

Index Insights | Sustainable investment | Equity

ESG investment is a tailwind in Japan, despite global headwinds

Expected further investment from Japan's pension funds that signed the PRI; expectation of enhanced fund lineup in NISA and GPIF's call for applications

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Written in collaboration with SGX

Quarterly analysis

Authored in collaboration with SGX, this report 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 (EJP).

Key highlights from this quarter's analysis:

- ESG investment is a tailwind in Japan, despite global headwinds:
 - Japan's seven public pensions that completed signing the PRI in 2024 are set to increase investment
 - Discussed NISA product expansion
 - GPIF call for application new ESG indices and funds.
- Both Blossom Japan and Blossom SR (Sector Relative) indices reported slight underperformance relative to their benchmark, the FTSE Japan All Cap Index, for April to June 2025. This was driven largely by the negative contribution from the ESG factor. Long-term performance remains stable.
- SGX FTSE Blossom Japan Index Futures continue to remain the contract of choice for Japan ESG derivatives, with a market share of 98% (in terms of open interest in USD notional).

Further investment is expected from the seven Japanese public pension funds that completed signing the PRI in 2024

Earlier this year, [survey results](#) indicated that global capital inflows into sustainable and ESG investments have slowed, and that global sustainable investment funds have seen a net outflow in the first quarter of 2025.

However, demand for ESG investment remains strong in Japan.

We remembered that Prime Minister Kishida anticipated further ESG investment in Japan in his opening speech at PRI in Person 2023¹:

"I hereby announce that as the government we would proceed with necessary background work, and that seven representative public pension funds, worth of 90 trillion yen, or \$600 billion in AUM, will start preparations for newly becoming signatories to the Principle for Responsible Investments."

In fact, these seven Japanese public pension funds completed signing PRI by the end of 2024. The UN [PRI](#) encourages responsible investment and defines it as incorporating ESG factors into investments and stewardship activities.

It is expected that these pension funds will gradually promote responsible investment as defined by the PRI.

¹ Prime Minister's Office of Japan. October 3, 2023, [Statement by Prime Minister Kishida at PRI in Person 2023](#).

Further expansion expected to the ESG funds in the NISA

There's also movement in the [Nippon Individual Savings Account \(NISA\)](#), which continues to see a rapid inflow of funds by individuals.

The [Nikkei newspaper](#) reported on August 21 that "In order to promote the government's goal of becoming an 'asset management nation,' the Financial Services Agency will include [expanding the lineup of products](#) eligible for the NISA in its request for tax system reform for fiscal 2026."

Furthermore, in materials published in advance of the Expert Panel on the NISA program (third meeting held on July 10th)² hosted by the Financial Services Agency, an opinion was expressed regarding the expansion of Tsumitate NISA* (No ESG funds yet), stating, "When adding indices, consideration should be given to adding indices that incorporate ESG factors, while striking a balance between expanding investor options and protecting beginners." As of August 26th, the minutes of the third meeting have not yet been uploaded.

*NISA with monthly investments with normally for smaller amount and long-term investment. No applicable ESG funds yet.

The FTSE Blossom Japan Index could be a good tool for ESG investors with NISA

Furthermore, the final report of the ["Survey on the Current State of Sustainability Investment in Japan and Abroad"](#) (Japanese) published by the Financial Services Agency in July 2025 found that approximately half of retail investors "would like to invest but do not actually do so," and the biggest reason for those who "do not want to invest sustainably (approximately 40%)" is that they "don't know how." Similarly, only 13% of respondents believed it was possible to achieve both sustainability and returns.

Several ESG and climate indices have already been adopted for the growth quota of NISA, including the [FTSE Blossom Japan Index](#), which has outperformed market capitalization indices over the long term, including the past five years. If these indices are adopted for the Tsumitate NISA, which continues to see inflows of funds, it would support the need for ESG investments by more retail investors.

² FSA Explanatory material, [02.pdf](#).

GPIF continued commitment to sustainable investment in its updated policy and call for applications for ESG indices

In its [Sustainable Investment Policy](#) published in March 2025, GPIF announced its continued commitment to sustainable investment. While it has invested in ESG comprehensive indices (Japan 3, Global 1) and ESG thematic indices (Japan 3, Global 2), it expects to expand its offerings to include impact investing and other investments.

