JSIF

Sustainable Investment Survey

Japan Sustainable Investment Forum

2021

Japan Sustainable Investment Forum (JSIF)

About the Organization

NPO Japan Sustainable Investment Forum (JSIF) works to promote Sustainable and Responsible Investment (SRI) in Japan. JSIF was established in 2001 to proliferate the concept throughout Japan and acquired NPO status in 2004. The organization changed its name in 2016 (previously, Socially Responsible Investment Forum).

Sustainable Investment Survey 2021

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NPO Japan Sustainable Investment Forum (JSIF)

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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.

Review of the JSIF Sustainable Investment Survey Results

Japan's Sustainable Investment Balance Increased 65.8% Year on Year, to ¥514.5 Trillion—Sustainable Investment in a Time of Major Change

According to the results of the 2021 Sustainable Investment Survey conducted by the Japan Sustainable Investment Forum (JSIF), Japan's sustainable investment balance was ¥514.5 trillion, an increase of 65.8%, or ¥204.0 trillion, compared to the 2020 survey. In contrast, the 2020 survey showed a ¥26.0 trillion decrease from the 2019 survey results. This decrease reflected the sharp but temporary decline in the global stock market in March 2020 stemming from the COVID-19 pandemic, coupled with the fact that a large number of respondent institutions compile their figures for the fiscal year at the end of March. Although the subsequent recovery of the global stock market did play a part in the high growth rate for 2021, this rate still exceeded 50% when adjusted to exclude this recovery. By asset class, the balance of assets other than stocks grew considerably in 2021, continuing the trend from 2020. The ratio of sustainable investment assets to total assets under management of the respondent institutions increased nearly 10%, from 51.6% in 2020 to 61.5% in 2021. In addition, the number of institutions included in the survey increased by five, up from 47 in 2020 to 52 in 2021.

By Asset Class, Investment Balances Increased 68.2% for Bonds and 265.1% for Private Equity

Each asset class saw an overall increase in investment balance. Japanese stocks increased 36.5%, to ¥133.5 trillion, and non-Japanese stocks increased 57.3%, to ¥78.9 trillion. With that said, from the end of March 2020 to the end of March 2021, the TOPIX increased 39.3%, while the S&P500 increased 53.7%. Therefore, the increase in the sustainable investment balance was roughly in line with the increases in stock indices over this period. Looking at investment management methods, exercise of voting rights and engagement grew 42.9% and 39.7%, respectively. This tells us that the balance increases in stock markets were not so much a case of new assets being added, as they were a case of existing asset prices rising, and that increases resulting from added funds were near negligible.

On the other hand, the investment balance for bonds increased year on year by 68.2%, to ¥302.9 trillion, when combining the balances of Japanese and non-Japanese bonds. Bond balances have increased significantly since 2019, in line with the expanding markets for green and sustainable bonds. For this survey, we conducted additional interviews with some respondent institutions to learn what initiatives institutional investors are implementing regarding bonds. Judging by this remarkable growth rate, it seems that the progress of sustainability-related initiatives has affected investment in government and international agency bonds, in addition to affecting initiatives concerning green and sustainable bonds. Based on interviews, institutional investors employed negative screening for government bonds, which involved avoiding investments in bonds for countries with severe ESG-related issues, and utilized passive management of foreign bonds to engage with international organizations. Other replies pointed toward categorizing screening based on a country's risk score, which, to date, has been conducted extensively as a type of positive screening. This feedback confirms the strong impact that the progressive application of sustainability standards has had upon government and international agency bonds.

Particularly striking among other assets was the increase in balance for private equity (PE), which increased 265.1% year on year, to ¥4.1 trillion. Bearing this in mind, I would like to include questions in the 2022 survey that ask what specific initiatives are being taken regarding PE.

By Investment Management Method, ESG Integration Increased 106.0% and Impact Investment Expanded 403.2%

Looking at investment management methods, ESG integration rose from a balance of ¥204.9 trillion in 2020 to a balance of ¥422.1 trillion in 2021, a 106.0% increase. Norms-based screening also increased 110.7%. However, as the increase in ESG integration is over double that of stock asset classes, the 2021 results may be another case of overly high figures due to respondent institutions having a different definition and interpretation of "ESG integration" than that laid out by the Global Sustainable Investment Alliance (GSIA) or the Principles for Responsible Development (PRI), as described in *White Paper on Sustainable Investment in Japan 2020*.* We intend to explain the definition of ESG integration once more in the 2022 survey, and I hope to clarify whether these figures are, in fact, too high by asking respondent institutions about their reasoning when their definition of ESG integration differs from that of the GSIA or PRI.

