



Index Insights | Sustainable Investment | Equity

From savings to Sustainable Investments

Japan's individual savings account (NISA)
to include Sustainable Investments
from 2024

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Quarterly analysis

The new Individual Savings Account in Japan (NISA) is expected to include sustainable investments from 2024. This could herald a new era as previously sustainable investing has been the domain of institutional investors such as GPIF, however the upcoming change to NISA will introduce ESG and sustainable mutual funds/ETFs into the saving schemes of individual investors.

This Japanese ESG indices and passive investment report, written in collaboration with SGX, reviews the development of Japan's sustainability standards, the FTSE ESG Scores of Japanese listed companies compared to the broad-market index, and the growth of index-linked SGX FTSE Blossom Japan Index Futures.

Key highlights from this quarter's analysis:

- Investment Trust Association of Japan announces the inclusion of sustainable investment products to the list of NISA eligible products, effective January 2024
- FTSE Blossom Japan Index Series further extends its outperformance over traditional market cap index
- SGX FTSE Blossom Japan Index Futures reach new highs on Open Interest and Volumes

Could new individual tax incentive scheme benefit sustainable investing?

In Japan, the new individual's small investment tax exemption scheme (NISA) starting in January 2024, will allow mutual funds to be purchased under the "growth quota". As the first step, the Investment Trusts Association in Japan announced in June 2023 that about 1,000 investment trusts managed in stocks and bonds in Japan and overseas, would come under the Individual tax incentives scheme to encourage shift "from savings to investments."

Looking at this investment trust lineup, for the first time, about 20 sustainable investment funds and ETFs were included. Although the number is small, it is encouraging to see the progress. One such ETF is the ONE ETF ESG (1498), which has been managed since 2017 with the aim of achieving investment results linked to the FTSE Blossom Japan Index and is invested in by GPIF.

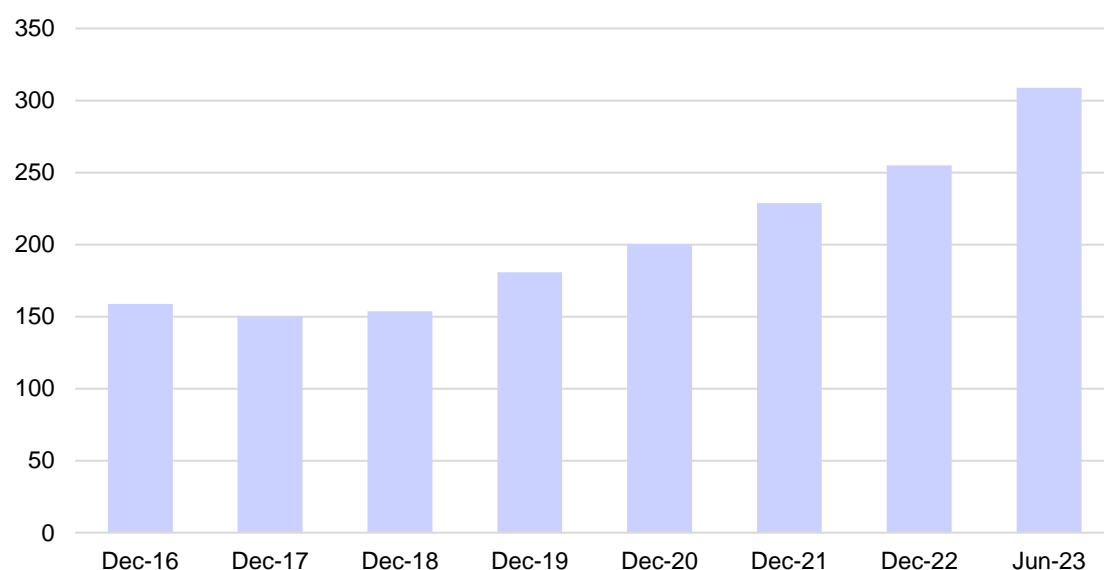
There are about 6,000 publicly offered investment trusts in Japan in total, and while all are applied to NISA, only the new NISA will be applied to those that are worth the long-term investment of individuals. Together with the 1,000 funds/ETFs announced this time, it will be narrowed down to about 2,000. The new NISA will have no period of tax benefit with more than double the annual investment limit, thereby encouraging individuals to build their long-term assets.

With the inclusion of sustainable investment strategies such as ETFs linked to the FTSE Blossom Japan Index in the new NISA, it is expected that sustainable investment in Japan, which was previously mainly taken up by institutional investors such as GPIF, will spread to individual investors.

