



Index Insights | Sustainable Investment – Equity

# Serving two purposes – ESG and Investment Return

ESG indices outperforming traditional Japanese market cap indices

May 2023

## 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)

**Johnny Chen**  
Senior Research Analyst  
[johnny.chen@lseg.com](mailto:johnny.chen@lseg.com)

Written in collaboration with SGX

**SGX**   
Equity Derivatives



**FTSE  
RUSSELL**  
An LSEG Business

## Quarterly analysis

Both the FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index outperformed the traditional FTSE Japan All Cap Index by 115bp and 136bp respectively. As the analysis shows, the outperformance was attributable to stock selection effect supported by Size factor, and Residual factor which represents non-traditional factors such as ESG.

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:

- Q1 2023 was another strong quarter for FTSE Russell's Japan ESG flagship index series
- The outperformance of the FTSE Blossom Japan Index Series over the traditional market cap index is attributed to the stock selection effect
- Record open interest of US\$ 105M on the SGX FTSE Blossom Japan Index Futures, making it the leading listed derivatives solution on the FTSE Blossom Japan Index

## More disclosure for ESG investment in Japan required (May update)

In Japan, ministry-led movements to set definitions and guidelines for ESG investment are gaining momentum. First, Japanese Financial Services Agency (FSA) published 'The Code of Conduct for ESG Evaluation and Data Providers'<sup>1</sup> (the Code) in December 2022 in response to opinions that methodologies and process aren't transparent, and that it is difficult to understand that companies' ESG scores are different by each ESG evaluation provider.

The Code, which included six Principles<sup>2</sup> with their guidelines and concepts, is designed to be a voluntary code on a 'comply or explain' basis to encourage improvement by each data provider. FSA calls for organizations to express their support for the Code via public announcement, and the organizations supporting the Code will either comply with the principles and guidelines of the Code, and or explain the reasons why they do not comply with a particular principle or guideline.

FTSE Russell, which provides the FTSE ESG Scores integrated in various sustainable indices such as the FTSE Blossom Japan Index series, had been involved in the process and public consultation and announced its endorsement to comply with the Code in February 2023.

The FSA also announced 'Proposed Partial Amendments to the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc., regarding ESG Investment Trusts'<sup>3</sup> in December 2022. The FSA responded to the comments received, and it promulgated and came into effect as of March 31 2023. There are a number of investment products that incorporate ESG factors in their names and investment strategies, which had increased both in Japan and overseas. At the same time, concerns over 'greenwashing' actual investments might not be commensurate with such ESG claims and are attracting attention globally.

Given this background regarding publicly offered investment trusts in Japan that position ESG as a key factor in the selection of investment assets (hereinafter referred as *ESG investment trust*), FSA proposed it is necessary to:

- consider ESG as a key factor in the selection of investment assets
- describe the selection process in the 'Objective and Characteristics of the Fund' section of the delivery prospectus

For example, managers need to disclose the target and real percentage of ESG assets in the portfolio as well as selected ESG theme details and the investment process with its integration and methodology.

ESG investment provided in Japan is expected to further increase the need and demand for passive investment using quantitative ESG scores based on transparent methodologies on these requirements.

<sup>1</sup> <https://www.fsa.go.jp/news/r4/singi/20221215/02.pdf>.

