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Ambiguous definition of ESG investment leads to misunderstanding

“Are ESG investment assets declining?”

The question has surfaced repeatedly over the past one to two years.

So, what exactly is the definition of ESG investing?

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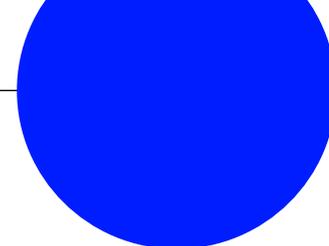
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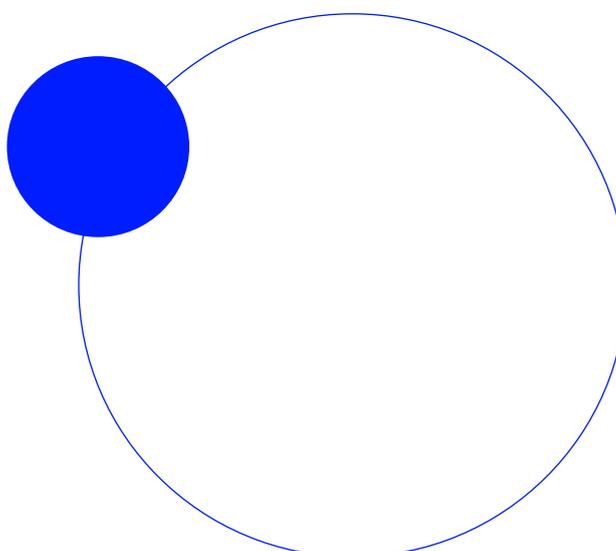


Quarterly analysis

This report, authored in collaboration with SGX, reviews the development of Japan's sustainability standards, the ESG performance of listed companies in Japan compared to market-specific indices, and the growth of index-linked SGX FTSE Blossom Japan Index Futures.

Key highlights from this quarter's analysis:

- ESG investment assets appear to be growing, but the ambiguous and broad definition of ESG may be misleading. It is important that ESG is a key factor in investment assets
- Both the Blossom Japan and Blossom Sector Relative (SR) indices maintained long-term outperformance relative to their benchmark with strong quarterly performance led by ESG Factors
- SGX FTSE Blossom Japan Index Futures remain the only active Japan ESG derivatives contract



Are ESG investment assets declining? – check the definition of ESG investment

“Are ESG investment assets declining?”, “Has the ESG investment boom passed?” These questions have been appearing frequently in public debate. Before assessing these assets, it is important to clarify what ESG investing actually means.

Principles of responsible investment (PRI) states it in the first of the six principles: “We will incorporate ESG issues into investment analysis and decision-making processes.” In addition, the PRI does not specifically mention “what ESG issues are incorporated into investment decision-making” or “how much ESG is integrated into stock selection of the portfolio” (to the best of our knowledge), and it seems that it is left to investors' self-reporting. In other words, even if only a small portion of the process incorporates ESG factors, it may still be classified as an ESG investment.

Sustainable investment assets are on the rise - over 60% of total assets, according to survey results

So what is the current state of sustainable investment in Japan?

According to a survey on sustainable investment assets by the NPO Japan Sustainable Investment Forum (JSIF), the total amount of sustainable investment in Japan is approximately 672 trillion yen (+7.4% year-on-year), and more than 60% of Japan's investment balance is sustainable investment.

Exhibit 1. Trends in sustainable investment assets in the last 3 years

Year (trillion yen)	2023	2024	2025
Sustainable investment asset	538	626	672
Sustainable investment as a percentage of total assets under management	65.3%	63.5%	63.4%
(Answer) Number of institutions	63	61	56

Source: FTSE Russell, based on NPO Japan Sustainable Investment Forum 「[日本サステナブル投資白書 2024](#), [サステナブル投資残高調査 2025 結果速報](#).

Broad scope - breakdown of sustainable investment methods to be noted

Next, let's take a look at the breakdown of the asset by method of sustainable investment balance in the same report.

