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# Improvement in ESG practices of Japanese companies

Analysing communication and engagement in FTSE Russell ESG Scores

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## AUTHORS

### Atsuhito Mori

Head of sustainable Investment, Japan  
[atsuhito.mori@lseg.com](mailto:atsuhito.mori@lseg.com)

### Ken Hirose

Head of Japan, Index Investments Group  
[ken.hirose@lseg.com](mailto:ken.hirose@lseg.com)

### Chuck Chang

Senior Research Analyst  
[chuck.chang@lseg.com](mailto:chuck.chang@lseg.com)

Written in collaboration with SGX

## Quarterly analysis

Authored in collaboration with SGX, this report reviews the development of Japan's sustainability standards, the ESG Scores and practice 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:

- Communication and engagement with FTSE Russell by Japanese companies on the FTSE Russell ESG Scores and FTSE Blossom Japan Index in GPIF's ESG passive investment has continued to increase. Average FTSE Russell ESG Scores are more improved compared to other regions.
- Both Blossom Japan and Blossom SR (Sector Relative) indices reported underperformance relative to their benchmark, the FTSE Japan All Cap Index, for 2025/1-3. 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).

# GPIF's investment in the FTSE Blossom Japan indices has driven company participation

[Government Pension Investment Fund \(GPIF\)](#) signed the PRI in 2015 and began investing in the FTSE Blossom Japan Index as one of its first domestic ESG passive investments in 2017. Since then, Japanese companies have increased their ESG disclosures, ESG evaluation and scores. When small-cap was added to the Blossom base universe in 2020, ESG information disclosure expanded from not only large- to mid-caps but also to small-caps.

Japanese companies with an overall ESG score of 3.3 or above are added to the FTSE Blossom Japan Index. In addition, GPIF started its allocation to the FTSE Blossom Japan Sector Relative Index which was launched in 2022. This index selects Japanese companies in the top 50% or above in a FTSE Russell ESG score in each sector (and an ESG score of 2.0 or higher). The new index increased the chance for Japanese companies to be selected. As a result, our data shows that many more Japanese companies have tried to improve their ESG disclosure and ESG practice.

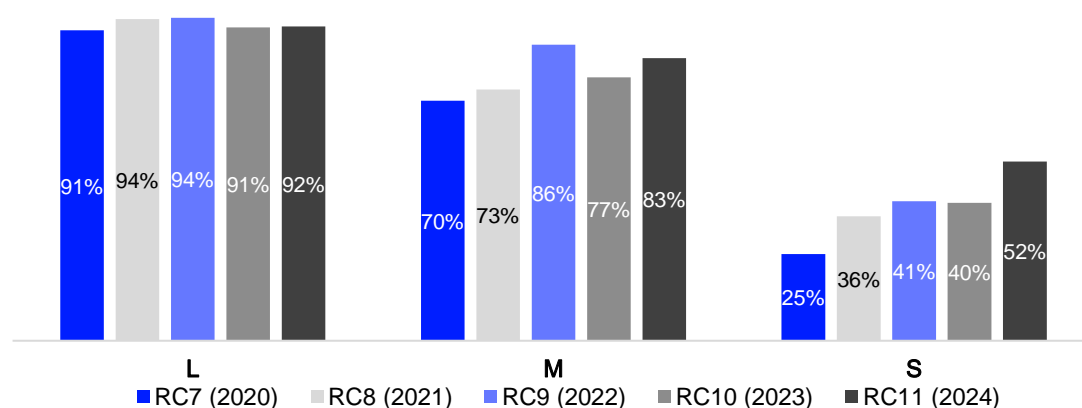
2015	2017	2020	2021	2022	2024
GPIF signed the PRI	GPIF started its ESG passive investment with the FTSE Blossom Japan Index	Small-caps were added to Blossom's base universe	FTSE Russell updated its Climate Change Score with TPI MQ	GPIF added the FTSE Blossom Japan Sector Relative Index to their ESG passive investment	FTSE Blossom Japan ranked top in GPIF's five-year average excess returns on their domestic ESG passive investments

Source: FTSE Russell. GPIF 2023 ESG Report.

# Increased communication by Japanese companies with FTSE Russell leads to improved ESG scores

Interest in FTSE Russell ESG scores is reflected in increased communication from Japanese companies and in the correlation with ESG scores. This is likely due mainly to GPIF's ESG passive investment and engagement activities over the past eight years, as well as FTSE Russell's corporate communications.