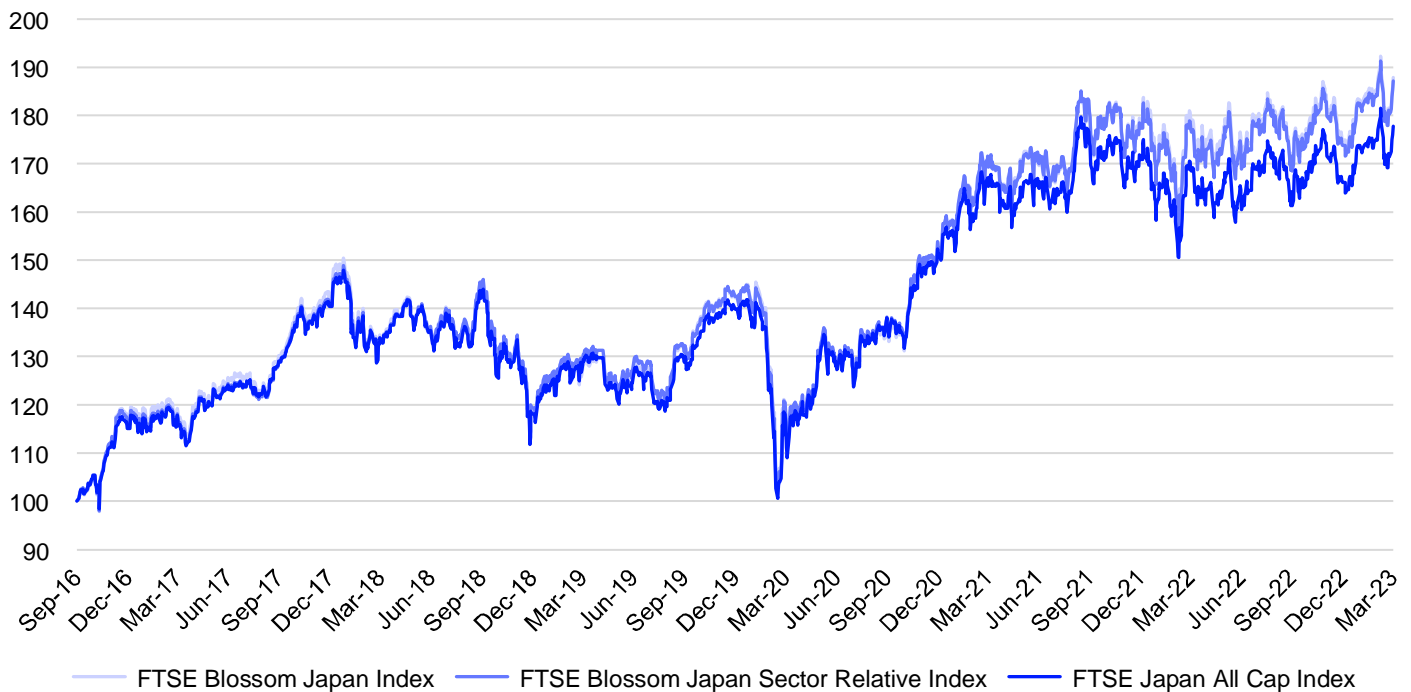
<sup>2</sup> Securing Quality, Human Resources Development, Ensuring Independence and Managing Conflicts of Interest, Ensuring Transparency, Confidentiality, Communication with Companies.

<sup>3</sup> <https://www.fsa.go.jp/news/r4/shouken/20221219/02.pdf>.

# FTSE Blossom Japan Index Series continues to outperform traditional market indices

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

**Exhibit 1. Performance (total return, JPY)**



Source: FTSE Russell. Data based on Total Return in JPY, as of March 31, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

Both the FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index outperformed the traditional FTSE Japan All Cap Index by 115bp and 136bp respectively (Exhibit 2).

