Frontier International

Responsible Investment – Japan study tour

November 2023

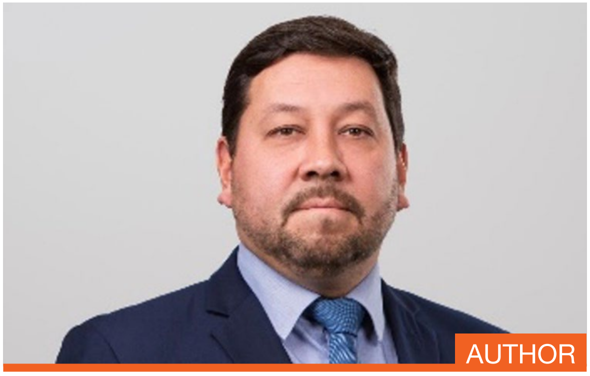
Frontier Advisors | Forefront Thinking

frontieradvisors.com.au

About Frontier

Frontier has been at the forefront of institutional investment advice in Australia for over 25 years and provides advice on over $630 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Frontier's purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing, customisation, technology solutions and an alignment and focus unconstrained by product or manager conflict.



Joey Alcock

Head of Responsible Investment

Joey originally joined Frontier Advisors as an Analyst in 2005, having entered the industry via the inaugural Super Cadets (now SuperGrads) program, an initiative of the Conference of Major Superannuation Funds. During his first decade at Frontier, he worked across a range of functions including client consulting, investment research, fund manager due diligence (public and private equity), and line management, amongst other responsibilities. He then spent several years working abroad with UK-based consultant finance leading public equity fund manager searches for a range of institutional asset owners in Europe, North America, and Australia.

Joey returned to Frontier as a Principal Consultant in 2018 and currently serves as Chair of the Responsible Investment Group, the committee which oversees the firm's responsible investment efforts. He holds a Master of Applied Finance, and Bachelor of Commerce and Arts from the University of Melbourne.

Marie Cardaci

Deputy Head of Responsible Investment

Marie is the Deputy Head of Responsible Investment at Frontier. In addition to her responsible investment duties, she also has consulting responsibilities for a number of medium and large superannuation clients.
Marie was previously a member of Frontier's Equities Research team.

Marie joined Frontier in 2017, having previously worked within Finance Operations at the University of Melbourne, and Taxation Services at Deloitte. During her studies, Marie also worked as a Junior Equity Analyst, preparing research reports on small cap equities.

Marie holds a Bachelor of Commerce and a Master of Finance, and is a CFA charterholder.

Frontier Advisors

Introduction

In October, Frontier hosted a delegation of investors from Australia and New Zealand on a responsible investment study tour in Japan. The tour was timed to coincide with the annual PRI in Person conference, which was held in Tokyo.

The Principles for Responsible Investment (PRI) is a United Nations supported investor initiative and the world's leading proponent of responsible investment. To augment the conference, our study tour focused on responsible investment topics and particularly how these translate to practical integration in portfolios. Through our on-the-ground presence in Japan, and our global connections in the responsible investment community, we were able to develop a high-quality program for our delegates with a wide range of both Japanese and international high-profile presenters. In combination with the conference, it was a fantastic week of sharing experiences and ideas on responsible investment with contemporaries from all parts of the global investment industry, and a chance to engage with experts driving leading practice. This paper provides a summary of key insights we gleaned during our time in Tokyo.

It is a fascinating time for institutional investors to gather in Japan. The world's third-largest economy continues to work its way through a broad range of economic reforms as it seeks to address major structural challenges, such as an aging population and an extended period of sluggish growth.

In keeping with this transformational backdrop, Japan is now also seeking to accelerate its efforts on responsible investment and take its place amongst other leading nations in the collective ambition to achieve a sustainable global economy. Beyond the resilience and competitiveness that these reforms in aggregate are expected to bring to this incredible country, there is of course the potential to unlock value from an investment perspective.

A watershed moment on this important journey occurred early on Day 1 of PRI in Person, with the Japanese Prime Minister, Fumio Kishida announcing a package of substantial policy initiatives to promote the country's 'green transition' or 'GX' for short. The proposed policies include a large stimulus package, green bond issuance, and other programs to attract private capital flows into critical areas such as renewable energy. With Japanese industry historically reliant on fossil fuels and nuclear power, this represents a decisive signal for the future.