Exhibit 2. Sustainable investment asset by investment method

Sustainable investment Method / Year (Trillion yen)	2023	2024	2025
Equity linked ESG Investment Index -Best Select	10	14	15
Equity linked ESG investment Index -Tilt	13	17	15
ESG Integration	439	451	464
Negative Screening	327	334	374
Screening based on international norms	165	178	220
Positive Screening	11	11	88
Sustainability Theme Investments	33	20	21
Impact Investing	2	1	3
Exercise of Voting Rights	211	264	263
Engagement	295	355	319

Source : FTSE Russell based on NPO Japan Sustainable Investment Forum 「[日本サステナブル投資白書 2024, サステナブル投資残高調査 2025 結果速報](#)」.

We can observe that ESG investment assets are increasing across most categories.

The first place in asset is "ESG integration", with nearly half of all assets under management invested in 464 trillion yen in 2025. This may give the impression that a large share of Japan's investments are already ESG-focused.

The ambiguous definition of ESG “integration” may mislead to too large asset

The definition of ESG integration is defined as follows, according to another JSIF report.

Exhibit 3. Definition of ESG Integration by organizations

Organization	Definition of ESG Integration
CFA Association	Consider ESG in financial analysis and investment decisions. It can be done in a variety of ways to suit the fund manager's investment style and methodology.
GSIA	Environmental, social and governance factors should be systematically and explicitly incorporated into financial analysis by fund managers.
PRI	Systematically and explicitly incorporate key ESG criteria into investment analysis and investment decisions.

Source : FTSE Russell, based on NPO Japan Sustainable Investment Forum 「[責任投資手法の推移](#)」

Ultimately, there is no clear regulation specifying what ESG factors must be integrated or to what extent, and it seems that it is left to investors' voluntary declaration.

In other methods, engagement comes in second place, and voting rights are fourth. While these practices fall under responsible investment, many may still question whether they qualify as ESG investing.

Japanese FSA guide clearer ESG investment with “key” factor

These practices are becoming common even among investors who do not explicitly focus on stewardship or ESG. Investors and managers are likely obliged to at least clearly disclose the content and results of the ESG activities, as well as the extent of their impact on subsequent stock selection, as well as the excluded stocks and the reasons for them.

In the [“Partial Revision of the “Comprehensive Supervisory Guidelines for Financial Instruments Operators, etc - VI – 2 – 3 – 5 Considerations for ESG considerations \(2\) Scope of ESG Investment Trusts”](#) issued by Japanese FSA for the ESG investment trusts, it defined as follows:

For the purposes of these Supervisory Guidelines, ESG investment trusts shall be public investment trusts that fall under the following categories:

- 1. ESG is a key factor in the selection of investment assets, and**
- 2. Describe the contents of (1) in the “Objective and Characteristics of the Fund” section of the Prospectus**

Key factor’ does not imply a minor contribution, such as 10%, but at least 50%, or 70-80% or more in general sense, which means that ESG is a factor in the selection of investment assets, and if it is not disclosed, it should not be called an ESG investment trust. (It is said that this revision has significantly reduced the number of ESG-branded investment trusts.) This seems to be similar to the European SFDR*.

*The Sustainable Finance Disclosure Regulation (SFDR) is a sustainability disclosure regulation for financial products enforced by the EU in March 2021. The purpose of this program is to require financial market participants and financial advisors to disclose information on ESG (environmental, social, and governance) to prevent greenwashing (superficial environmental considerations) and to provide highly transparent information