* See "3. Definition of ESG Investment" under Section 1 of *White Paper on Sustainable Investment in Japan 2020*.

As for other methods, negative screening grew 93.0% year on year, to ¥261.0 trillion, while norms-based screening increased 110.7%, from ¥28.3 trillion in 2020 to ¥59.6 trillion in 2021. While the balance for impact investment remains relatively limited at ¥706.2 billion, this figure still indicates remarkable growth—a 403.2% increase—from ¥140.3 billion in 2020. This increase is mainly due to in addition to conventional impact investments, an increase in investment in the stock market made with a clear awareness of the impact such investments will have on society. This is a phenomenon that I will describe later.

Taking Sustainable Investment to the Next Level

In retrospect, some new movements took place in 2021 that could have a significant impact on the future. Particularly notable are the increase in new impact investing, the proliferation of "net-zero" thinking, and global standardization and institutionalization of non-financial information under the International Financial Reporting Standards (IFRS).

New Impact Investment

As the results of this survey show, the balance for impact investment is still limited, at ¥706.2 billion, but it represents a significant increase of 403.2% compared with 2020. When you examine the reasons for this strong growth under a microscope, the driving force is the investment trust funds aimed at individual investors. More specifically, these funds are careful to select and invest in listed companies with new products or technologies that could significantly impact society. We have also seen the emergence of funds that invest in domestic stock, in addition to global stock.

Said funds build their investment portfolios by focusing on the social impact of listed companies. They tally the volume of greenhouse gas (GHG) emissions generated from the companies in their portfolios and report on the GHG reduction effect that investing in this portfolio would achieve, compared with investing the same amount in a regular stock index. Also of note is that the companies managing these funds issue a report to investors with information about representative companies within their portfolios, including what technologies and services these companies provide that reduce GHG emissions and what sort of emission reduction targets they have.

In contrast, despite the rise in investment trust funds rooted in ESG investment over the past three years, there have been times where we, as JSIF, questioned whether it was appropriate to aggregate a number of them as public SRI investment trust funds. While these funds did advocate for ESG investment, their terms and conditions and sales materials lacked information explaining the precise details of their management methods and the impact of their investments. They did not explain how they differed from funds not engaged in ESG investment, nor was there any disclosure regarding the impact of ESG investment and the extent to which it affected performance in the subsequent management process. This could be because asset management and sales companies were acting from a compliance standpoint, thinking that adding such disclosure could create the risk of investors misunderstanding the nature of the fund. Alternatively, these companies may have simply acted out of inertia, staying within conventional disclosure frameworks.

I believe the investment funds focused on impact investment, coupled with their activities, will have a major influence on disclosure carried out by all investment funds. I welcome this change with open arms. Supposing impact-oriented funds become widely accepted among individual investors in Japan, I expect to see a transition from limited disclosure by opaque funds to disclosure that allows investors to see more clearly how investment managers manage their funds. If such a transition occurs, we could see a corresponding shift in the perception of individual investors who have long followed index-based investing. These investors may become more willing to accept investment funds that make the impact of their investments more transparent.

Moving from "Carbon Neutral" to "Net Zero" and "Net Negative"

Another notable point about these funds is that they have set the realization of net-zero carbon emissions as a management target. A recent global trend among companies and investors is achieving net-zero or net-negative emissions, instead of carbon neutrality. Investing in companies with products and technologies for reducing GHG emissions does not mean that such companies will achieve zero CO_2 emissions straight away. Therefore, after measuring the GHG emissions of their portfolio, some funds will invest in green projects that absorb an amount of CO_2 equivalent to those emissions, which will bring those funds to net zero.

A rising number of companies are making a concerted effort to declare that same net-zero goal, including major global companies and some Japanese companies. I will use Microsoft as an example here.

