



❖ **SDGs and Business in the ESG Era:**
Actions by Companies and Organisations in Japan



Supporting Companies and Organisations

[Companies and Groups]

- Obayashi Corporation
- Kao Corporation
- Kamakura Investment Management Co., Ltd.
- Shiga Bank
- Daiichi Sankyo Company, Limited
- Daiwa Securities Group Inc.
- Takashimaya Co., Ltd.
- Nissay Asset Management Corporation
- Government Pension Investment Fund (GPIF)
- Fast Retailing Co., Ltd.
- Marui Group Co., Ltd.
- Mizuho Financial Group, Inc.
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- Mitsubishi Chemical Holdings Corporation
- Mitsubishi Estate Residence Co., Ltd.
- Mitsubishi UFJ Financial Group, Inc.
- Resona Bank, Limited

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Source: UN website

1. Introduction

1.1 Background and objectives

This report is the fourth in the "SDGs and Business" series produced jointly by the Global Compact Network Japan (GCNJ) and the Institute for Global Environmental Strategies (IGES).

Since 2015, GCNJ and IGES have conducted joint research on SDGs awareness and the state of initiatives on the SDGs, focusing mainly on GCNJ member companies and organisations, and shared results through reports. One feature of the "SDGs and Business" series is the inclusion of changes over time in SDGs awareness and initiatives among GCNJ members. Every year the report examines a designated topic and includes interviews and relevant case studies.

The SDGs are sustainable development goals for 2030 agreed upon in the United Nations in 2015. They are goals for all nations, both developed and developing. Not only governments are called upon to work toward achieving the SDGs, companies and private funding are also expected to play a role.

Meanwhile, ESG refers to the three factors of "Environmental", "Social" and "Governance". When these ESG factors are evaluated in addition to financial information in the investing process, it is termed ESG investment. Moreover, when financing is included in addition to investing, it is referred to as ESG investment and financing, and when insurance is also included, as ESG finance.

To date, financial institutions have placed emphasis on past business achievements such as sales and profits and financial conditions when evaluating companies. However, as environmental destruction on a global scale and social issues such as human rights violations escalate, financial information alone is increasingly viewed as insufficient

to evaluate the sustainability and long-term corporate profitability. It is in this context that ESG investment and financing developed. From the company's perspective, ESG evaluation has a direct impact on financing and enhancing corporate value. As such, ESG investment and financing has become a strong driving force for actions contributing to the SDGs and solutions to environmental and social problems, areas that have generally been handled under the concepts of CSR (corporate social responsibility) and CSV (creating shared value).

The SDGs can be viewed as concrete goals for approaching ESG factors and issues, and conversely, the ESG factors can be found within the SDGs. There is an inseparable relationship between the two.

Even though the term "ESG investment and financing" may be used in a general sense, methods and approaches vary. What are some specific approaches to ESG investment and financing, and what shifts are taking place in the market? What are financial institutions in Japan doing to promote ESG investment and financing, and what assumptions are they operating under? How are companies responding to such expectations related to ESG while contributing to SDGs implementation? What issues are financial institutions and companies facing in their ESG initiatives aimed at achieving the SDGs? This report will examine these questions while sharing the voices of individuals actually dealing with ESG and SDGs related matters within companies and financial institutions.

Furthermore, in 2019, GCNJ and IGES released translations of two reports in the "Business Reporting on the SDGs" series issued by the UN Global Compact and GRI, "Integrating the SDGs into Corporate Reporting: A Practical Guide" and "In Focus: Addressing Investor Needs in Business Reporting on the SDGs".¹ Reading these reports is recommended to gain further understanding on the current state of initiatives in ESG and the SDGs.

¹ Available for download on the GCNJ website (<http://ungcjin.org/sdgs/>) and the IGES website (<https://www.iges.or.jp/jp/pub/list/series/4309>).

1.2 Overview of research

Research was conducted to examine how Japanese companies and organisations are working to realise the 17 goals outlined in the SDGs and in ESG investment and financing in the context of promoting sustainable business. Methods included desk research, on-line questionnaires and interviews.

Fact-finding research targeting GCNJ members using online questionnaires began in 2015, with this report accounting for the fifth survey. The survey targeted regular GCNJ members (335 companies/organisations²) and included questions on level of awareness on the SDGs, the state of actions and future plans. Questions related to ESG initiatives, the focus theme for this year's report, were also included. The survey was conducted between 1 September and 11 October 2019 and garnered responses from 186 companies/organisations. The questionnaire was divided into two parts, one with items identical to past surveys to follow changes over time, and one with questions designed specifically for this year.

Additionally, seven companies and nine financial institutions with leading initiatives were interviewed in person, along with one operating company that was interviewed in writing by sending questions and receiving responses back. Interviews were conducted between 11 October 2019 and 7 January 2020. Companies selected for interviews were those highly recognised for their ESG initiatives, including companies on the Dow Jones Sustainability World Indices (DJSI World), an ESG index presented by US-based S&P Dow Jones Indices and Switzerland-based RobecoSAM. For financial institutions, efforts were made to include all major players in ESG investment and financing, ranging from asset owners, asset managers, securities and banks (megabanks and regional banks). Advice was received from GCNJ's SDGs Task Force in this selection.

Approximately 80% of GCNJ members that responded to the questionnaire are classified as large corporations, with 66% having gross sales of over 100 billion JPY (Figure 1), and 73% indicate engagement in global or regional markets (Figure 2). Accordingly, it is necessary to bear in mind when reviewing survey results that very few small and medium-sized enterprises are included.

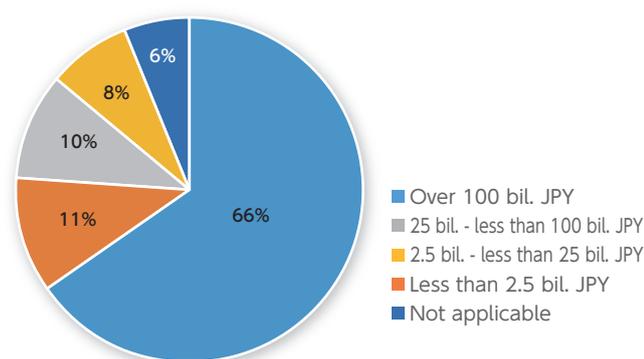


Figure 1: Sales of respondent companies/organisations (n=186)

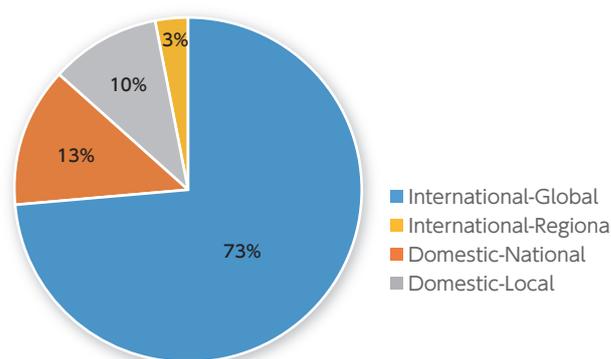


Figure 2: Markets of respondent companies/organisations (n=186)

² GCNJ membership as of 1 September 2019.

❖ 2. Global and National Developments on the SDGs

2.1 Various reports on global environmental and social issues

From 2019 and into 2020, reports addressing environmental and social issues faced by today's world were published by various organisations. Several of these key reports are introduced below.³

In May 2019, the International Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), called the Intergovernmental Panel on Climate Change (IPCC) for biodiversity, released the summary of a report assessing global biodiversity and ecosystem services. The summary points to the fact that an estimated one million species are threatened with extinction, and that the contributions of nature to our society and economy (e.g. regulatory functions such as climate, maintenance of water and soil, and disaster reduction and prevention, and nature in the context of local culture) are being considerably impaired. The report asserts that the natural environment, encompassing biodiversity, forms the foundation for achieving the SDGs, and that if damage to nature continues, most of the SDGs cannot be achieved.

Regarding the SDGs, in September 2019, the UN released a Global Sustainable Development Report (GSDR) entitled, "The Future is Now: Science for Achieving Sustainable Development", ahead of the below-mentioned SDG Summit. While a certain level of progress has been seen since the SDGs were adopted four years ago, the report asserts that as a whole, the current state of affairs has gone considerably off-track pathways to achieving the SDGs. The report also indicates that not only is it becoming impossible for the SDGs to be achieved, if anything, there has been backsliding on goals related to inequality, climate change and biodiversity.

On the topic of climate change, in November 2019, the United Nations Environment Programme (UNEP) released the "Emissions Gap Report 2019" ahead of the 25th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change

(COP25). The report warns that even if all countries achieve the national emission reduction targets submitted in accordance with the Paris Agreement, the global average temperature will potentially rise by 3.2°C, and that even more wide-ranging and catastrophic impacts could result. To keep the rise in temperature below 1.5°C /2°C, the report indicates that the levels of ambition of Nationally Determined Contributions (NDCs) must be raised by fivefold/threefold respectively, and accordingly calls upon all nations to implement even stronger measures.

Ahead of its annual meeting in January 2020, the World Economic Forum (WEF) released the results of its Global Risks Perception Survey, conducted annually targeting business and political leaders around the world. The report lays out risks with a high probability of occurrence and risks with a high level of impacts. For the former category, all top-five ranking risks, and four out of five for the latter, are risks related to the environment, making it evident that most respondents are concerned about the failure of environmental policy.

In time for the annual meeting of WEF, the United Nations and Oxfam International released reports respectively on the state of disparity and inequality. The UN's "World Social Report 2020" indicates that inequality is rising in both developed and developing nations, and that this may lead to even greater division in societies and slow down economic and social development. It further points out that highly unequal societies are less successful in poverty reduction. Further, Oxfam called attention to the fact that the assets of the top 2,153 world's wealthiest people are greater than the assets of 60 percent of the world's total population, or 4.6 billion people. Factors contributing to the rise of economic disparity include tax concessions for the wealthy and large corporations and gender inequality.

A common message that can be read in all of these reports is that there is no time to keep responding separately to various global environmental and social issues that the SDGs address and that an integrated solution for a "transformation" involving major changes of social systems is required.

³ See the following IGES website pages for information on the IPBES Report, GSDR and Gap Reports: <https://www.iges.or.jp/en/projects/20191015>
<https://www.iges.or.jp/jp/natural-resources-and-ecosystem-services/20190417>

2.2 Global Developments on the SDGs

In the context of this global state of affairs, 2019 marked a milestone with major events held related to the SDGs. Furthermore, demonstrations took place around the world in response to climate change and inequality as citizens called for change.

In April, the first Climate and SDGs Synergy Conference was held in Copenhagen to discuss climate change and the SDGs together, organized by the United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Department of Economic and Social Affairs (UNDESA). The second conference is scheduled to be held in Geneva in April 2020. At a COP25 side event, Japan's Minister of the Environment, KOIZUMI Shinjiro, expressed Japan's intention to host the third conference.

The annual High-level Political Forum on Sustainable Development (HLPF) was held in July in New York. Reviews conducted over the last four years were completed for all 17 of the SDGs. Discussions are ongoing on how to make post-2020 future HLPF meetings more effective.

In September, the first SDG Summit since the adoption of the SDGs in 2015 was also held in New York. This HLPF, held once every four years at the heads-of-state level, included sharing of information on the state of progress on the SDGs. In the political declaration of the SDG Summit, UN Secretary General Guterres is called upon to organise an "SDG Moment" during the high-level week of the UN General Assembly every year. Furthermore, the Secretary General himself called for a "Decade of Action" to deliver on the SDGs.

For the Climate Action Summit held at the same time as the SDG Summit, UN Secretary General Guterres called upon participants to bring concrete action commitments, not beautiful speeches. The heads of state of 65 nations declared commitments to net-zero CO₂ emissions by 2050. They were joined by 10 regions (including the state of California), 102 cities (including Tokyo and Yokohama) and 93 businesses that also declared a commitment to net-zero CO₂ emissions.⁴ Business and banks noted the importance of creating mechanisms to withdraw financing from activities that destroy the natural environment and to conversely concentrate financing on activities that bring about positive impacts on the natural environment.

COP15 of the Convention on Biological Diversity is

scheduled to be held in Kunming, China, in 2020, where post-2020 global biodiversity targets are to be formulated. Additionally, full-fledged implementation of the Paris Agreement is to start. In the midst of an escalating sense of crisis, debate on global issues is expected to progress in the international community.

2.3 National Developments on the SDGs

In 2019, various actions were taken to accelerate initiatives to deliver on the SDGs in Japan. Among government-led initiatives, the SDGs Implementation Guiding Principles, which make up Japan's medium- to long-term national strategy, were revised for the first time in December 2019.⁵ For this revision, an event was held for stakeholders involved in the implementation of the SDGs. Based on outcomes, recommendations were compiled by volunteer members of the SDGs Promotion Roundtable Meeting and submitted to the government.⁶ Furthermore, public comments were solicited on a draft revision outline, and a portion of the many comments received were reflected on the guiding principles.⁷

The revised Implementation Guiding Principles reinforce the function of the SDGs Promotion Headquarters headed by Prime Minister Abe and the organisation of roundtable and stakeholder meetings, and also clearly state the roles of the next generation and Parliament as major stakeholders. In addition, accelerating actions based on backcasting, an approach key to achieving the SDGs, is also mentioned. However, descriptions of the ideals for which Japan is aiming and priority issues that are the prerequisite for backcasting are merely qualitative, and the fact that measurement and concrete reviews of progress cannot be carried out remains a major issue.

Also in 2019, the Uomachi Shopping Street Promotion Association of Kitakyushu City, Fukuoka Prefecture, was announced as the recipient of the Chief's Award in the 3rd Japan SDGs Award. The association promotes activities focused on social inclusion, such as support for the self-reliance of the homeless and support for the independent living of persons with disabilities, as well as activities in local food for local consumption, including reduction of food loss in cooperation with restaurants and sale of non-standard vegetables. The award recognised the association's exemplification of the "leave no one behind" principle and its integrated approaches to address multiple SDGs, in a context where shopping streets face challenges for its continued existence.⁸

⁴ UN Department of Global Communications (2019) "Climate Action Summit 2019", https://www.un.org/en/climatechange/assets/pdf/CAS_main_release.pdf

⁵ SDGs Promotion Headquarters (2019), https://www.kantei.go.jp/jp/singi/sdgs/pdf/jisshi_shishin_r011220.pdf

⁶ Volunteer members of the SDGs Promotion Roundtable Meeting (2019), "Recommendations for revision of the SDGs Implementation Guiding Principles" https://docs.wixstatic.com/ugd/d7b557_d7039fbd37e543d78c864c86dd443639.pdf

⁷ Ministry of Foreign Affairs (2019) <https://search.e-gov.go.jp/servlet/PcmFileDownload?seqNo=0000195997>

⁸ Ministry of Foreign Affairs (2019) <https://www.mofa.go.jp/mofaj/gaiko/oda/sdgs/award/index.html>

In local government related initiatives, in continuation from last year, 31 cities were selected as SDGs Future Cities, and ten projects were selected as SDGs Model Projects of local governments. These initiatives aim to promote engagement in the SDGs by local governments toward sustainable town planning over the medium and long term. According to the Cabinet Office, a similar number of "SDGs Future Cities" and "SDGs Model Projects" will be selected in 2020.⁹

In March 2019, a new page was launched on the IGES website. The "VLR Lab" enables visitors to the site to view lists of the voluntary SDGs activities of local governments around the world and their respective states of review. VLR (Voluntary Local Review) is an international initiative that is gaining a foothold around the world, whereby local governments voluntarily review the state of activities related to the SDGs and publicly release reports with their results that can be compared to other local governments.¹⁰

Local governments announcing their intent to become zero carbon cities by 2050 through net-zero carbon declarations are on the rise, as are local governments issuing climate state of emergency declarations to call for immediate action.¹¹

Regarding the business world, the Ministry of Economy, Trade and Industry (METI) compiled "The Guide for SDG Business Management" in May 2019. The guide lays out how businesses should engage in "SDG business

management", and from what viewpoint investors should evaluate such initiatives.¹² Further, the Japan Association of Corporate Executives released a report in July compiling ideas for engaging in SDG-related initiatives.¹³

Various initiatives have also begun on specific issues. In April 2019, the Japan Sustainable Palm Oil Network (JaSPON) was established to encourage the use of RSPO certification throughout the industry. Retailers, consumer goods manufacturers, NGOs and others, including Ajinomoto, Aeon and Kao, make up the 18 inaugural member companies/organisations of the network.¹⁴ In September, a group of companies, local governments, educational institutions and medical institutions launched the "RE Action" project, aimed at meeting electricity usage with renewable energy sources by 2050. This initiative is aimed at companies and organisations that are not eligible for the "RE100", an international initiative, accounting for a total electricity demand that is approximately 40-50% of Japan's domestic demand, and representing a total of approximately 40 million organizations. Member companies and organisations are required to report on annual power consumption and their renewable energy ratio.¹⁵

As explained above, initiatives to achieve the SDGs are underway in Japan led by an array of stakeholder groups. As progress on the SDGs has fallen behind, hopes are pinned on each of these initiatives producing steady and tangible results.

⁹ Cabinet Office (2019), https://www.kantei.go.jp/jp/singi/tiiki/kankyo/teian/sdgs_2019sentei.html

¹⁰ IGES (2019), <https://www.iges.or.jp/jp/news/20190325>

¹¹ Ministry of the Environment (2019) <https://www.env.go.jp/policy/zerocarbon.html>
e's Future Co-Creation Forum (2019) <https://www.es-inc.jp/ced/>

¹² Ministry of Economy, Trade and Industry (2019), "The Guide for SDG Business Management", <https://www.meti.go.jp/press/2019/05/20190531003/20190531003.html>

¹³ Japan Association of Corporate Executives (2019) "SDGs for the sustainable growth of business and human society" <https://www.doyukai.or.jp/policyproposals/uploads/docs/190731a.pdf?190731>

¹⁴ JaSPON Secretariat (2019) https://www.wwf.or.jp/file/20190411_forest01.pdf

¹⁵ "RE Action – Declaring 100% Renewable" <https://saiene.jp/>

3. An Introduction to ESG Investment/Financing

This chapter will provide an introductory overview on ESG investment/financing, with particular attention given to ESG investment - current practice and rationale, the relationship with fiduciary duty, and corporate ESG disclosure which plays a critical role in ESG investing.

3.1 The present state of ESG investing

The ESG investment market is growing, and when examined by region, as of 2018, Europe accounts for 46%, and the United States for 40% of the total (Figure 3).

The spread of ESG investment is also evident in institutions signing the Principles for Responsible Investment (PRI) that advocate the incorporation of ESG into the investment process. The PRI declaration originated in 2005 when UN Secretary General at the time, Kofi Annan, called on 20 of the biggest institutional investors to join. The PRI declaration was created by this group of institutional investors in cooperation with other stakeholders, and was launched in April 2006 with the United Nations Environment Programme Finance Initiative (UNEPFI) and the United Nations Global Compact serving as secretariat. The number of signatory institutions has risen from 63 in 2006 to 2,968 institutions (as of 27 February 2020).¹⁶

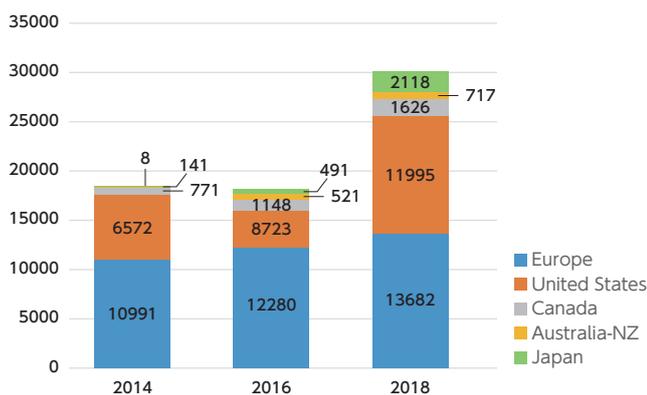


Figure 3: Change in global ESG investment balance (unit: billion USD)¹⁷

Source: Created with current exchange rate on 27 December 2019 based on JSIF (2019), "Sustainable Investment Survey 2018"

ESG investment is rapidly spreading in Japan as well (Figure 4). Mainstreaming of ESG investment progressed even more in 2019, with the investment balance exceeding 330 trillion JPY, accounting for 55.9% of the balance of total managed assets.

Types of ESG investment and trends by asset class

The Global Sustainable Investment Alliance (GSIA) classifies ESG investment into the following seven categories.

1. NEGATIVE SCREENING: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;
2. POSITIVE SCREENING: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;
3. NORMS-BASED SCREENING: screening of investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, UN and UNICEF;
4. ESG INTEGRATION: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis;
5. SUSTAINABILITY THEMED INVESTING: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture);

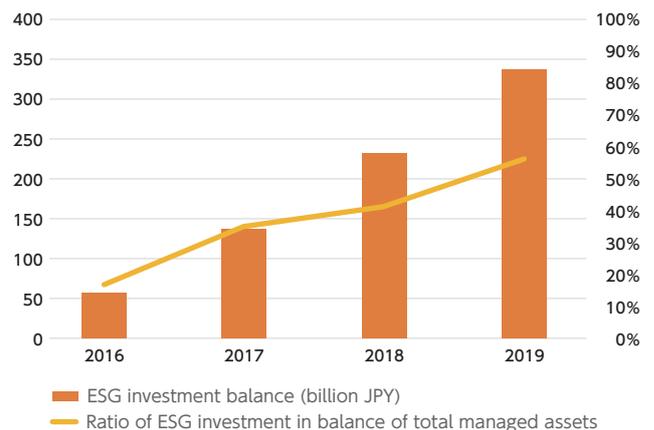


Figure 4: Change in ESG investment balance in Japan

Source: Created based on JSIF (2020), "Sustainable Investment Survey 2018/2019"

*Subjects of the surveys included 31 companies (2016), 32 companies (2017), 42 companies (2018), and 43 companies (2019).

¹⁶ Search results (PRI) <https://www.unpri.org/searchresults?qkeyword=¶metrics=WVSECTIONCODE%7c1018>

¹⁷ JSIF refers to the "ESG Integration" category of the ESG investment categories mentioned above as ESG investment, and refers to ESG Integration and investments in all other six types collectively as "sustainable investment" (see the JSIF website for details). This report will use the term ESG investment to conform to GSIA usage. Further, the "sustainable investment balance" referred to in the sources above can be interpreted as "ESG investment balance".