FTSE Blossom Japan Index Series semi-annual rebalance sees ESG score uplift

In June 2023, the FTSE Blossom Japan Index had its semi-annual rebalance with updated ESG scores. As a result, the number of constituents in the index is the highest since inception, and the average ESG score is also the highest.

Exhibit 1. Number of constituents in the FTSE Blossom Japan Index



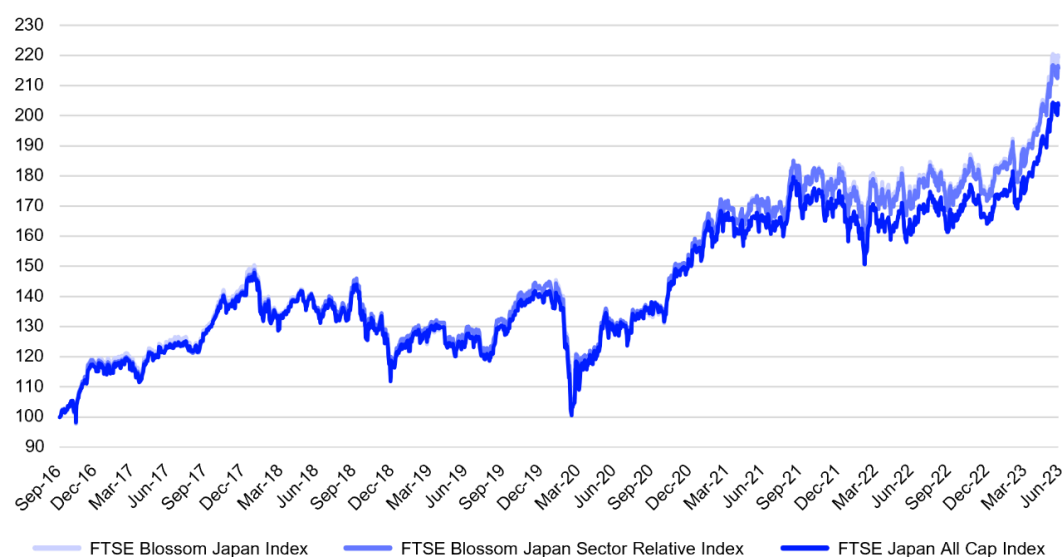
Source: FTSE Russell. Data as of June, 2023. Average FTSE ESG Score of Blossom Japan Index is 3.97 at June 2023 from 3.83 before rebalance (Market Cap weighted)

As the influence of corporate ESG information on long-term corporate valuation increases for investors, the disclosure of ESG information of Japanese companies is improving year by year. FTSE Russell believes this improvement is also due to the global and local promotion, penetration and spread of ESG disclosure rules, guidelines and initiatives.

FTSE Blossom Japan Index Series continues to outperform traditional market index

The second quarter of 2023 was another strong period for FTSE Russell's Japan ESG flagship index series.

Exhibit 2. Performance (total return, JPY)



Source: FTSE Russell. Data based on Total Return in JPY, as of June 30, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

Both FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index outperformed the traditional FTSE Japan All Cap Index, by 485bp and 233bp respectively (Exhibit 3).

Exhibit 3. Performance attribution analysis for FTSE Blossom Japan Index Series

FTSE Blossom Japan Index

	Quarterly Change (2023/03 – 2023/06)				2015/12 – 2023/06				2015/12 – 2023/03			
	Industry Allocation	Stock Selection	Interaction	Total Contribution	Industry Allocation	Stock Selection	Interaction	Total Contribution	Industry Allocation	Stock Selection	Interaction	Total Contribution
Technology	0.0	48.9	0.3	49.3	-11.7	88.7	0.7	77.7	-11.8	39.8	0.4	28.4
Telecommunications	-3.0	4.6	-0.9	0.7	-23.6	27.9	-6.4	-2.1	-20.7	23.3	-5.5	-2.8
Health Care	-1.3	-14.8	-0.3	-16.4	-16.3	30.8	-1.1	13.4	-15.0	45.6	-0.8	29.8
Financials	-2.2	76.2	3.0	77.0	-6.7	224.3	24.4	242.1	-4.5	148.1	21.4	165.1
Real Estate	-4.4	32.6	-8.3	19.9	-29.5	-52.7	-56.1	-138.4	-25.1	-85.3	-47.8	-158.3
Consumer Discretionary	0.6	117.9	0.5	119.0	8.6	456.3	9.9	474.8	8.0	338.4	9.4	355.8
Consumer Staples	3.2	8.6	-1.2	10.6	23.3	67.1	-8.3	82.2	20.1	58.5	-7.1	71.6
Industrials	4.9	208.6	-5.6	207.9	34.9	221.8	-49.7	207.1	30.0	13.2	-44.0	-0.8
Basic Materials	-2.7	25.6	-0.7	22.2	-9.0	217.8	-3.9	204.9	-6.3	192.2	-3.2	182.7
Energy	0.4	2.3	0.2	2.9	3.3	12.4	1.2	16.9	2.9	10.1	1.1	14.1
Utilities	-2.3	-6.3	0.4	-8.2	-18.0	81.9	-2.9	61.0	-15.8	88.2	-3.2	69.2
Total Return (Local)	-6.8	504.2	-12.6	484.8	-44.7	1,376.4	-92.0	1,239.6	-38.0	872.2	-79.4	754.7