In January 2020, Microsoft declared its intention to achieve net-negative emissions by 2030, and, by 2050, to remove an amount of GHG emissions from the environment equal to the amount it has emitted directly or through electricity consumption since its founding in 1975.

The company has maintained an internal carbon fee since 2012; the capital obtained from this fee is invested in technology to reduce GHG emissions. Since 2019, Microsoft has implemented charges for emissions generated from its supply and value chains, and emissions produced by the company. Put another way, it has extended the scope of its fees from Scope 1 and Scope 2 emissions to include Scope 3 emissions. Its 2020 carbon emissions are expected to amount to about 16 million tons, of which approximately 100,000 tons are Scope 1 emissions, and 4 million tons are Scope 2 emissions. In contrast, roughly 12 million tons of these emissions are Scope 3 emissions. Microsoft is only one of many companies where Scope 3 emissions comprise most of their carbon emissions. However, the number of companies like Microsoft that have set specific reduction targets for Scope 3 emissions and emissions from their products' entire life cycles are still limited.

In addition, Microsoft has used technology to help its suppliers and customers worldwide to reduce their GHG emissions. It has also established a new $1 billion climate innovation fund to accelerate the global development of carbon reduction, capture, and removal technologies. Such efforts are vital for achieving net-negative emissions. On top of this, Microsoft has promised to release a new annual environmental report that will update readers on the progress of these efforts.

I expect that Japanese companies will also be required to calculate their emissions—including Scope 3 emissions—indicate their reduction targets, and report on their progress toward meeting these targets. I anticipate that investors will engage with these targets as well.

IFRS-Driven Global Standardization and Institutionalization of Non-Financial Information

Also drawing attention is the global standardization and institutionalization of non-financial information, which has started to take shape primarily via the actions of the IFRS Foundation. In *White Paper on Sustainable Investment in Japan 2020*, we briefly touched on European Union taxonomy, standard-setting, and eco-labeling. Since then, however, there has been a bevy of new action from the IFRS Foundation. First, in November 2020, the International Integrated Reporting Council (IIRC) and the Sustainable Accounting Standards Board (SASB) announced a merger to form the Value Reporting Foundation (VRF), to be established in June 2021. All focus was on what role the VRF would play going forward. Then, in November 2021, the IFRS Foundation announced that it would consolidate the VRF and the Climate Disclosure Standards Board (CDSB). It also announced the establishment of the International Sustainability Standards Board (ISSB) to function alongside the existing International Accounting Standards Board (IASB), as well as prototype requirements for climate and public disclosure. Moreover, it will develop these prototypes in collaboration with the Task Force on Climate-Related Financial Disclosures (TCFD), the Global Reporting Initiative (GRI), and the World Economic Forum (WEF).

In June 2014, the IIRC convened the Corporate Reporting Dialogue (CRD), with participation from SASB, the Carbon Disclosure Project (CDP), CDSB, GRI, the International Organization for Standardization (ISO), and the IFRS Foundation. The IFRS Foundation sets the standards for international financial reporting, whereas the other participants of the CRD create sustainability standards and frameworks. So, I watched how the IFRS Foundation would interact with these other participants. However, I am surprised by how quickly efforts have been consolidated under the IFRS Foundation and by the speed at which the climate and general information disclosure regulations have been developed, with the final versions scheduled for June 2022.

Although the IFRS Foundation is driving the development of these regulations, it seems that these regulations will essentially incorporate the frameworks and standards already produced by the other organizations. Moreover, the International Organization of Securities Commissions (IOSCO) has recommended adopting the sustainability standards produced by the IFRS Foundation. At the same time, signs suggest that the International Auditing and Assurance Standards Board (IAASB) may follow suit. Such developments leave little doubt as to whether the IFRS Foundation's actions will standards for sustainability-related disclosure going forward, and this will affect Japan. Although the Financial Services Agency has already begun revising its list of disclosure items for securities reports, the belief is that disclosure systems in Japan and other countries will also reflect IFRS sustainability standards with greater specificity going forward.

Amid the IFRS Foundation's rapid standard-setting, the European Union announced the Corporate Sustainability Reporting Directive (CSRD) in April 2021. The CSRD proposals aim to improve the usefulness, comparability, and trustworthiness of non-financial information reporting, and, as per this announcement, the first set of standards (common to all industries) are to be adopted by October 31, 2022.