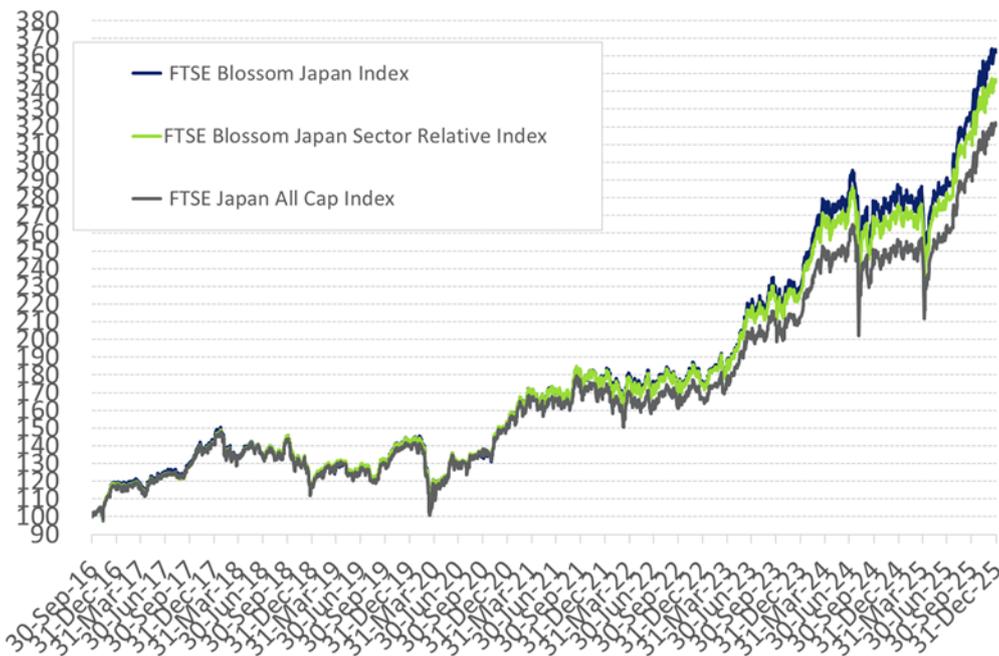
ESG should be “key” factor in the selection in the definition of ESG investment

In response to questions and editorials such as ‘Is ESG investment slowing?’ and ‘Has the ESG investment boom passed?’, in line with the definition of the Financial Services Agency, it can be said that ‘ the pool of assets that genuinely rely on ESG as a primary stock-selection factor may actually be quite limited and may not grow to become significant.

For reference, the FTSE JPX Blossom Japan Index is classified as a positive screening that is overwhelmingly lower assets than other methods in Exhibit 2. Each stock in the portfolio is selected based entirely on ESG considerations in FTSE JPX Blossom Japan Index.

The FTSE Blossom Index Series finishes CY2025 with strong quarterly gains driven by ESG factors

Exhibit 4. The FTSE Blossom Index Series has maintained long-term outperformance vs the benchmark



Source: FTSE Russell. Data as of December 31, 2025.

The FTSE JPX Blossom Japan Series maintained strong performance in the 2025/10-12 quarter, which also resulted in the strong outperformance over the benchmark for the full year 2025. FTSE JPX Blossom Japan delivered an excess return of +708 bps for the quarter (of which ESG factors contributed +542 bps) and +850 bps for the full year (with ESG factors contributing +480 bps). FTSE JPX Blossom Japan Sector Relative also recorded quarterly excess returns of +203 bps (ESG factors +285 bps) and full-year excess returns of +327 bps (ESG factors +277 bps).

The Blossom series marks its 10th anniversary this period since its inception at the end of December 2015. Looking back over the past ten years, Blossom Japan has delivered exceptionally strong performance, achieving a cumulative excess return of +3,062 bps against the benchmark. Detailed attribution analysis further shows that the primary driver of this outperformance was not traditional factors such as industry allocation, value, or momentum, but rather ESG factors, which contributed +2,389 bps. These facts provide the objective evidence that improvements in ESG scores by

Japanese listed companies have been well recognized by the investors in Japan and have generally contributed to enhancing the companies' corporate value.