**Exhibit 1. Communication % with FTSE by each LMS cap**



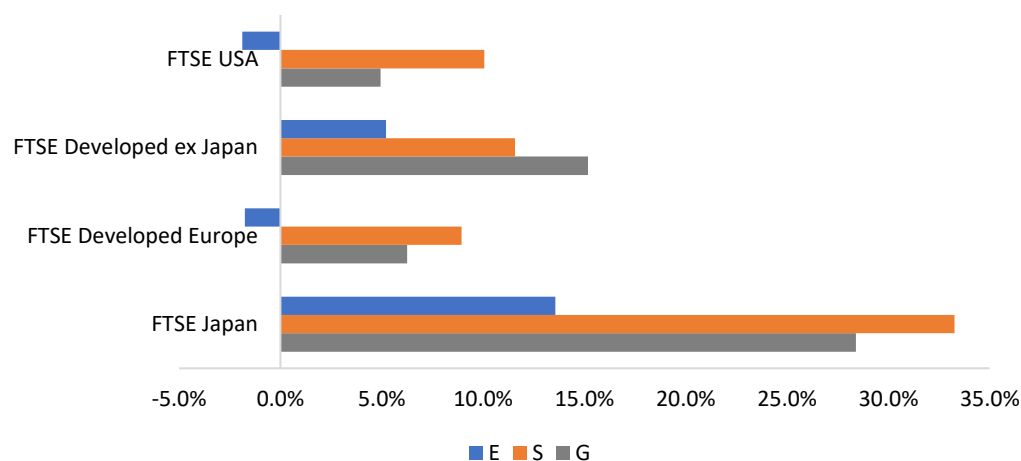
Source: FTSE Russell.

Note: (1) RC means research cycle, from June to March next year. (2) The definition of Communication means to respond to FTSE's review request of the annual ESG assessment/Scores by accessing FTSE online portal or by email.

## Improvement in ESG scores by Japanese companies is higher in comparison to other regions

As of December 2024, the FTSE Russell ESG scores of Japanese companies has improved significantly compared to 2020, far exceeding that of the United States, Europe, and other developed countries. A standout here is the improvement rate of the social and governance score, as Exhibit 2 shows.

**Exhibit 2. FTSE Russell ESG Scores Improvement % by Universe (2024 vs 2020)**



Source: FTSE Russell.

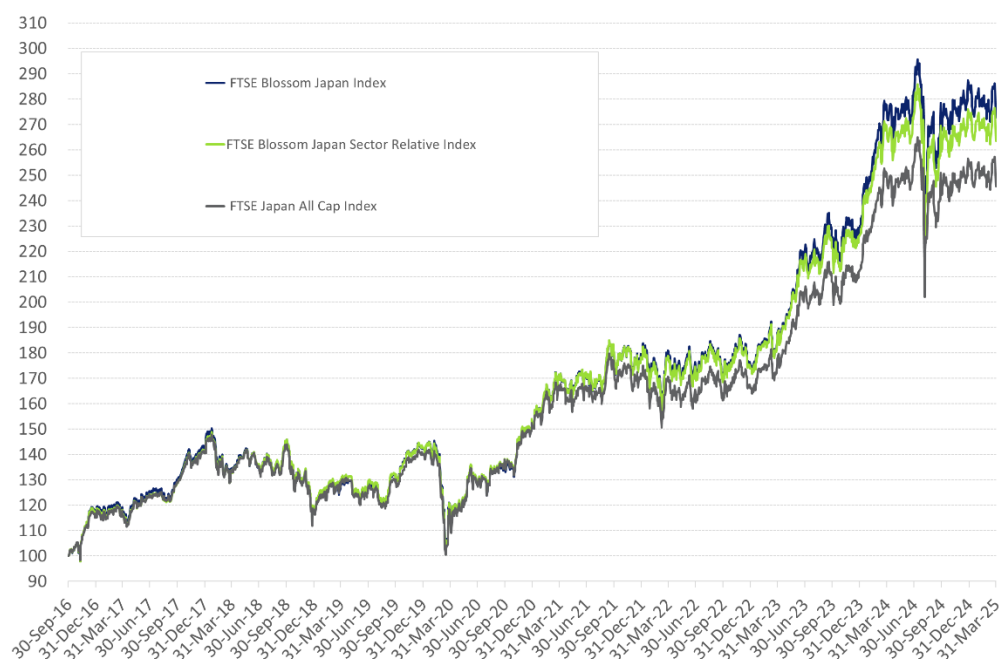
Note: Due to the methodology update of the climate change theme score from September 2021, the E score might have shown less improvement comparatively.