Specific differences exist between the IFRS Foundation's international sustainability standards and the European Union's considerations regarding the disclosure of sustainability-related information. One of these differences is the approach to materiality. The European Union requires companies to take a double materiality approach to reporting. This means considering sustainability-related risks and opportunities, such as climate change, that could impact a company as well as assessing the impact a company has on society and the environment. However, the approach to materiality under IFRS follows the approach taken by SASB—the disclosure of non-financial information could significantly affect a company's finances and impact investors.

One more difference involves how non-financial information is positioned relative to financial information. To date, non-financial information was considered supplementary to financial information. However, the IFRS Foundation has set financial information and non-financial information as complementary to one another, serving as a means to forecast the future cash flows of a company. Once a framework for non-financial information has been put in place, companies need to assess how that information will affect their financial information and reflect it in their risk management and decision-making. Financial audits should handle this information similarly, and investors will need to take this approach when they engage with companies. For the time being, the framework under study is focused on the environment; however, investigations regarding a framework for disclosing society-focused information are almost certainly coming down the line.

Over the past year, the depth of content and development of investor initiatives regarding sustainable investment have far exceeded expectations, as have corporate net-zero initiatives and efforts by the European Union and IFRS Foundation to create standards. Japanese investors and companies need to be fully aware of the speed of these rapid changes worldwide and proceed with changes in kind.

March 2022

Masaru Arai, Chair

NPO Japan Sustainable Investment Forum (JSIF)

Survey Distribution Methods

JSIF emailed survey requests to institutions for which it could verify contact information. The survey was also distributed with cooperation from the Financial Services Agency, the PRI Japan Network, the Tokyo Forum of Asset Managers (TFAM), and CSR Design Green Investment Advisory Co., Ltd. As a result of these efforts, JSIF received responses pertaining to their sustainable investment balances from 50 institutions.

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 52 institutions (50 respondents and two estimates).

Institutions That Provided Investment Balances for the Sustainable Investment Survey

All 50 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.
- The Dai-ichi Frontier Life Insurance Co., Ltd.
- The Dai-ichi Life Insurance Company, Limited
- Daiwa Asset Management Co. Ltd.
- Daiwa House Asset Management Co., Ltd.
- DBJ Asset Management Co., Ltd.
- FIL Investments (Japan) Limited
- Fukoku Capital Management, Inc.
- Invesco Global Real Estate Asia Pacific, Inc.
- Japan Post Insurance Co., Ltd.
- Japan Real Estate Asset Management 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
- 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.
- PIMCO Japan Ltd.
- Prologis REIT Management K.K.
- REEP Foundation
- Resona Asset Management Co., Ltd.
- Schroder Investment Management (Japan) Limited
- 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 Life Insurance Company
- Sumitomo Mitsui DS Asset Management Company, Limited
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- Taiju Life Insurance Company Limited
- 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

Snapshot of Sustainable Investing Assets, 2019-2020-2021

Overview

	2019	2020	2021
Total Sustainable Investment Balance (millions of yen)	336,039,620	310,039,275	514,052,801
Sustainable Investment as Percentage of Total Assets under Management	55.9%	51.6%	61.5%
Number of Respondents	43	47	52

Sustainable Investment Balance by Investment Management Method

(Millions of yen)

	2019	2020	2021
ESG Integration	177,544,149	204,958,018	422,115,459
Positive Screening	11,685,122	14,643,189	24,867,183
Sustainability-Themed Investment	3,454,089	7,988,505	10,665,994
Impact Investment		140,363	706,280
Exercising Voting Rights	187,435,331	167,597,095	239,487,347
Engagement	218,614,475	187,170,342	261,495,512
Negative Screening	132,232,671	135,263,369	261,039,802
Norms-Based Screening	25,560,889	28,308,180	59,648,963

Investment Balance by Asset Class

(Millions of yen)

