

Index Insights | Sustainable Investment | Equity

From savings to Sustainable Investments

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

August 2023

AUTHORS

Atsuhito Mori
Head of Sustainable
Investment Japan
atsuhito.mori@lseg.com

Ken Hirose
Head of Japan,
Index Investments Group
ken.hirose@lseg.com

Johnny Chen
Senior Research Analyst
johnny.chen@lseg.com

Written in collaboration with SGX

SGX
Equity Derivatives



**FTSE
RUSSELL**
An LSEG Business



**SUSTAINABLE
GROWTH**



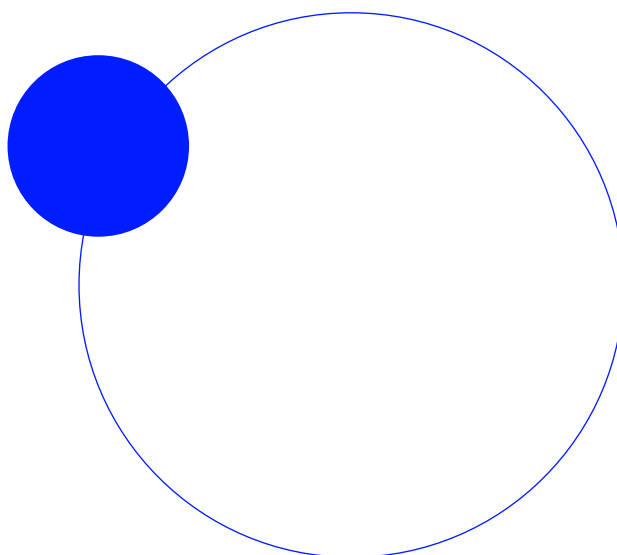
Quarterly analysis

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 ESG performance 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.

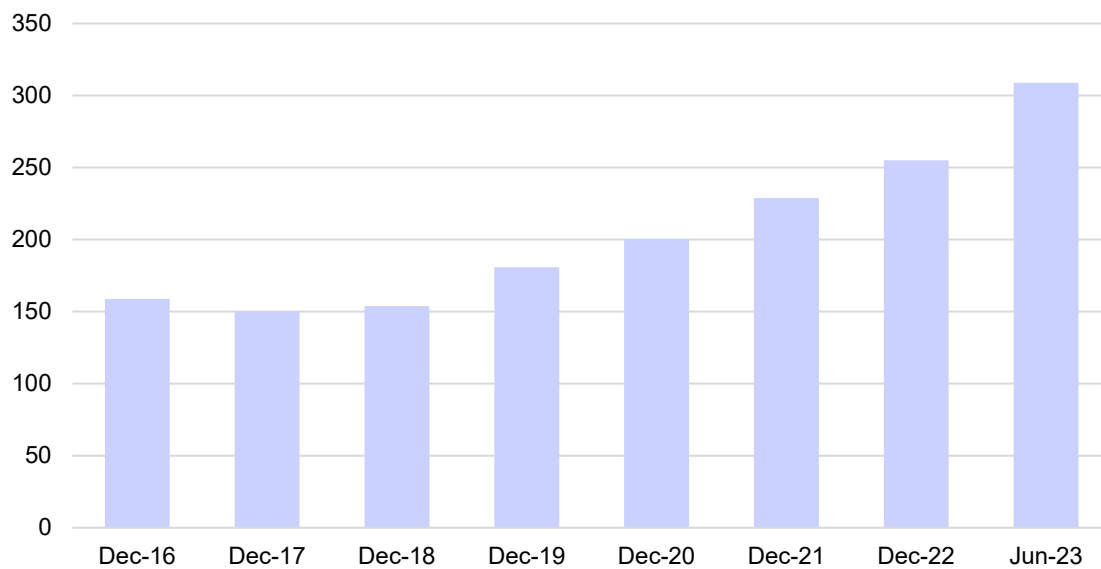
There are about 6,000 publicly offered investment trusts in Japan in total, and while all are applied to NISA, only the new NISA will be applied to those that are worth the long-term investment of individuals. Together with the 1,000 funds/ETFs announced this time, it will be narrowed down to about 2,000. 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