6. IMPACT INVESTING: targeted investments aimed at solving social or environmental problems, and including community investing; and
7. CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION: the use of shareholder power to influence corporate behavior, including through direct corporate engagement, filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

According to GSIA, of the ESG investment balance shown in Figure 3, the most utilised investment approach is "Negative Screening" (2018: 19.7 trillion USD), followed by "ESG Integration" (2018: 17.5 trillion USD), and "Corporate Engagement and Shareholder Action" (2018: 9.8 trillion USD). Further, use of these three investment approaches has increased compared to 2016.¹⁸

When looked at by asset class, listed stocks account for 51% of ESG investment and bonds 36%, with real estate and private equity/venture capital accounting for approximately 3% each. In recent years, the ratio of bonds is on the increase. The context for this increase encompasses the issuance of ESG bonds such as green bonds and expanding trends toward incorporating ESG factors in investment decisions for bonds, rather than only for stocks.¹⁹

Concerning the above overview of the current state of ESG investment, it should be noted that globally-accepted definitions of "sustainable" and "green" do not exist in the context of ESG investment and financing. There is currently a movement to establish these definitions in groups at the regional, national and industry levels (See Column 1: Trends in defining the term "sustainable").

Column 1: Trends in defining the term "sustainable"

Progress is being made at national and regional levels and among market stakeholders on standardisation of the definition of terms such as "sustainable" and "green" in the context of ESG investment and financing.

The proposal for a "taxonomy" as the core of the EU's "Sustainable Finance Action Plan" has drawn particular attention in Japan. The technical selection criteria in the mitigation areas (targets) of the taxonomy proposal are ambitious, including a threshold in line with the objective to create net-zero emission economies by 2050, and some have indicated this is a high order for the industrial sector.

In China, the People's Bank of China formulated a project list indicating use of funds for green bonds. Green coal is included (but not included in the EU's taxonomy). Further, in February 2019, the "Green Industry Guidance Catalogue", released as national green standards by seven public institutions in China, also included high-efficiency coal-fired power plants, a distinctly different classification of "sustainable" than that as defined by the EU.²⁰

Developments in the formulation of taxonomies have also been seen in Canada and Malaysia. Further, in actions by market stakeholders, in June 2019, the International Capital Market Association (ICMA) established a working group on "(Climate) Transition Finance", and is carrying out deliberations on this topic (as of the end of January 2020).²¹

<Key terminologies for ESG investment and financing>

○ Investment

- Passive management: In a broad sense, management in general without market forecasting. In a narrow sense, index management aimed at securing an earning rate equal to the market average by in principle holding all stock components of the market according to component proportion ratios.
- Active management: management method aimed at producing a relatively high excess earning rate compared to benchmark indices of various markets (e.g. TOPIC) by creating portfolios that differ from market averages.
- Green bonds: bonds issued to procure financing required for green projects.

○ Financing

- Green loans: loans whereby funding procured can only be allotted to the financing or refinancing (part of a) green project(s).
- Sustainability linked loans: loans that provide motivation for achieving ambitious sustainability performance targets set in advance by the borrower.

¹⁸ The rate of increase from 2016-2018 is 31% for "Negative Screening", 69% for "ESG Integration" and 8.3% for "Corporate Engagement and Shareholder Action".

¹⁹ Ota, Tamami (2019), "ESG Investment Expanding for Bonds", Daiwa Institute of Research, https://www.dir.co.jp/report/research/capital-mkt/esg/20190110_020570.pdf

²⁰ CBI, IISD and Foreign & Commonwealth Office (2016) "Roadmap for China: green bond guidelines for the next stage of market growth", https://www.climatebonds.net/files/files/CBI-IISD-Paper1-Final-01C_A4.pdf

Mitsubishi UFJ Research and Consulting Co., Ltd. (2019) "Investigative report on initiatives in standardisation of finance related to green finance/sustainable finance promoted by the EU, China and the International Organization for Standardization (ISO)", <https://www.fsa.go.jp/common/about/research/0529murcreport.pdf>

ICMA, GBP, SBP (2019) "2019/2020 Working Group Climate Transition Finance", <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-WG-ToR-FINAL221119.pdf>

²¹ ICMA, GBP, SBP (2019) "2019/2020 Working Group Climate Transition Finance", <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-WG-ToR-FINAL221119.pdf>

3.2 The origins of and motivations behind ESG investing

The origin of ESG investing is said to lie in socially responsible investing (SRI), which began as excluding from investments, business that violated morality or religious values (e.g. weapons, gambling, tobacco, alcohol). Subsequently, investments taking a range of environmental and human rights issues into account began to grow, and came to be called responsible investing or sustainable investing.²² The term ESG was first used in the above-mentioned PRI, and the term ESG investing spread around the world.

The motives investors have for engaging in ESG investing that takes non-financial information into consideration are said to focus mainly on the following three points. First, investors began to reflect back on the excessive pursuit of short-term profit that was the impetus behind the 2008 Lehman Shock. Moreover, the argument that managed funds were not the property of financial institutions and should give back to society also came to be more widely accepted, further boosting reconsideration of past practices.²³

Secondly, recognition of the importance of global environmental and social issues by investors following adoption of the SDGs and agreement on the Paris Agreement in 2015, also become a motivating factor. Moreover, calculations have shown that approximately 90 trillion USD will be required over the next 15-year period to achieve the goals of the SDGs and Paris Agreement²⁴. Thus, it goes without saying that funding will be needed to achieve these goals.

Thirdly, the financial risks (e.g. regulatory risk, reputational risk, physical risk) and opportunities (e.g. new profit) posed by ESG factors are another aspect of motivation.²⁵ Financial risk due to ESG factors, for instance in the case of predicted long-term temperature rise due to climate change²⁶, could involve financial impacts from damage to property, fragmentation of supply chains and policy

changes in the shift to low-carbon economies. There has been debate on financial opportunities brought about by ESG, and further empirical research is needed before any conclusions can be made, but there are many examples of research results that indicate ESG has positive impacts on financial performance.²⁷ For these reasons, taking ESG into consideration is logical from the perspective of long-term investors. Furthermore, as the managed asset portfolios of universal owners cover the entire capital market, it is logical for them to consider ESG factors (e.g. air pollution, GHG emissions, low-emission products), which can impact the market as a whole, and not only the risk-return of individual companies.

3.3 ESG investing and fiduciary duty

The responsibility taken on by institutional investors who are entrusted by asset holders with managing the assets of other entities is called "fiduciary duty".²⁸ There are two types of duties in fiduciary duty. The first is the "duty of loyalty", which requires the trustee to act at all times to maximise the profit of the entrustor (client). The second is the "duty of care", which requires the trustee to act with the care, skill, prudence and diligence befitting an expert.²⁹ A debate has been ongoing, mainly in Europe and the United States, on the "duty of loyalty" and whether ESG investing violates fiduciary duty due to having objectives other than investment returns, namely societal benefit.

As it turns out, the argument that consideration of ESG factors does not violate fiduciary duty has become predominant. This argument was backed by reports from international organisations and law offices. In 2005, UNEPFI and the law firm Freshfields Bruckhaus Deringer released a report concluding that consideration of ESG factors in investment analysis is allowed in all countries. Further, in 2015, PRI and UNEPFI released "Fiduciary Duty in the 21st Century"³⁰, which indicated the view that, although the importance of fiduciary duty remains unchanged, failing to consider factors in investment practice that drive corporate value enhancement over the long-term, including ESG

²² Ito, Masaharu (2012) "Principles for Responsible Investment", Daiwa Institute of Research, https://www.dir.co.jp/report/research/capital-mkt/esg/keyword/023_pri.html

²³ Sueyoshi, Takejiro (2017) "On Sustainable Finance", https://www.oecc.or.jp/wp-content/uploads/2017/08/004_%E3%82%B5%E3%82%B9%E3%83%86%E3%83%8A%E3%83%96%E3%83%AB%E3%83%95%E3%82%A1%E3%82%A4%E3%83%8A%E3%83%B3%E3%82%B9_%E6%9C%AB%E5%90%89%E5%85%88%E7%94%9F.pdf

²⁴ The New Climate Economy (2017) "The Sustainable Infrastructure Imperative: Financing for Better Growth and Development", http://newclimateeconomy.report/2016/wp-content/uploads/sites/4/2014/08/NCE_2016Report.pdf

²⁵ Mizuguchi, Takeshi (2017) "ESG Investment: the new shape of capitalism", Nikkei Publishing.

²⁶ The Intergovernmental Panel on Climate Change (IPCC) predicts in its Fifth Assessment Report that the global average temperature at the end of the 21st century, compared to the end of the 20th century, will rise by between 0.3 and 1.7°C in the case of major GHG reductions, and between 2.6 and 4.8°C in the case that extremely large GHG emissions continue.

²⁷ For example, Deutsche Asset & Wealth Management and the University of Hamburg reviewed the research results of approximately 2,250 studies related to the relationship between ESG and corporate financial performance. The review revealed that only 10% of studies concluded there to be a negative relationship between the two, while 62.6% of studies concluded there to be a positive relationship. Deutsche Asset & Wealth Management (UK) Limited (2015) "ESG & Corporate Financial Performance: Mapping the global landscape", [https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_\(2\).pdf](https://institutional.dws.com/content/_media/K15090_Academic_Insights_UK_EMEA_RZ_Online_151201_Final_(2).pdf)

²⁸ In some cases, referred to as "fiduciary duty".

²⁹ Ito, Masaharu (2017) "Are ESG factors imperative in fulfilling fiduciary responsibility: ESG investing and fiduciary duty in the 21st century" "Feature: Pressure to engage in ESG", Autumn edition, Vol. 28, Daiwa Institute of Research seasonal report, https://www.dir.co.jp/report/research/capital-mkt/esg/20171201_012495.pdf

³⁰ Ibid.

issues, is a violation of fiduciary duty. Subsequently, PRI and UNEPFI issued recommendations making similar points to national governments and regulatory agencies, including those in Japan.³¹

Policy trends in the United States and the United Kingdom are also noteworthy. For instance, an Interpretive Bulletin (released on three occasions since 2015) on the Employee Retirement Income Security Act by the US Department of Labor, recognises consideration of ESG factors while securing returns in investment practice for corporate pensions.³²

Recent debate on fiduciary duty has come to incorporate the concept of impacts. In 2019, UNEPFI launched the "Legal Framework for Impact" project. The project is expected to release recommendations in late 2020 based on an analysis of how investors can balance fiduciary duty and sustainability impact duty, and what happens when these two types of duties run contrary to one another.

3.4 Information disclosure

Information disclosure on ESG by companies is imperative in ESG investing. Of major ESG information disclosure standards, the GRI Standards of the Global Reporting Initiative (GRI) have the longest history and have established items and related KPI that companies should disclose regarding economic, environmental and social factors.³³

Meanwhile, it is increasingly recognised that factors determining corporate value also have non-financial and intangible characteristics, and some have pointed out that disclosure focused on conventional financial information has led investors and corporate management being short-

term oriented.³⁴ In the context of this growing awareness, in 2013, the International Integrated Reporting Council (IIRC) released the "International Integrated Reporting Framework", a framework for integrated reporting of financial and non-financial information by corporations.³⁵

In addition, the US-based Sustainability Accounting Standards Board (SASB) formulated the SASB Standards in 2018 based on the participation of 2,800 experts in business and finance. Similar to GRI, these standards determine in detail items and indicators (KPIs) that corporations should disclose. A feature of these standards differing from GRI is that they establish items to disclose and indicators customised to 11 different sectors and 77 different industries.³⁶

A significant outcome in the context of climate change was the Final Report from the Task Force on Climate-related Financial Disclosures (TCFD). In 2015, in response to a request from the G20, the Financial Stability Board (FSB) established the TCFD with 32 members and Michael Bloomberg as its chair. The TCFD Final Report was released in 2017, encouraging businesses to engage in climate-related information disclosure. Already, 930 organisations (including 239 in Japan) have signed the TCFD (as of December 2019).³⁷

Ultimately, these multiple disclosure standards have become confusing for businesses engaging in information disclosure. Accordingly, the Better Alignment Project led by the IIRC was launched in 2018 to enhance consistency among disclosure standards. In addition to the aforementioned organisation, other major participants include the International Organization for Standardization (ISO), as progress on this debate has attracted much attention.

³¹ For Japan, the "Fiduciary Duty in the 21st Century—Japan Roadmap" was released in April 2017. Recommendations were made to relevant ministries and agencies indicating responses to ESG issues in Japan and the current state of fiduciary responsibility.

³² Ariyoshi, Naoya & Mitsumoto, Shunsuke (2019) "ESG investing and fiduciary responsibility", Financial newsletter, Nishimura & Asahi law firm. https://www.jurists.co.jp/sites/default/files/newsletter_pdf/ja/ja_newsletter_20190930_finance.pdf

³³ Hayashi, Toshikazu (2019) "The role of and issues related to diversifying ESG information disclosure standards: a comparative analysis of GRI, IIRC, SASB, TCFD", Capital Markets Monthly, July 2019 (no. 407). <http://www.camri.or.jp/files/libs/1314/201908011157137646.pdf>

³⁴ Mishiro, Mariko (2014) "What is 'Integrated Reporting'?", Monthly PR publication (Sendenkaigi), http://www.fbicom.co.jp/pdf/integrated_reporting_01-03.pdf

³⁵ Amundi Japan (Ed.) (2018) "Introduction to ESG", Nikkei Publishing

³⁶ Hayashi, Toshikazu (2019) "The role of and issues related to diversifying ESG information disclosure standards: a comparative analysis of GRI, IIRC, SASB, TCFD", Capital Markets Monthly, July 2019 (no. 407). <http://www.camri.or.jp/files/libs/1314/201908011157137646.pdf>

³⁷ FSB "TCFD Supporters" <https://www.fsb-tcfid.org/tcfid-supporters/>

❖ 4. ESG initiatives by financial institutions in Japan

This chapter will introduce and discuss the initiatives in ESG investment and financing of Japanese financial institutions. The main objective in discussing interview results and specific examples is to introduce a selection of actual initiatives, not to draw conclusions on trends or make assessments of the market overall. Moreover, this chapter will focus primarily on the "E" and "S" of ESG.

4.1 Initiatives by ESG investing approach

Examples of ESG investing initiatives in Japan and interview results are introduced below categorised into major ESG investing approaches.

(1) Negative Screening/Norms-based Screening

Negative screening (including divestment) is the most commonly utilised approach among ESG investors in Europe and North America. This approach has drawn attention in recent years due to indications of the risk of coal-related assets becoming "stranded assets" and related campaigns by NGOs. In Japan, financial institutions advocating active engagement in ESG investing, including the Government Pension Investment Fund (GPIF), have declared that they will not divest, and there is little visibility of initiatives taking this approach. Meanwhile, it should be noted that results of the most up-to-date survey on the balance of ESG investments by management approach indicate a spike in growth of 663% compared to the previous year.³⁸

In respect to loans, three Japanese megabanks have each indicated a policy on the financing of new coal-fired power generation since 2018. While the specific wording used by each bank differ, none of the policies end coal financing, but rather limits or places restrictions on the financing of new coal-fired power plants.

(2) Positive Screening

Positive screening is a method of investing by which companies with high ESG ratings are selected. Investing in an ESG index that comprises stocks based on their ESG ratings is an example of this approach for passive management. This approach has gained footing, due to the development of ESG indices, including GPIF's public call for and the adoption of ESG indices in 2017, companies have begun to take initiatives on information disclosure and related measures with an awareness of the ESG evaluations required to be included in these indices.

(3) ESG Integration

Integration is often referred to as the most mainstream approach to ESG investing at present, and Japan is no exception. ESG integration refers to integrating ESG factors in the management process, but specific approaches and methods of decision-making differ by company (Table 1). In most cases, an overview of what departments are involved in considering ESG factors and what sort of PDCA cycle is used for management can be found in the information disclosed by asset management firms.

Methods of obtaining the ESG information utilised in the ESG integration approach also vary. While some investors purchase data from data services providers and ESG rating agencies, other institutional investors do not rely on this type of information, rather carrying out evaluation based on their own unique standards and judgments. The approaches and perspectives of data services providers and ESG rating agencies are also varied, with each company having different strengths and distinguishing features. With no one company that can provide all the information needed, the point of view of an institutional investor is often reflected on whether or not such companies are utilised and the standards by which options are selected.

(4) Sustainability Themed Investing/Impact Investing

One example of an ESG product that is classified as sustainability-themed investing is the eco fund. Eco funds are investment trusts, mainly for individual investors, which invest in the stocks of companies engaged in business activities that incorporate an environmental perspective. The pioneer of eco funds in Japan is the Nikko Eco Fund launched in 1999. While the investment balance of this type of investment trust exceeded 200 billion JPY in six months after they were initially introduced, they were subsequently sluggish. Investment balances in recent years have shifted toward an increase, but it would be difficult to call them mainstream.³⁹

Impact investing is investing carried out with the objective of wielding impacts in the form of solutions to social and environmental. In Japan, a domestic advisory committee was set up in 2014 to respond to the "G8 Social Impact Investment Taskforce" that aims to expand social impact investing at the global level. Discussions and initiatives are ongoing. Various new developments have taken place in recent years, such as the release by prominent financial institutions of products in line with UNEPFI's "Principles for Positive Impact Finance", that advocate a

³⁸ JSIF (2020) <https://japansif.com/archives/674>

³⁹ Japan Sustainable Investment Forum (2019) <https://japansif.com/archives/615>

balance between social impact and financial returns.^{40 41} While consideration of impacts is shaping into one of the international trends in ESG investment, concrete initiatives in Japan currently remain limited.

(5) Corporate Engagement

Although many asset managers purportedly engage in "engagement initiatives", similar to the integration approach,

in reality initiatives are diverse. Not only are there differences in the topics given priority in engagement, there are also wide-ranging interpretations of the concept of engagement itself (Table 2). Japan's stewardship code, defines "engagement" as "purposeful dialogue". Yet the reality and implications differ depending on whether the purpose is to "change corporate policy and/or behaviour" or "share information and exchange opinions".

Table 1: Examples of ESG integration approaches

Company A	The purpose of ESG evaluations is for utilisation in active management. We conduct our own ESG evaluations utilising internal company resources. We have created a consistent system whereby our analysts not only conduct evaluations and analysis but make recommendations on buying and selling, and also engage in dialogue with companies.
Company B	We obtain our ESG information from research institutes within our group as well as from external ESG data vendors. We conduct ESG evaluation and scoring by asset class and management strategy. For domestic stocks and industrial bonds in particular, we have formulated our own framework for evaluating non-financial factors as we further sophisticate our ESG integration.
Company C	We have adopted ESG integration approaches that differ for each asset class and product. A portion of these are explained in our stewardship report.
Company D	We incorporate ESG into investment decision-making processes in our responsible investment meetings. Each management unit participates from an active management perspective, while the responsible investment group participates from a passive management perspective. We do not utilise information from ESG rating institutions. We place importance on information from stakeholders with high awareness of ESG issues.

*Created by the authors based on interviews and publicly available information on companies.

Interview Highlights

(1) On Negative Screening/Norms-based Screening

- ✓ Although we may consider it in the future, at present we do not make automatic exclusions in the form of negative screening. We view corporate value as future cash flow discounted to present value, and make decisions on a case-by-case basis from the perspective of corporate value.
- ✓ For instance, while we do not have an exclusion policy on coal-fired power generation, we do make decisions from the perspective of impacts on future corporate value related to coal-fired power.
- ✓ For some weapons, we exclude potential investments in cases where we cannot practice engagement due to the circumstances of the manufacturer concerned. Otherwise, we do not engage in divestment. Even if we sell off stocks, they will only be bought by investors more tolerant of weapons, so we believe holding the stocks and engaging is more effective. Meanwhile, some clients (asset owners) want to hold stocks identical to benchmarks, and in these cases, we honor the wishes of the client.
- ✓ We do not think it is appropriate to uniformly withdraw funding from all coal-related projects. We would like it understood that various issues must be considered, including Japan's energy policy and baseload power.
- ✓ Coal-fired power is a part of Japan's basic energy plan and infrastructure export policy. Discussions are carried out yearly to review these policies in light of the social significance of supporting (financing) a stable supply of electricity as well as international views on climate change.

(4) On Sustainability Themed Investing/Impact Investing

- ✓ We are interested in how impacts generated by investing are ascertained. With investment decisions made from the perspective of corporate value as a major premise, we would like to consider what else we can do in the future.
- ✓ In the past, social and environmental issues were viewed mainly from the perspective of investment risk. Of late, the trend to see solutions to social and environmental problems as opportunities is gaining ground. However, it is difficult to identify impacts directly linked to enhanced corporate value, and the issue remains on how to deal with the time lag between financing decisions and the realisation of impacts.
- ✓ We believe that the development of measuring methods for impacts and accumulation of this know-how will become a strong point for our company.
- ✓ Our investments are premised on the companies we invest in being both profitable and socially aware. We place emphasis on both economic returns and social returns.