We delve deeper into this topic, and explore our observations of other key responsible investment and sustainability developments in Japan.

Frontier Advisors

Moving from commitments to action

Nose to the grindstone

The theme for PRI in Person 2023 was 'moving from commitments to action'. This theme reflects the need for responsible investment to evolve to focus on practical integration that achieves tangible and positive outcomes. Put more simply, the investment industry must execute on the commitments, targets and ambition it has made. In recent years, such targets were often seen as examples of 'progress' within the responsible investment narrative. But as with most endeavours, the work to achieve an objective is much more onerous than just stating that objective. It's easier said than done.

Looking back a couple of years, the UN climate conference COP26 in Glasgow in 2021 saw a widespread spike in optimism around addressing climate change. This was based on a significant rise in climate-related targets being set (and enhanced) by countries, corporates, and asset owners. While an important step, target setting is only the beginning of the journey and since that time, broader optimism has cooled somewhat as the reality of how much effort is required to move from commitments to tangible action has sunk in. At PRI in Person, there was emphasis on the need for workable transition plans in order to legitimise any targets.

A rising focus on greenwashing by regulators over the last year, testing the credibility and achievability of those targets, has also softened sentiment around responsible investment in some quarters – sentiment which typically fuels the willingness of boards and investment committees to approve resources that can drive tangible action. Despite ongoing emphasis on the need for urgent action, especially in relation to climate change and biodiversity, it could be observed that investors are facing a reality check of sorts.

Pockets of retreating ambition

We have seen some backtracking of plans for decarbonisation being announced by a range of entities. Examples include Shell retreating from commitments to establish a net zero strategy it made during high-profile engagement with Climate Action 100+; and the UK Government pushing out the sales ban on ICE vehicles by five years to 2035. While these pullbacks have drawn the ire of some sustainability advocates including those within the investment industry, they are indicative of the lack of a clear playbook for the transition to a low carbon economy.

We can think of the global move to low carbon like a giant IKEA project, but without any instructions. We know what we get at the end, and we have good visibility of the components necessary to achieve our goal, but we can only navigate the assembly process based on what seems most logical. Sometimes, we may work on one part of the project with best intentions, only to discover that we've overlooked or underestimated a step or two. It should not be unexpected that plans change on the back of updated information and clients should appreciate that the path to impact is not linear. The important thing is that we keep persisting, even in the absence of perfect plans or data, in order to eventually achieve these collective objectives.

Fiduciary duty versus 'greater good'

There is a growing expectation for institutional asset owners to play a role in advancing sustainability goals, considering the significant need for private capital. However, the challenge lies in determining the best approach for trustees to align these objectives with traditional investment goals, a topic extensively debated in various forums this week. The so-called 'normalisation' (i.e. broad industry acceptance) of responsible investment is really only applicable to ESG integration for the purposes of identifying, assessing and managing ESG-related financial risks and opportunities in the portfolio. Considering ESG-factors in a comprehensive fashion is expected to enhance risk-adjusted return outcomes, and we would support the idea that this dimension has indeed become normalised.

There is however, a question on whether the same 'normalisation' tag can yet be definitively applied to wider sustainability objectives which are more 'impact' in nature. This is particularly the case when an impact/sustainability objective is larger in scope than the portfolio and its beneficiaries. For example, an asset owner may engage with an investee company on its strategy to decarbonise its operations. While the asset owner may do this with the aim of enhancing the company's financial performance, it may also be seeking to support the company to drive decarbonisation of the real economy, the dividends of which accrue to communities well beyond its immediate beneficiaries. With the costs of engagement borne by the asset owner (and therefore its beneficiaries), some trustees are examining how such actions align with a best financial interests test. Differing timeframes is also a contributor to this potential conflict of duties, with some longer-term sustainability objectives requiring some moderation of short-term investment performance. It is ultimately up to each investor to explore and resolve this issue in a way that makes sense. Only then can the investor pursue sustainability objectives with an appropriate unity and confidence.