	2019	2020	2021
Japanese Stocks	127,883,665	97,844,264	133,542,411
Non-Japanese Stocks	81,545,344	50,166,491	78,931,336
Domestic Bonds	146,178,377	180,123,263	135,985,817
Overseas Bonds			166,982,310
Private Equity (PE)	1,732,175	1,129,313	4,123,135
Real Estate	6,775,910	8,162,100	11,998,553
Loans	10,455,582	10,421,862	14,465,072
Other Sustainable	6,321,161	10,401,896	12,046,656

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. Based on publicly available information, we have included Government Pension Investment Fund (GPIF) amounts in calculations for the survey. *FY2020 ESG Report*, published by GPIF, states that all assets managed by GPIF fall under the category of ESG-oriented investment. Nevertheless, as with 2020, we have excluded a total of ¥22.6 trillion related to private Japanese bonds from the survey calculations. We have excluded these amounts for the following reasons: Japanese government bonds account for the majority of the Japanese bonds under GPIF's management; JSIF believes that it is difficult for GPIF to conduct ESG integration and engagement regarding said bonds; and GPIF has not yet published the details of their initiatives.

Survey Results

Survey questions can be found at:
https://japansif.com/JSIFsurvey2021qa.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 53 institutions (51 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	2020	2021
Asset Owner	15	18
Investment Manager	32	34
Asset Owner and Investment Manager (both apply)	0	1
Total	47	53

The total number of respondent institutions was 53. 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	2020	2021
Principles for Responsible Investment (PRI)	40	45
Equator Principles	2	3
Principles for Financial Action for the 21st Century (PFA21)	19	22
Principles for Sustainable Insurance (PSI)	3	3
Carbon Disclosure Project (CDP)	12	19
ICGN (The International Corporate Governance Network)	10	10
Montreal Carbon Pledge	4	4
United Nations Environment Programme Finance Initiative (UNEP FI)	6	9
Task Force on Climate-Related Financial Disclosures (TCFD)	27	34
United Nations (UN) Global Compact	10	11
Climate Action 100+	11	18
Japan Stewardship Initiative	7	16
Net Zero Asset Managers initiative	–	7
Net-Zero Asset Owner Alliance	–	2

The Japan Stewardship Initiative, Net Zero Asset Managers initiative, and Net-Zero Asset Owner Alliance are new initiatives established in 2021.

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

Choices	2020	2021
YES	36	40
NO	11	13
Total	47	53

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

Choices	2020	2021
YES	44	52
NO (currently in development)	1	0
NO (intention to discuss policy development)	0	0
NO (no plan for policy development)	0	0
Total	45	52

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	2020	2021
YES (disclosed to the public)	41	48
YES (disclosed only to clients and subscribers)	2	2
NO	2	1
Total	45	51

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

Choices	2020	2021
YES	45	53
NO (currently making preparations)	0	0
NO (intention to discuss implementation)	1	0
NO (no plan for implementation)	1	0
Total	47	53

Q8 Please disclose to us your sustainable investment balance under management.

Choices	2020	2021
YES	45	50
NO	2	3
Total	47	53

Included under the choice of "NO" are the two institutions for which we aggregated data based on publicly available information. The one remaining institution reported difficulties with isolating investment amounts from Japanese bases out of its global investment balance. Therefore, the figures for Q9 and onward reflect 52 institutions total (50 respondent institutions and two estimates).

Q9 Q9–Q13 are on sustainable investment balances.

	2020	2021
Sustainable Investment Balance (millions of yen)	310,039,275	514,052,801
Percentage of Total Funds under Management	51.6%	61.5%
Number of Institutions	47	52

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 ¥102,756,818 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 ¥616,809,619 million for the 52 institutions.

¥616,809,619 million – ¥102,756,818 million = ¥514,052,801 million

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

Total funds under management for the 52 institutions was ¥1,003,684,194 million. Accordingly, the sustainable investment balance as a percentage of total funds under management was calculated as follows:

¥616,809,619 million ÷ ¥1,003,684,194 million = 61.5%

Data collection period

While we requested responses for the period ended March 31, 2021, 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 also amounts that fall outside the period ended March 31, 2021. The breakdown is as follows:

(Millions of yen)