## Exhibit 2. Performance attribution analysis for FTSE Blossom Japan Index Series

## FTSE Blossom Japan Index

	Quarterly change (2022/12–2023/03)				2015/12–2023/03				2015/12–2022/12			
	Industry allocation	Stock selection	Interaction	Total contribution	Industry allocation	Stock selection	Interaction	Total contribution	Industry allocation	Stock selection	Interaction	Total contribution
Technology	-0.6	18.2	-0.1	17.5	-11.8	39.8	0.4	28.4	-11.2	21.6	0.5	10.9
Telecommunications	-1.3	1.4	-0.4	-0.3	-20.7	23.3	-5.5	-2.8	-19.4	21.9	-5.1	-2.6
Health care	-1.6	0.3	-0.3	-1.6	-15.0	45.6	-0.8	29.8	-13.4	45.4	-0.5	31.4
Financials	-0.1	6.0	1.5	7.4	-4.5	148.1	21.4	165.1	-4.4	142.1	19.9	157.7
Real estate	0.7	8.3	-4.7	4.4	-25.1	-85.3	-47.8	-158.3	-25.8	-93.7	-43.1	-162.7
Consumer discretionary	0.1	61.8	0.3	62.1	8.0	338.4	9.4	355.8	7.9	276.6	9.1	293.7
Consumer staples	1.7	21.4	-0.7	22.4	20.1	58.5	-7.1	71.6	18.4	37.2	-6.4	49.2
Industrials	1.9	-39.7	-3.3	-41.1	30.0	13.2	-44.0	-0.8	28.2	52.9	-40.8	40.3
Basic materials	0.8	38.4	0.2	39.3	-6.3	192.2	-3.2	182.7	-7.0	153.7	-3.3	143.3
Energy	0.2	0.9	0.1	1.1	2.9	10.1	1.1	14.1	2.7	9.2	1.0	13.0
Utilities	-1.0	5.2	-0.5	3.7	-15.8	88.2	-3.2	69.2	-14.8	83.1	-2.8	65.5
<b>Total Return (Local)</b>	<b>0.9</b>	<b>122.1</b>	<b>-7.9</b>	<b>115.0</b>	<b>-38.0</b>	<b>872.2</b>	<b>-79.4</b>	<b>754.7</b>	<b>-38.8</b>	<b>750.1</b>	<b>-71.6</b>	<b>639.7</b>

## FTSE Blossom Japan Sector Relative Index

	Quarterly change (2022/12–2023/03)				2015/12–2023/03				2015/12–2022/12			
	Industry allocation	Stock selection	Interaction	Total contribution	Industry allocation	Stock selection	Interaction	Total contribution	Industry allocation	Stock selection	Interaction	Total contribution
Technology	1.0	-0.2	-0.1	0.7	5.2	-23.6	-1.5	-19.9	4.1	-23.5	-1.3	-20.7
Telecommunications	-0.9	-5.5	0.1	-6.3	-15.0	-76.9	1.0	-90.9	-14.1	-71.5	0.9	-84.7
Health care	-0.4	12.0	0.4	12.0	-3.7	84.3	5.6	86.2	-3.3	72.2	5.2	74.2
Financials	0.4	-6.9	-0.1	-6.5	-2.6	85.6	-1.6	81.4	-3.0	92.4	-1.5	87.9
Real estate	2.2	13.8	-1.7	14.3	3.0	-35.2	-7.5	-39.7	0.7	-49.0	-5.8	-54.0
Consumer discretionary	0.2	70.5	0.0	70.7	2.4	250.7	-0.1	253.0	2.3	180.2	-0.1	182.4
Consumer staples	0.4	3.8	-0.2	4.0	3.5	51.2	-2.5	52.2	3.1	47.4	-2.3	48.2
Industrials	-0.4	31.1	0.2	30.8	-7.7	263.5	2.7	258.6	-7.2	232.4	2.6	227.7
Basic materials	1.0	14.6	0.1	15.6	3.8	36.9	-0.3	40.4	2.9	22.3	-0.4	24.7
Energy	0.3	-0.1	-0.1	0.1	4.8	-4.9	-1.1	-1.2	4.5	-4.8	-1.1	-1.3
Utilities	0.2	0.6	0.0	0.7	4.4	1.6	-0.3	5.7	4.3	1.0	-0.3	5.0
<b>Total Return (Local)</b>	<b>4.0</b>	<b>133.7</b>	<b>-1.6</b>	<b>136.2</b>	<b>-1.8</b>	<b>633.1</b>	<b>-5.7</b>	<b>625.6</b>	<b>-5.8</b>	<b>499.3</b>	<b>-4.1</b>	<b>489.5</b>

Source: FTSE Russell. Data as of March 31, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

As introduced in our previous report: [Growing focus on ESG in Japan: Disclosure, outperformance and roll costs](#), 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 also remained the case for both indices in the first quarter of 2023, as the stock-selection effect contributed 122bp for the FTSE Blossom and 134bp for the FTSE Blossom Japan Sector Relative.