⁴⁰ Industrial and Infrastructure Fund Investment Corporation (2019) <https://www.iif-reit.com/>

⁴¹ Sumitomo Mitsui Trust Bank, Limited (2019) <https://www.smth.jp/news/2019/190328.pdf>

Table 2: Views on engagement and priority issues

	View on engagement	Priority issues
Company A	Engagement is defined as "determination of issues that must be addressed, discussion on issues and work to produce results," while dialogue is defined as the "promotion of mutual understanding through two-way communication between companies and investors", with separate roles for both. Further, views and policies on engagement are indicated for passive management of domestic stocks, active management of domestic stocks and active management of domestic bonds, respectively.	<p>Global issues (top-down approach)</p> <ul style="list-style-type: none"> • Climate change (response to and disclosure of climate change risks and opportunities)/ participation in Climate Action 100+ • Sustainable palm oil procurement • Deforestation risks and human rights issues • Risk management in supply chain management • Agriculture • Risk management in the area of labour practices • Marine plastics issue • Food safety (factory farming and drug-resistant bacteria) <p>Local issues (bottom-up approach)</p> <ul style="list-style-type: none"> • Enhanced corporate governance • Promotion of anti-corruption measures • Improved disclosure of non-financial information/ integrated reporting • Diversity of board of directors
Company B	Engagement is designated as "opportunities to require best practices from companies", and opinions are delivered to contribute to medium- to long-term corporate value enhancement. Only activities in the process of "preparing opinions/advance checks/opinion delivery/documentation/monitoring" count as engagement, and a clear distinction is made with what is referred to as data collection.	<ul style="list-style-type: none"> • Climate change issue • Water resources and marine pollution issue • Boost governance reforms • Promotion of ESG information disclosure
Company C	Engagement goes hand in hand with shareholder action in stewardship activities and is considered a core activity in ESG integration. As a basic approach, emphasis is put on solving social issues, achieving medium- to long-term financial stability, corporate value enhancement and returns. Methods include identifying appropriate ESG issues, meticulous milestone management, extensive engagement materials, and organic coordination with investment chains.	<ul style="list-style-type: none"> • Climate change • Human capital management • Regional revitalisation • Supply chain • Formation of circular economies
Company D	Engagement is "purposeful dialogue", as written in the Japan's Stewardship Code	Uniform engagement issues are not determined by a top-down approach (issues that require engagement are identified from the perspective of corporate value enhancement through bottom-up ESG evaluation and corporate analysis. Individuality is great from company to company, and content covers a wide range of issues, so identifying uniform issues is not fitting.)

*Created by the authors based on interviews and publicly available information on companies.

4.2 Growing diversity in financial products

Although ESG investing began focused on stocks, it has expanded to other asset classes including bonds, private equity, real estate and loans. The following is an introduction of market trends in Japan along with interview results, mainly for bonds and loans.

(1) Bonds (e.g. green bonds, social bonds, sustainability bonds)

In the balance of ESG investments according to asset class, bonds come in second (11%) after stocks.⁴² The introduction of a subsidy programme to cover the

additional costs involved in issuing green bonds compared to conventional bonds, including external reviews and consulting on the green bond framework, supported market growth. The Development Bank of Japan was the first issuer in Japan to issue a green bond in 2014. As of 2019, there have been 58 issuances with a total issuance amount of approximately 823 billion JPY, a roughly 24-fold increase in market size.⁴³

Social bonds and sustainability bonds remain low, both in the number of issuances and in the amount financed. Aside from the continued issuance of social bonds by the Japan International Cooperation Agency (JICA) since

⁴² JSIF (2020) <http://japansif.com/200207.pdf>

⁴³ Ministry of the Environment of Japan (2019) <http://greenbondplatform.env.go.jp/policies-data/current.html>

2016 and sustainability bonds by the Development Bank of Japan since 2015, there had been almost no other issuances until 2019, when issuances by operating companies and financial institutions raised expectations for future market growth (Table 3).

(2) Loans (e.g. green loans, sustainability linked loans)

There are high expectations from all directions for loans considering ESG factors (otherwise referred to broadly as ESG financing) in Japan, including the High Level Meeting on ESG Finance, due in part to the large role indirect financing plays in Japan. Japan's first ever green loan and sustainability linked loan were announced in 2018-2019, and expanded market options for green financing (Table 4). As of February 2020, guidelines for green loans and sustainability linked loans are under deliberation in the Ministry of the Environment of Japan (MOEJ).⁴⁴

In addition to the above green products, loans supporting SDG business management have been introduced from a number of companies in Japan. Examples include, loans accompanied by the provision of data/information services during the loan period meant to contribute to the achievement of SDG business management plans,⁴⁵ and loan products with added-on consulting services⁴⁶. Additionally, SDG-related financial services have been promoted in the context of regional revitalisation and the rebuilding of regional banks, giving rise to initiatives led by regional banks. One example involves loans with preferential interest rates offered to medium and small enterprises engaged in projects with social impact contributing to building sustainable societies in line with the objectives of the SDGs.⁴⁷

Table 3: Examples of social bonds and sustainability bonds issued in Japan (2019)

Issuing body	Issuing amount	Use of Proceeds
Examples of social bonds		
Japan International Cooperation Agency (JICA) ^{48 49}	10 billion JPY	Allocated by JICA to ODA loan projects (yen denominated) in developing countries Project content: transportation infrastructure improvements, improvements and planning in electricity and natural gas, enhancing access to social services (water, education, health), irrigation and flood control projects, etc.
	10 billion JPY	
	12 billion JPY	
ANA Holdings ⁵⁰	5 billion JPY	Universal design upgrades and improvements for domestic airport facilities and equipment
Mitsubishi UFJ Financial Group ⁵¹	90 million USD (10 billion JPY)	Plans to allocate to loan funds below via Mitsubishi UFJ Bank (1) loans contributing to restoration after natural disasters such as earthquakes and typhoons (2) loans to public hospitals in Japan and overseas, and hospitals in Japan managed by social medical corporations and social welfare corporations (3) loans to public schools (4) loans to public housing providers registered with the UK public housing authority
Examples of sustainability bonds		
Asics ⁵²	20 billion JPY	Research expenses for the Institute of Sport Science, establishment and operation of nursing care prevention projects, installation of rooftop solar panels
Japan Railway Construction, Transport and Technology Agency (JRRT) ^{53 54 55}	94 billion JPY (issued 9 times)	Improvements to transportation infrastructure essential for daily community life that have low impact on the environment (railway construction, joint shipbuilding)
Obayashi Corporation ⁵⁶	10 billion JPY	Construction of environmentally-sound buildings, fostering leadership and trusting relationships in the construction industry, implementation of renewable energy projects

⁴⁴ Ministry of the Environment of Japan (2019) http://www.env.go.jp/policy/greenbond/gb/conf/conf_r0107.html

⁴⁵ Sumitomo Mitsui Banking Corporation (2019) <https://www.smbc.co.jp/hojin/financing/sdgs/>

⁴⁶ Resona Bank (2019) https://www.resonabank.co.jp/about/newsrelease/detail/20190807_1a.html

⁴⁷ Shiga Bank (2018) https://www.shigagin.com/pdf/topics_20180417.pdf

⁴⁸ JICA (2019) <https://www.jica.go.jp/press/2019/2019061420.html>

⁴⁹ JICA (2019) https://www.jica.go.jp/press/2019/20190905_31.html

⁵⁰ ANA Holdings (2019) <https://www.anahd.co.jp/group/pr/201904/20190417-2.html>

⁵¹ Mitsubishi UFJ Financial Group (2019) https://www.mufj.jp/dam/pressrelease/2019/pdf/news-20191206-001_ja.pdf

⁵² Asics (2019) https://corp.asics.com/jp/investor_relations/stock_information/sustainability_bond

⁵³ JRRT (2019) <https://www.jrjt.go.jp/ir/asset/sustain-20190220Press.pdf>

⁵⁴ JRRT (2020) <https://www.jrjt.go.jp/ir/bond/>

⁵⁵ Programmatic certification by the Climate Bonds Initiative for issuance after May 2019 (first in Asia) JRRT (2019) <https://www.jrjt.go.jp/ir/asset/sustain-20190523Press.pdf>

⁵⁶ Obayashi Corporation (2019) <https://www.obayashi.co.jp/sustainability/esg/sustainabilitybond.html>

Table 4: Examples of green loans and sustainability linked loans issued in Japan (2018-2019)

Examples of green loans		
Borrower	Loan amount	Use of Proceeds
Japan Excellent ⁵⁷	2 billion JPY	Allocated to funds for refinancing loans involving acquisition of DBJ Green Building certification for Akasaka Innercity Air.
Nippon Yusen ⁵⁸	2 billion JPY	Allocated to funds for construction of chemical tankers using methanol as fuel.
	9 billion JPY	Green syndicated loan. Allocated to scrubbers (apparatus used to comply with strengthened regulations on sulfur content in marine fuel).
Enomoto Co. ⁵⁹	500 million JPY	Allotted to manufacture and development costs of new model main components for hydrogen fuel cells.
Examples of sustainability linked loans		
Borrower	Loan amount	Sustainability performance target (SPT)
Nippon Yusen ⁶⁰	50 billion JPY	SPT: Maintenance of high rank in CDP
Toyoda Gosei ⁶¹	5 billion JPY	SPT: Reduction of CO ₂ emitted in business activities and waste based on output level

Interview Highlights

- ✓ The advantages of green bonds include the opportunity to publicise ESG initiatives and expansion of investor base based on purchase by green investors. The disadvantages include issuance amount limitations based on the size of green assets and the burden of continuous information disclosure on the state of allotment and environmental improvement impacts.
- ✓ The market for green bonds has grown to a certain size due to the availability of subsidies from the MOEJ, but the lack thereof for social bonds make (social bond issuance) difficult.
- ✓ One of the advantages of green loans is their effectiveness in publicity for the business and the bank issuing the loan. Remaining issues include limited utilization by the conventional manufacturing sector, as use of proceeds remain mainly for renewable energy and energy efficiency.
- ✓ Tied loans (use of proceeds designated loans) are only a portion of loans made by financial institutions. If corporate loans to companies active in environmental management or companies with high ESG ratings could be considered admissible assets, there would be increased opportunities for issuance. Moreover, the stricter the standards are for impact assessment, or for what can be considered green and/or social, the higher the hurdle will become for companies to issue.
- ✓ Challenges and remaining issues include: improving the ESG literacy of individual sales representatives, pursuing of advantages for the borrower in the effort of expanding ESG loans, and achieving balance and consistency between regulations in the more advanced European market and promotion measures for expansion of the nascent Japanese market (particularly in the context of the loan market).
- ✓ For ESG investment and financing in the future, "social" aspects, in addition to "green" aspects to date, will attract more attention as demand by investors for funding with specified uses expands. Further, initiatives in which the usage of funds is not specified, such as sustainability linked loans, are attracting attention.
- ✓ For sustainability linked loans, there are limits to interest rate reduction in the low-interest rate environment for yen, and loans that consider ESG factors tend to require more work than regular loans on the part of both clients and banks. Supporting measures are needed, especially in present conditions when the market is nascent.

⁵⁷ Japan Excellent (2019) <https://www.nikkei.com/nkd/disclosure/tdnr/b9g7gm/>

⁵⁸ Nippon Yusen (2019) <https://www.nyk.com/csr/envi/greenloans/>

⁵⁹ Enomoto Co. (2019) <http://www.enomoto.co.jp/information/info20190930.pdf>

⁶⁰ Nippon Yusen (2019) <https://www.nyk.com/csr/envi/sustainabilitylinkedloan/>

⁶¹ Toyoda Gosei (2019) https://www.bk.mufg.jp/houjin/info/pdf/toyodagosei_sltp.pdf

4.3 ESG investment and financing for achieving the SDGs

Following the above overview of ESG initiatives by Japanese financial institutions, this section will consider ESG investment and financing that contributes to the SDGs. The PRI has compiled a list of reasons for institutional investors to engage in the SDGs (Table 5). The list is written to show that consideration of the SDGs, similar to consideration of ESG factors, makes sense from the perspective of ascertaining the risks and opportunities of investments. However, "consideration" of the SDGs and "contribution" to the SDGs are two different things. The former is a process and the latter is an outcome, and international trends in ESG investment and financing are moving in the direction of the latter. Chapter 4 will conclude by raising three critical factors in making such contributions, from a standpoint suggesting investors and financial institutions should contribute to the objectives of the SDGs and the Paris Agreement.

Table 5: Reasons institutional investors should engage in the SDGs according to the PRI

Reason 1	The SDGs are a globally agreed sustainability framework
Reason 2	Macro risks: the SDGs are an unavoidable consideration for "universal owners"
Reason 3	Macro opportunities: the SDGs will drive global economic growth
Reason 4	Micro risks: the SDGs as a risk framework
Reason 5	Micro opportunities: the SDGs as a capital allocation guide

Source: PRI (2017) "The SDG Investment Case"

(1) Promotion of non-financial information disclosure

Disclosure of non-financial information is an absolutely essential prerequisite for engaging in ESG investment and financing. Although progress has been made as a result of various support measures by MOEJ and METI as well as through companies becoming signatories to the TCFD, many financial institutions are still facing issues with regard to information disclosure. In a questionnaire survey targeting asset management firms conducted in 2019 by METI, the number one barrier to consideration of ESG factors for asset management firms was found to be insufficient information disclosure on ESG by businesses (95%).⁶² While information disclosure is extremely important and must be prioritised, it is also important

to remember that it is the content included in this information that must be evaluated.

(2) Expansion of sustainable (green/social) financial products

The expansion of sustainable financial products is welcome because it increases sustainable investment options from the perspective of investors, and increases financing options for sustainable projects from the perspective of businesses. The green bond market has seen exceptional growth, both globally and in Japan, yet only accounts for under 2% of the global bond market as a whole (as of 2018), indicating further potential for market growth.⁶³

In recent years, an array of new financial products have been released. Still, a pathway to the continued expansion of the market must be established to ensure this trend is not temporary. Caution should be exercised to avoid the expansion of green financial products becoming an objective in itself. For instance, priorities are reversed if the definition of "green" is unnecessarily broadened in order to expand the market. These financial products must be examined in light of the primary objectives for expanding the market.

(3) Consideration of impact assessment

According to GSIA statistics for 2018, impact investing accounts for the smallest amount of the seven ESG investing approaches. Likewise, impact investing is not included as an independent item in JSIF's survey on investment balances in Japan. Unified standards for measuring impacts and evaluation methods are also unestablished. However, in the context of the "greenwashing" and "SDG washing" concerns being raised, the measuring of impacts and (ensuring) transparency are becoming regarded as important, and investors and stakeholders requirements are expected to increase in this regard in the future.

The PRI argues that responsible investment is shifting from processes and ways of doing business to actual impacts on societies and contributions to the SDGs, and that investment decisions should be made adding impact as a third factor, in addition to risk and return.⁶⁴ Recent initiatives include the UNDP's "SDG Impact" project, in which standards are being formulated to certify funds and projects that contribute to the SDGs. These standards are expected to be released in 2020.⁶⁵ As discussed in Chapter 3, UNEPFI has been examining how investors can manage fiduciary duty and sustainability impact duties. If legal hurdles can be cleared, impact investing is expected to become more mainstream as (an investor) "duty".⁶⁶

In the coming years, it will be critical to see if projects

⁶² Ministry of Economy, Trade and Industry (2019) "Questionnaire survey for asset management companies on ESG investing", <https://www.meti.go.jp/press/2019/12/20191224001/20191224001-1.pdf>

⁶³ Climate Bonds Initiative (2019) "Green Bonds: The State of the Market 2018" https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf

⁶⁴ PRI (2017) "The SDG Investment Case", <https://www.unpri.org/download?ac=5909>

⁶⁵ SDG Impact (2020) <https://sdgimpact.undp.org/#who-we-are>

⁶⁶ UNEPFI (2019) <https://www.unepfi.org/investment/legal-framework-for-impact/>

(labeled as) ESG or claiming to contribute to the SDGs, actually are what they are and do what they claim to do. Although there are a wide range of interpretations of the relationship between impact assessment and economic returns on the part of investors, at present, the trend is to view

solutions to environmental and social challenges as investment opportunities and in light of innovation. Expectations are high that impact assessment will be actively considered in investment and financing decision-making to contribute to realising the goals of the Paris Agreement and the SDGs.

Interview Highlights

(1) On promoting non-financial information disclosure

- ✓ Accurate ascertainment of the circumstances of the companies we invest in is a prerequisite for dialogue and engagement. Thus, increased disclosure of meaningful information by companies would lead to more in-depth analysis and understanding.
- ✓ The TCFD is merely a framework, so we would like to see more ingenuity on the part of companies in the methods and content of their information disclosure. While it is not necessary for disclosure to be uniform, it is important that best practices become more widespread.
- ✓ Just as there are international standards for financial accounting, information disclosed would be easier to understand if based on set rules. We ask the companies we invest in to base disclosure on frameworks that have become global standards (e.g. GRI, SASB, TCFD). Moreover, it is not enough for only leading companies to promote disclosure. Rules and/or regulations are needed to assure a more comprehensive participation of the entire investment universe.
- ✓ As investors, we view the EU taxonomy trend positively. However, from the standpoint of data providers, a lack of rules allows room for originality. Thus, some may view uniform standards in a negative light.

5. Yearly Comparisons of Initiatives on the SDGs

This chapter will take a look at the questionnaire survey targeting GCNJ member companies and organisations, in particular changes that have taken place compared to last year and the year before as well as ESG initiatives that are the focal point of this report. Further, trends among companies with sales exceeding 100 billion JPY, accounting for roughly two-thirds of total responses this year (122 responses), will be appropriately introduced. Table 6 shows the number of responses and response rates for each year. For new response options in question items, distinctions are made by the number of asterisks (*) placed next to the response (*one asterisk for 2016 new response options, **two asterisks for 2017 new response options, ***three asterisks for 2018 new response options, and ****four asterisks for 2019 new response options).

Table 6: Number of responses and response rate for questionnaire survey

	2015	2016	2017	2018	2019
Number of responses	134	147	163	180	186
Response rate	64.1%	63.1%	64.2%	62.7%	55.5%

5.1 Awareness on SDGs

This year showed another considerable increase in awareness on the SDGs among top management. Specifically, awareness level rose from 59% the previous year to 77%, equal to awareness level among CSR staff (Table 7). Moreover, growth was seen in awareness among middle management and employees, with awareness for middle management in particular increasing from 18% to 33%.

When companies with sales over 100 billion JPY are examined alone, an even higher figure is indicated for awareness among top management and CSR staff, at 84% and 86% respectively. Meanwhile, awareness among middle management and employees is 28.7% and 14.8% respectively, with figures falling lower than of those for total responses. These results suggest that because the scale of companies with sales exceeding 100 billion JPY is large, it takes longer for awareness to spread through the company.

Activities taking place within companies to raise the level of awareness also showed an increase for nearly all items, revealing the diligent efforts of many companies (Table 8). Of these, items that showed growth of over 10% compared to the previous year include employee training (including e-learning) (39 to 54%), communication on

website (44 to 56%), management training (24 to 35%), inclusion in corporate charter/code of conduct (5 to 15%), and distribution of promotional items, like SDG badges, to employees (27 to 45%).

Table 7: Level of awareness in organisations

Q. Please select the applicable status of SDGs awareness in your company/organisation (multiple responses)

	2015	2016	2017	2018	2019
Well known by CSR division	61%	84%	86%	84%	77%
Well known by top management	20%	28%	36%	59%	77%
Well known by middle management	4%	5%	9%	18%	33%
Well known among employees	—	—	8%	17%	21%
Well known across affiliated companies and other stakeholders	—	3%	2%	4%	7%
Do not know	15%	12%	7%	3%	2%

Table 8: Activities to raise awareness on SDGs

Q. What activities are in place to raise awareness on the SDGs in your company/organisation? (multiple responses)

	2016	2017	2018	2019
Training (including e-learning)	24%	31%	39%	54%
Communication on website	24%	31%	44%	56%
Communication in company newsletter (print media)	28%	40%	52%	61%
Message from the top	27%	40%	56%	65%
Launch of a specific organization	1%	2%	8%	13%
Orientation for new hires **	—	23%	36%	44%
Management training **	—	15%	24%	35%
Linked to performance reviews **	—	1%	2%	2%
Inclusion in corporate charter/code of conduct **	—	4%	5%	15%
Mentions at management policy explanatory meetings **	—	17%	32%	40%
Distribution of promotional items, like SDG badges, to employees	—	—	27%	45%
Promotional posters, etc. ***	—	—	10%	14%
Other	20%	21%	24%	54%
Nothing in particular	31%	15%	4%	1%

5.2 State of initiatives on the SDGs

For the question concerning progress on the SDG Compass, the most commonly referred to guidelines for engaging in the SDGs, responses for Step 1, "Understanding the SDGs", and Step 2, "Defining priorities", decreased (Step 1: 31 to 19%; Step 2: 28 to 26%). Responses for Step 3, "Setting goals", and beyond increased (Step 3: 17 to 26%; Step 4: 12 to 15%; Step 5: 12 to 14%) (Table 9).

For companies with sales exceeding 100 billion JPY, 10.7% remained on Step 1, while the other roughly 90% of companies had entered the implementation stage of engaging in the SDGs.

In a survey question for companies/organisations that reported progress in the steps of the SDG Compass compared to the previous year on the primary factors behind progression, a major increase was seen in "increased public awareness" and "change in awareness at the top", from 43 to 65% and 33 to 51% respectively. The increase in "signature on UN Global Compact" responses can be accounted for by a 36% response by companies/organisations with sales under 100 billion JPY, among which group signatures have recently been on the increase (Table 10).

Table 9: State of progress on SDG Compass

Q. Which step indicates current progress on the "SDG Compass"?

	2016	2017	2018	2019
Step 1 Understanding the SDGs	54%	43%	31%	19%
Step 2 Defining priorities	22%	28%	28%	26%
Step 3 Setting goals	11%	13%	17%	26%
Step 4 Integrating	9%	8%	12%	15%
Step 5 Reporting and communicating	4%	8%	12%	14%

Table 10: Factor behind progression of SDGs initiatives

Q. What was the primary factor behind progression of initiatives? (For 161 companies/organisations which reported progress in the steps of the SDG Compass compared to the previous year) (multiple responses)

	2017	2018	2019
Increased public awareness	37%	43%	65%
Improved information transmission from the UN Global Compact	13%	11%	13%
Change in awareness at the top	21%	33%	51%
Heightened activities of CSR division	36%	35%	39%
Actualisation of business opportunities	12%	11%	19%
Signature on UN Global Compact	9%	9%	16%
Other (please specify)	6%	7%	6%
Do not know	2%	1%	0%

Continuing from the previous year, companies/organisations selecting CSR staff in response to the question on the main actors in SDGs promotional activities fell in number (71 to 60%) (Table 11). On the other hand, increases were apparent for CEO, board of directors, management executive committee and management and planning division (CEO: 14 to 19%; board of directors: 6 to 9%; management executive committee: 6 to 16%; management and planning division: 25 to 38%).