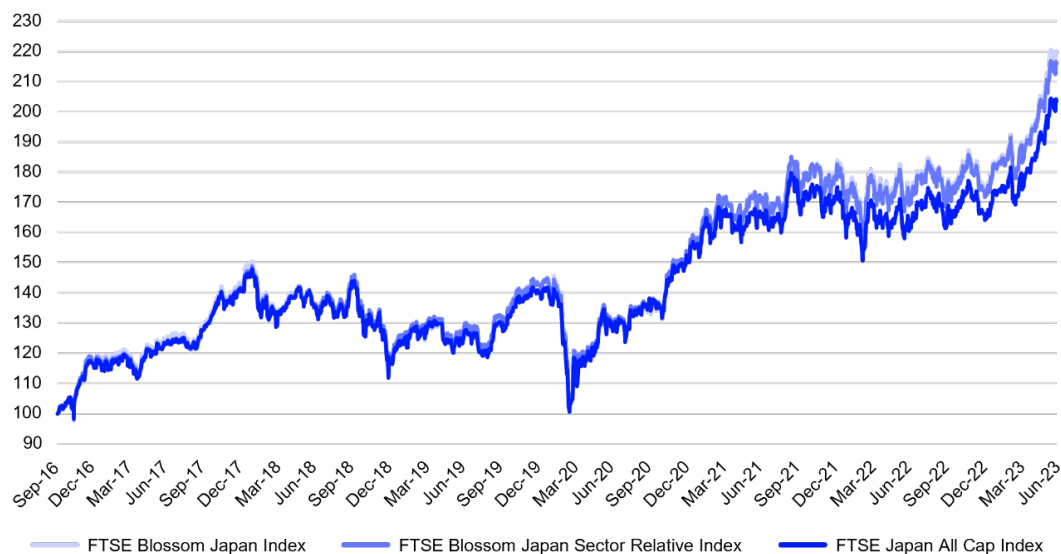
Source: FTSE Russell. Data as of June, 2023. Average FTSE ESG Score of Blossom Japan Index is 3.97 at June 2023 from 3.83 before rebalance (Market Cap weighted)

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

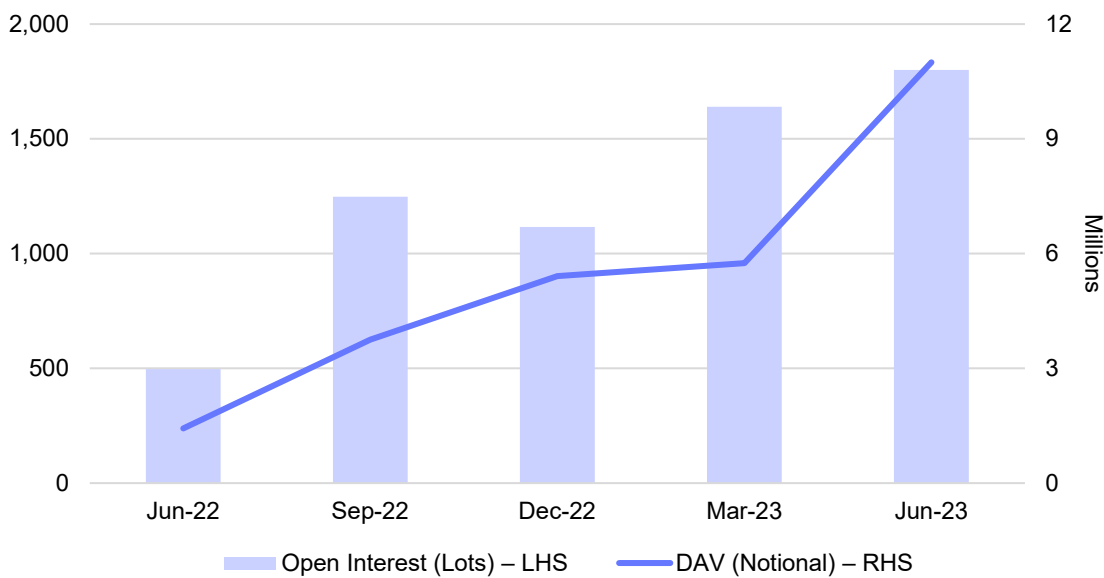
Period	Industry	Value	Quality	Volatility	Size	Momentum	Residual	Total Excess in JPY
31/05/2015 to 31/3/2023	2.9	101.7	-126.9	-132.8	99.1	192.3	458.9	595.2
31/05/2015 to 30/6/2023	4.5	141.7	-144.1	-149.2	227.3	221.1	520.4	821.7
Quarterly change	1.6	40.1	-17.3	-16.4	128.2	28.8	61.5	226.6