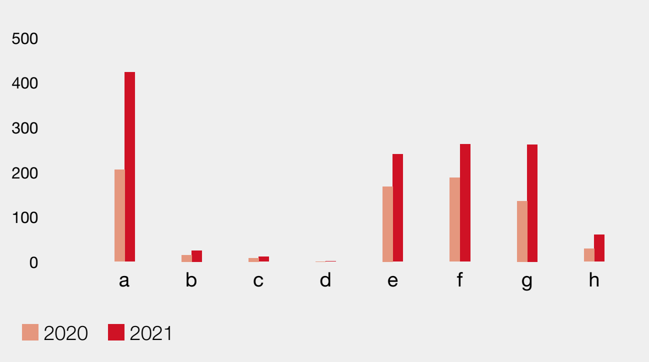
End of December 2020	70,384,770
End of February 2021	60
End of April 2021	292,617
End of May 2021	671,418
End of June 2021	25,818,845
End of July 2021	430,131
End of August 2021	1,216,289

Q14 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	2020	2021	% Change
a	ESG Integration	204,958,018	422,115,459	+106.0%
b	Positive (Best-in-Class) Screening	14,643,189	24,867,183	+69.8%
c	Sustainability-Themed Investment	7,988,505	10,665,994	+33.5%
d	Impact Investment	140,363	706,280	+403.2%
e	Exercising Voting Rights	167,597,095	239,487,347	+42.9%
f	Engagement, shareholder proposals, etc.	187,170,342	261,495,512	+39.7%
g	Negative Screening	135,263,369	261,039,802	+93.0%
h	Norms-Based Screening	28,308,180	59,648,963	+110.7%

(Trillions of yen)



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 due to multiple answers, the total for each investment management method is inconsistent with the total amount stated in Q9.

2. Since the range of items covered by the term "ESG integration" varies by institution, we assume that the investment balances provided may be larger than the actual balances. To avoid confusion between the terms "ESG integration" and "ESG incorporation," please refer to the explanation provided on pages 16–19 of *White Paper on Sustainable Investment in Japan 2020*.

3. 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)

	2020	2021	% Change
Equity Investments	2,863,374	2,594,051	−9.4%
Bond Investments	1,197,070	3,102,343	+159.2%
Other Assets	3,928,061	4,969,600	+26.5%

Defining sustainable investment

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

a) 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)

b) 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

c) 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.)

d) Impact Investment

A type of investment that fulfills the following four conditions:

① Investments are intended to adequately mitigate and manage significant negative impacts on the environment, society, and economy while also making a positive impact on one or more of the elements listed.

② Impacts are assessed and monitored.

③ Details are disclosed regarding the results of impact assessments and monitoring (which also covers details disclosed solely to fund contributors and not to the general public).

④ An appropriate risk–return balance is pursued for each financial institution and investor over the medium to long term, based on the definition of impact finance provided by the Ministry of the Environment's Positive Impact Finance Task Force.

e) Exercising Voting Rights

Exercising voting rights

Notes: 1. Not limited to exercising voting rights regarding ESG
2. Include judgments on the exercising of voting rights entrusted to voting advisory companies

f) Engagement

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

g) 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.)

h) 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.

(Millions of yen)

(Domestic) Government bonds	1,689
(Domestic) Government agency bonds	85,178
(Domestic) Municipal bonds	5,999
(Domestic) Corporate bonds	211,474
(Overseas) International agency bonds	576,553
(Overseas) Government bonds	24,919
(Overseas) Government agency bonds	69,150
(Overseas) Municipal bonds	40,034
(Overseas) Corporate bonds	5,628,068

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	3,691,493
Other	1,471,594

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.

This question is intended to confirm whether information has been disclosed in accordance with the requirement to ③ disclose details regarding the results of impact assessments and monitoring of impact investments. Such disclosure must be in accordance with the aforementioned definition of asset management methods, which also covers details disclosed solely to fund contributors and not to the general public.

Of the 12 institutions that provided impact investment amounts in Q14, nine institutions provided responses to this question, four of whom have yet to disclose this information. Of these four, one has not disclosed information because it has engaged in impact investment for less than one year. The remaining five institutions have disclosed this information online via impact reports or other means.

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)
- Government bonds for countries with previously developed or ongoing issues, such as civil war or oppression by the state in question, that are major problems from an ESG perspective.

Q19 For institutions that provided an investment amount for norms-based screening in Q14, please disclose the norms being applied.