Table 11: Main actors in SDGs promotional activities

Q. Who are the main actors in SDGs promotional activities within your company/organisation (multiple responses)

	2016	2017	2018	2019
CEO**	—	8%	14%	19%
Board of directors	2%	5%	6%	9%
Management executive committee	4%	8%	6%	16%
Management and planning division**	—	17%	25%	38%
CSR division	68%	77%	71%	60%
IR division**	—	7%	5%	12%
New business development**	—	2%	6%	6%
Business division	7%	6%	12%	13%
Cross-cutting projects**	—	7%	9%	8%
General affairs division****	—	—	—	2%
Legal division****	—	—	—	22%
PR division****	—	—	—	15%
Nothing in particular	12%	7%	15%	
Others	7%	12%	3%	

In a question on SDG-related partnerships over the past year, responses increased for partnerships with almost all stakeholder groups (Table 12). In particular, partnerships with employees (59 to 71%), customers (36 to 47%), suppliers (46 to 55%), shareholders/investors (27 to 33%) and local governments (37 to 45%) showed considerable growth.

Partnerships with local governments can be attributed to the progression of initiatives at the local level, such as the SDGs Future City initiative, and agreements between local governments and companies. Meanwhile, partnerships with consumers have stagnated. Changes in this area, in expectation of trends in ethical consumption, remain an issue to be addressed going forward.

For companies with sales over 100 billion JPY, partnerships with shareholders/investors rose to 45.1%, the only figure that exceeded those for total responses by more than 10%.⁶⁷

Further, in a question on information released or disclosed in the past year in which the SDGs are included, in continuation from last year, increases were observed in all main options. In particular, the responses "message from the top recognising issue", "reflection on priority issues/policies" and "declaration of SDG goals of focus" each showed a 10% increase (Table 13).

Table 12: Partnership in the past year

Q. In the past year, what stakeholder groups have you partnered with related to the SDGs? (multiple responses)

	2016	2017	2018	2019
Employees	53%	54%	59%	71%
Customers	36%	34%	36%	47%
Consumers	16%	18%	17%	17%
Suppliers	35%	38%	46%	55%
Shareholders/investors	15%	21%	27%	33%
Government/governmental organisations	30%	26%	34%	37%
(Domestic) Local governments**	—	26%	37%	45%
Foreign governments/local governments/governmental organisations	18%	20%	24%	21%
UN/international organisations	27%	26%	32%	30%
NGOs/NPOs	45%	42%	52%	47%
Academia	22%	23%	29%	31%
Other (please specify)	7%	5%	6%	9%
Nothing in particular	24%	23%	14%	6%

Table13: Inclusion of SDGs in information disclosure

Q. Of information released/disclosed over the past year by your company/organisation (including reports and online sources), how was SDGs-related information included? (multiple responses)

	2017	2018	2019
Expression of issue recognition by leaders	44%	62%	72%
Reflection on priority issues and policies	35%	51%	61%
Mapping of CSR activities	33%	57%	53%
Declaration of SDGs goal of focus	18%	27%	37%
Connections to business	28%	53%	60%
Announcement of launch of new project	5%	8%	10%
Other (please specify)	9%	6%	3%
No information included	28%	11%	8%

5.3 Future initiatives on the SDGs

In a question on plans for future initiatives, responses for "reflect on company's priority CSR issues" decreased for the third consecutive year, while those selecting "reflect on company's strategy and management plan" increased for the third consecutive year, in a turnabout for two options (Table 14). Responses for "discuss system/indicator for evaluation", "launch new project to contribute to SDGs" and "strengthen external collaboration and partnerships" also showed increases for the third consecutive year.

Table14: Future initiatives on the SDGs

Q. Q. What are your plans for future initiatives on the SDGs? (multiple responses)

	2017	2018	2019
No particular plans to make changes to current situation	9%	7%	10%
Launch of a specific organisation	1%	3%	3%
Launch new project to contribute to the SDGs	10%	18%	22%
Philanthropic activities related to the SDGs (donations, etc.)	4%	9%	9%
Reflect on company's priority CSR issues	63%	58%	47%
Reflect on company's strategy and management plan	48%	59%	68%
Strengthen external collaboration and partnerships	34%	46%	49%
Enhanced internal promotional activities	63%	69%	69%
Discuss system/indicator for evaluation	18%	25%	31%
Other (please specify)	3%	3%	3%
Do not know	3%	3%	1%

⁶⁷ Moreover, in a question asking about key partners, responses for "shareholders/investors" were 48% of total responses for companies/organisations. In contrast, this figure was 59% for companies with sales exceeding 100 billion JPY, a difference of over 10%.

5.4 ESG-related initiatives

Several questions on ESG, this year's topic, were also included in the survey questionnaire. A look at the results, separating companies with sales exceeding 100 billion JPY and companies with sales under 100 billion JPY, follows (Tables 15 to 19).

First, we will have a look at companies with sales exceeding 100 billion JPY. In a question on the priority level of ESG initiatives, over half selected "making a major priority", and when combined with "making a priority to some degree" responses, this figure rises to 92%. This shows that major corporations today recognise that ESG compliance is essential.⁶⁸ Concerning the details of initiatives, when responses for "actively engaged" and "somewhat engaged" are combined, roughly 80% of companies, or more, were engaged in or responding to engagement, risk analysis and understanding of ESG issues, strategy revision and information disclosure. Of these, active engagement was highest for information disclosure (44%), followed by strategy revision (30%) and engagement (37%), with a 10% gap.

For companies with sales under 100 billion JPY, responses on ESG initiatives for "making a major priority" were 19%, but when combined with "making a priority to some degree" rose to roughly 60%. When looking at the breakdown of types of initiatives, only 37% of companies are carrying out information disclosure, while roughly 50% have initiatives in engagement and strategy revision. A likely explanation of the low value for information disclosure is a number of companies/organisations that feel ESG initiatives are unnecessary because they are unlisted, or have no excess capacity to dedicate to them. Meanwhile, for the other three types of ESG initiatives, a certain level of implementation can be credited to overlapping as initiatives in sustainable business management.

Table 15: Priority level of ESG initiatives

Q. What level of priority does your company/organisation place on ESG initiatives? Please select one of the four options. (1. Making a major priority, 2. Making a priority to some degree, 3. Not much of a priority, 4. Not a priority) (required)

	1	2	3	4
Under 100 billion JPY (n=53)	19%	42%	26%	13%
Over 100 billion JPY (n=122)	56%	36%	7%	1%

Table 16: State of initiatives in engagement

Q. Please answer the following on the state of ESG initiatives in your company/organisation from the four options. (1. Actively engaged, 2. Somewhat engaged, 3. Not very engaged, 4. Not engaged)

* Question and response options below are the same through Table 19.

○ **Engagement** (e.g. dialogue with investors, dialogue with community members, dialogue with experts)

	1	2	3	4
Under 100 billion JPY (n=53)	9%	40%	32%	19%
Over 100 billion JPY (n=122)	37%	50%	13%	0%

Table 17: State of initiatives on risk analysis and understanding of ESG issues

○ **Risk analysis and understanding of ESG issues** (e.g. reexamination of supply chain, analysis and understanding of climate risks, governance system)

	1	2	3	4
Under 100 billion JPY (n=53)	6%	36%	42%	17%
Over 100 billion JPY (n=122)	35%	45%	18%	2%

Table 18: State of initiatives on strategy revision

○ **Strategy revision** (e.g. creation/revision of long-term goals, revision of business portfolio, reorganisation/restructuring)

	1	2	3	4
Under 100 billion JPY (n=53)	11%	42%	30%	17%
Over 100 billion JPY (n=122)	30%	48%	19%	3%

Table 19: State of initiatives on information disclosure

○ **Information disclosure** (e.g. compliance with CDP and TCFD, revision of contents disclosed and disclosure method, response to rating institutions)

	1	2	3	4
Under 100 billion JPY (n=53)	9%	28%	26%	36%
Over 100 billion JPY (n=122)	44%	39%	15%	2%

In addition, the question "How do you perceive/define the relationship between the SDGs and the promotion of ESG initiatives?" was asked with a free response option. Accordingly, diverse views were expressed on both the ESG and the SDGs, as well as on the relationship between the two. Responses seem to suggest that connections between initiatives on ESG and the SDGs are not well made within companies. A portion of these responses are shown below.

⁶⁸ This question refers to ESG initiatives in a broad sense.

Free responses to questionnaire (excerpts)

- We understand ESG to be concrete actions towards achieving the SDGs.
- We have defined the correlation between our company's materialities on ESG and the SDGs referring to the SDG Compass.
- The SDGs are goals for contributing to society through business, while ESG is foundational strength or the base of business activities.
- As shown in the GPIF approach, ESG is a framework for investors to evaluate the content of initiatives on the SDGs, and this is how we define these terms.
- We recognise that initiatives geared toward achieving the SDGs themselves are strongly connected to ESG initiatives. Moreover, we strongly dissent with the view that ESG is merely a way of dealing with investors and that emphasis should be placed on information disclosure. The business we practice is the prerequisite of the content of information we disclose, and therefore they must take place in conjunction.

5.5 Summary of survey results

The above discussion of survey results has examined yearly changes in the SDG-related initiatives of GCNJ member companies/organisations, and the state of initiatives related to ESG. The major changes seen this year include, more than anything, the awareness level of top management reaching the level of staff in charge of these issues. Likewise, more companies now consider the SDGs to be a genuine management issue. If these developments begin to reinforce each other, they could serve as a boost to initiatives on the SDGs, including raising awareness within companies and information disclosure. As discussed in the following chapter, companies with sales over 100 billion JPY are recognised as important partners, particularly by shareholders and investors, and have become the drivers of SDG-related initiatives.

As initiatives in the SDGs are advanced, evaluation of progress and establishment of indicators have become pressing issues. For finance as well, deliberation on these issues will need to ensure that SDG-related initiatives are appropriately evaluated in the context of ESG. This is particularly key for companies to maintain harmony between initiatives in the SDGs and ESG.

6. Initiatives on ESG and the SDGs by Companies in Japan

As discussed in the previous chapter, the ESG initiatives of companies in some cases refer only to responding to inquiries from investors and rating institutions, such as information disclosure, responses to surveys and engagement. In other cases, ESG initiatives include carrying out reforms to make business management more sustainable, such as the formulation of long-term goals and the creation of systems for concrete activities to contribute to the SDGs and the Paris Agreement. This report refers to the former as "ESG initiatives (narrow interpretation)" and initiatives that include both the former and latter as "ESG initiatives (broad interpretation)" (Figure 5).

Depending on the company, ESG initiatives in the broad sense are called CSR management, CSV management, SDGs management, ESG management and so on. In this report, these are referred to collectively as "sustainability management". Aspects of the broad interpretation of ESG initiatives (corresponding to sustainability management), excluding those in the narrow interpretation, were also examined in the previous year's reports and can serve as a reference.⁶⁹

This chapter will first discuss the views and awareness of companies on ESG/SDGs/CSR. Next, we will examine the current state of affairs and introduce the results of interviews concerning long-term goal setting, strategies and company-wide awareness raising, and building structures for carrying out initiatives, viewed as essential to ESG initiatives in a broad sense (corresponding to sustainability management). Lastly, we will examine the current state of affairs and introduce the results of interviews concerning information disclosure, engagement and financing for sustainable projects as aspects of ESG initiatives in a narrow sense.

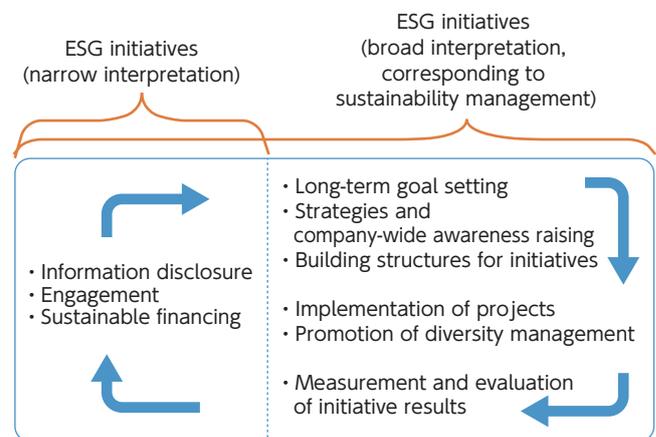


Figure 5: Broad and narrow interpretations of ESG initiatives

6.1 Approaches to ESG, the SDGs and CSR

Terms such as the SDGs, ESG and CSR are interpreted and used in a variety of ways depending on what points companies want to emphasise and the audiences they target.⁷⁰ These differences are also expressed in management policies, the set-up of departments and positions in charge of these issues, and in the naming of relevant reports.

Nevertheless, a commonality can be seen in companies engaging with the SDGs and ESG issues. These companies recognize the risks (physical, legal and reputational) and opportunities which can be identified within the issues as presented by the SDGs and or ESG factors (can) have a definitive impact on (future) business operations and performance. With such recognition, these companies aim to contribute to realizing sustainable societies through enhancing and preventing the erosion of corporate value. In addition, the SDGs are utilised as a communication tool when engaging with customers, employees and other companies, and companies are making efforts to raise their ESG ratings.

⁶⁹ In particular, the "SDGs and Business for the Future" report from year before last examined the following six areas for establishing the perspectives of the SDGs and sustainability in business management: (1) Philosophy (corporate philosophy and vision); (2) Leadership; (3) Strategy (medium and long-term management plan and goal setting); (4) Structure (CSR division and executive committee); (5) System; and (6) People (understanding of middle management and business units). These areas are highly compatible with areas examined in this report.

⁷⁰ In general, ESG is the perspective from which financial institutions and investors are evaluating companies and CSR is corporate responsibility to society, while CSV refers to the co-creation of economic value and social value based on providing solutions to social problems via business activities. The SDGs are global goals to be achieved based on the efforts of all stakeholders.

Interview Highlights

- ✓ ESG and the SDGs represent the demands of society to which businesses must respond, and this response is linked to decreasing future risks as well as enhancing corporate value. The SDGs have helped our company make course corrections by becoming aware of issues faced and reconfirming our policies.
- ✓ We end up engaging in SDG washing because we do not truly understand the value of the SDGs.
- ✓ ESG is a yardstick by which investors assess corporate value, and the SDGs are a tool for visualising the social significance of a company's business activities. Many aspects of both are overlapping, and promoting initiatives in the SDGs is linked to improved ESG ratings.

6.2 ESG initiatives in the broad interpretation (corresponding to sustainability management initiatives)

(1) Long-term goal setting

As mentioned in Chapter 2, the report on global risks released annually in conjunction with the World Economic Forum indicates that awareness of environmental risks has increased. Japanese companies are particularly cognisant of climate change, and actions on long-term goal setting towards achieving decarbonisation have become more dynamic. These include participation in international initiatives like SBT and RE100. In Japan as well, the Japan Business Federation has called upon companies/organisations to formulate long-term visions and launched the Challenge Zero concept.⁷¹

Initiatives such as these correspond to the outside-in approach of the SDG Compass and are headed in a good direction. Yet, the number of Japanese companies whose long-term visions are limited to qualitative descriptions like slogans are not few. Meanwhile, actions within international initiatives such as SBT and RE100 require scenario analysis and creation of roadmaps, making companies indicate more concrete attainment goals and forecasts on how to achieve them. Although long-term goals are often said that it should be the ideal or outcome to be aimed for, rather than must-achieve targets, the indication of outlooks that meet the standards of international initiatives are evaluated higher and more trustworthy from an ESG perspective. Companies that cooperated in interviews also noted the opinion that, aside from evaluation, long-term goal setting led to changes in awareness on job sites and expanded networks.

SBT is often given as a representative example of the outside-in approach. There has been a movement in recent years to expand science-based target setting to other areas such as water, biodiversity, land and oceans, not only reduction of greenhouse gases. This movement is

led by the Science Based Targets Network in which over 20 organisations participate, including CDP, UN Global Compact, SDSN, Future Earth, World Resources Institute, WWF and WBCSD. A guide has already been released on water.⁷² Moreover, the Future-Fit Business Benchmark, also listed as an example of the outside-in approach in the SDG Compass, is used in the e-learning course "Academy" and also mentioned in other reports by the UN Global Compact. The number of companies utilising this tool is gradually increasing (Column 2).

The SDGs are global goals formulated based on an awareness of planetary boundaries, as well as poverty and human rights issues. SBT and Future-Fit demonstrate methods for business management and goal setting premised on not exceeding these planetary boundaries. Going forward, the call for companies to engage in ambitious science-based responses is expected to become even greater.

(2) Strategies and awareness raising

In order to achieve long-term goals, companies will be required to review business portfolios, identify materialities, set KPIs, make structural adjustments for implementation, promote understanding among employees and strengthen relationships with suppliers and stakeholders.

Interviews revealed that in the process of formulating mid-term management plans and action plans, many companies carried out backcasting from their ideal future image to deliberate on what to do over five- or ten-year periods. As a part of this process, companies were setting up forums to collect opinions from employees and managers with a view to identify materialities and set KPIs that incorporate a bottom-up perspective as well as ensure awareness raising among middle management and employees whose low level of awareness has been an issue. Companies engaged mainly in business in Japan, while premising initiatives on the goals and plans of the Japanese government and local governments, were concerned about how far they should go in setting KPIs that took future overseas expansion into consideration.

Business-to-customer (B2C) companies were working to

⁷¹ For example, 794 companies around the world, including 86 Japanese companies, have declared they will take action in the SBT initiative (as of February 2020). Further, 97 companies/organisations have formulated and released long-term visions in response to the Japan Business Federation's call, and 166 companies/organisations have begun deliberations (as of the end of December 2019).

⁷² For details, see the Science Based Targets Network website (<http://sciencebasedtargetsnetwork.org/>).

spread awareness internally based on a strong recognition of the risk of being unable to change and survive as a company without each and every individual on the job taking action, while as a matter of course deliberating on strategies that factored in consumers in Europe, North America and Asia. Business-to-business (B2B) companies also sensed the risk of not being able to bring in young human resources without contributing to sustainability. For these reasons, several companies were holding trainings at the division manager/director level.

(3) Building structures for initiatives

When it comes to building structures for initiatives, attention is usually called to the election and compensation system of board members in the context of ESG evaluation, but the responsible departments play an important role in carrying out the ESG initiatives.

The survey results discussed in Chapter 5 show a trend to integrate sustainability initiatives into management, and in some cases responsibility for the SDGs is being shifted to corporate planning. For example, some companies are not only formulating visions and ESG strategies, but have also set up departments to take charge of sustainability issues to ensure these visions and strategies are practiced. Furthermore, in some cases companies are establishing top decision-making bodies on sustainability management operating under the board of directors to

facilitate decision-making at the management level, with committees set up subordinate to these bodies comprised of staff in charge of sustainability to manage progress on initiatives.

However, this is not to say that all companies should allocate responsibility for the SDGs to the corporate management department. Certainly, there are a variety of structures that can be set up according to the characteristics of the industry and the respective strategies and situations of companies. Companies may indeed opt to place emphasis on the true meaning of CSR and not make any quick decisions on changing the name of departments. In any case, changing department names in order to not fall behind recent trends could potentially lead to a misinterpretation of the substance of the SDGs and ESG.

There are a variety of operating procedures available other than setting up special departments. These include the facilitation of decision-making and integrating perspectives based on review of directors in charge, electing external board members well versed in sustainability issues, and facilitating communication based on reduction of the physical distance between relevant departments. Regardless of the adopted approach, structuring must be firmly based in a company's objectives.

Column 2: A KPI tool to measure progress on initiatives in ESG and the SDGs

Future-Fit Business Benchmark

The Future-Fit Business Benchmark (latest version: Release 2.1) is a tool developed by the UK-based Future-Fit Foundation following multi-year discussions with scientists, private business and investors aimed at enabling individual businesses to practice the four principles of sustainability⁷³ advocated by The Natural Step, an international NGO. Internationally, leading companies in ESG and the SDGs, such as Maersk, a marine shipping company aiming to achieve carbon zero by 2035-2040, as well as The Body Shop, Novo Nordisk and Hermes, an investment company, are utilising this tool.



The Future-Fit Business Benchmark, also discussed in the SDG Compass, lays down sets of imperative goals that were determined through backcasting from the ideal nature of a company in an ideal sustainable society of the future based on the natural and social sciences. The most remarkable feature of the Future-Fit Business Benchmark is the KPI tool, which is not based on comparisons with current best practices or other companies in the same industry, rather elicits actions required to ensure the sustainability of the planet and human beings. Moreover, because the tool can be used by any company to set social and environmental commitments and monitor progress, it does allow for comparison among businesses on progress. Of course, it also enables a company to compare its state of progress with its own previous situation. The tool is not only geared to the SDGs, but is useful for ESG as well, including TCFD reporting.

The Future-Fit Business Benchmark is based on the view that the existence of a company must first and foremost wield no negative impacts on humanity or the planet in order to realise an ideal future. To do so, all companies, regardless of industry or product, are required to at the very least take action on 23 Break-Even Goals in the following four categories: "foster wellbeing", "respect nature", "optimise resources" and "strengthen society". The term "break-even" does not refer to goals in an economic sense, rather the threshold of businesses' social and environmental performance. The benchmark also indicates 24 "Positive Pursuits". These include actions that support the achievement of Break-Even

⁷³ The four principles of sustainability are: (1) nature is not subject to increasing concentrations of substances extracted from the earth's crust; (2) nature is not subject to increasing concentrations of substances produced by society; (3) nature is not subject to degradation by physical means; and (4) in society there are no structural obstacles to people's needs being met (specifically regarding health, influence, competence, impartiality and meaning) (see <https://www.bcon.jp/keywords/4rule/>).

Goals on the part of other companies. The benchmark contends that positive impacts rarely offset negative ones, and does not recommend implementing Positive Pursuits alone. Accordingly, companies are to prioritise taking action on the 23 Break-Even Goals.

Each Break-Even Goal has one or more indicators, with level of attainment calculated as a percentage. For instance, for the goal "energy is from renewable sources", the "energy consumption from renewable sources (ER)" out of "total energy consumption during reporting period (ET)" is calculated as a percentage (ER/ET).

To promote use by as many companies and investors as possible, Future-Fit is available free of charge. In Japan, Business Consultants, Inc., has released a translated version online and offers a consulting service to help businesses make use of the tool.