Exhibit 3 breaks down the style factor attributions for the FTSE Blossom Japan and Blossom Japan Sector Relative indices. As the analysis shows, there was substantial contribution from the Size factor for Blossom Japan Index in the first quarter of 2023. This is often the case when the global stock market rallies significantly during short periods of time on the back of positive macro expectations. Interestingly, the Residual factor, which includes non-traditional factors such as ESG, showed slight reduction for FTSE Blossom Japan Index while showing significant increase for FTSE Blossom Japan Sector Relative Index. This is due mainly to the difference in the number of constituents of the two indices. Unlike the original FTSE Blossom Japan Index which consists of 250+ mainly large stocks, FTSE Blossom Japan Sector Relative Index contains more than 500 stocks including mid/small cap stocks. Although mid/small cap stocks tend to have lower ESG scores than large cap stocks in absolute terms, as FTSE Blossom Sector Relative Index is designed to overweight stocks that have relatively stronger ESG scores to its industry peers, its ESG-based stock selection performance does appear more cleanly as ESG-related attribution.

**Exhibit 3. Style Factor Attribution**

**FTSE Blossom Japan Index**

Period	Industry	Value	Quality	Volatility	Size	Momentum	Residual	Total excess in JPY
31/05/2015 to 30/12/2022	-106.0	133.8	-67.5	-271.8	461.9	132.6	351.8	634.9
31/05/2015 to 31/03/2023	-112.3	169.3	-80.4	-301.0	612.6	128.1	333.1	749.4
<b>Quarterly change</b>	<b>-6.3</b>	<b>35.5</b>	<b>-12.9</b>	<b>-29.2</b>	<b>150.7</b>	<b>-4.5</b>	<b>-18.7</b>	<b>114.5</b>

**FTSE Blossom Japan Sector Relative Index**

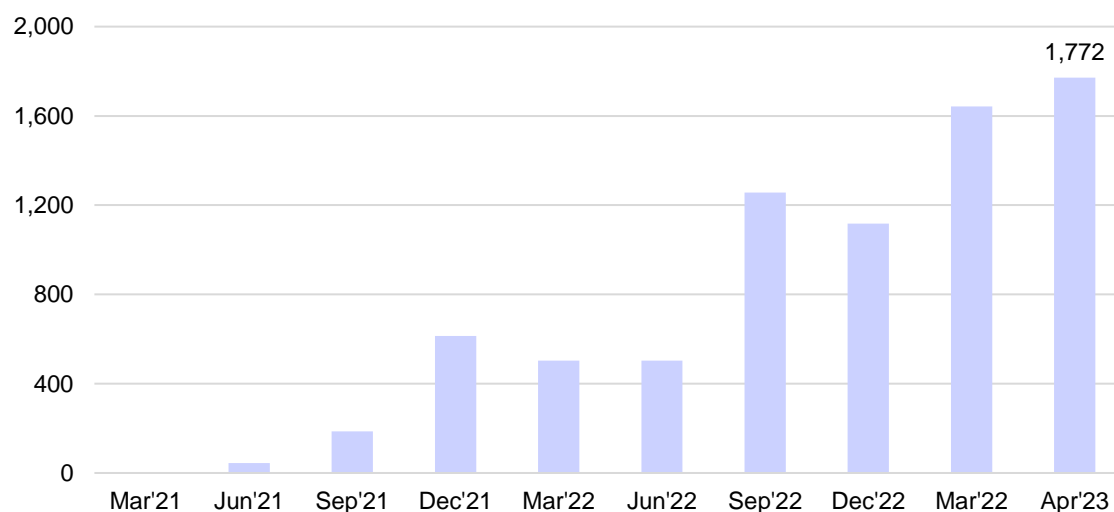
Period	Industry	Value	Quality	Volatility	Size	Momentum	Residual	Total excess in JPY
31/05/2015 to 30/12/2022	0.4	83.5	-115.9	-123.6	33.9	183.9	399.4	461.6
31/05/2015 to 31/03/2023	2.9	101.7	-126.9	-132.8	99.1	192.3	458.9	595.2
<b>Quarterly change</b>	<b>2.5</b>	<b>18.2</b>	<b>-11.0</b>	<b>-9.2</b>	<b>65.2</b>	<b>8.4</b>	<b>59.5</b>	<b>133.6</b>

Source: FTSE Russell. Data based on March 31, 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

# Record Open Interest in the SGX FTSE Blossom Japan Index Futures

SGX FTSE Blossom Japan Index Futures marked a significant milestone this recent quarter by achieving a **record open interest of \$105M** (1,772 lots), making it one of the largest Asia ESG futures by open interest notional.