Persistence and authenticity

While it might seem odd for a report on responsible investment trends to start on a bit of a downbeat tone, we did also find reasons for optimism, especially on a local, Japanese level. The theme of moving from commitments to action is resonating now, marking a natural evolution for responsible investment as a daily consideration for investors. Urgent issues like climate change, biodiversity, and human rights are fully recognised, but dealing with the complexities is not necessarily easy. We encourage all clients to approach their responsible investment journey with authenticity and accept that the path ahead is not free of challenges. Learning, sharing and persistence are expected to be hallmarks of a successful responsible investment strategy.

> *"More likely than not that the world will reach 1.5°C degrees of warming by the early 2030s and very likely the world will exceed this 1.5°C degrees if ambitious action is not taken… (but) at no point should we be giving up"*
>
> – Jim Skea, Chair of IPCC

Notable responsible investment themes

Biodiversity, natural capital and the TNFD – it's here!

While biodiversity and natural capital, often seen as the 'next big E', has been a building thematic in responsible investment for some time now, it has definitively crystallised as an action point this year. A key catalyst has been the official launch of the recommendations of the Taskforce for Nature-related Financial Disclosures or 'TNFD'. The TNFD can be thought of as the TCFD but for nature rather than climate change. The extensive connections between biodiversity loss and climate change were emphasised repeatedly throughout the PRI conference and clients should be mindful of this dynamic. Exposure to deforestation is a suitable place to start for investors reviewing their portfolios from a biodiversity risk perspective, with the beef, soy and palm oil industries being main targets for engagement.

Transparency and disclosure as always, is critical to measure progress and drive accountability. To this end, PRI noted that the TNFD has been 'tested extensively' for practicality which should be positive for clients. The process for reporting via TNFD is deliberately similar to TCFD but further guidance has been provided for this new framework. Of the many nature-related metrics in existence, TNFD has boiled these down to 14 key ones focused on dependencies and impacts (including the critical causalities between biodiversity and climate as noted). Nature-related data is far more heterogeneous than for climate, as biodiversity risks are typically very localised. There are 100s of data providers selling nature related data which poses a challenge to effectively sift through what is and isn't decision-useful for a given investor. An example of biodiversity risk assessment by a manufacturing company in relation to the sourcing of rubber from Indonesian plantations indicated that each exercise is a deep dive with significant data requirements. For highly diversified portfolios, a different approach will be needed from a materiality perspective, and it seems unlikely that asset owners will be compelled to assess and report on biodiversity risk any time soon. Larger asset owners may do this on a unilateral basis. Frontier is undertaking research into ways that we can provide practical support to clients in this critical area.

Frontier Advisors

Disclosure, disclosure, disclosure…and data

The rapidly increasing regulatory requirements for sustainability-related financial disclosure, and their associated data challenges, were clearly front of mind for investors this year. This includes Australian investors who are facing mandatory climate-related financial disclosure in the coming years. A big question was whether regulation is causing unintended consequences, for example by supporting a myopic and limited approach to responsible investment while placing a significant administrative burden on corporates and investors. One asset manager, Actis, mentioned the insights that are missed by focussing solely on the quantitative data requirements of regulations including the Sustainable Finance Disclosure Regulation (SFDR)[1], such as an ambitious gender diversity program in Latin America which trained 1,500 women to work in the solar industry. However, the manager acknowledged the power of data to force investors to face uncomfortable truths and rectify them, providing an example of when data showed that one of the funds it managed had a lack of female board members; an alarming point to overlook but one it was able to rectify with its second fund.

While obtaining robust data has long been cited as one of the biggest challenges for responsible investors, the regulatory landscape has clearly made overcoming these pertinent, particularly in private markets where data availability is less mature than for listed markets. This is steadily improving, however, with the introduction of mandatory disclosure regulation and other initiatives such as the ESG Data Convergence Initiative (EDCI)[2], which are enhancing standardisation in data requirements and therefore requests to general partners (GPs). Private market investors generally agree that although data requests remain a big administrative task, there is notable progress in collaboration and data sharing between General Partners (GPs) and Limited Partners (LPs).