Exhibit 5. Attribution Analysis for the FTSE Blossom Japan Index (bps)

	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2023/12	-187	163	-155	-166	183	1,146	233	1,217
2015/12 - 2024/3	-178	203	-158	-214	402	1,612	277	1,945
2015/12 - 2024/6	-250	210	-157	-221	319	1,875	266	2,042
2015/12 - 2024/9	-225	199	-187	-203	266	1,632	377	1,858
2015/12 - 2024/12	-281	214	-155	-215	322	1,910	418	2,212
2015/12 - 2025/3	-229	207	-92	-200	309	1,570	414	1,980
2015/12 - 2025/6	-248	210	-129	-238	326	1,571	417	1,909
2015/12 - 2025/9	-248	260	-104	-283	348	1,847	534	2,354
2015/12 - 2025/12	-275	284	-123	-318	376	2,389	728	3,062
Quarterly Change 2024/1-3	9	40	-3	-48	218	466	45	728
Quarterly Change 2024/4-6	-72	6	1	-7	-83	263	-12	97
Quarterly Change 2024/7-9	25	-11	-30	18	-53	-243	111	-184
Quarterly Change 2024/10-12	-56	15	32	-12	56	278	41	354
Quarterly Change 2025/1-3	51	-6	63	14	-12	-339	-3	-233
Quarterly Change 2025/4-6	-19	3	-38	-38	17	1	3	-71
Quarterly Change 2025/7-9	1	49	25	-44	21	276	116	445
Quarterly Change 2025/10-12	-28	25	-19	-35	29	542	194	708

Source: FTSE Russell, Data as of September 30, 2025. Data covers the period from December 31, 2015, to December 31, 2025.

Exhibit 6. Attribution Analysis for the FTSE Blossom SR Index (bps)

	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2023/12	-24	34	-151	-60	255	663	107	823
2015/12 - 2024/3	2	9	-3	-162	176	1,188	-63	1,147
2015/12 - 2024/6	-57	12	-3	-164	153	1,321	-99	1,164
2015/12 - 2024/9	-28	44	-170	-69	307	915	12	1,011
2015/12 - 2024/12	-60	45	-170	-74	324	1,056	0	1,122
2015/12 - 2025/3	-18	42	-152	-62	308	888	58	1,065
2015/12 - 2025/6	-23	50	-181	-89	328	898	72	1,055
2015/12 - 2025/9	-0	40	-167	-116	361	1,048	80	1,246
2015/12 - 2025/12	0	33	-189	-131	390	1,333	14	1,449
Quarterly Change 2024/1-3	26	-25	148	-102	-79	526	-170	324
Quarterly Change 2024/4-6	-59	4	-0	-2	-23	133	-36	17
Quarterly Change 2024/7-9	29	32	-167	95	154	-406	111	-153
Quarterly Change 2024/10-12	-31	1	1	-5	17	141	-12	111
Quarterly Change 2025/1-3	41	-3	18	13	-16	-169	58	-57
Quarterly Change 2025/4-6	-5	8	-29	-27	20	10	14	-10
Quarterly Change 2025/7-9	23	-10	14	-27	33	150	8	191
Quarterly Change 2025/10-12	1	-7	-22	-15	29	285	-66	203

