at Federated Hermes EOS
Member of FTSE Russell ESG Advisory Committee
Member of FTSE Russell Sustainable Investment Advisory Committee

Masaru Arai is a former board member of the Principles for Responsible Investment (PRI) and a former member of the PRI Sustainable Financial System Advisory Group.

He graduated from Keio University's Faculty of Business in 1972 and joined Daiwa Securities Co., Ltd. in the same year thereafter. In 1976, he completed his studies at the Center for Arabic Studies of the American University in Cairo. After residing and working in France and Saudi Arabia and serving as president of an overseas subsidiary in Australia, Mr. Arai joined Daiwa Asset Management Co. Ltd. in 1992. Following various roles including president of a Hong Kong based subsidiary, he resigned from Daiwa Asset Management in 2011 and was appointed chairman of the Japan Sustainable Investment Forum (JSIF) in 2012.

Mr. Arai has participated as a speaker at multiple conferences on responsible investment in both Japan and overseas. He has also served as a member of sustainable finance related committees for the Ministry of the Environment, the Ministry of Economy, Trade and Industry, and the Ministry of Foreign Affairs of Japan.

Sustainable Investment Related to Financial Products for Individuals

Yoshitaka Yoshida

Individual Investor

Yoshitaka Yoshida is a firm believer in investing in individual businesses over the long term and regards research on history and culture as his life's work. Mr. Yoshida has participated in JSIF's activities since 2010, utilizing this experience in the management of his own assets, and continues to fulfill his role as its head of the secretariat since 2014.

Section 2

Impact Finance

Takeshi Mizuguchi

Professor at the Takasaki City University of Economics

After graduating from the University of Tsukuba in 1984 and working at a trading company and auditing firm, Takeshi Mizuguchi became a lecture at the Faculty of Economics of the Takasaki City University of Economics in 1997. He has been a professor since 2008 and specializes in responsible investment and non-financial information disclosure. Mr. Mizuguchi has also served as chairman of the Committee on Green Bonds and the Positive Impact Finance Task Force of the Ministry of the Environment, chairman of the Expert Panel on Sustainable Finance of the Financial Services Agency (FSA), and chairman of the Impact Investing Roundtable co-hosted by the FSA and GSG-NAB Japan. In addition, he has authored various books on ESG investment.

The Influence of the COVID-19 Pandemic on Investors

Takuya Iyoda

ESG Investment Promotion / Investment Research, Equity Investment
Nissay Asset Management Corporation

After graduating from the Faculty of Economics at Hitotsubashi University in 2011, Takuya Iyoda joined Sumitomo Mitsui Banking Corporation in that same year and was tasked with assessing environmental and social impacts associated with project finance.

In 2018, Mr. Iyoda joined Nissay Asset Management Corporation, where he has been tasked with conducting ESG-related research, integrating ESG into asset management processes, and promoting stewardship activities, including corporate engagement and the exercise of voting rights.

The Influence of the COVID-19 Pandemic on Investors

Toru Terasawa

Head of Responsible Investment Group, Investment Division
Asset Management One Co., Ltd.

After joining The Fuji Bank, Limited in April 1988, Toru Terasawa was responsible for interest rate derivatives and forex trading, market planning, securitized products and other forms of credit investment, and asset liability management and other duties associated with the markets divisions at the former Mizuho Corporate Bank, Ltd. and current Mizuho Bank, Ltd. from October 1988 to 2013.

He was the head of the Custody & Proxy Office of the Settlement & Clearing Services Department of Mizuho Bank from 2013. After becoming head of the asset management and planning division of the former Mizuho Asset Management Co., Ltd. in 2015, Mr. Terasawa has held his current role as head of the Responsible Investment Group at Asset Management One Co., Ltd. since its establishment in October 2016.

Engagement and Stewardship

Akemi Yamasaki

Chief Consultant, R&D Consulting Department
ESG / Responsible Investment Research Center
Japan Shareholder Services Ltd.

Akemi Yamasaki graduated from the Faculty of Law at Hitotsubashi University in 1981. After working for some time at a securities company, she joined a think tank. Ms. Yamasaki has held her current role as chief consultant at Japan Shareholder Services Ltd. since 2006, where she has engaged in research on corporate governance and ESG and provided shareholder and investor relations consulting services. In addition to serving as a JSIF steering committee member, she has co-authored books on corporate governance and shareholder dialogue and engagement.

Ms. Yamasaki's portfolio also consists of reports and articles on corporate governance, stewardship, proxy voting, and sustainable investment.

Trends in Sustainable Real Estate Investment

Ryuichi Horie

Co-founder and CEO, CSR Design Green Investment Advisory Co., Ltd.

Mr. Horie is the co-founder and CEO of CSR Design Green Investment Advisory, Co., Ltd., which focuses on ESG advisory services in the real estate and infrastructure sectors and conducts research on green buildings and sustainable finance. He graduated from the University of Tokyo and holds an MBA degree from the University of California at Berkeley. Mr. Horie is a member of the PRI Japan Network advisory committee, special advisor to the UNEP FI Real Estate Working Group, co-chairperson of the Green Building Working Group of the Principles for Financial Action for the 21st Century, and a member of the JSIF steering committee.

CSR DESIGN

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- ESG information disclosure (e.g. TCFD, SASB, GRI)
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