## Improvement of ESG scores is the source of excess returns for FTSE Blossom Japan Index Series

Improvement in FTSE Russell ESG Scores by Japanese companies is reflected in the excess return of the FTSE Blossom Japan Index Series in FTSE Russell's attribution factor analysis, as seen in the next chapter.

However, the FTSE Blossom Japan Index Series underperforms the benchmark this quarter due to negative contribution from the ESG factor

**Exhibit 3. FTSE Blossom Japan Index Series maintains long-term outperformance vs benchmark**



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

Both FTSE Blossom Japan and FTSE Blossom Japan Sector Relative Indices maintained long-term outperformance vs the benchmark. The indices reported +1,980bp and +1,065bp respectively in their total excess return since inception over their benchmark FTSE Japan All Cap Index. ESG factor remained to be the largest contributor with +1,570bp for Blossom Japan and +888bp for Blossom Japan Sector Relative.

In contrast to the stable long-term performance, both indices underperformed the benchmark on a quarterly basis. Blossom Japan reported -233bp in its total excess return vs the benchmark, largely driven by the -339bp contribution from the ESG factor. Blossom Japan Sector Relative showed similar pattern with -57bp in its total excess return and -169bp in the ESG factor.

#### Exhibit 4. 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
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

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

#### Exhibit 5. Attribution Analysis for FTSE Blossom Sector Relative Index (bps)

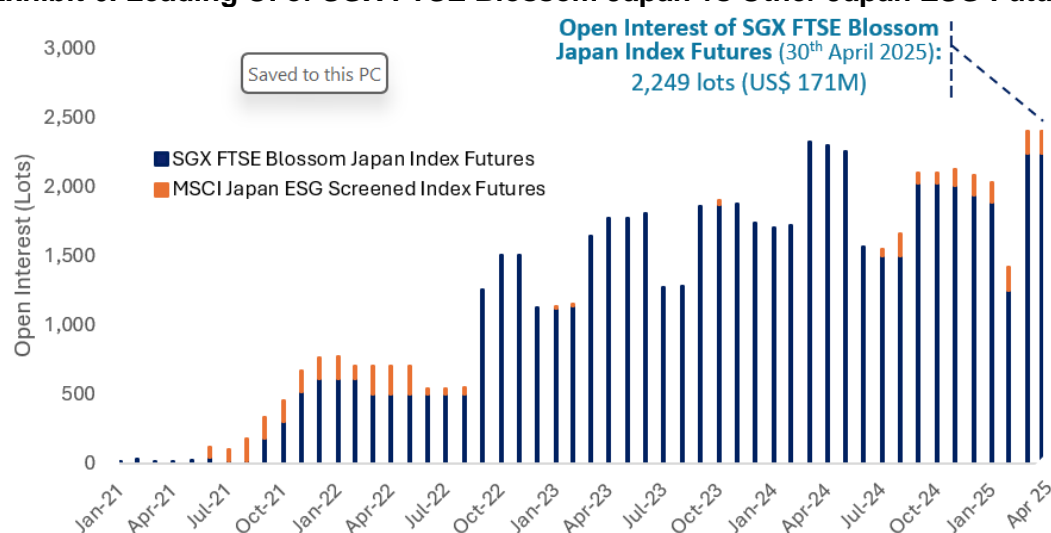
	Industry	Value	Quality	Volatility	Momentum	ESG	Residual	Total Excess
2015/12 - 2023/12	-24	34	-151	-60	255	663	107	823
2015/12 - 2024/3	2	9	-3	-162	176	1,188	-63	1,147
2015/12 - 2024/6	-57	12	-3	-164	153	1,321	-99	1,164
2015/12 - 2024/9	-28	44	-170	-69	307	915	12	1,011
2015/12 - 2024/12	-60	45	-170	-74	324	1,056	0	1,122
2015/12 - 2025/3	-18	42	-152	-62	308	888	58	1,065
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

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

# The SGX FTSE Blossom Japan Index Futures contract continues to remain the global leader amongst Japan ESG derivatives

Heading into the second half of the year, the SGX FTSE Blossom Japan Index futures contract continues its leading position as the Japan ESG contract of choice with a market share of 98% (in terms of Open Interest in USD notional).