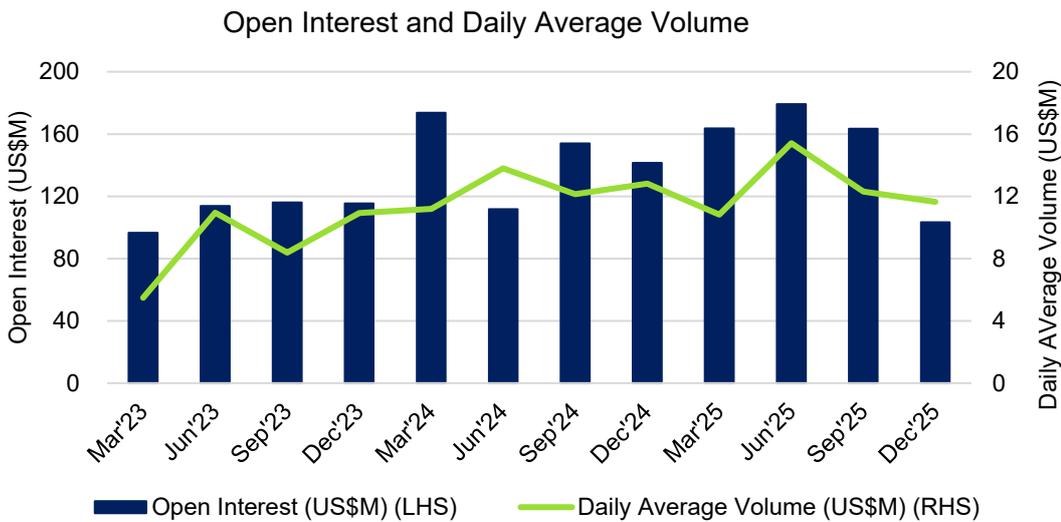
Source: FTSE Russell, Data as of September 30, 2025. Data covers the period from December 31, 2015, to December 31, 2025.

The SGX FTSE Blossom Japan Index Futures remain the sole active ESG derivatives contract for the Japanese market

As we enter 2026, the SGX FTSE Blossom Japan Index Futures contract retains its position as the only active Japan ESG derivatives contract.

This has been supported by flexible execution options for participants, with active and sizeable block trading complemented by on-screen liquidity in both the day and overnight sessions.

Exhibit 7. Evolution of activity on the SGX FTSE Blossom Japan Index Futures



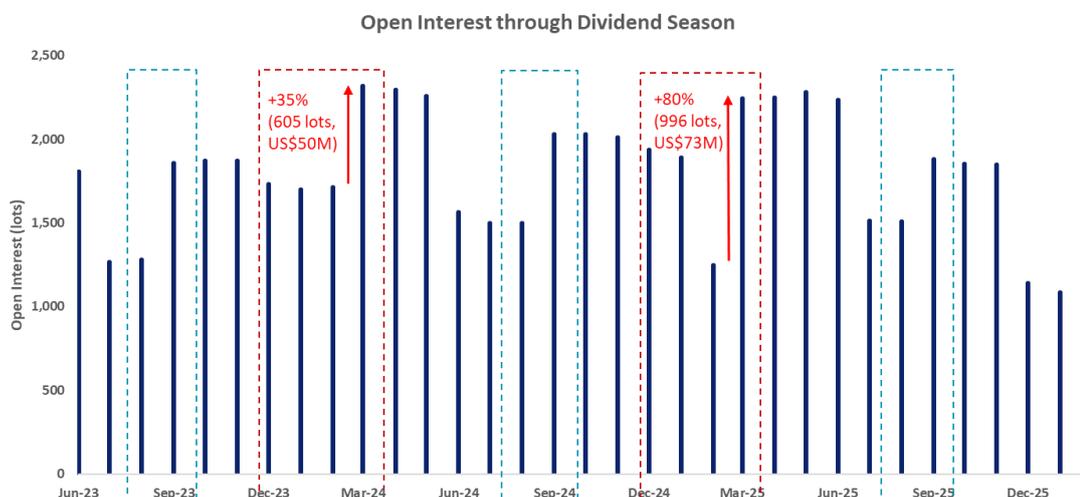
Source: SGX. Data as of March 2023 – December 2025. Past performance is no guarantee of future results. Please see end for important legal disclosures.

In 2025, the **SGX FTSE Blossom Japan Index Futures** continued to be used as a tool for dividend equitization, during the major dividend seasons in Japan (in March and September).

The next such cycle will occur in March (highlighted in the red boxes below, with September's cycles in blue), where we have historically seen this use case in action.

Through the March Dividend Season over the years, the Open Interest has increased by at least US\$50M.

Exhibit 8. Increase in Open Interest around the September dividend season



Source: SGX. Data as of September 2025. Past performance is no guarantee of future results. Please see end for important legal disclosures.

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