English URL: <https://futurefitbusiness.org/resources/>

Japanese URL: https://www.bcon.jp/news/topics_news/future-fit/

Interview Highlights

(1) On long-term goal setting

- ✓ The influence on our group of announcing SBT certification has been highly significant. We felt positive developments in initiatives including formulation of plans conscious of SBT.
- ✓ Long-term goals are absolutely necessary for ESG investing, and short-term action plans, scenarios and concrete plans must be used to explain what will be done in the next five years.
- ✓ Short-term profits are looked at when creating medium-term plans, but it is more convincing to explain earning these profits from the perspective of backcasting. Forecasting of short-term profit and loss alone does not lead to constructive debate.

(2) On strategies and awareness raising

- ✓ Our basic position is that trade-offs cannot be made on laws and compliance.
- ✓ Our initiatives in environmental protection and human rights have progressed in recent years by engaging together with relevant internal departments based on an understanding of the demands of ESG.
- ✓ We have nearly 10,000 companies in our supply chain. We are engaged in earnest deliberations on how to create relationships based on mutual prosperity. Further, we are strongly conscious of Generation Z whose members will become our main consumers after 2030.
- ✓ At present, we need to determine our KPIs focused on domestic business. We are experiencing a dilemma on how to include the overseas business that we intend to focus on in the future.
- ✓ A working group made up of 120 volunteer employees recruited group-wide deliberated on actions to be taken to achieve "our ideal for 2030" using backcasting and made recommendations for an action plan.
- ✓ We have spent two years conducting training for division managers and directors who are in a position to take action based on long-term plans. If we wait ten years to start thinking about these issues, it will be too late.

(3) On building structures for initiatives

- ✓ In order to promote initiatives from a more organisational approach, we transferred responsibility for sustainability issues from our general affairs and human resources divisions to a specialised department.
- ✓ We previously had a separate corporate planning office, CSR office and environmental division. We set up a group management strategy office comprised of departments in charge of ESG, business operations, corporate planning and innovation. One person serves as both head of office and director, thereby facilitating communication between departments. The name of our CSR committee, also administered within this office, was left unchanged to continue to address the issue of social contribution.
- ✓ Our environmental management committee was expanded and reorganised into an EHS management committee. The committee's office, previously administered by our CSR division, is now administered jointly by the CSR and human resources divisions. In 2017, we defined our policy on global health initiatives in our mid-term management plan and launched a global health team in our CSR division to carry out more unified projects on global health.
- ✓ We have a sustainability division (combined with ESG promotion division), IR division and public relations office. The sustainability division began as our CSR promotion division and was later reorganised. Our IR division was formerly part of the finance division, but was set up as an independent division based on advice from investors.

6.3 ESG initiatives in the narrow interpretation

(1) Information disclosure, engagement

It goes without saying that information disclosure and engagement are essential to ESG initiatives in the narrow sense of the term. Similar to building structures for initiatives, the media used for and the objectives of ESG information disclosure vary by company (Table 20).⁷⁴ Although there has been a rapid increase in the last few years in the number of companies issuing integrated reports⁷⁵, still other companies do not see an issue with not issuing integrated reports. In addition to integrated reports and databooks, some companies have issued reports on individual issues, such as health-oriented or diversity management, and others have released information separately, for instance on factories, in order to be prepared for inquiries from the media.

Table 20: Instruments and main objectives for information disclosure

Company A	Integrated report (financial and non-financial information pertaining to management strategy), SDGs databook (comprehensive information on ESG and the SDGs), SDGs booklet (digest version of databook)
Company B	Website (detailed information), sustainability report (abridged for diverse stakeholders), databook (for investors)
Company C	Integrated report (for investors), website (detailed information, ESG data), environment databook (information from integrated report and environmental data of website and supporting information)
Company D	Integrated report, vision book, co-creation wellness report, ESG databook, website

As noted in Chapter 3, although the various tools for information disclosure, such as GRI, SASB and TCFD, can be confusing, companies were using different tools for different purposes according to the recipient and objective of the information. Of companies subject to interviews, none mentioned any confusion (although the complexity was noted).⁷⁶ Furthermore, companies noted

difficulties early on reading into the intent of questions and information collection on the surveys of rating companies, but reported that their understanding deepened as they repeated the process. While some companies did mention some within the company responded negatively or with discontent to information disclosure and or to the additional burden of data collection, they did note that understanding on disclosure improved when high ratings were achieved, and that they were working to further understanding and to promote internal cooperation. On the subject of engagement, in some instances, companies were favorably inclined to accept advice from investors and were applying it to improving their initiatives.

There are many technical aspects to information disclosure, requiring a sizeable effort to obtain high ESG ratings. Every year, GPIF, WICI Japan, MOEJ and Nikkei announce award-winning and highly-rated reports. Moreover, the Institutional Investors Collective Engagement Forum sends out letters that explain the mindset of investors on agendas set by ultra long-term investors and include concrete requests for companies.⁷⁷ The quality of reports issued by companies is expected to improve as they refer to the content of such featured reports and the opinions of investors and experts on these awards, ratings and requests.⁷⁸

Meanwhile, investors and rating agencies also face many issues in relation to corporate information disclosure and engagement. Examples given in interviews include a lack of understanding of industry and business models, unclear logic for and definitions of impacts, and work burdens. Companies and investors/rating agencies should work together to deepen mutual understanding and make improvements on these issues.

(2) Financing for sustainable projects

As discussed in Chapters 3 and 4, ESG initiatives in the form of financing with green and sustainability bonds has been steadily growing. As financing based on such bonds includes the burden of external review costs, some companies felt they were not realistic without subsidies. Meanwhile, some companies expressed their intent to implement initiatives even without subsidies in order to broaden the range of their financing and investor base, or to demonstrate their management stance on sustainability issues both externally and within their companies.

⁷⁴ For example, Disclosure & IR Research Institute Ltd. explains that roughly 30% of companies release an integrated report alongside their CSR reports, which are used for investors and stakeholders in a broad sense respectively. https://rid.takara-printing.jp/res/report/uploads/2019/02/190220_report-csr_report.pdf

⁷⁵ Although there are various points of view on what should be deemed an integrated report, the Corporate Value Reporting Lab reports that only 16 companies issued integrated reports in 2009, with this number rising to 513 in 2019. http://cvrl-net.com/archive/pdf/list2019_202002.pdf

⁷⁶ GPIF has released a report on the significance of each tool. For details, see "Study of ESG Information Disclosure", https://www.gpif.go.jp/investment/research_2019_full.pdf

⁷⁷ Institutional Investors Collective Engagement Forum website, <https://www.iicf.jp/>

⁷⁸ GPIF (2019) https://www.gpif.go.jp/investment/20200207_integration_report.pdf
WICI Japan (2019) <https://www.wici-global.com/wp-content/uploads/2019/11/201911074789289.pdf>
MOEJ <https://www.env.go.jp/policy/j-hiroba/report.html>
Nikkei <https://adnet.nikkei.co.jp/a/ara/index.html>

Interview Highlights**(1) On information disclosure and engagement**

- ✓ Investors these days work hard to engage in communication. They ask questions about a wide range of issues and give advice, for which we are extremely grateful.
- ✓ We have been putting a lot of effort into engagement. By ardently engaging in dialogue with rating agencies and investors, we have developed an understanding of the questions they ask. As a result, we have seen improvements in areas where our responses were insufficient and scores were low.
- ✓ The range of ESG-related topics is extremely broad, and areas of interest are varied according to the rating agency or person in charge. Determining what areas of focus are effective for disclosure is difficult.
- ✓ The impact of ESG evaluation on stock prices should be made clearer. We have problems with the burden of the enormous amount of survey responses and some questions are undefined. When information disclosure is requested on new topics with a certain amount of freedom in interpretation, sufficient guidelines should be provided.
- ✓ Content requested differs by investor and rating agency. In some cases, points are made from a 180-degree difference in perspective.
- ✓ When management is committed, or a company is selected for DJSI, employees know about it. On top of that, if issues involving the entire supply chain, such as human rights, are also communicated, understanding is deepened. The values and passion of separate divisions is important.

(2) On sustainable financing

- ✓ We practice ESG management. In our financial affairs, we intend to expand the range of fundraising and investors. We heard from a securities company we commission that more investors are raising their hands for us than before. For investors as well, awareness of sustainability and the SDGs makes it easier to invest.
- ✓ I once heard a negative comment on social bonds from someone in a financial institution. Our view of social bonds is that the returns are small in contrast to the work they require, and we feel it is still too early for our company to start utilising them. When we estimate the workload required to collect and provide environmental information, there are not enough benefits of appealing by this kind of bonds.

6.4 ESG initiatives for the SDGs

The discussions in this chapter were based on interview results focused on companies actively addressing the SDGs, particularly those engaged in information disclosure that has been rated highly on a global scale, including selection for DJSI. Most had not only set long-term goals, but had also committed to TCFD and set targets based on SBT at an early stage, and were making efforts to indicate pathways consistent with scientific information. These companies are creating a cycle for skillful utilisation of information disclosure and engagement leading to improved sustainability management in their companies, and they are striving to strengthen ties between business units and employees or between suppliers and consumers within these processes. Nevertheless, these companies mentioned a range of issues faced as they grappled to advance initiatives, as well as the huge burden involved in carrying out ESG initiatives, whether in the broad or the narrow sense.

As initiatives by companies in ESG and the SDGs overlap in many areas, this chapter does not make a clear distinction between the two. However, there is some value in stopping to take a look at the targets of information disclosure. For information disclosure in ESG

investing, companies are required to provide information requested by investors and information that will assist investors in investment decision-making. Specifically, companies must convincingly demonstrate the role of ESG and SDG elements in enhancing medium- to long-term corporate value, how these impact the sustainability of corporate business models and the feasibility of strategies, or how they can be translated into a competitive edge. On the other hand, the SDGs are relevant to business management in its entirety. While they may not necessarily appear attractive from an investment perspective, the SDGs represent the vital role companies play, and must play, a role that is essential for the sustainability of the environment and society, including from the perspectives of employees and local communities. Generally, SASB, IIRC and METI's Guidance for Collaborative Creation are geared to investors, while GRI is considered a framework for information disclosure geared to a broader range of. In Japan, some studies have shown that multistakeholder-oriented information disclosure is more common, and sufficient information is not provided from an investor perspective.⁷⁹ Companies must engage in thorough deliberations to determine what type of information they will disclose, for what purpose, and by what method.

Aside from climate change and human rights issues, the public's interest is also expanding, including factory

⁷⁹ Examples include the "2018 Integrated Report: Materiality" by Edge International (http://www.edge-intl.co.jp/library/s2019_17.html), and "Initiatives in 'stock market revitalisation' and 'realising sustainable societies' through the asset management of life insurance companies" by The Life Insurance Association of Japan (https://www.seiho.or.jp/info/news/2019/20190419_3.html).

farming issues and methods of producing down feather, used as material in down jackets, with minimal animal suffering. Topics of interest to stakeholders, including investors, are constantly changing, making it essential for companies to remain alert to information both in Japan and coming from around the world.

Lastly, another issue raised in interviews that was not addressed in this chapter is the lack of progress on ESG investing in corporate pension funds. It is our hope that corporate pension funds, as asset owners, will more actively promote ESG initiatives alongside GPIF, to keep pace with ESG initiatives and contributions to SDGs being advanced by the companies themselves.⁸⁰

⁸⁰ Although 23% of corporate pension funds showed a willingness to engage in ESG investing, only 5% actually are. (Nikkei "Study shows 20% of corporate pension funds 'willing to engage in ESG investing'" (<https://www.nikkei.com/article/DGXMZO36473540U8A011C1NN1000/>).

7. Conclusion

In the final chapter, we will take a look at how financial institutions and companies can strengthen their ESG and SDGs efforts to achieve the SDGs by 2030 and realise sustainable societies in the future. The expected future trends including the perspectives of governments and consumers will be discussed.

Maintaining a prudent sense of crisis based on science

The starting point must be an awareness of the critical situation the world is in today. Chapter 2 discussed worsening environmental challenges such as those of climate change and biodiversity, and growing inequality and disparities in both developed and developing nations. We have gone off-track of the pathways to achieving the SDGs and have fallen behind on several goals. Merely professing to have "referred to the SDGs in defining materialities" or "addressed SDG number x" does not tell us whether the work that is required to achieve the SDGs is being done. Companies are now being asked about their "level of commitment" to confronting the SDGs head-on, the key to which is responding to the demands of science.

Bolstering ESG initiatives by financial institutions

Chapter 3 confirmed that ESG investing is on the rise, and that investing approaches and financial products are diversifying. For companies, enhancing corporate value is the primary objective for taking ESG factors into consideration. Yet, a distinction must be made between consideration of ESG factors and the level of contribution to international objectives such as the SDGs and Paris Agreement, both closely related to ESG. Relevant to this concern, Chapter 4 argued that impact assessment must be actively considered in investment decisions henceforth. UNEPFI is currently examining fiduciary duty and sustainability impact duties, and based on a similar awareness of this issue, UN Secretary General Guterres has stated that fiduciary duty must be updated to include a broader perspective on sustainability.⁸¹

Moreover, in the climate change area of EU taxonomies, economic activities are classified according to consistency with achieving the goal of net-zero emissions by 2050. Strict standards are applied that even exclude hybrid vehicles. While differences in approach are evident depending on the country or region, from the standpoint

of reacting to the demands of science, Japan may also need to create standards or adopt price signals to judge compatibility with the 1.5/2°C target and the SDGs, including for transition technologies.

Augmenting initiatives in ESG and the SDGs by companies

Chapter 5 noted that the number of companies engaging in SDG-related initiatives as a management issue is on the increase. For companies, there are two sides to initiatives in the SDGs: one is their responsibility to address various environmental and social issues, and the other is their response to the risks and opportunities these issues represent for business management. In practice, companies will be increasingly called upon to ascertain the extent of their impacts, including that of their supply chains, and also to incorporate an outside-in perspective. Utilisation of the Science Based Targets Network and Future-Fit Business Benchmark introduced in Chapter 6 could be options to consider.

Governments, local governments, consumers and individual investors as driving forces

Quite a few financial institutions and companies mentioned in interviews that government policies at the national and local level were a reference point for company policies and target setting. Yet, major criticisms at COP25 of the Japanese government's climate change policy and handling of coal-fired power generation are still fresh in people's minds. Moreover, the revised SDGs Implementation Guiding Principles do not describe any concrete targets that Japan is working to achieve.

A look at the most robust examples of ESG investment and financing initiatives shows that, in most cases, ambitious target setting for addressing social issues exist on the part of relevant countries or companies.⁸² When objectives are ambitious and the roadmaps to achieve them are indicated in a way that is consistent with scientific knowledge, ESG investment and financing and increase of sustainable financial products will be facilitated.

It is also important for individuals to raise their awareness and take action as consumers or individual investors. For example, research results show that roughly 70% of the carbon footprint arising from the lifestyle of an average Japanese person is attributed to the areas of "food",

⁸¹ UNSG (2019) "Progress toward sustainable development is seriously off-track" <https://www.un.org/sg/en/content/sg/articles/2019-11-04/progress-toward-sustainable-development-seriously-track>

⁸² Morishita, Maiko; Shimizu, Noriko & Mori, Naoki (2019) "Sustainable Finance in Japan: Initiatives and Issues" <https://www.iges.or.jp/en/pub/cop25financecommentary/ja>

⁸³ Koide, Ryu; Kojima, Satoshi & Watanabe, Atsushi (2020) "1.5°C Lifestyles: Targets and Options for Reducing Lifestyle Carbon Footprints" (Japanese summary) <https://www.iges.or.jp/en/pub/15-lifestyles/ja>

"housing" and "transportation".⁸³ In a study targeting individual investors, respondents who selected the "consideration for environmental contribution and social responsibility" as a response in a question regarding important factors when purchasing investment trusts, were a mere 3.5%.⁸⁴ It is strongly advisable to rethink lifestyles and the use of money on the individual level, and in so doing send a message to financial institutions and companies.

In closing

Going forward, the relationship between ESG and the SDGs must be further strengthened and linked to ambitious initiatives with a sense of urgency that will produce high returns in multiple meanings of the term. For better or worse, the future depends on the consequences of each and every person's daily choices. We hope that this report will serve to support the next step forward.

⁸⁴ Japan Securities Dealers Association (2019) "Attitude survey on the securities investments of individual investors [online survey] (summary)" <http://www.jsda.or.jp/shiryoshitsu/toukei/2019kozintousikaishikichousa.pdf>

*URLs included in this report were active as of the time of writing.

Annex: Interviews & Initiatives on ESG and the SDGs by Companies



Network Japan



Annex 1. Featured Interview

- Hitoshi Ochi, President and CEO, Mitsubishi Chemical Holdings Corporation

Annex 2. Example Initiatives of Financial Institutions on ESG and the SDGs

- Kamakura Investment Management Co., Ltd.
- Shiga Bank
- Daiwa Securities Group Inc.
- Nissay Asset Management Corporation
- Government Pension Investment Fund (GPIF)
- Mizuho Financial Group, Inc.
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- Mitsubishi UFJ Financial Group, Inc.
- Resona Bank, Limited

Annex 3. Example Initiatives by Operating Companies on ESG and the SDGs

- Obayashi Corporation
- Kao Corporation
- Daiichi Sankyo Company, Limited
- Takashimaya Co., Ltd.
- Fast Retailing Co., Ltd.
- Marui Group Co., Ltd.
- Mitsubishi Estate Residence Co., Ltd.

*The SDGs-related initiatives described were compiled by the authors of this report based on the content of interviews. For a more comprehensive explanation of initiatives, please refer to the respective websites of companies.

Contributing solutions to social issues based on the KAITEKI management with long-term perspective



Hitoshi Ochi

President and CEO, Mitsubishi Chemical Holdings Corporation

Our management philosophy, vision and domain

Faced with numerous issues ranging from climate change, resources and energy, and unequal distribution of water and food, to burgeoning medical expenses in our aging society, our company developed the "Realising KAITEKI" vision, based on our intention to provide innovation-based solutions according to the three core values of Sustainability, Health, and Comfort. "KAITEKI" refers to "the sustainable well-being of people, society and our planet Earth," sometimes shortened to "sustainable well-being".

Sustainability

Contributing to the well-being of our planet Earth while achieving a sustainable corporation and a sustainable global environment.

Health

Answering people's medical needs, and supporting disease treatment, pre-symptomatic healthcare, health maintenance, and healthy activity.

Comfort

Ensuring the well-being of society and building safe, secure, comfortable lifestyles through improved quality of life as well as diversifying values and lifestyles.

The Three Core Values of KAITEKI Management

The context for KAITEKI management

Our "Project 10/20" that we launched in 2006 is the origin of KAITEKI management. In early 2000, when Japan's economy was doing poorly, we were focused on the immediate future and cutting back on any business that was not profiting. Before long, we realised that we had neglected to engage in management from a medium- to long-term perspective. For this project, we deliberated on the ideal state of our company in 10 years while hypothesising the state of the world in 20 years. Also at the time, the corporate value of diversified chemical corporations was not accurately understood. While the range of our business is very broad, we believe one reason for this lack of understanding arose from the fact that we had not clarified our significance as a corporation. Thus, we also examined what the proper role of a chemical company should be in the world.

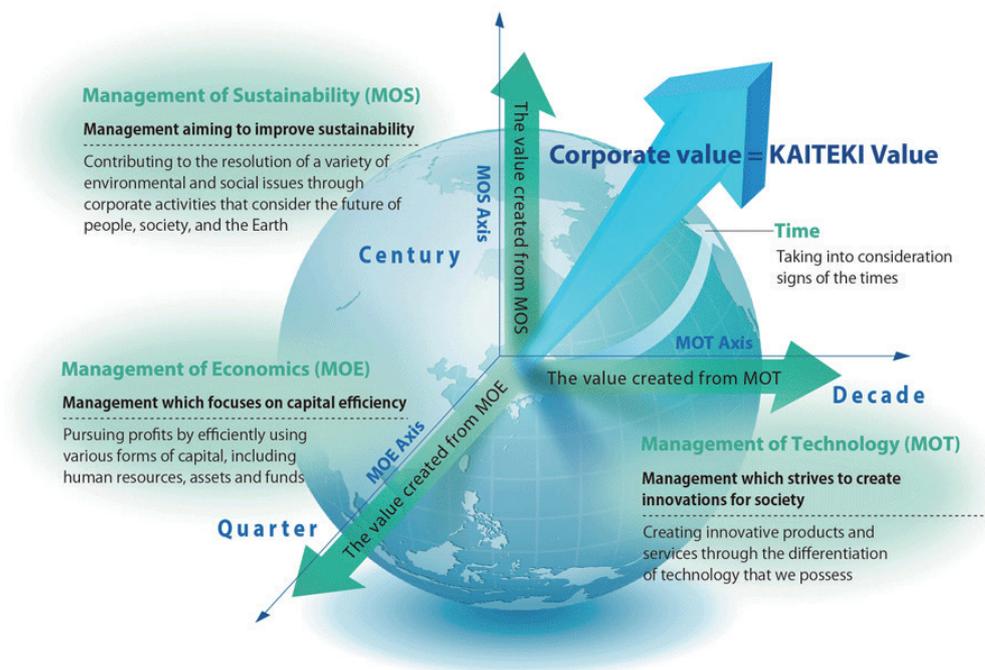
As we considered the future of our company, we made a list of issues, including the global environment, resources and energy, water and food, and humanitarian issues, and thought about how each of our areas of business could make contributions. When we came across the term "sustainable development" coined by the Brundtland Commission, we decided to incorporate this concept into our management policy.

In 2009, I participated in the second of GCNJ's "Management Leadership for Tomorrow" (known as AKK) seminars, and I found the discussions extremely helpful. CSR is interpreted in various ways these days, from "good company management" to "donating and volunteering", but I agreed with what Mr. Toshio Arima, the Chair of GCNJ's Board was saying—that CSR is "providing solutions to societal problems through our businesses". I came to believe that, essentially, that is indeed what CSR is all about.

As we began to explore what we could do through our business, we realised that we were contributing to social value creation in the areas of sustainability, health and comfort with our wide range of outstanding products, technologies and management bases. By explaining this, we could promote awareness and understanding of our corporate value.

Yet, contributing to sustainability and comfort does not alone enhance corporate value. Companies must elevate their earning power, and to do this, technology is essential. Accordingly, the aim of KAITEKI management became clear—to enhance our corporate value by establishing integrated practices on three axes—sustainability (MOS), innovation (MOT) and resource efficiency (MOE).