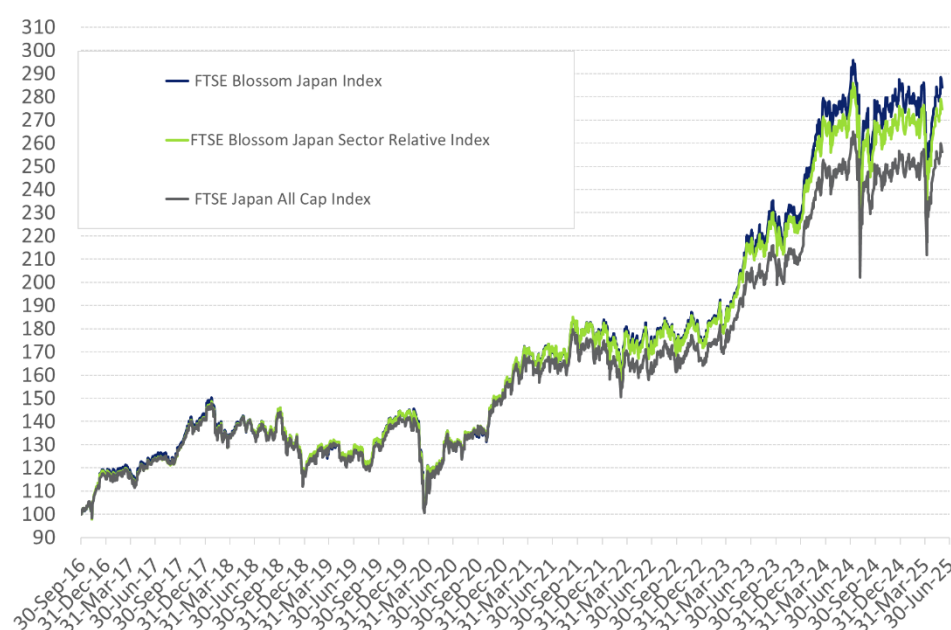
In fact, GPIF published “[Call for Applications for Domestic and Foreign Equity ESG Indexes and ESG Funds](#)” in July 2025. The March 2025 Sustainable Investment Policy suggests that GPIF is likely to further increase the number and variety of ESG indices it invests in.

ESG investment in Japan is expected to expand in both pensions and retail products

Sustainable investment and ESG investment in Japan are expected to expand in both (public) pensions and retail investment, and we believe that passive indices that incorporate transparent ESG evaluations and use them as the main focus for stock selection will play a major role to help accommodate this.

Stable quarterly performance reported by both Blossom and Blossom Sector Relative indices

Exhibit 1. FTSE Blossom Index Series maintains long-term outperformance versus the benchmark



Source: FTSE Russell. Data as of June 30, 2025.

Both the Blossom Japan and Blossom Japan Sector Relative indices maintained long-term outperformance versus the benchmark. The indices reported +1,909bp and +1,055bp respectively in their total excess return since inception over their benchmark the FTSE Japan All Cap Index. The ESG factor remained to be the largest contributor with +1,571bp for Blossom Japan and +898bp for Blossom Japan Sector Relative.

Quarterly performances of Blossom and Blossom Sector Relative were stable. While both Blossom and Blossom Sector Relative reported slight underperformance of -71bp and -10bp respectively against the benchmark, contributions from the ESG factor were positive for both indices.

Exhibit 2. Attribution Analysis for 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
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

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

Exhibit 3. Attribution Analysis for FTSE Blossom Sector Relative Index (bps)

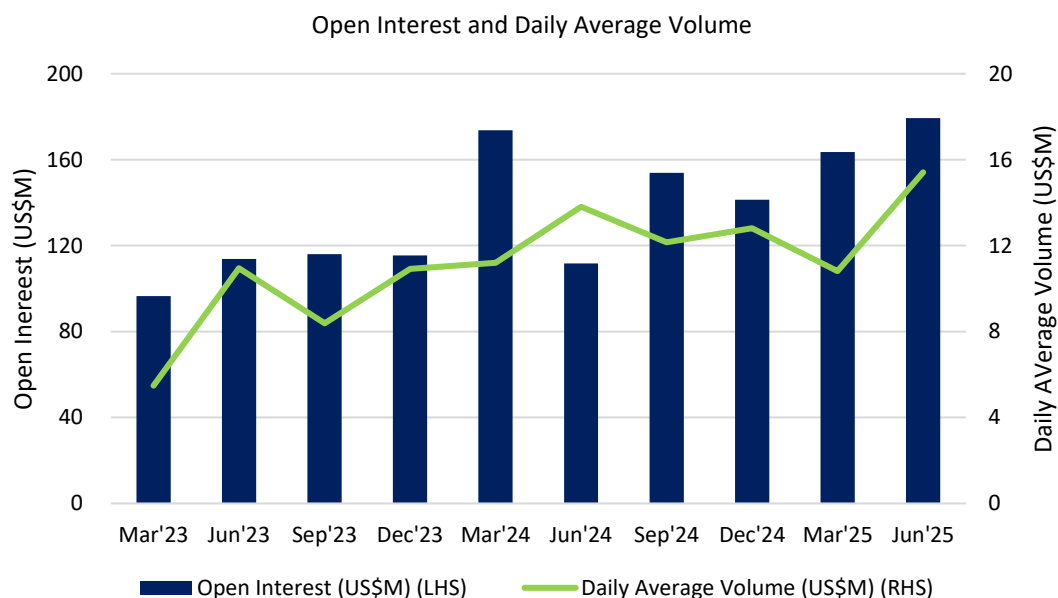
	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2023/12	-24	34	-151	-60	255	663	107	823
2015/12 - 2024/3	2	9	-3	-162	176	1,188	-63	1,147
2015/12 - 2024/6	-57	12	-3	-164	153	1,321	-99	1,164
2015/12 - 2024/9	-28	44	-170	-69	307	915	12	1,011
2015/12 - 2024/12	-60	45	-170	-74	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
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

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

Leveraging the SGX FTSE Blossom Japan Index Futures for dividend equitisation

In the last quarter, we have seen the SGX FTSE Blossom Japan Index Futures become the only active Japan ESG derivatives contract, with record Volumes and month-end Open Interest being reached along the way.