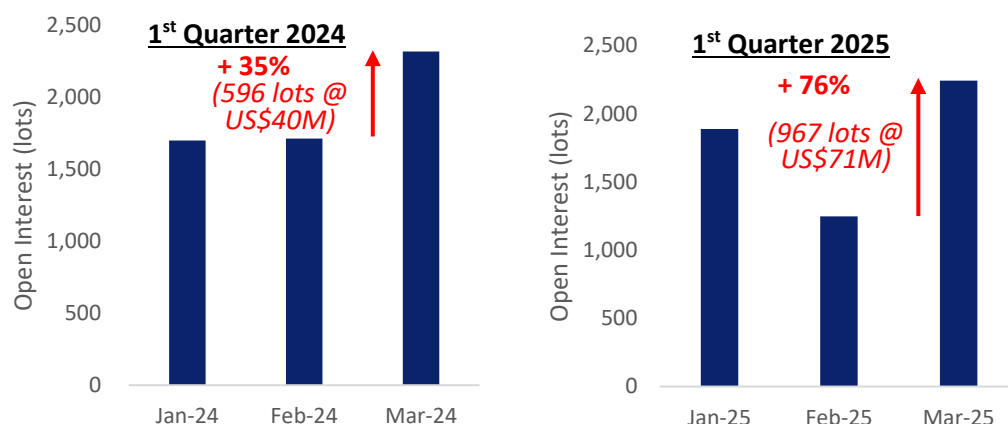
## Exhibit 6. Leading OI of SGX FTSE Blossom Japan vs Other Japan ESG Futures



Source: SGX. Data as of January 2021 – April 2025. Past performance is no guarantee of future results. Please see end for important legal disclosures.

The efficacy of the contract, as a dividend equitisation tool, was evident again post the recent March dividend season in Japan. With the ex-dividend date of a significant number of companies taking place on 28<sup>th</sup> March, Open Interest rose by 76% (967 lots, US\$71M notional) on that day with 83% of the volume taking place in the overnight T+1 session. In 2024, we observed a similar trend for the same period.

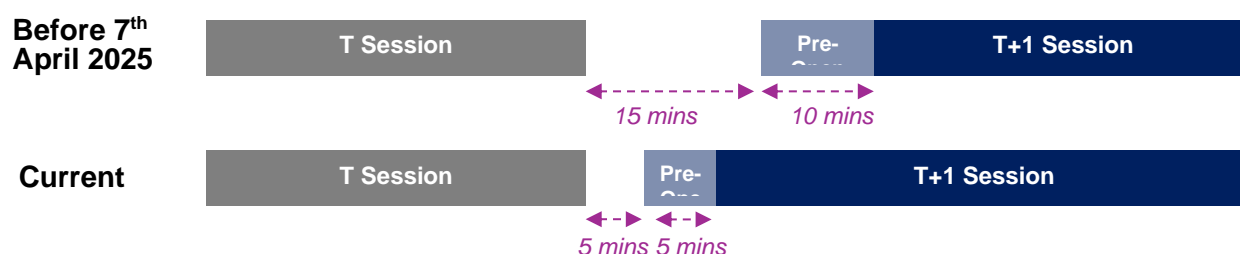


**Exhibit 7. Growing volumes of SGX FTSE Blossom Japan since 2021**

Source: SGX. Data as of January 2024 - March 2025. 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 29th September and we expect to see similar activities as portfolios seek to equitize dividends to minimise cash drag through the right derivatives.

The use case of the SGX FTSE Blossom Japan Index Futures contract is further solidified by its consistent outperformance against major broad-based Japan indices.

**Exhibit 8. Longer trading hours for SGX FTSE Blossom Japan Index Futures since 7th April 2025**

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

On the microstructure front, international investors can now enjoy an additional 15 minutes of continuous trading in the T+1 session with an update to the SGX equity index derivatives suite on 7th April 2025. In a year that has been marked by volatility, this allows even better risk management and price discovery.

This enhancement is in line with SGX's objective of providing continuous year-round access: (i) a longer trading window that starts before Japan market opens and covers the close of US market, (ii) remaining open during Japan onshore trading lunch break and, (iii) available for trading on Japanese holidays, with the exception of New Year's Day (1 January).

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