The following conventions are used as references

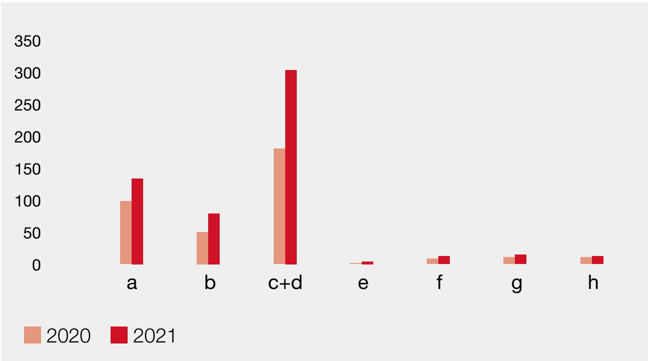
- Biological Weapons Convention (1975)
- Convention on Certain Conventional Weapons (1983)
- Chemical Weapons Convention (1997)
- The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Convention, 1999)
- Convention on Cluster Munitions (Oslo Convention, 2010)
- In addition, the UN Global Compact, OECD Guidelines, and Article 8 of the EU SFDR are also used as references

Q20 Please break down the amount provided for Q9 by asset class.

(Millions of yen)

	Choices	2020	2021	% Change
a	Japanese Stocks	97,844,264	133,542,411	+36.5%
b	Non-Japanese Stocks	50,166,491	78,931,336	+57.3%
c	Domestic bonds	180,123,263	135,985,817	+68.2%
d	Overseas bonds		166,982,310	
e	Private Equity (PE)	1,129,313	4,123,135	+265.1%
f	Real Estate	8,162,100	11,998,553	+47.0%
g	Loans	10,421,862	14,465,072	+38.8%
h	Other	10,401,896	12,046,656	+15.8%

(Trillions of yen)



Notes: 1. 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.

2. Since the balance for bond investments is increasing rapidly, we conducted additional interviews with some respondent institutions for further feedback. Based on these interviews, we assumed that a large proportion of this balance consists of investments made through the negative screening of government bonds. Specifically, this includes the longtime practice of bond investment from the perspective of removing country risk, as well as the avoidance of investing in government bonds for countries with previously developed or ongoing issues that are major problems from an ESG standpoint. Another relevant factor regarding this increase is the increasingly prevalent engagement with bond investment as a whole.

Q21 Please provide specific asset classes and their totals for those who listed a balance in the "other" category in Q20.

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

- Balanced funds
- Alternative
- Environmentally oriented REITs
- Investment in Renewable Energy Infrastructure
- Equity interest in anonymous association

Q22 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	2020	2021
Under 100	7	6
100 to 500	11	16
500 to 1,000	6	8
Over 1,000	3	4

Q23 Please provide specific examples of engagement themes (multiple responses allowed).

Choices	Number of Responses
Disclosure of GHG reduction and emission amounts	37
Initiatives related to TCFD recommendations	37
Efforts related to the problem of ocean plastics	21
Efforts that address diversity	36
Supply chain management	33
Efforts that address human resource development and labor shortages	28
Evaluation of the effectiveness of the Board of Directors	34
Capital policy, including policies for cross-shareholding and parent-child listings	32
Other (please specify)	17

The following themes were highlighted in responses under the open-ended "Other" heading

- Response to the pandemic
- Response to human rights issues
- Post-scandal measures to prevent recurrence, etc.
- Officer compensation framework

Q24 Please tell us whether any of the themes given as a response to Q23 were newly added over the past one to two years.

The following themes were given by several respondent institutions

- Initiatives related to TCFD recommendations
- Disclosure of GHG reduction and emission amounts
- Addressing diversity (with additional responses referring to racial diversity)
- Response to the COVID-19 pandemic

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 45 institutions, of which 29 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	49
Prefer not to be disclosed	2
Added to calculations from publicly available information	2
Total	53

01

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CORPORATE VALUE DESIGN COMPANY

02

With **reporting as our starting point**, we will support transformation aimed at corporate collaborative management while helping to **enhance corporate value and foster a sustainable society**.

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A Corporate Value Design Company—Turning Strategies into Logical Stories

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