FTSE Blossom Japan Sector Relative Index

	Quarterly Change (2023/03 – 2023/06)				2015/12 – 2023/06				2015/12 – 2023/03			
	Industry Allocation	Stock Selection	Interaction	Total Contribution	Industry Allocation	Stock Selection	Interaction	Total Contribution	Industry Allocation	Stock Selection	Interaction	Total Contribution
Technology	1.6	11.6	-0.2	13.0	6.8	-12.1	-1.6	-7.0	5.2	-23.6	-1.5	-19.9
Telecommunications	-1.7	-10.7	0.2	-12.2	-16.6	-87.7	1.1	-103.2	-15.0	-76.9	1.0	-90.9
Health Care	-0.4	20.1	0.8	20.5	-4.1	104.4	6.4	106.7	-3.7	84.3	5.6	86.2
Financials	-0.7	37.3	-0.2	36.4	-3.3	122.8	-1.8	117.7	-2.6	85.6	-1.6	81.4
Real Estate	0.1	32.4	-1.6	31.0	3.1	-2.8	-9.0	-8.8	3.0	-35.2	-7.5	-39.7
Consumer Discretionary	0.4	76.8	0.1	77.3	2.8	327.5	0.0	330.3	2.4	250.7	-0.1	253.0
Consumer Staples	1.6	-0.9	-0.3	0.5	5.1	50.3	-2.8	52.7	3.5	51.2	-2.5	52.2
Industrials	-1.5	64.8	0.3	63.5	-9.2	328.2	3.0	322.0	-7.7	263.5	2.7	258.6
Basic Materials	-0.1	1.3	-0.1	1.1	3.7	38.2	-0.4	41.4	3.8	36.9	-0.3	40.4
Energy	0.7	0.0	-0.2	0.5	5.5	-4.9	-1.3	-0.7	4.8	-4.9	-1.1	-1.2
Utilities	0.7	1.3	0.0	1.9	5.1	2.9	-0.4	7.6	4.4	1.6	-0.3	5.7
Total Return (Local)	0.6	233.9	-1.2	233.3	-1.2	867.0	-6.9	858.9	-1.8	633.1	-5.7	625.6

Source: FTSE Russell. Data as of June 30, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

As introduced in our previous report: [Serving two purposes: ESG and Investment Return - ESG indices outperforming traditional Japanese market cap indices](#), the outperformance of the FTSE Blossom Japan Index series over the traditional market capitalisation index since inception mostly has been attributable to stock-selection effect. This has remained the case for both indices in the second quarter of 2023, as the stock-selection effect contributed 504bp for the FTSE Blossom and 234bp for the FTSE Blossom Japan Sector Relative.

Exhibit 4 breaks down the style factor attributions for the FTSE Blossom Japan and Blossom Japan Sector Relative indices. Similar to the factor analysis results we have seen in recent quarters, there were substantial contributions from the Size factor and the Residual factor (incl. non-traditional factors such as ESG) for both FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index.

Exhibit 4. Style Factor Attribution

FTSE Blossom Japan Index

Period	Industry	Value	Quality	Volatility	Size	Momentum	Residual	Total Excess in JPY
31/05/2015 to 31/3/2023	-112.3	169.3	-80.4	-301.0	612.6	128.1	333.1	749.4
31/05/2015 to 30/6/2023	-130.0	265.3	-79.4	-343.7	915.0	149.6	452.9	1,229.7
Quarterly change	-17.7	96.0	1.0	-42.7	302.4	21.5	119.8	480.3