ESG data for private markets can help drive value. Actis provided an example of a renewable energy company which it sold in 2022, Sprng Energy. Actis believes its ability to provide data on its sustainability outcomes achieved since it first invested was integral in increasing demand for the asset and ultimately, the exit value. As a further benefit, private assets provide a valuable mechanism through which you can communicate improvement in sustainability outcomes over time. This makes private market investing fertile ground particularly in the area of the energy transition, where companies or assets can be transitioned over time and progress reported over the entire holding period. This compares to listed markets where divestment is an option and so investors sometimes illustrate less patience for companies not acting based on shorter-term data.

One overarching message from the conference was to not let perfection get in the way of progress; limitations in data should not stop investors from acting. Frontier is currently in the process of engaging with data providers specialising in climate metrics for private market assets with a view to developing a service that provides clients with access to this critical information. It is anticipated that this will be in place before the end of Q2 2024.

[1] The Sustainable Finance Disclosure Regulation is a European Union regulation which mandates ESG disclosureon financial market participants.

[2] ESG Data Convergence Initiative is a partnership of private equity stakeholders committed to streamlining the collection and reporting of ESG data.

'Anti-woke'

Forms of opposition to the advancement of responsible investment have existed since ESG emerged as a concept in the early 2000s. In the last year or so however, there has been a distinct step-up in the degree to which such opposition has utilised public criticism and attacks specifically targeting so-called 'woke' investors to further their objectives. These voices typically fall into one of two camps (1) those representing industries/interests which are expected to decline due to the normalisation of responsible investment (e.g. thermal coal) and (2) those who view responsible investment as values-based or ethically based and inconsistent with financial performance. High profile examples of (particularly Republican) states in the US banning investment strategies that incorporate ESG scores/screens are probably best known.

More recently, state attorneys from a range of US states have threatened legal action against collective entities which are seeking to advance sustainability outcomes, including the Net Zero Service Providers Alliance (to which Frontier has a connection by virtue of being a signatory to the Net Zero Investment Consultants Initiative[3]). Such action is typically based on anti-trust competition law.

While PRI ran a session on this topic, the (pro-ESG) panel was seemingly unconcerned with the potential damage the anti-woke movement may do, arguing that remaining consistent with the underlying rationale for integrating ESG was the best approach and could in fact encourage greater clarity of the purpose of responsible investment (i.e. most of the public attacks relate to exclusions of certain industry exposures). Nonetheless, this movement could remain a distracting influence (and additional cost) for some time and investors should be mindful of having clear rationale for integrating responsible investment and be ready to articulate this.

Widening gap between large and small

> *"Big challenges for all the smaller scale (climate solutions) projects which need financing…which may be only tens of thousands of dollars and making these investible."*
>
> – Jim Skea, Chair of IPCC

A notable observation and discussion point is the apparent ongoing trend of a growing disparity between larger and smaller entities in terms of their capacity to take responsible investment actions and their willingness to invest in such initiatives.

ESG covers a huge spectrum of factors and considerations, and at every turn, there seems to be something which adds to the growing list of items which PRI signatories are expected to address (and budget for!) with rigour on an ongoing basis. Several references to capacity limitations were noted through the week, particularly in the context of smaller asset owners still trying to progress on climate change and decarbonisation before even thinking about tackling biodiversity and the TNFD. While Frontier consistently articulates a philosophy that a client's responsible investment approach should be 'fit-for-purpose', it appears that the myriad 'industry standard' expectations and requirements now facing investors on ESG (such as mandatory climate reporting) materially limits their ability to find a way forward that doesn't put them at a disadvantage to larger peers.

As per the quote on the left from the IPCC, achieving goals such as the Paris Agreement objectives requires everyone, regardless of size, to contribute to the effort. It will not be enough to only integrate responsible investment at the big end of town, whether that be related to the asset owners or the investments they are making. As such, while it remains a positive that entities with scale and resourcing depth continue to advance 'leading practice' in responsible investment, those at the smaller end of the spectrum will need adequate support and time to participate fully. Until now, it may be argued that driving leading responsible investment practice was to advance competitive advantage but perhaps a more inclusive mindset going forward may serve to better reach our collective, global sustainability goals.

[3] The Net Zero Investment Consultants Initiative is a commitment from some of the world's most prominent investment consultants to align their operations and advisory services with the 1.5 degree emissions trajectory outlined in the Paris Agreement. Read more about our commitment of ESG data here.