We launched KAITEKI management in earnest in 2011. In order to communicate the difference between corporate value based on KAITEKI and conventional CSR, we created the KAITEKI Promotion Office within the Management Strategy Department at Holdings and subsequently established a post in charge of promotion at each of our operating companies. From there on, the Management Strategy Department took the lead in promotion, going around to plants and branch offices like missionaries working to get people to understand our message. We also focused considerable effort on quantification, so that people could see our KAITEKI corporate value. Previously, we had collected data mainly for the purpose of complying with laws and regulations and had not compiled data, such as the effectiveness of our environmental measures and resource conservation. There was some resistance to the additional



Enhancing corporate value through KAITEKI Management

burden of collecting and analysing data. So, we began by compiling statistics for major items only and using these as indicators, spending about three years to get this process thoroughly instilled in the company.

Meeting the demands of the SDGs and ESG

When the SDGs were formulated in 2015 and private companies were designated as key players in their implementation, investors became oriented by PRI. In recent years, evaluation based on ESG investment has progressed, and companies and investors have become linked in a virtuous cycle with sustainability as a keyword. In other words, two mechanisms began to function in parallel—the investors supporting companies clarify evaluation standards for "E", "S" and "G", and the companies engaged in activities take action with these standards in mind.

The environmental, social and people's issues illustrated by the SDGs also reveal both risks and opportunities for companies. Climate change and plastic waste are major risks in the management of our company. For instance, discussions on carbon taxes are emerging, making it imperative to reduce use of fossil fuels, and there is also a trend to do away with plastics together. Meanwhile, most of the material used in products that contribute to reducing greenhouse gases is chemical. Also, we recognise that chemicals are central to the solutions required to realise a sound material-cycle society with reduced disposable plastics.

We are also at a turning point in how humans approach their work. As the rapid development of technology changes the nature of the tasks we perform, people are finding it harder and harder to gain a sense of satisfaction from their work. Meanwhile, the standards by which young people choose their employers are changing with more focus the social contributions of companies.

Our Group spent the entirety of last year examining what type of society we would like to realise by 2050. Then we analysed in detail the risks and opportunities involved and formulated a long-term vision for 2030. Through this process, we looked at what our company could make come true with the new capabilities that could arise if we utilised our technological capabilities and access to markets and partnered with diverse stakeholders that share a common sense of values. For the first time, our management and the pursuit of sustainability were united in real terms.

Yet is it not enough to merely establish a policy based on the fact that ESG investments are long-term investments. Management must tell the story of what promises are being made across time and how these promises will be kept, which calls for a detailed roadmap. For example, when we promise to bring CO₂ to net zero by 2050, if we do not indicate a scenario for the reduction we will make by 2030, what we will do next, and a concrete plan for what technologies will be developed, how and based on what setup, we will not gain any trust.

Further strengthening KAITEKI management

Since last year we have been implementing trainings for business division managers and others of manager rank aimed at discussing issues faced and actions that must be taken in the practice of KAITEKI management. A total of 400 people has participated during the current term. They are the ones who must determine the problems faced in their work, think about what they need to do over the long term, and then carry out the work. Each and every person must view the intensifying problems facing our society as their own, contemplate them in depth, and formulate aggressive action plans. These plans must be incorporated into the company's business strategy, and everyone must be involved in order to resolutely carry out them out. I believe this approach is key.

Kamakura Investment Management Co., Ltd.

Yui 2101: A mutual fund that supports "good companies"

Kamakura Investment Management is an asset management company that manages and sells Japanese investment trust funds (mutual funds), particularly specialising in the direct sales of the "Yui 2101" public-offered fund. Before the SDGs and ESG began drawing attention, Kamakura Investment had an operating policy based on its own unique investment philosophy. Even now, the company does not actively discuss (or explore) its policy in the context of SDGs or ESG investment. The reason is Kamakura Investment believes that supporting unique companies is most important, rather than worrying about compatibility with or differences in ESG investment. Development is impossible without solutions to the social problems Japan has been facing and Kamakura Investment feels that it is imperative to invest in companies that are both profitable and socially aware.

The investment policy for the "Yui 2101" is one of the most noteworthy features of Kamakura Investment Management's business. Since launching the "Yui 2101" in 2010, Kamakura Investment has invested in "good companies" that are both profitable and socially aware, with all listed companies in Japan and a portion of unlisted companies as the investment universe. The three elements of "good companies" are "people", "coexistence", and "craft". "People" looks at how companies utilise their human resources, from internal organisation to the motivation of employees. The "coexistence" perspective asks whether companies are working to create sound material-cycle societies based their approaches to local communities and the natural environment. "Craft" looks at whether companies have ingenious Japanese technologies and superior corporate culture, or are providing impressive services.

The company divides the three elements of "people", "coexistence" and "craft" into three subcategories respectively and uses these nine components to select companies for investment. It avoids individual decision-making whenever possible, rather carries out decision-making on investments based on a group decision-making system, while sharing information and know-how within the company. While financial aspects and liquidity are taken into consideration, Kamakura Investment places the highest value on whether or not a company is a "good company".

As of November 2019, the number of Kamakura Investment's portfolio companies had risen to 67, with investments in companies with small to medium-scale market values outnumbering those in large corporations. Ultimately, it is society that determines what defines a "good company", and Kamakura Investment aims to invest in companies that anyone would call "good companies". Once it begins investment, Kamakura Investment continues to retain investments, as long as the company remains consistent with the above-mentioned components. On the other hand, for companies with matters of concern, additional investment may be withheld, or sold off

entirely if an intent to make improvements is not seen. In the last fiscal term (from 20 July 2018 to 19 July 2019), investments were sold off for a total of three companies.

With the above asset management, Kamakura Investment's management has produced economic returns. Its goal for "Yui 2101" is a 4% annual return (after deduction of management fees). Performance for the past five years stands at 4.8% (after deduction of management fees, as of 19 July 2019). While this fund does not have a benchmark, performance is slightly higher than TOPIX.

Generally, asset management companies do not disclose their portfolio companies because doing so would expose their investment know-how. However, investments for "Yui 2101" are disclosed on the company website. Moreover, scope of disclosure is not merely names of company. Kamakura Investment actively introduces these companies and provides opportunities for dialogue with investors at events, including management briefing sessions and the "Beneficiaries Meeting". Kamakura Investment supports "good companies" not only through its investment activities, but also by highlights their business activities.

Components of "good companies"



People	Coexistence	Craft
Respect for individual employees	Customers / suppliers	Superiority / originality of products or services
Corporate culture	Local communities	Marketability / profitability
Management approach	Natural environment	Adaptability to change / innovativeness

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The components of a "good company"

* The "Beneficiaries Meeting" is a registered trademark of Kamakura Investment in Japan

Shiga Bank

Environmental management under the motto "Protecting the global environment through the circulation of money"

In November 2017, the Shiga Bank announced the "Shiga Bank SDGs Declaration" and was the first regional bank to declare support for the SDGs. The Shiga Bank's motto is "Be tough on ourselves, kind to others and serve society". Its management philosophy is based on the prosperous coexistence of local communities, executives and staff, and the global environment. Therefore, engaging in the SDGs was reportedly "a matter of course that came naturally". In February 2019, the bank was the first financial institution in the nation to receive the "SDGs Partnership Award" at the 2nd Japan SDGs Awards, hosted by the SDGs Promotion Headquarters.

Shiga Bank engages in the SDGs from a variety of approaches, focusing on three priority areas: establishing a regional economy, sustainability of the global environment, and development of human resources to take on the responsibility of carrying out the SDGs.

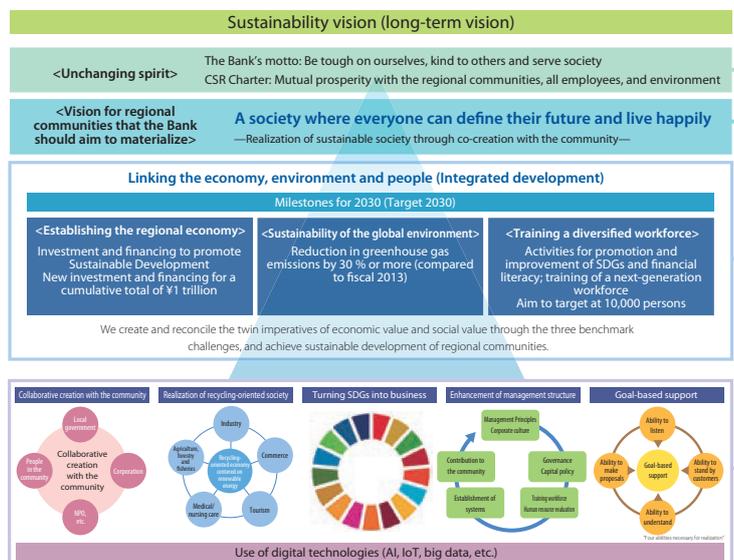
To establish a regional economy, in addition to financial products such as the "New Business Support Loan (SDGs Plan)" and "SDGs private placement bonds", the bank is actively engaged in providing consulting services for businesses, including the "Saturday School for Entrepreneurship" and assistance in obtaining GAP certification. The "New Business Support Loan" is a loan with preferential interest rates that supports the financing and capital investment of clients taking on new businesses that contribute to the achievement of SDGs. An example is a loan to a company engaging in land-based blowfish-farming utilising a water purification technology. Using an original technology, water quality is maintained without releasing waste water, thereby reducing costs without harming the surrounding environment. This business was included as a pioneering example in the ESG Regional Finance programme promoted by the Ministry of the Environment.

In the area of sustainability of the global environment, Shiga Bank promotes initiatives in "environmental finance", protecting the global environment through the circulation of money. Based on the independently-established "Shiga Bank Principles for Lake Biwa", the bank performs an environmental rating and based on this assessment, finances at preferential interest rates. For its "Eco-plus fixed deposit", when customers make fixed deposits, Shiga Bank makes donations and gives grants to be used for environmental purposes. In addition to these initiatives involving financial products offered to customers, the bank also engages in initiatives of its own, working to conserve use of resources and energy through its "eco-office creation" initiative.

Shiga Bank's brand image has begun to catch on. When people think about regional banks working

on the SDGs, they think of Shiga Bank. Behind the scenes are a number of steadfast initiatives. From its conceptualisation to announcement, the SDGs declaration purportedly took a year, and during this time the bank worked hard to enhance awareness within the company. It circulated basic knowledge on the SDGs on its intranet and put an SDGs logo on the back of business cards. All employees of branch manager rank and higher began wearing SDGs badges. When customers posed questions about the logo on the business card or badge, they needed to know how to respond, so all executives had to learn about the SDGs. Furthermore, by incorporating the SDGs into its management strategy and setting and announcing KPI, the bank established a framework for promoting the SDGs.

In the future, Shiga Bank intends to further develop methods of evaluating the businesses it invests in from environmental and societal perspectives. It believes that accumulating and developing further know-how and evaluation methods will be an advantage in the future. More than anything, the bank places great importance on funds coming into and circulating in its region. From this perspective, it also promotes the plan to create a "Regional Circular and Ecological Sphere" in Shiga Prefecture, and is working to advance this endeavor together with diverse stakeholders and the Ministry of the Environment. Overall, regional financial institutions are operating under severe conditions due to the shrinking scale of the economy accompanying a decreasing population. In the midst of these conditions, discovering strengths, developing new business models that set a company apart, and tapping into new markets is essential. This sense of crisis is also pushing ahead the initiatives of Shiga Bank.



*Co-creation with the community: creation based on shared values
 Collaborative creation with the community: creation through collaboration

Shiga Bank's Sustainability Vision

Daiwa Securities Group Inc.

Participatory strategy-making for the SDGs

The Daiwa Securities Group (Daiwa Securities) has a long history of engaging with environmental and social issues. In 1972, the group established the Daiwa Securities Health Foundation to subsidise research on disease prevention for middle-aged and elderly people, and in 1999, set up its Corporate Community Affairs Department. Since underwriting Vaccine Bonds issued by the International Finance Facility for Immunisation (IFFIm) to procure funds to provide vaccines to children in developing countries in 2008, Daiwa Securities came to recognise social contribution within its core business activities and to focus efforts on this type of "impact investment".¹ Accordingly, of the total 1,407 billion JPY in SDGs bonds (impact investment bonds) targeted at individual investors in Japan and sold between March 2008 and March 2019, Daiwa Securities' sales accounted for 697.4 billion JPY (roughly 50%) (based on a Daiwa Securities study).

SDGs-related initiatives became a full-fledged part of the company's core business after Seiji Nakata became Chief Executive Officer (CEO) in 2017. The company set up the SDGs Promotion Committee, chaired by Mr. Nakata, in 2018. Moreover, the company formulated a medium-term management plan entitled "Passion for the Best" 2020, incorporating the SDGs perspective as the foundation of its management strategy, and the "Passion for SDGs 2018 - Daiwa Securities Group's SDGs Declaration" outlining its commitment to balancing economic value and social value, namely shared value creation. Because there are many areas of overlap between the SDGs and ESG, Daiwa Securities is of the view that incorporating the SDGs into its core business will lead to enhanced ESG evaluation.

One very interesting aspect of Daiwa Securities' initiatives in the SDGs is the formulation process of the "Daiwa Securities Group SDGs Promotion Action Plan - Passion for SDGs 2019 -". The process was divided broadly into two parts. First, an SDGs Promotion Meeting comprised of representatives from each headquarters and group company deliberated on "what we can do now" based on current business. Second, an SDGs Working Group made up of 120 employee volunteers recruited group-wide, including overseas offices and branch offices, deliberated on the ideal image of Daiwa Securities Group in 2030. In brief, the group engaged in backcasting to determine from the ideal image what initiatives should be carried out, and made recommendations for the action plan.

The resulting action plan aims to create a sustainable flow of funds based on the following four points. The first is the promotion and marketing of the SDGs to arouse investment needs in the SDGs. The second is expanding the line-up of

financial products that supply funds to entities with capital needs for achievement of SDGs. The third is directly supporting industries and companies that contribute to the SDGs through investment and consulting. Finally, the fourth is to provide feedback to capital managing entities on appropriate evaluation of impacts of corporate activity on society, thereby to contribute to the creation of additional investment opportunities.

To deliberate on the fusion of the SDGs and business, Daiwa Securities established an SDGs Promotion Office within its Corporate Planning Department in April 2018. The office is working to roll out SDGs promotion initiatives to the entire group. A further restructuring was carried out internally in October of the same year, whereby ESG and CSR functions under the CSR Group of the Corporate Communication Department, were integrated into the SDGs Promotion Office. This integration took place in the context of Daiwa Securities' approach—making business that benefits society while generating a profit central to its core business and carrying out all initiatives that contribute to society within the framework of the SDGs.

When Daiwa Securities launches a new business venture, it does so through the lens of the SDGs. The SDGs Promotion Office is reportedly often asked by employees how the perspective of the SDGs should be interpreted in their own work.



SDGs Promotion Action Plan: "Passion for the SDGs" 2019

¹ Impact investment is a type of investment that limits usage of funds to purposes aimed not only at economic benefit, but also at providing solutions to issues such as poverty and environmental problems.

Nissay Asset Management Corporation

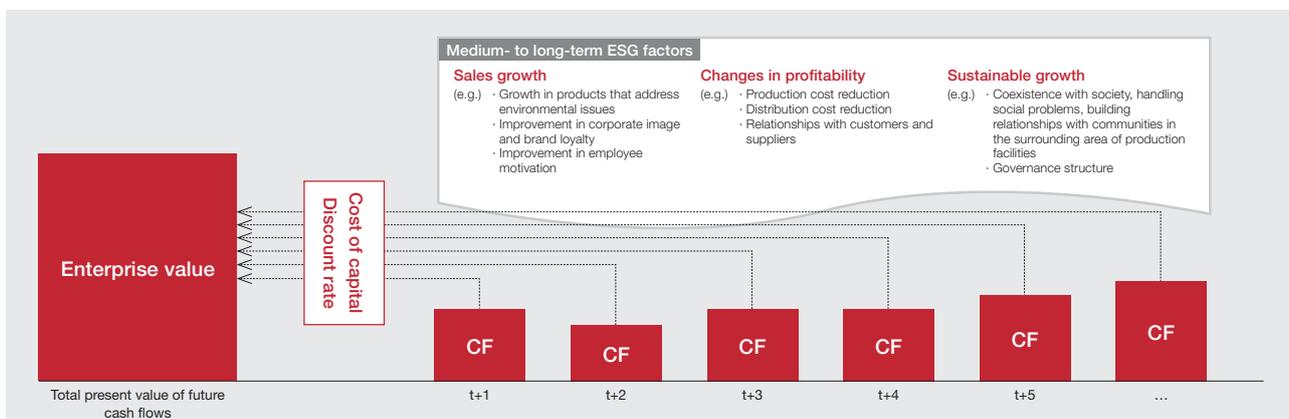
Every sector analyst also put in charge of ESG analysis

The Nissay Asset Management Corporation (Nissay AM) is an asset management company with 13 trillion JPY in managed assets. The company has paid attention to global information and trends surrounding ESG from a relatively early stage, having signed the UN Principles for Responsible Investment (PRI) in 2006, and joined the International Corporate Governance Network (ICGN), a global institutional investors group, in 2007. In May 2014, Nissay AM announced its acceptance of the Japan Stewardship Code, and again accepted the revised version in May 2017.

As corporations step up responses to climate change and the SDGs, Nissay AM promotes ESG initiatives based on the belief that ascertaining the sustainability of portfolio companies via ESG evaluation will become increasingly important. There are four pillars to the company's ESG approach. First, from the perspective of improving the risk-return of long term investment, the company strives to understand ESG-related issues and the impacts they have on the value of its investment assets (Understanding of ESG issues). Second, from the perspective of fiduciary duty, the company works to consider ESG-related issues in its investment process (Considering ESG in the investment process). Third, the company is developing and managing products that factor in ESG-related issues to respond to the investor demands for contributing to building sustainable societies through investment (Taking ESG in account in the development of financial products). Fourth and lastly, the company actively communicates with portfolio companies and uses its voting rights appropriately from the perspective of ESG-related issues such as enhancement of corporate governance and increasing corporate value over the long term (Communicating with portfolio companies).

Specifically, Nissay AM strives to provide medium- and long-term financial forecasts with a higher degree of confidence by incorporating the company's unique ESG evaluation, which is a framework for understanding the sustainability of portfolio companies. Specific perspective of evaluation for "E" (Environment) are initiatives that address environmental issues including climate change, which is receiving increasing attention by TCFD, and its linkages to preventing damages to and improving corporate value. For "S" (Society), the relationships between the portfolio company and its stakeholders (e.g. employees, customers, suppliers) and its linkages to enhancement of corporate value. Likewise, for "G" (Governance), mechanisms and structures for governance and linkages to enhancement of corporate value are examined. The company has also setup a framework for appropriate monitoring whereby it reevaluates the companies subject to research at suitable intervals (at least once a year).

In order to evolve investment processes that incorporate ESG factors, Nissay AM established an ESG Investment Promotion Office in March 2016. The ESG Investment Promotion Office conducts ESG research globally, and holds ESG Research Meetings for its investment professionals to facilitate the sharing and deepening of ESG knowledge. Moreover, while many asset management companies utilise external ESG companies for analysis of ESG factors, Nissay AM in principle conducts ESG evaluation in-house. The company's system does not distinguish between sector analysts in charge of financial analysis and ESG analysts. Rather, each and every sector analyst also conducts analysis of ESG issues as part of analysing corporate value. In this manner, the company makes investment decisions that better integrate ESG factors by carrying out in-house evaluation based on its unique evaluation framework, whereby every analyst has an individual understanding of both companies and the state of ESG issues in those companies.



Source: Nissay Asset Management Corporation

Reflection of ESG Factors in Enterprise Valuation

Government Pension Investment Fund (GPIF)

Serving as a driving force for ESG investment as one of the world's largest pension funds

The Government Pension Investment Fund (GPIF), one of the largest pension funds in the world with 159 trillion JPY in managed assets (as of March 2019), is a "universal owner" that distributes investments broadly in domestic and foreign bonds and stocks. It is also a "cross-generational investor" that makes long-term investments aimed at leaving necessary reserves to the next generation of insured persons. From this standpoint, GPIF has actively engaged in ESG investment based on the belief that sustained and stable growth of the entire capital market is critical to achieving stable returns over the long term, and that reducing the negative impact of environmental and social issues on the capital market is essential.

GPIF's management policy has considerable influence on capital markets due to the scale of its assets. In 2017, GPIF conducted a public offering and selection of ESG indices, garnering much attention from the media and market participants when it commenced utilising them. In 2018, GPIF selected global environment stock indices and increased the amount of managed assets linked to ESG indices to 3.5 trillion JPY (as of March 2019). Many market participants recognise that these trends were a factor in stimulating ESG related measures by companies as they responded to evaluating institutions and engaged in information disclosure with an awareness of being selected for these ESG indices.

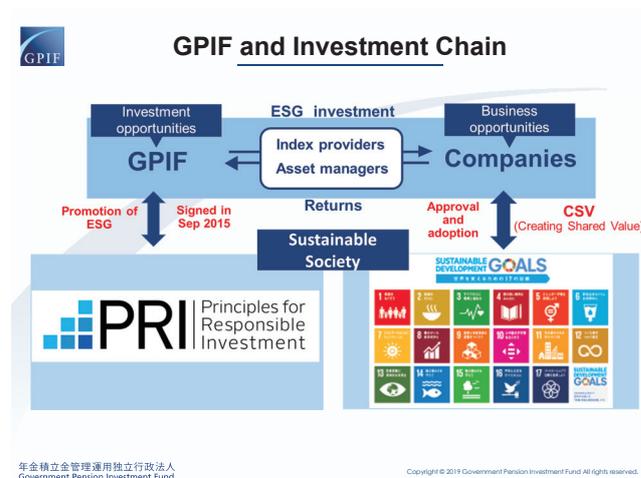
GPIF endorsed TCFD in December 2018, and in its ESG Report of the same year disclosed information related to climate change in line with the TCFD recommendations. Specifically, it conducted analyses of the greenhouse gas emissions and scenario analyses for its portfolio and released these results. While the report acknowledged that analytical methods and reporting were not perfect, it explained the conclusion that the disclosing of information itself incited discussion on ESG initiatives and that the benefits of disclosing information outweighed the negatives. This stance is recognised as one of the driving forces in ESG investment in Japan.