**Exhibit 4. Growing Open Interest (Lots) of the SGX FTSE Blossom Japan Index Futures**

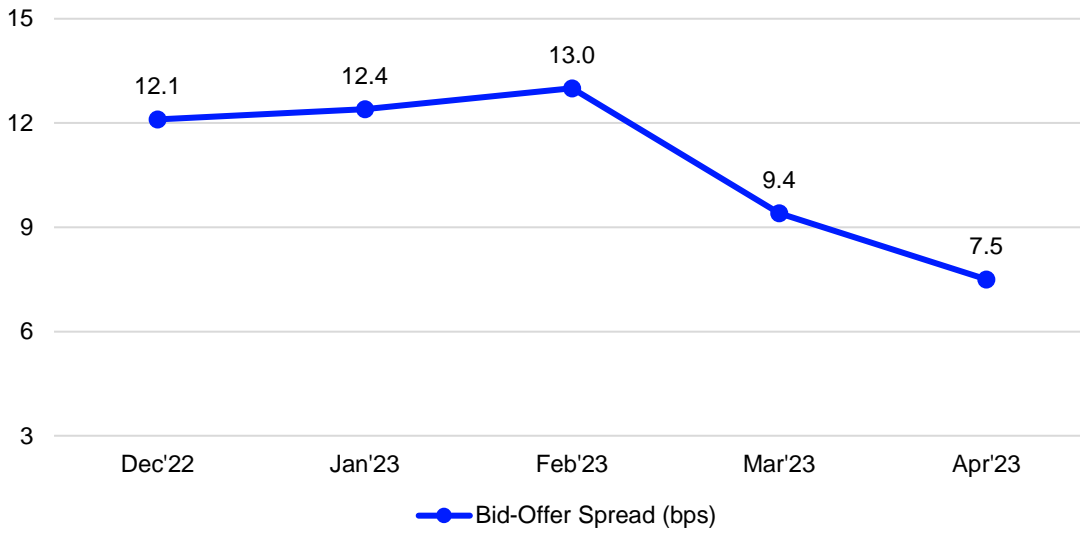


Source: SGX. Data as of end-April 2023. Past performance is no guarantee of future results. Please see end for important legal disclosures.

SGX saw an increase in activity over the last week of March, which coincided with the dividend ex-date for most Japanese stocks. The uptick in volumes and open interest during this period suggest that end-users have been using the futures for cash equitisation. For investors tracking the FTSE Blossom Japan Index or even highly correlated broad-based indices, SGX's futures are a cost-efficient solution to equitise dividends, therefore minimising the cash drag on performance.

Other than dividend equitisation, the improving liquidity of the SGX futures have also made it an appealing alternative for risk management, especially for portfolios with an ESG mandate. Traditionally, investors with ESG mandates have deferred to hyper-liquid, broad-based index futures for risk management and/or cash equitisation.

Exhibit 5. Tightening screen orderbook during Japan trading hours



Source: SGX. Data as of end-April 2023. Trading hours exclude lunch break between 11.30 – 12.30 (JST). Past performance is no guarantee of future results. Please see end for important legal disclosures.

However, with the increasing tradability of the SGX futures – both on-screen and on block – investors can consider the futures as a derivative product that could align with their ESG mandate. As illustrated by Exhibit 5, bid-offer spreads on-screen have improved with the introduction of new market makers, tightening average spreads to 7.5 bps in April.

For investors looking for an ESG derivative that provides exposure to the Japanese market, the SGX FTSE Blossom Japan Index Futures offers a listed solution that will suit multiple use-cases.



## 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](http://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](http://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 [seq.com/ftse-russell](http://seq.com/ftse-russell); email [info@ftserussell.com](mailto: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