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

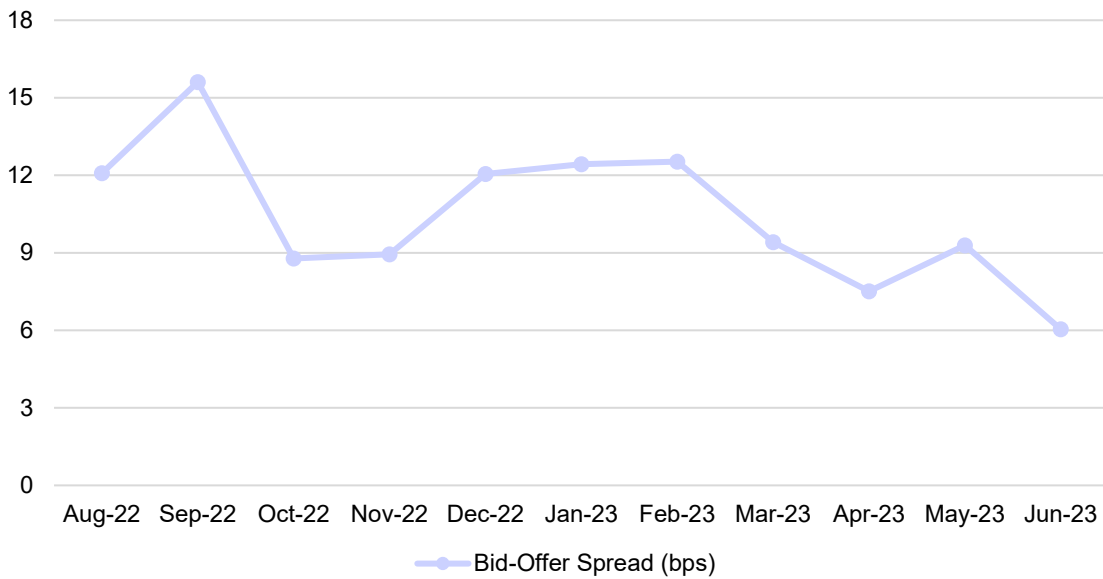
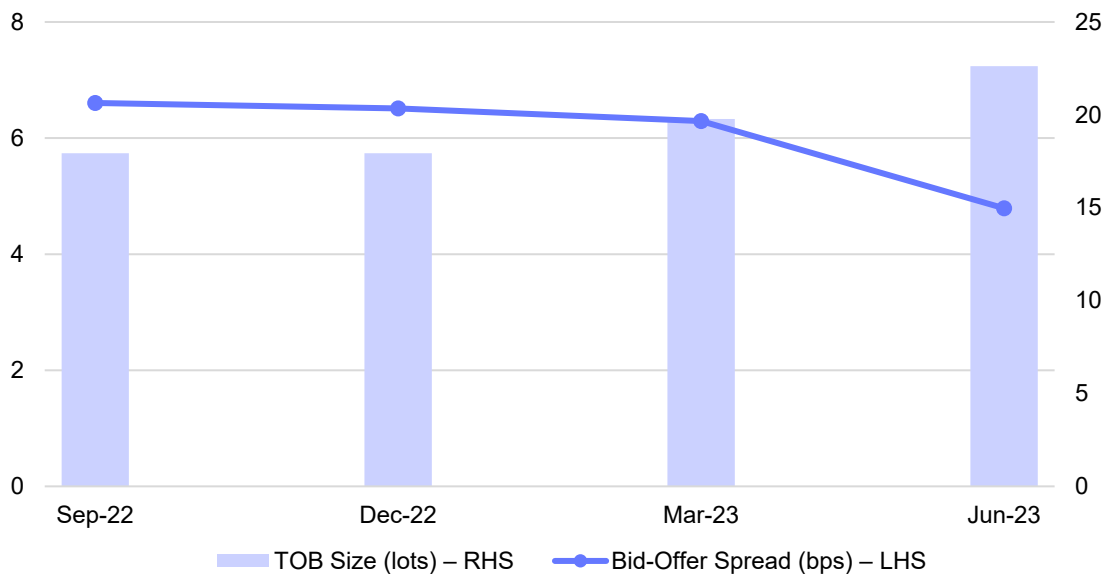


Exhibit 7. Improved Top of Book sizes and tightening of Calendar Spreads in T Session



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.