GPIF also runs other initiatives to promote information disclosure. For instance, it asks its consignee management companies to select exemplary integrated reports or those that show a high level of improvement and releases the names of companies that achieve high ratings. Furthermore, in fiscal 2018, it commissioned the Nissay Asset Management Company to conduct a study on ESG information disclosure. Based on an awareness of the yawning gap between companies leading in their responses to information disclosure and others lagging behind, GPIF realised that if support were provided to companies that were bewildered by the array of different guidelines, the quality of GPIF's ESG investment could be improved.

While GPIF recognises the importance of the SDGs, the SDGs are not considered an objective of its investing (see the

figure below for the relationship between ESG investment and the SDGs). The objective of GPIF's investments are first and foremost to manage reserve funds to extend the pension system, and ESG is viewed as important for achieving this objective. Meanwhile, ESG and the SDGs are highly compatible and can be considered two sides of the same coin. In June 2019, GPIF reached an agreement on joint research with the Keidanren (Japan Business Federation) and University of Tokyo to link "Society 5.0" and ESG investment with a view to realising a "Society 5.0 for SDGs". Moreover, GPIF's Executive Managing Director and CIO, Hiromichi Mizuno, became a member of the Global Investors for Sustainable Development (GISD) Alliance in September of the same year.

Future issues include how an asset owner identifying as a universal owner should approach climate change risk, and how ESG can be applied to asset classes other than stocks which have led the way. There is no doubt that any indication of GPIF's policies on these major issues will wield a great impact on the direction and nature of ESG investment in Japan. The activities of GPIF should continue to be closely watched going forward.



The relationship between ESG investment and the SDGs
Source: Created by GPIF based on UN and other sources

Mizuho Financial Group, Inc.

Contributing to the SDGs with new sustainable finance products

The Mizuho group (Mizuho) is a financial services group which boasted JPY 124.3 trillion in deposits and JPY 78.5 trillion in loans as of the end of fiscal 2018. Mizuho works together as a united group to engage in a variety of issues related to the SDGs.

Mizuho is managed under a holding company, Mizuho Financial Group, and formulates and pursues group-wide strategies for banking, trust banking and securities, according to customer attributes, with five in-house companies and two units that provide functions across all in-house companies. It has set up a system for collaboration within its group based on customer needs, whereby each in-house company and unit² identifies risks and opportunities related to the SDGs and climate change, and establishes a concrete action plan in its 5-year business plan and fiscal year plans.

One example is "Mizuho Eco Finance", a product developed to leverage Mizuho Bank's understanding of the challenges and needs of companies and Mizuho Information & Research Institute (MHIR)'s expertise in the environment and energy sectors. This product evaluates companies for their environment-related disclosure of information and scores them on a 5-tier scale utilising the globally-accepted evaluation criteria listed in the table below. Mizuho Bank provides financing to companies that achieve one of the two highest possible scores. The advantages of this product include giving borrowers a chance to highlight their innovative initiatives, as well as allowing the companies to obtain advice on improving and maintaining their scores from MHIR based on ongoing monitoring after financing is arranged.

Mizuho Securities has been actively supporting sustainable bond issues, achieving rapid growth and expanding from 3 bond issuances (JPY 5.8 billion) in fiscal 2016 to 28 bond issuances (JPY 124.3 billion) in fiscal 2018. Additionally, in 2018, Mizuho Bank signed a green loan agreement conforming to the internationally-accepted "Green Loan Principles". The bank also became the sole arranger for a syndicated sustainability loan to the Japan Railway Construction, Transport and Technology Agency in 2019.

Particularly worthy of mention is the 2018 issuance of the first wide-region collaborative "social impact bond" in Japan for six municipalities in Hiroshima Prefecture, which was led by Mizuho Bank's SDGs Business Desk. This bond utilises investment and financing from Mizuho Bank and other financial institutions and a crowdfunding platform to provide funds aimed at increasing colon cancer screening rates in the region. The social impacts generated by the project are reported, and the government makes payments to the funders according to the level of achievement. Mizuho Bank has already participated in a similar framework in Tokyo's Hachioji City which—while not a wide-region collaborative project—generated impacts in improving colon cancer screening rates (increasing from 9% in fiscal 2015 to 26.8% in fiscal 2017).

Mizuho promotes sustainable finance in a variety of areas. The group has announced its support for the TCFD Recommendations and is making progress on disclosures based on the TCFD Recommendations. Among these, the amount of "green finance/sustainable finance" is given as a monitoring indicator, and the group is moving ahead to increase green and sustainable finance in the future.

- (1) Support of the TCFD
- (2) S&P/JPX Carbon Efficient Index (Status of disclosure of carbon emissions)
- (3) S&P/JPX Carbon Efficient Index (Decile classification)
- (4) Has set Science Based Targets (SBT) / SBT commitments
- (5) Content of long-term environmental vision for greenhouse gases
- (6) Greenhouse gas emissions (Scope 1 + 2)
- (7) Greenhouse gas emissions (Scope 3)

Evaluation Criteria for Mizuho Eco Finance

² The five in-house companies are the Retail & Business Banking Company, Corporate & Institutional Company, Global Corporate Company, Global Markets Company, and Asset Management Company. The two units are the Global Products Unit and the Research & Consulting Unit.

Sumitomo Mitsui Trust Asset Management Co., Ltd.

Participating in global initiatives and active ESG engagement

Sumitomo Mitsui Trust Asset Management is one of the largest asset management companies in Japan with a balance of 70 trillion JPY in managed assets. It has declared support for corporate value creation within the investment chain to be the objective of its stewardship activities, and is actively involved in ESG related measures, which is designated as a part of these activities.

The company's ESG initiatives are carried out based on cooperation between members of the Stewardship Development Department, a department specialising in stewardship activities, and the analysts of its Research Department. For ESG investing, analysts from the Research Department conduct non-financial information evaluation, including ESG elements, and carry out integration in collaboration with asset managers. The company also provides passive products utilising various ESG indices.

The company's ESG topics of focus for 2019-2020 are (1) climate change, (2) water resources and marine pollution, (3) backing corporate governance reform, and (4) promotion of ESG information disclosure. By participating in global initiatives such as the PRI, the company accumulates knowledge on (ESG) issues and engagement methods, which it applies to its engagement activities in Japan. Sumitomo Mitsui Trust Asset Management is the first Japanese institution to be serving as a lead manager (palm oil, forest resources, water resources) in PRI activities.

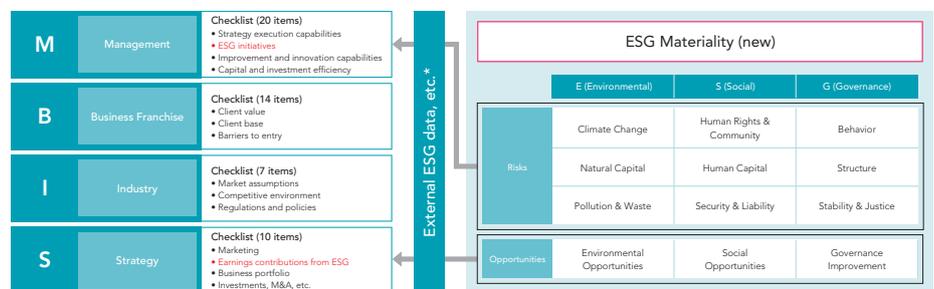
The company's unique framework for evaluating non-financial information is the MBIS tool. M is for "management", B is for "business franchise", I is for "industry", and S stands for "strategy". Evaluation of a portfolio company's ESG issues from the perspective of risk is included in "M", whereas evaluation of ESG initiatives from the perspective of opportunities, such as new business creation and income generation, is incorporated in "S". Through an analysis of ESG materiality, specific ESG risks and opportunities are identified (see figure).

Through the above-mentioned ESG initiatives, the company promotes SDG-related initiatives in its portfolio companies, with the SDGs designated as the goal of corporate value creation. When examining the validity of the SDG-related target-setting of its portfolio companies, the company places emphasis on the "stories" behind the target-setting. Specifically, by asking about the scenarios in the backdrop of

target-setting and approaches to creating added value and making contributions, the company can judge whether the target-setting is superficial, or whether it is the outcome of deliberations.

Sumitomo Mitsui Trust Asset Management declared its support for the Task Force on Climate-related Financial Disclosures (TCFD) in February 2019, and is planning for information disclosure in the TCFD-recommended areas during fiscal 2020. In a recently implemented transition pathway analysis to assess changes corresponding to future climate scenarios, results showed that the company's portfolio was inconsistent with the 2°C scenario, and that the permissible emission volume would be exceeded in 2037. Accordingly, the company intends to respond by beseeching portfolio companies to engage in greenhouse gas reduction, decarbonisation and information disclosure.

Having engaged in ESG investment actively and globally, Sumitomo Mitsui Trust Asset Management has raised the issue of the comprehensiveness, consistency and continuity of ESG data. While accepting the premise that advancement in information disclosure is ideal, issues remain concerning what information is to be disclosed, how it should be disclosed, and whether or not that information can be used by investors. Although information disclosure has progressed among a portion of leading companies, the number of companies remains limited, making inclusions into a comparative approach difficult, whereby the utilization of information is restricted to that of granting "additional points". Sumitomo Mitsui Trust Asset Management's stance is that promoting ESG information disclosure through soft law (codes) should be considered. Designating information disclosure as a priority issue for engagement, the company has also established a direction for its own role in the effort.



Strengthen Connection with SDGs



*Evaluated by analysts referring to external ESG data

<https://www.un.org/sustainabledevelopment/>

Mitsubishi UFJ Financial Group, Inc.

Setting numerical targets to implement steadfast sustainable finance

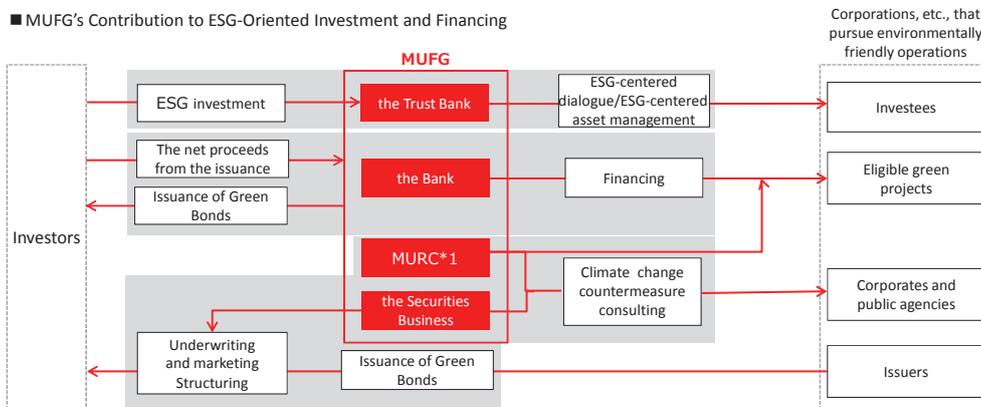
The Mitsubishi UFJ Financial Group (MUFG) is Japan's largest megabank and one of the largest banks in the world with a balance of 106.2748 trillion JPY in loans and 183.1741 trillion JPY in deposits (3rd quarter 2020 performance).

MUFG has been actively engaged in a range of ESG issues across the entire group. One major characteristic of its initiatives is the setting of numeric targets for sustainable finance. In May 2019, as a part of efforts to contribute to realising sustainable societies and achieving the SDGs, MUFG established numerical targets for the implementation of sustainable finance amounting to a cumulative 20 trillion JPY from fiscal 2019 to fiscal 2030. Of this, 8 trillion JPY is planned for financing in the area of environment, and developments are already underway in the renewable energies sector. MUFG's achievements in this sector include financing 3.94 billion USD in 2018, and it has taken first place in the world for three consecutive years from 2016 to 2018 (results based on the League Table³ of finance lead arrangers for renewable energy projects).

Meanwhile, MUFG is also advancing measures to deal with negative impacts. In May of 2019, MUFG revised the "MUFG Environmental and Social Policy Framework", a framework for environmentally and socially conscious practices, and laid out new policy on coal and other carbon-intensive projects. First, as a general rule the group will not provide financing for new coal-fired power generation projects. Second, forestry, palm oil, and mining (coal) were newly added to the list of "Restricted Transactions", in addition to coal-fired power generation and cluster munitions manufacturing.

MUFG's main subsidiary, the MUFG Bank granted the first syndicated sustainability-linked loan by a Japanese bank in November 2019. This loan establishes sustainability targets that are coordinated with the sustainability performance targets defined in the borrower's CSR strategy, linking the borrower's performance against these targets with interest rates and other loan conditions in a framework that provides incentives to accomplish goals. In March of the same year, the bank entered into two agreements on the syndication of green loans for which funds can be used only for "green" purposes.

The MUFG Bank has examined a range of issues related to the Environment (E) and Society (S) of ESG, including the SDGs, to determine priority issues (ES issues) to be addressed. Specifically, these are the following seven issues: (1) aging population & low birth rate, (2) business incubation & job creation, (3) social infrastructure & town planning, (4) global warming & climate change, (5) financial innovation, (6) workstyle reforms, and (7) cross-sectoral environment and social issues. In August 2019, the bank established a Sustainable Business Office as a specialised unit to engage in ESG, including the above issues, and coordinate cross-cutting sustainable business. This office will propose and provide new financial solutions, including advanced risk management for environmental and social issues to address the needs of the times, the development of loan products in line with ESG trends, and consideration of investments. In steadfastly implementing these initiatives, MUFG will continue to strive to achieve its corporate vision of sustainable growth.



MUFG's contribution to ESG-oriented investment and financing

³ A League Table refers to a ranking, usually released by the media, of the underwriting performance of underwriting institutions such as investment banks.

Resona Bank, Limited (Asset Management Division)⁴

Responsible investment and engagement as a universal owner

Resona Bank's Asset Management Division manages over 20 trillion JPY in trust assets, most of which are public and corporate pensions. It engages in responsible investment and stewardship activities based on the concept of universal ownership. Resona Bank became a PRI signatory in 2010, and in the PRI's annual report obtained the highest rating of A+ (2018, three consecutive years) in the overall assessment of its approach to responsible investment. Further, in a 2018 customer satisfaction survey conducted by Rating & Investment Information, Inc. (R&I), the company took the top position in rating of stewardship activities.

Resona considers ESG to be the realm of investors, the SDGs to be the realm of international society, and CSR and CSV to be the realm of corporations. Accordingly, investors and financial institutions, including Resona, contribute to achieving the objectives of the SDGs by aiming to enhance the medium- to long-term business value of corporations using ESG as an approach. Moreover, corporations are in a position to work toward achieving the SDGs using CSV as an approach.

The company's ESG activities are characterised by its engagement activities, and it makes a clear distinction between "dialogue" and "engagement". Namely, "engagement" is defined as "the act of achieving results by deciding on issues to be addressed and discussing such issues with the aim of finding solutions," while "dialogue" is "the act of promoting mutual understanding through two-way communication between companies and investors".

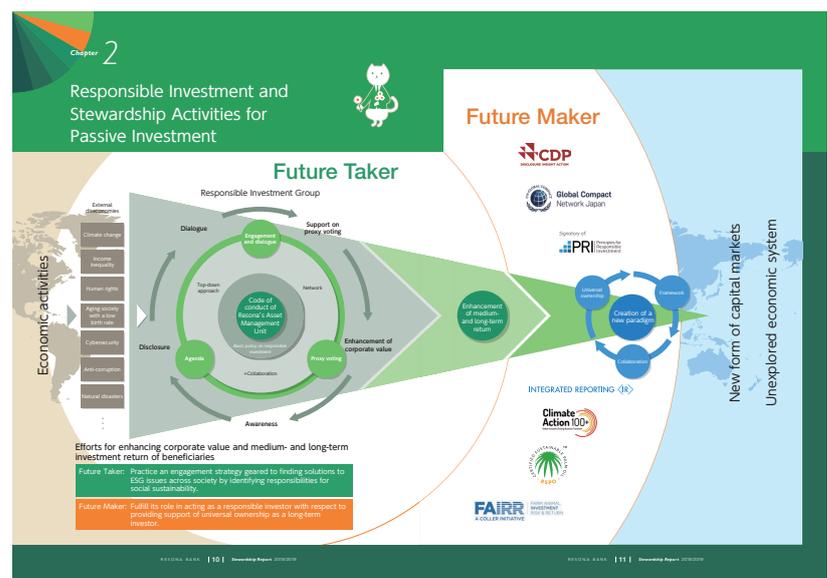
Based on this understanding, the company acknowledges its responsibility towards a sustainable society as a universal owner, and actively employs an engagement strategy geared to finding solutions to society-wide ESG issues in its passive management. Specifically, in addition to global environmental and social issues identified in a top-down approach (e.g. climate change risk, supply chain risk), the company also practices engagement on issues identified by a bottom-up approach (e.g. disclosure of corporate information, governance).

For engagement in passive management, the company has narrowed its thematic focus based on back-casting from the desirable future scenario as presented in the SDGs as well as from the input obtained from diverse stakeholders including NGOs and experts in the field. In fiscal 2017, it made engagement efforts

in areas including information disclosure related to climate change, the Climate Action 100+ initiative, and supply chain risk management focused on palm oil. The company released the details of the process and examples of its engagement in the procurement of sustainable palm oil over multiple pages of its Stewardship Report 2018/2019, effectively capturing the characteristics of the company's approach. In fiscal 2018, the company added diversity of the board of directors, marine plastic pollution and food safety (factory farming and antibiotic drug resistance) as new areas of thematic focus.

The company incorporates the opinions of external stakeholders in the selection process of topics of engagement. The company initially struggled with inexperience in engaging (with companies) on environmental and social issues. Moreover, there was a considerable disparity with companies in how environmental and social issues were perceived. Reconciling the gaps in perception took considerable time and effort.

Resona Bank believes that the source of its competitive edge in asset management is its human resources, and is therefore focusing efforts on human resource development. Because the debate on ESG is not only about profit and loss, but is also a discussion of right and wrong, discussions on ESG should focus not only on "how" it is carried out, but requires a holistic discussion. As a member of the finance sector, Resona Bank wants to foster the development of people with a proper understanding of this issue. It will continue to move forward in its responsible investment and ESG initiatives into the future.



⁴ From January 2020, the Resona Bank (Asset Management Division) consolidated the asset management business of the Resona Group into Resona Asset Management.

Obayashi Corporation

Updating a vision and reorganising to bolster ESG management

The "Obayashi Basic Principles" are consistent with the concepts of ESG and the SDGs and are designated as the cornerstone of management at the Obayashi Group. These Basic Principles, practiced in the group's business activities, are made up of three components: a "Obayashi Philosophy" aimed at realising a sustainable society as a leading sustainability company, "Obayashi Code of Conduct" to fulfill our social mission and ensure strict adherence to corporate ethics, and the "Obayashi Three Pledges" of Quality, Value and Efficiency⁵ that the company has followed since its founding. The group has stepped up initiatives in recent years in response to the increasing need for sustainability in society and demands for information disclosure from the stock market.

The Obayashi Group updated its medium to long-term environmental vision "Obayashi Green Vision 2050" in 2011 because it believed a long-term vision was essential to realise a sustainable society. In June 2019, it issued an updated version in the "Obayashi Sustainability Vision 2050", which incorporates ESG initiatives and contributions to the SDGs. This long-term vision defines the ideal vision for the group in 2050.

The group's five-year Medium-Term Business Plan 2017 serves as a roadmap for achieving this vision. In this plan, the ESG-related initiatives that the group has been working on for many years are first mentioned specifically, and designated one of three pillars in its Management Foundation Strategy in addition to technology and human resources/organisation. In order to ensure steady progress in ESG management, in 2019, the group reviewed its business activities from the ESG perspective and established "Six ESG Materialities" as priority issues on which to focus initiatives, as well as action plans and KPIs for each respective issue. The group intends to deliberate on changes in the business environment and the time frame of 2030 for achieving the SDGs when it formulates its next medium-term business plan that will commence from April 2022.

Obayashi implemented a restructuring in January 2019 to facilitate more effective ESG and SDGs initiatives throughout the entire group. It established a Corporate Strategy Division to draw up and promote ESG-based management strategies for the group as a whole, and created the ESG & SDGs Department within this division. It also set up a Corporate Planning Department, Corporate Business Administration Department, and Corporate Business Innovation & Management Foundation Department. Directors in charge of each

area also serve as the heads of these departments, facilitating easier communication and collaboration among departments and creating a synergy effect.

The characteristics of the group's industry make the setting of KPIs and information disclosure problematic. For example, once legal regulations have been met, it is taken for granted in the construction sector that a structure will be completed that meets the demands of the customer in terms of quality and performance. It is difficult to express a level of satisfaction objectively without relying on the subjectivity of the persons in charge at the client organisation, and there are no indicators that appropriately evaluate the know-how aspects of companies. Furthermore, the supply chain is extremely vast and expands across so many sectors that no single evaluation method applies. Nevertheless, the demand for information disclosure from investors has heightened in recent years, and moreover, there are different demands that require different details. As such, the group faces difficulty in ascertaining the nature of information to disclose in a timely manner. In this context, it has been conducting tours for institutional investors and analysts for over ten years. The group believes that it can promote mutual understanding with investors by actually showing them typical construction sites.

In addition, the Obayashi Corporation promotes ESG management in the area of financing, issuing green bonds and sustainability bonds. From a finance perspective, these activities have broadened the group's range of financing and investors. They have also allowed the group to gain know-how and illustrate its management stance both within the company and externally. Expectations are high for the group to continue to practice and strengthen its ESG management into the future.



⁵ Providing quality manufactured articles in short periods of time at low prices.

Kao Corporation

Providing products and brands of excellent value with integrity in business traditionally based on the Kao Way

Kao Corporation has a long history of sustainability initiatives and throughout the 130 years since its founding, has considered contributing to society its mission. Its corporate philosophy, expressed in the "Kao Way", is to strive for the wholehearted satisfaction and enrichment of the lives of people globally through integrity in business and providing products and brands of excellent value.