Exhibit 4. Evolution of activity on the SGX FTSE Blossom Japan Index Futures

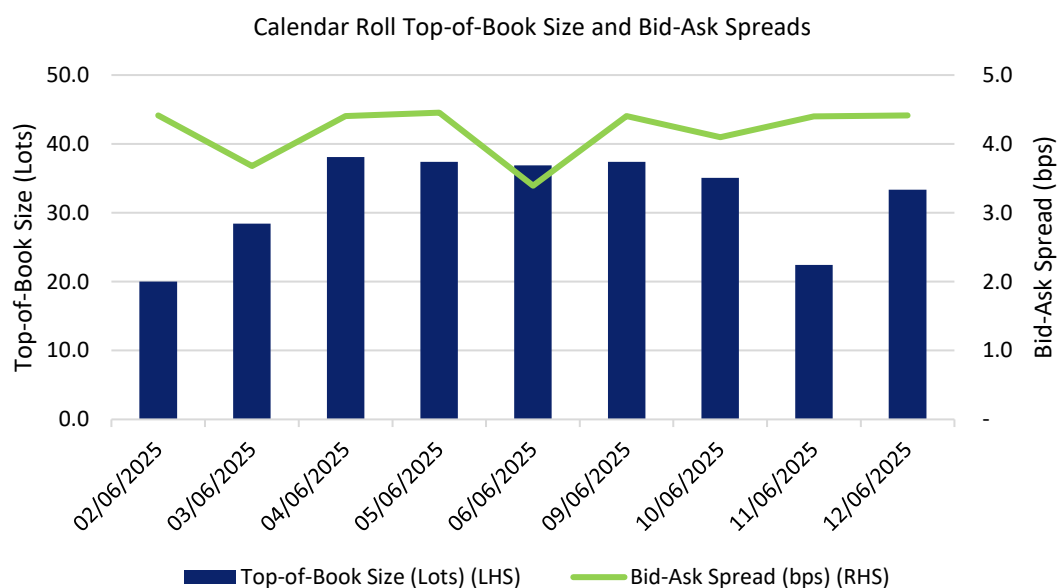


Source: SGX. Data as of March 2023 to June 2025. Past performance is no guarantee of future results. Please see end for important legal disclosures.

In June, we saw record activity through the June Roll Period. This was primarily facilitated through the NLT (Block) market, with single-clip sizes as large as 1.1k lots (US\$86M).

A tight roll market on-screen also supported this, providing various avenues for execution.

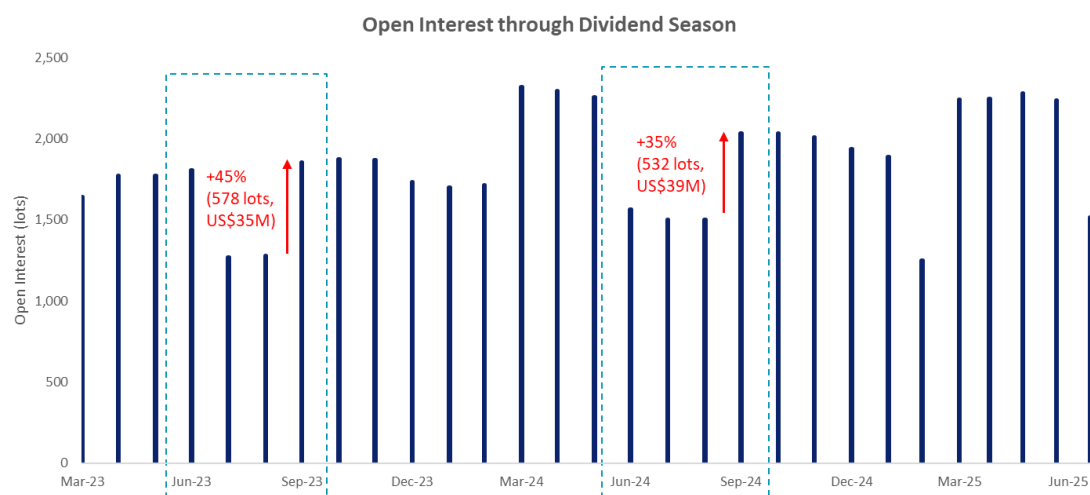
Exhibit 5. Calendar Roll average top of book (LHS) and bid/offer (bps)



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

One of the key uses of the contract has been as a dividend equitisation tool. This was evident in previous years during the September dividend season, where we saw significant increases in Open Interest (in excess of US\$30M).

Exhibit 6. Increased usage expected during September Dividend Season



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

The next significant ex-dividend date is projected to take place on the 29th of September [2025](#) and we expect to see similar activities.

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