About Singapore Exchange (SGX Group)

We are Asia's leading and trusted securities and derivatives market infrastructure, operating equity, fixed income, currency and commodity markets to the highest regulatory standards. We also operate a multi-asset sustainability platform, SGX FIRST or Future in Reshaping Sustainability Together (sgx.com/first).

We are committed to facilitating economic growth in a sustainable manner leveraging our roles as a key player in the ecosystem, a business, regulator and listed company. With climate action as a key priority, we aim to be a leading sustainable and transition financing and trading hub offering trusted, quality, end-to-end products and solutions.

As Asia's most international, multi-asset exchange, we provide listing, trading, clearing, settlement, depository and data services, with about 40% of listed companies and over 80% of listed bonds originating outside of Singapore. We are the world's most liquid international market for the benchmark equity indices of China, India, Japan and ASEAN. In foreign exchange, we are Asia's leading marketplace and most comprehensive service provider for global FX over-the-counter and futures participants. Headquartered in AAA-rated Singapore, we are globally recognised for our risk management and clearing capabilities. For more information, please visit www.sgx.com.

SGX Disclaimer

This document/material is not intended for distribution to, or for use by or to be acted on by any person or entity located in any jurisdiction where such distribution, use or action would be contrary to applicable laws or regulations or would subject Singapore Exchange Limited ("SGX") and/or its affiliates (collectively with SGX, the "SGX Group Companies") to any registration or licensing requirement. This document/material is not an offer or solicitation to buy or sell, nor financial advice or recommendation for any investment product. This document/material has been published for general circulation only. It does not address the specific investment objectives, financial situation or particular needs of any person. Advice should be sought from a financial adviser regarding the suitability of any investment product before investing or adopting any investment strategies. Use of and/or reliance on this document/material is entirely at the reader's own risk. Investment products are subject to significant investment risks, including the possible loss of the principal amount invested. Past performance of investment products is not indicative of their future performance. Any forecast, prediction or projection in this document/material is not necessarily indicative of the future or likely performance of the product. Examples (if any) provided are for illustrative purposes only. While each of the SGX Group Companies have taken reasonable care to ensure the accuracy and completeness of the information provided, each of the SGX Group Companies disclaims any and all guarantees, representations and warranties, expressed or implied, in relation to this document/material and shall not be responsible or liable (whether under contract, tort (including negligence) or otherwise) for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind, including without limitation loss of profit, loss of reputation and loss of opportunity) suffered or incurred by any person due to any omission, error, inaccuracy, incompleteness, or otherwise, any reliance on such information, or arising from and/or in connection with this document/material. The information in this document/material may have been obtained via third party sources and which have not been independently verified by any SGX Group Company. No SGX Group Company endorses or shall be liable for the content of information provided by third parties (if any). The SGX Group Companies may deal in investment products in the usual course of their business, and may be on the opposite side of any trades. Each of SGX, Singapore Exchange Securities Trading Limited and Singapore Exchange Bond Trading Pte. Ltd. is an exempt financial adviser under the Financial Advisers Act (Cap. 110) of Singapore. The information in this document/material is subject to change without notice. This document/material shall not be reproduced, republished, uploaded, linked, posted, transmitted, adapted, copied, translated, modified, edited or otherwise displayed or distributed in any manner without SGX's prior written consent. Please note that the general disclaimers and jurisdiction specific disclaimers found on SGX's website at <http://www.sgx.com/terms-use> are also incorporated into and applicable to this document/material.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

Asia-Pacific

North America +1 877 503 6437

Hong Kong +852 2164 3333

Tokyo +81 3 6441 1430

Sydney +61 (0) 2 7228 5659

Disclaimer

© 2023 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) The Yield Book Inc ("YB") and (7) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "The Yield Book®", "Beyond Ratings®" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly, or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating, or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

The information contained in this report should not be considered "research" as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council ("MiFID II") and is provided for no fee.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance.

Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of the LSE Group nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.



**FTSE
RUSSELL**
An LSEG Business