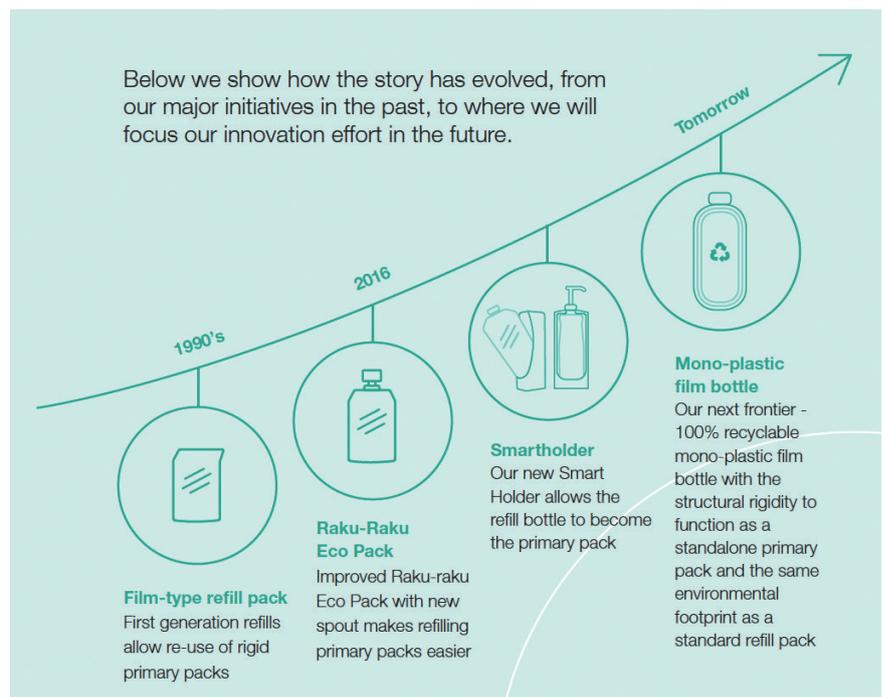
In 2019, Kao released the "Kirei Lifestyle Plan", its ESG strategy leading up to 2030 based on the Kao Way. The strategy sets the three pillars of (1) People, (2) Society and (3) Planet, and four actions for each pillar. For instance, under pillar (3), "making the world healthier & cleaner", Decarbonisation, Zero waste and Air and water pollution prevention, etc. are included. To these 12 actions, the company added seven foundational actions (e.g. full transparency, respecting human rights, and inclusive and diverse workplaces) to create 19 actions as material themes.

To determine the material themes, Kao identified 78 social issues, bearing in mind global trends such as ISO26000, GRI Standards and the SDGs. It then asked for feedback from outside the company and around the world—not only its customers, but also investors, experts in the environment and other fields, and its suppliers. Based on these results, the company examined both the level of importance for stakeholders and the level of importance for Kao, and performed mapping based on these two axes. Subsequently, it continued the discussion within the ESG Promotion Meeting and the ESG Committee, and narrowed down to the 19 Kao Actions.

Above and beyond formulating Kao's ESG vision and Kao's ESG strategy, Kao's stance on implementing these plans surely can be seen in the changes it has made in its organisation. In 2018, it reorganised the Sustainability Promotion Division into the ESG Division in an aim to step up ESG activities. It also established the ESG Committee as a body that discusses and determines policies on its ESG strategy under the Board of Directors. Directly under the committee, it established the ESG Promotion Meeting comprised of those responsible for executing the ESG strategy in each division of the company. With these changes, ESG has been placed at the core of its management. The company has always asked for the opinion of external experts, and appointing a non-Japanese employee with a wealth of experience in global ESG-related work

as the head of the ESG Division is another distinction of its management. Placing ESG at the core of management is another reason Kao's system of promotion has been highly rated by external bodies.

One particular issue that Kao is currently focusing on is marine plastic waste. This issue has gained attention around the world and frequently arises as a topic of discussion among investors and other stakeholder groups. In 2019, Kao released "Our Philosophy & Action on Plastic Packaging". Based on the philosophy that "plastic should not exploit or harm nature", Kao is implementing initiatives in the 4Rs (Reduce, Replace, Reuse, Recycle) and working to decrease the amount of plastic used in its packaging. It has reduced its use of plastic through the development of the "Raku-raku Eco-pack" refill and a new concept in the "Smart Holder", which does not require refilling. At present, Kao is working on the development of 100% recyclable film bottles. Kao aims to continue to contribute to sustainability as seen in one of its initiatives, to reduce plastic in its packaging.



Kao's initiatives in developing our packaging

Daiichi Sankyo Company, Limited

Strengthening contributions to the SDGs through ESG compliance

Daiichi Sankyo believes that its core business is one and the same as moving toward achievement of Goal 3 of the SDGs. Creating innovative pharmaceuticals and responding to diverse medical needs are not only the basis of value creation, they also contribute to solutions to sustainability issues, including problems in our societies and our environment. In particular, Daiichi Sankyo works on innovation (Goal 9) to resolve unmet medical needs⁶, such as cancer and other non-communicable diseases, rare diseases, malaria, tuberculosis and NTDs (neglected tropical diseases). The company is also responding to climate change (Goal 13) by reducing environmental impacts and environmental risks in all its business activities and its efficient use of resources.

In order to step up sustainability initiatives and ESG compliance, the company has consolidated its organisational structure and institutions in recent years. In response to international frameworks including the SDGs, it revised the Daiichi Sankyo Group Corporate Conduct Charter in 2019. It also expanded and organised its Environmental Management Committee into the EHS Management Committee. Further, while administration was previously performed by the CSR Division, joint administration is now carried out by the CSR Division and Human Resources Division. Accordingly, the company was able to expand its system of EHS to all group companies, including those overseas, and set up a system for uniform management of Environment (E), Health (H) and Safety (S), areas with a highly probability of risk occurring simultaneously, as it contributes to creating sustainable societies in its business activities overall. Additionally, in May 2019, the company Chairman, George Nakayama, became the Chair of the Committee on Responsible Business Conduct & SDGs Promotion of the Japan Business Federation, thereby raising awareness on the SDGs and ESG among management and employees.

Even before ESG began to attract attention, the company placed great importance on the environmental impacts of its pharmaceuticals and disclosed environmental data. The company has culture always trying to respond as early as possible to demands from the world. In October 2016, it was the second company in Japan to receive SBT certification for its CO₂ reduction targets (27% compared to 2015 reduction by 2030) up to year 2030 in accordance with the targets of the Paris Agreement.

In one initiative to achieve the CO₂ reduction targets, the company decided to install a self-consumption solar power generation facility (3.3 MW capacity), the largest facility in the country run by a pharmaceutical company, at the group's Onahama plant (Iwaki City, Fukushima Prefecture). The facility is expected to be completed and operating within fiscal 2020.

This solar power generation facility is predicted to reduce approximately 20% (roughly 1,800 tons/year) of the plant's annual CO₂ emissions.



Concept drawing of the Onahama Plant onsite solar power system following completion

External ESG evaluation for the company is high. For example, from 2017 it was selected as an index component for the pharmaceuticals sector for three consecutive years in the Dow Jones Sustainability Indices World Index (DJSI World), one of the world's major ESG investment indices. The company began to respond in earnest to DJSI and other indices in 2014, augmenting information disclosure including numerical information and analysing evaluation content to provide feedback throughout the group. There was reportedly some resistance to information disclosure within the company at first, but these high evaluations have made the company see it in a more positive light.

Daiichi Sankyo views ESG external evaluations as a way to enhance its reputation and corporate value. On the other hand, because research and development and product quality issues, which are at the core of its business, are included in evaluation, the company places importance on evaluations that reflect its everyday initiatives and on filtering these back into its organisation. However, on occasion, different investors or evaluating institutions demand different things or make different points. At these times, the company returns to its corporate philosophy and reconsiders the details of evaluations. In this manner, Daiichi Sankyo strengthens its contributions to the SDGs, which are its core business, through ESG compliance.

⁶ Medical needs for which there is still no treatment method or medicine.

Takashimaya Co., Ltd.

Steadily advancing initiatives based on understanding of the SDGs

The Takashimaya Group is currently discussing and implementing initiatives in the seven areas of "energy", "environment", "food waste", "merchandise", "universal design", "workstyle" and "employee awareness" (see figure), as it aims to both contribute to solving problems faced in our society and to grow through its business activities. Specific examples of initiatives include reduction of plastic bags and straws toward achieving zero plastic waste, revision of sales methods toward reducing food waste, expansion of universal merchandise and recycling, and the enhancement of universal design for in-store signs and customer service.

■ Initiatives for sustainable growth

To achieve sustainable growth based on a strong awareness of social issues including poverty and environmental issues, with a group-wide understanding of SDGs principles



Initiatives for sustainable growth

The group aims to have 100% of the electricity used in its business activities come from renewable energy sources by 2050, and to convert all vehicles under its direct management to 100% zero emission vehicles or electric cars by 2030. Toward this aim, in September 2019, the group joined in two international initiatives, "RE100" and "EV100". The group also participates in the Japan Climate Initiative (JCI), which aims to realise a decarbonised society, and the Japan Climate Leaders' Partnership (JCLP), a Japanese business group that views the shift to decarbonisation from the perspective of business. Through this participation, the group has increased its interactions with numerous companies and groups and expanded its network.

The Takashimaya Group focuses on ensuring that actions are taken based on a strong awareness of SDGs concepts. The group's aim is for all people working in the group to have an accurate understanding of the principles of the SDGs, and to contribute to realising sustainable societies based on cooperation with all stakeholders. The group believes that it can contribute to achieving the goals of the SDGs when each and every person thinks deeply about what can be done and gets actively involved. Thus, it is unfolding programmes that facilitate an accurate understanding of social issues and

promote discussion on solutions.

One of these initiatives, starting 1 April 2020, involves a change in material and a new charge for plastic and paper shopping bags for food products. To decrease impacts on the environment, Takashimaya converted its plastic shopping bags, used mainly for food sales, to a bioplastic with 90% plant-based material, and converted paper shopping bags for food products to FSC® certified material. Both bags are now provided at a charge. The group has also begun at all of its stores to encourage customers to use reusable shopping bags and to put their purchases in shopping bags they already carrying in an effort to promote environmentally-friendly lifestyles.

The group intends to move steadily forward in each of its initiatives toward realising sustainable societies based on a strong awareness of social issues and working together with its customers and all stakeholders.



New design for shopping bags
Our mascot character "Rose-chan", holding the globe and message that says "hand down the beautiful world to the next generation" printed on them in Japanese.

Fast Retailing Co., Ltd.

"Unlocking the Power of Clothing": Addressing global sustainability challenges as a global apparel company

Fast Retailing has announced "Unlocking the Power of Clothing" as its sustainability statement, and placed sustainability at the core of its business strategy. The company works to provide solutions to issues in three areas that underpin its business, "People", "Planet", and "Community". It views changes in consumer awareness, such as the perspective of the millennial generation that is highly aware of sustainability, as opportunities to create new value.

Fast Retailing believes that the SDGs and ESG represent societal demand for responses to sustainability issues through core business activities, and that responding to this request is linked to enhancing future corporate value. Although ESG compliance is targeted mainly at investors, in practice it is typically cited as an external assessment of initiatives. The company views ESG as a benchmark for responding to the needs of all stakeholder groups and for confirming whether sustainability activities and related information disclosure meet global standards.

Two features of Fast Retailing's approach include appealing to its customers and disclosure of diversified information with ESG as a focal point. The company's Sustainability Report is simplified in a way that makes it easy for diverse stakeholders to get an overall view of the company's initiatives, with details and technical information released on the company's website and in its Sustainability Data Book. For instance, in the area of "People", the company engages in human rights due diligence and promotes diversity, and has responded to issues in the industry including through disclosure of the core partner factories and results of workplace monitoring of partner factories. In recent years, the company has also disclosed detailed information based on the CHRB (Corporate Human Rights Benchmark). For the "Planet" area, the company appeals to its customers by taking a circular economy approach through its products, such as collection and recycling of UNIQLO's down products and utilisation of recycled polyester, and is engaging in information disclosure to investors through CDP. In the area of "Community", the company has continued to engage in recycling and donation of its products, particularly via its "All-Product Recycling Initiative" communicating on how the clothes it donates are helping in an easy-to-understand manner. For responding to expectations from investors, based on the LBG Guidance Manual⁷, the company for the first time disclosed the total amount of its community investment and the breakdown of these expenditures.

One issue raised by Fast Retailing, which has actively complied with ESG, is how to efficiently comply with the increasing number of evaluation indices. Although there is a trend toward

creating a global benchmark with individual topics, from plastics to gender, the company feels that sufficient guidelines should be provided when requesting companies to disclose information on new topics. Furthermore, it would like to see questions designed based on an understanding of each company's business model and the particular characteristics of the industry type, when ESG researchers evaluate and compare companies' performance.

While viewing the SDGs and ESG as a benchmark, Fast Retailing actively engages in international debate on sustainability and dialogue with groups working to mainstream this debate. Moreover, through participation in international industry groups, the company works to compile information on a global scale to ensure the comprehensiveness and consistency of its activities and information for disclosure. The company intends to future strengthen its initiatives to contribute to sustainable development in society through the apparel business.



Scene from the All-Product Recycling Initiative

⁷ LBG (London Benchmarking Group) is a network that provides a global standard for measuring the amounts and achievements of corporate community investment. The LBG Guidance Manual is recommended for use in ESG evaluation.

Marui Group Co., Ltd.

Inclusion-based "Co-Creation Sustainability Management"

Since its founding in 1931, the Marui Group has continued to evolve its unique business model merging retailing and finance to reflect the changes in the times and in customers. At present, in its third period of innovation, the group is converting its stores from department store to shopping centre-style stores. It is also moving the focus of its credit cards business away from just settling accounts like making payments and loans, to providing asset formation and a variety of financial services. Accordingly, the ratio of recurring revenue in the group's sales revenue has increased substantially as its foundation for stable growth continues to solidify. Alongside these developments, the group's sustainability initiatives have steadily progressed. It was selected for the Dow Jones Sustainability World Index for two consecutive years and has been highly rated both in Japan and overseas.

The ideal for Marui Group is illustrated in its Mission Statement and 2050 Vision. The group's mission is to "contribute to co-creating a flourishing and inclusive society that offers happiness to all". The roadmap for the accomplishment of this mission is outlined in its vision: "Harnessing the power of business to build a world that transcends dichotomies". The dichotomies referred to include male and female, adult and child, able-bodied and disabled, wealthy and low-income, and present generation and future generation. The Marui Group is focusing on "inclusion" as the key to rising above these dichotomies.

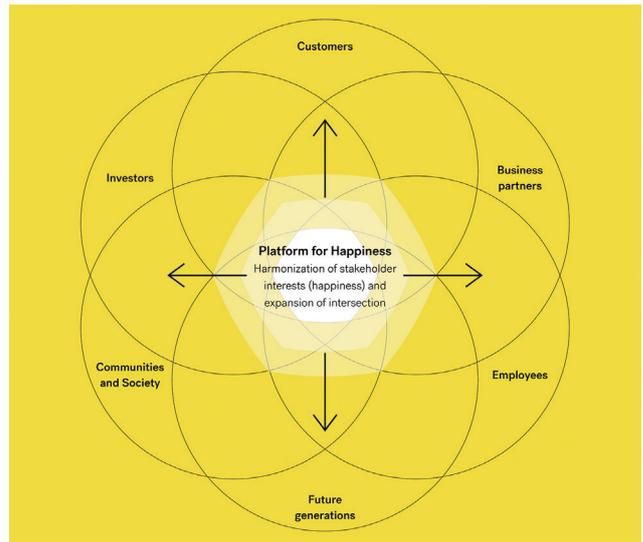
The group is supported by a wide range of stakeholders, including customers, shareholders/investors, business partners, communities/society, employees, and future generations. It believes that true corporate value lies in expanding the intersections at which the interests (happiness) of all six stakeholder groups overlap (see figure). Its "Co-Creation Sustainability Management" approach is aimed at promoting this corporate value through environmental activities, solutions to social issues, governance initiatives and future-oriented management that integrates all business.

The group has always aimed to contribute to society through its core business activities. Yet, it was not always comfortable with the term "CSR", which nuances something in addition to core business. In this regard, the group relates more easily to ESG as a standard of evaluation because it views contributing to society to be one and the same as its core business.

From this perspective, in recent years the group has made some structural adjustments to consolidate its ESG (sustainability) management. In October 2015, it established an IR Department independent of its Financial Department, and in October 2016, set up an ESG Promotion Department. Likewise, in

April 2017, it reorganised its CSR Promotion Department into the Sustainability Department. At the management level, the group established a Sustainability Committee in May 2019 to deliberate on a group-wide sustainability strategy and related initiatives. The committee reports to the board of directors and offers recommendations. Likewise, sustainability targets were introduced as performance indicators of medium-to-long term incentives for director compensation to link director compensation to Co-Creation Sustainability Management.⁸

To provide information disclosure, every year the group issues the Co-Creation Management Report (Integrated report) and the Co-Creation Sustainability Report (previously the CSR Report), which report in detail on its business model and future initiatives. Additionally, from 2017, the group has released ESG Data Books that compile the ESG-related data disclosed in reports and on the group website. The group intends to continue its efforts in ESG compliance, gaining the understanding of its customers and employees and implementing initiatives that serve as a driving force in furthering this trend in society as a whole.



Marui Group's view on corporate value

⁸ Specifically, in addition to increasing the ratio of compensation linked to performance aside from fixed basic compensation, the number of shares of the company's stock that are to be allocated are determined according to the level of achievement of three KPI (ROE, ROIC, EPS) and ESG performance indicators for the period from March 2020 to March 2021.

Mitsubishi Estate Co., Ltd.

Aiming to be a leading company in sustainability by responding to the demands of society

The corporate philosophy of the Mitsubishi Group draws on 150 years of history. That shared philosophy is encapsulated in a creed articulated by the fourth president of the Mitsubishi organization, Koyata Iwasaki, in the 1930s. Today this philosophy is referred to as the "Three Principles" (called "Sankoryo" in Japanese). One of these principles, "ShokiHoko", implies that the ultimate objective of business activities is contribution to society. Today, this principle is interpreted as the aim to "strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment". The ongoing values of the Mitsubishi Group are highly compatible with the concepts of the SDGs and ESG, which are aimed at global sustainability.

Based on the spirit of the "Three Principles", the mission of the Mitsubishi Estate Group is, "We contribute to society through urban development". While the group has long been working in urban development aimed at the well-being of all stakeholders, including the global environment, it first declared its aim to become a leading company in ESG within its Medium-Term Management Plan which began in 2017. From this starting point, Mitsubishi Estate began in earnest to accelerate initiatives in ESG. This declaration came about within the context of heightening external demands, such as the SDGs, adoption of the Paris Agreement and an increase in investors signing the PRI.

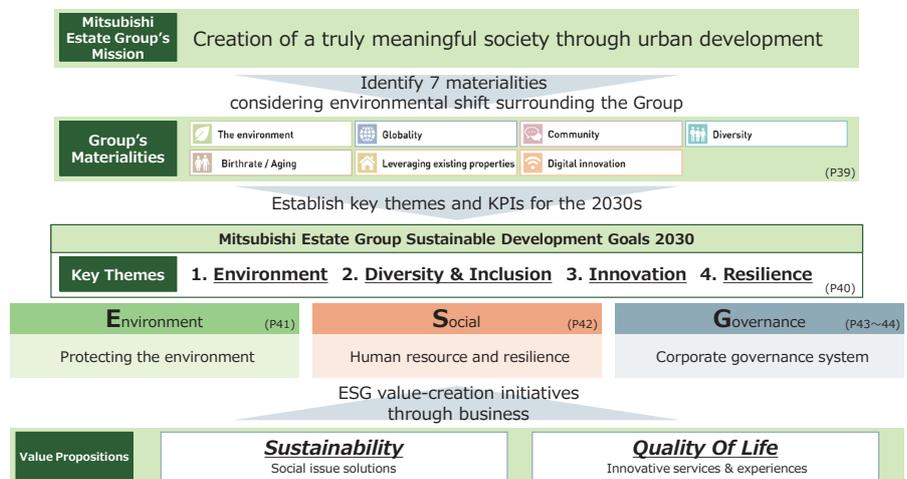
In response to these global calls, the Mitsubishi Estate Group launched an internal working group in fiscal 2018 to determine material issues from the perspective of the SDGs. It established seven new material issues (environment, globality, community, diversity, digital innovation, declining birthrate & aging population, and leveraging existing properties), and put together both the risks and opportunities involved in each of the material issues. In accordance with the Paris Agreement, group-wide Science-Based Targets (SBTs) (medium to long term GHG emissions reduction targets) were formulated in March 2019, as the group stepped up its response to climate change.

In fiscal 2019, the group transferred responsibility for sustainability issues, which had previously been under the jurisdiction of General Affairs and Human Resources, to Corporate Planning. This transfer was based on the intent to further integrate sustainability into corporate management and put forward the corporate stance to keep creating value in society in the medium to long term. The name of the department was also changed from the "CSR &

Environmental Sustainability Department" to the "Sustainability Management and Promotion Department". This department was put in charge of ESG, with a focus on "E", promotion of initiatives related to all areas of sustainability, and information disclosure. The department coordinates with Human Resources regarding "S" and General Affairs regarding "G" in the promotion of initiatives.

In January 2020, the group formulated its "Long-Term Management Plan 2030" to drive its strategy to increase both social value and shareholder value. Likewise, it also formulated the "Mitsubishi Estate Group Sustainability Vision 2050" to clarify a corporate vision for the year 2050. It then drafted the "Mitsubishi Estate Group 2030 Goals for SDGs" to serve as milestones for concrete topics to be addressed and actions taken to realise the corporate vision, taking into account the seven material issues.

The group is currently working harder than ever before on sustainability initiatives. It became the first comprehensive real estate company in Japan to release green bonds (June 2018). Likewise, it joined the RE100 initiative (January 2020) and pledged support for the TCFD Recommendations (February 2020). As a real estate developer going into the future, the group aims to do more than merely loan spaces in its building to tenants. It aims to create the most sustainable communities in Japan, communities that function and provide services in a higher dimension, providing places where nature, people and companies to want to come together. Expectations are high that Mitsubishi Estate will continue to expand its sustainability initiatives into the future.



*Materialities = the degree of relevance of an ESG initiative to the company's domain; also, such an initiative that is deemed highly material"

ESG Initiatives (Overview)



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