Frontier Advisors

Study tour case study

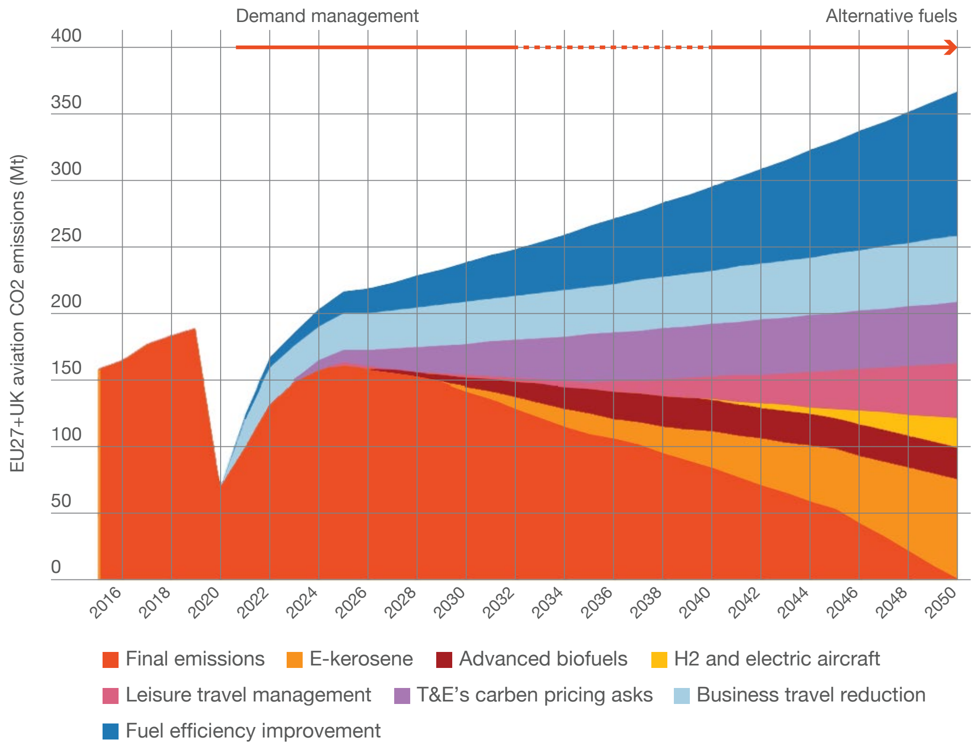
‘Hard-to-abate’ industries – Aviation

The ‘hard-to-abate’ sectors, contributing to about 30% of current global greenhouse gas emissions, pose a major technological challenge to meeting the objectives of the 2015 Paris Agreement. The decarbonisation of the aviation industry (around 3% of current global emissions) is a textbook case in point. While we can certainly imagine a future which features low emission/sustainable aviation fuels, highly energy-efficient aircraft, and airline operations optimised to minimise overall fuel consumption, are not a commercial reality at this time.

Nonetheless, the importance of driving progress in this area is self-evident, given the social and economic benefits of broadening access to air travel and services.

Our study group received a presentation by Madeleine Hill from Climate Catalyst, who challenged us to think about how to encourage private capital investment that supports the decarbonisation of the aviation industry. As with most industry decarbonisation pathways, there is no single ‘silver bullet’ solution, and action is required on multiple fronts to eliminate emissions from traditional aviation fuels and achieve net zero, as shown in Chart 1.

Chart 1: Aviation sector 2050 pathway



Source: Climate Catalyst

Frontier Advisors

Sustainable alternatives to traditional kerosene-based jet fuels are broadly categorised as either bio-based or synthetic. Bio-based fuels, which use organic matter as feedstock, are now commercially available although are around three times more expensive than traditional fuels. Furthermore, there are significant challenges to bio-based fuels due to potential negative impacts from land use change, and to food security. Fully synthetic fuels only require green hydrogen (generated from renewables) plus water and CO2. Currently however, synthetic fuels cost seven to nine times more than traditional fuels and are not commercially available. Intuitively, investors can play a crucial role in scaling synthetic aviation fuels (via scaling of green hydrogen production), particularly within early-stage venture and growth capital. Long-term investors with a focus on climate solutions are encouraged to consider the merits of this emerging opportunity noting the potential tailwind of industry transition.