FTSE Blossom Japan Sector Relative Index

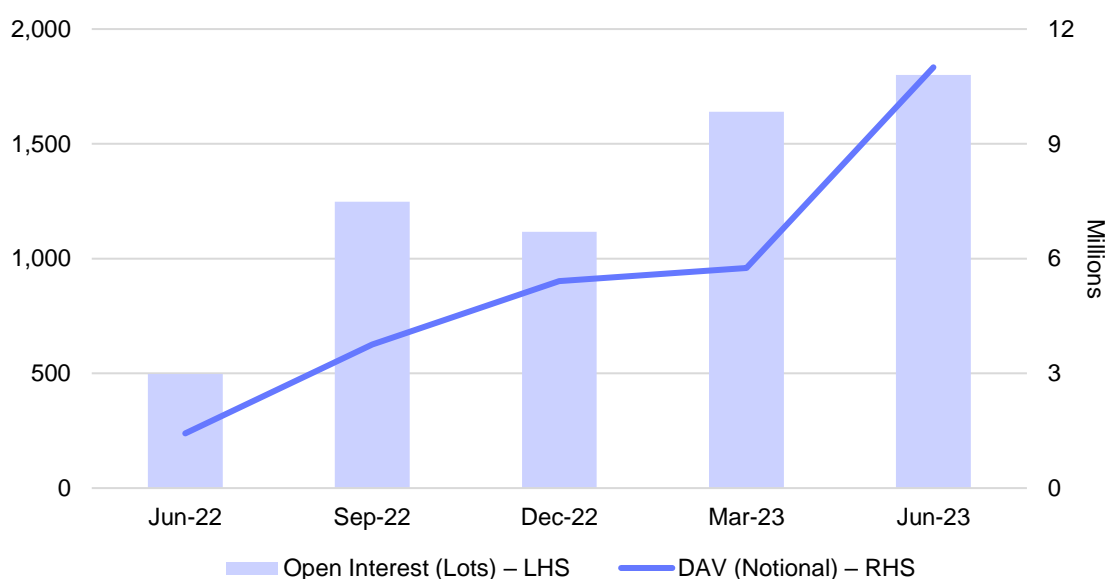
Period	Industry	Value	Quality	Volatility	Size	Momentum	Residual	Total Excess in JPY
31/05/2015 to 31/3/2023	2.9	101.7	-126.9	-132.8	99.1	192.3	458.9	595.2
31/05/2015 to 30/6/2023	4.5	141.7	-144.1	-149.2	227.3	221.1	520.4	821.7
Quarterly change	1.6	40.1	-17.3	-16.4	128.2	28.8	61.5	226.6

Source: FTSE Russell. Data based on June 30, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

Open Interest and Volumes for SGX FTSE Blossom Japan Index Futures reached new highs

With growing interest in the SGX FTSE Blossom Japan Index Futures, June 2023 had been a record month where **open interest reached a high of \$115M** (1,805 lots). Average daily volume almost doubled from March to \$11M in June 2023, demonstrating an increase in tradability in the SGX futures.