Japan’s accelerating sustainability efforts

Japan’s green transformation (¥150 trillion committed) – aka ‘GX’

Japan’s net zero by 2050 objective was announced in late 2020, however, it appears progress is accelerating only recently as Japan is starting to back its objective with policy and actions in order to play catch up with leading nations in this space. In early 2023, Japan announced its GX “Basic Policy” which outlines how it will transform its economic and social system from one dependent on fossil fuels to one driven by clean energy. All in, ¥150 trillion (~AU$1.5 trillion) has been committed in private-public investment for Japan’s GX, partly funded by the world’s first government-issued transition bonds aligned with global standards.

Initiatives under the GX are far-reaching and include, ‘growth-oriented carbon pricing’ (including the transition bonds), a ‘GX League’ of Japanese corporates committed to cooperating with governments and academic institutions to meet climate transition targets, and integrated regulatory support. Adding to these, at the conference, we heard some additional GX-related and broader sustainability initiatives from Prime Minister, Fumio Kishida. Kishida announced the establishment of an ‘Asia GX consortium’ to drive GX public and private investment in Asia and that seven Japanese public pension funds will start preparations to become signatories to the PRI. The Japanese government’s ‘version of the US’ Inflation Reduction Act’ is set to be approved in early 2024. The government is strengthening its policy to secure access to natural resources and its industrial policy around areas such as semiconductors and batteries. Australia has been referenced as one of four ‘comprehensive partners’ to supply Japan with natural resources.

> In his speech, Kishida referenced the Japanese saying ‘a disaster could better be turned into an advantage’, and it is clear that Japan is taking this approach to stepping up its sustainability measures, particularly related to climate change. While Japan appears to be playing catch up on the energy transition, whether the scale and focus of its economic package is substantive enough to bring Japan in line with global peers is a topic of debate; throughout our time in Japan we observed a range of views including some suggesting that while it was a positive step, it did not go far enough.

Frontier Advisors

Our study tour enabled us to learn directly from the people driving our host country's efforts to integrate the big responsible investment themes discussed at the PRI conference. Meeting with professionals from a range of backgrounds including corporates, asset owners, regulators and government truly brought to life how responsible investment works in practice and was something that we would not have experienced in the conference sessions alone.

Japanese corporates lifting their ESG game

Fuelled by progressively supportive regulatory measures, an up-lift in corporate governance standards (discussed below) and increasing foreign capital, sustainability is a rapidly growing area in Japan, albeit, one in which corporates are closing the gap versus some of their Western peers. This dynamic was brought to life with two site visits we undertook as part of the study tour.

Our first site tour was to Nakano Central Park, a space which comprises office buildings, outdoor community areas, restaurants, cafes and other amenities. The park was built for a 'new working style' which incorporates green, open spaces and other sustainable measures such as renewable energy use and reporting, insulated windows and automatic lighting. The office building treats tenants to views of either greenery or the sky, (depending on the level you're on), and expansive green spaces which we witnessed at lunch time, buzzing with office workers enjoying the food trucks, restaurants and sunshine. The office buildings were built 12 years ago and so developments in sustainable properties such as sustainable materials were not in place at the Nakano Central Park. However, compared to a typically more traditional Japanese office environment, the social benefits of such a space were apparent and clearly a signal of sustainability being increasingly considered in investments.

Nakano Central Park

We also had the unique experience of (safety-)suiting up and visiting the Kawasaki South Central Tank Terminal, a chemical storage tank facility run by Central Tank Terminal, Japan's largest independent chemical storage tank operator. Our visit illustrated the power of foreign capital in driving sustainability initiatives in Japan and ultimately, unlocking asset value. The terminal was acquired by Macquarie in 2016 and later by KRR in 2022, and while a responsible safety and environmental management culture was already in place, it was clear that the two global fund managers have meaningfully up-lifted the safety and wider ESG measures at the tank. The strong safety culture was evident throughout the tour and the governance structure around work, health, safety and environment (WHSE) appears strong, with quarterly reporting to the Board and a WHSE committee in place.

Frontier's study tour group ready for the tank terminal tour

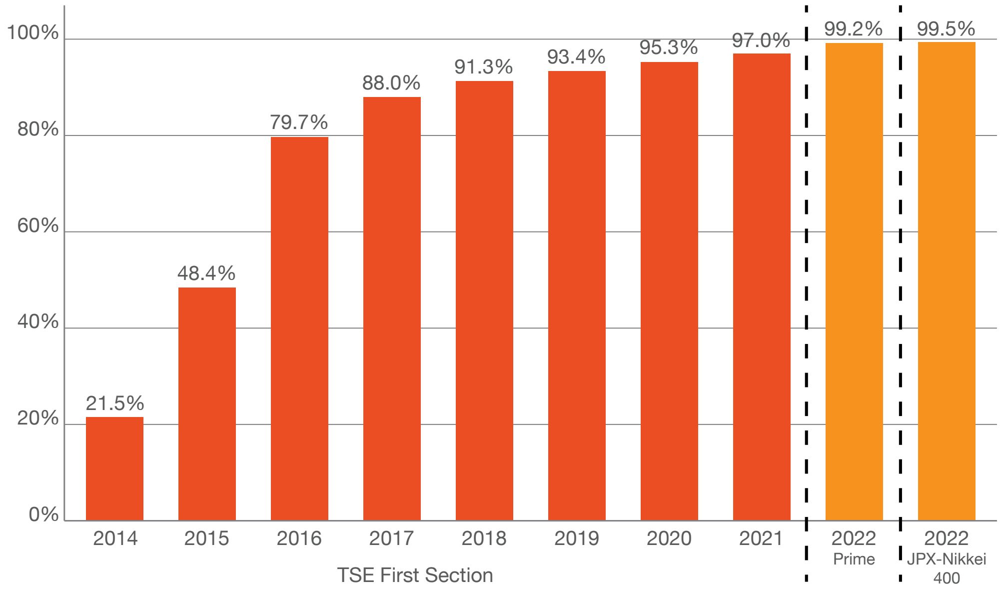
Environmental measures in place at the tank included solar panels to reduce carbon emissions, water shutters to block out high tides and off-site wastewater treatment and discharge to protect the environment. The tank is also improving its reporting of ESG. We were given a summary of the tank's ESG survey by KKR and while some areas such as gender diversity and proportion of renewable energy used would appear to require improvement, the reporting and cognisance of such metrics is a step in the right direction of improving them.

Transforming corporate governance in Japan

Over the past decade, Japan's corporate governance standards have steadily improved with the aim to enhance sustainable growth in corporate value as part of the country's revitalisation strategy. Japan's Stewardship Code was launched in 2014 to encourage investor engagement with companies, followed by the Corporate Governance Code in 2015 which established principles for effective corporate governance, with revisions made several times since. In 2022, the Japan Stock Exchange (JPX) restructured its market segments to incentivise higher corporate governance standards for companies in order to enhance value and attract more capital. The three new segments are Prime, Standard and Growth Markets and a company's segment ascertains the liquidity, corporate governance and financial performance listing criteria that it is required to abide by.

The market restructuring was followed by the Tokyo Stock Exchange's list of non-mandatory requests in March 2023, which urged companies to focus more on stock prices and capital efficiency. Further, it encouraged better dialogue with investors and more disclosure (including in English). The March requests were followed by the release of an 'Action Program'[4]. The program places further expectations on companies, including the management and awareness of sustainability issues and improving the effectiveness of independent directors. The measures include a target of 30% or more of female executives by 2030.

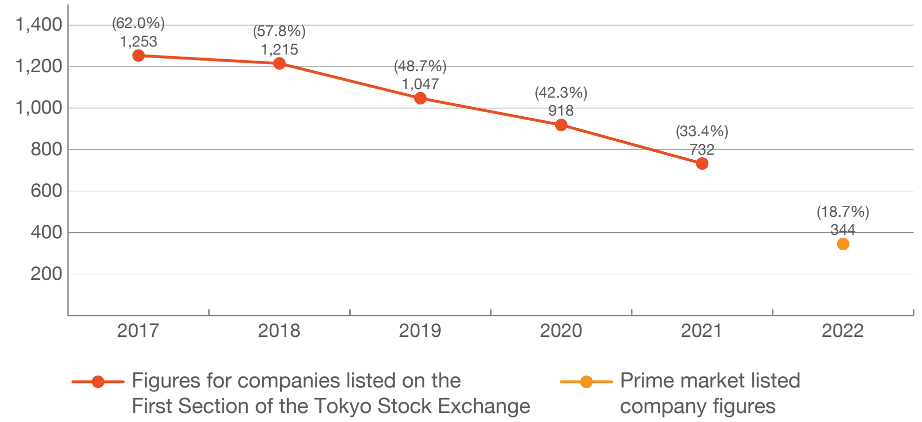
Chart 2: Changes in listed companies (prime market) with two or more independent outside directors[5]