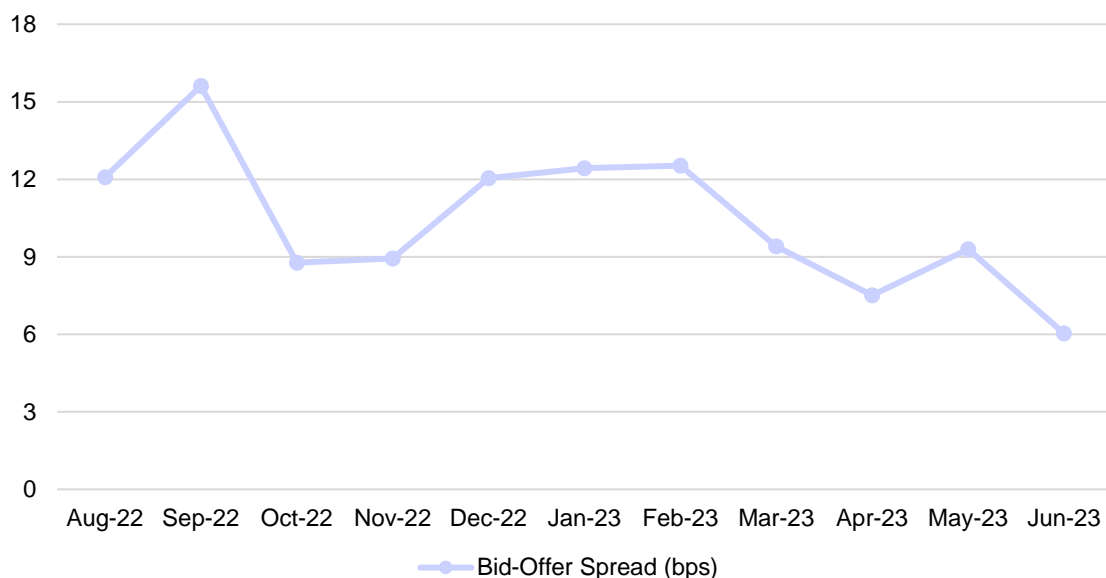
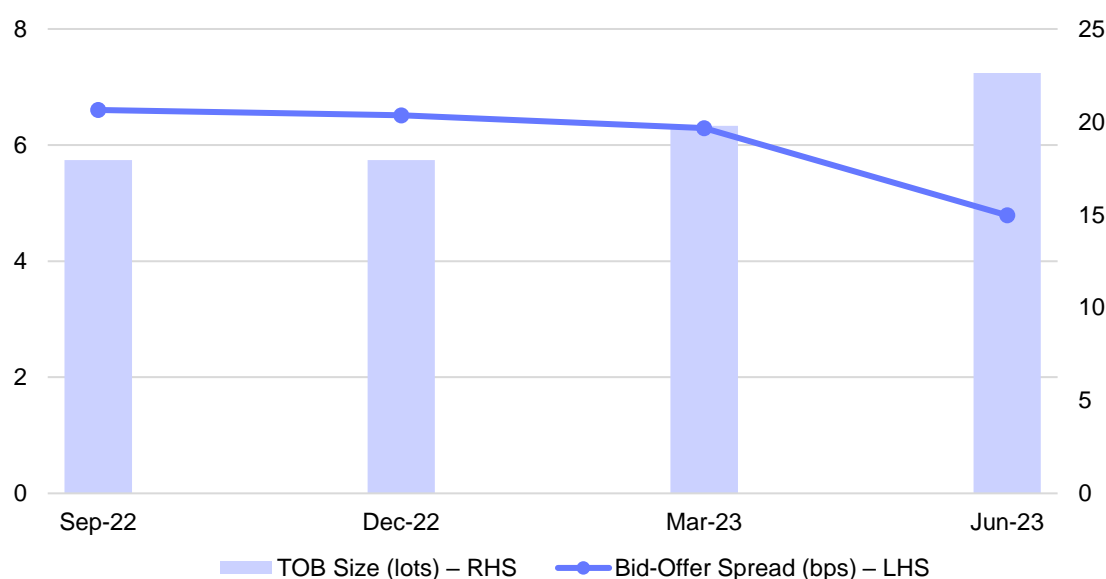
Exhibit 5. Open Interest (Lots) continues to grow



Source: SGX. Data as of June 30, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

SGX saw continued growth in Open Interest, building on the past record seen in the previous quarter. In the June 2023 quarterly roll, a majority of existing Open Interest holders continue to exhibit stickiness to the SGX futures as they rolled their positions on to the next quarter. With competitive roll pricing both on and off-screen, SGX futures serve as an ideal instrument for investors who track broad Japanese market indices such as the FTSE Japan All Cap Index and TOPIX. With the Japanese stock market reaching a three decade high in June 2023¹, the parent FTSE Japan AC Index rallied 14% QoQ. For investors with exposure to Japanese equities market via the SGX futures, the good liquidity in the futures will allow for efficient trade execution to take profit or to rebalance portfolios.

¹ Source: <https://www.wsj.com/articles/japanese-stocks-hit-a-33-year-high-thanks-in-part-to-warren-buffett-7327a1ed>.

Exhibit 6. Tightening of Outrights Spreads in T Session

Exhibit 7. Improved Top of Book sizes and tightening of Calendar Spreads in T Session


Source: SGX. Data as of end-June 2023. For Calendar Spreads, daily end of day prices used in calculation of Bid-Offer Spread (bps). T Session excludes lunch break between 11.30 – 12.30 (JST). Past performance is no guarantee of future results. Please see end for important legal disclosures.

This good liquidity is reflected by an increasingly competitive orderbook. As seen in Exhibit 6 and Exhibit 7, both Outrights and Calendar Spreads continue to tighten, up to as tight as 6bps and 4bps respectively in June 2023. Top of Book size has also improved significantly to 22 lots on average compared to previous quarter months for Calendar Spreads.

Considering the market movements seen in the last quarter, SGX looks to expand the T+1 order book so that more international investors can leverage on SGX Japan Blossom Index Futures as a tool for their portfolio needs.

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