[4] "Action Program for Accelerating Corporate Governance Reform: From Form to Substance", April 2023, Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, a council jointly established by the TSE and the Financial Services Agency (FSA).

[5] Source: "White Paper on Corporate Governance", JPX, 2023.

Chart 3: Number of prime market-listed companies with no female directors



As a result of the above initiatives, corporate governance in Japan has rapidly improved over time and foreign investors have been positive on the progress made to date. In fact, Japanese companies are now leading by some measures, for example, being the country with the largest number of TCFD-supporters in the world.

However, in some areas such as board diversity, there remains room for improvement. No doubt, the progress which has been made by JPX and regulators, and consequently, corporates, has been positive and we expect to see the pace of change continue in the near term with the latter increasingly accountable.

Frontier opens office in Tokyo

In 2022 Frontier established Frontier Advisors Japan GK which is a fully-owned limited liability subsidiary company. Frontier has an office in Tokyo and has appointed Yuichi 'Alex' Takayama to lead our presence in Japan and assist Frontier in establishing our presence in the Asia-Pacific region more broadly.

Alex is a seasoned investment professional with a more than 25-year career in financial services roles covering business development, portfolio management and research analysis in Japan, the US and Great Britain. Most recently he held the role of Head of Business Development with Misaki Capital but prior to that held senior roles with Nikko AM and Tokio Marine AM.

His on-the-ground presence is building on the momentum Frontier has created in Japan since 2014. We have been regular visitors to Japan and have made a number of strong connections over that time.

Institutional investors across Asia have historically tended to favour fixed income and listed asset classes, however, more recently there has been a strong interest to seek diversification and longer-term returns from real estate and infrastructure opportunities offshore. Asset owners in Asia don't typically have a lot of history investing in these sectors globally. However, Frontier has almost three-decades of experience, and is considered by many to be Australia's pre-eminent adviser in the real assets space, so we think we have a lot to offer the Japanese and broader-Asian market.

Teamed with that is a trend of Asian investors having typically sought advice from fund managers and other 'gatekeepers' rather than asset consultants. It is the partnership advice model separated from the product manufacture process independent asset consultants offer that we think the local market will be interested in taking up. We've been patiently establishing and growing relationships in the region and we think now is the right time to show our commitment and put our flag in the ground locally.

Although our office has been operating for more than a year, we have recently completed a range of legal and licensing requirements to operate in Japan. During the study tour we held the "Autumn reception" at the Australian embassy, which served as our formal launch event for the local institutional investment community.

Yuichi Alex Takayama

Country Head of Japan

Alex is the Country Head of Japan at Frontier Advisors and is responsible for the development and implementation of Frontier's Japan business as well as the investment advisory business for Japanese institutional investors. He has over 25 years' experience in financial services roles covering business development, portfolio management and research analysis in Japan, the US and Great Britain. Most recently he held the role of Head of Business Development with Misaki Capital but prior to that held senior roles with Nikko AM and Tokio Marine AM.

Alex holds a MBA from the University of London City College Bayes Business School and a Bachelor of Arts, Economics from Keio University.

Frontier Advisors Japan responsible investment study tour agenda

Day 1: Monday, 2 October

1 An overview of the Japanese economy

While most wrestle with inflation and a lower growth outlook, signs suggest Japan's economy could finally be emerging from years of stagnation. But will the recovery of the world's third largest economy be sustained, and how does the BoJ navigate a path to normalisation? This session will update us on Japan's key economic drivers and set the scene for the week ahead.

Presenter

Kohei Okazaki
Senior economist/ESG analyst,
Nomura Securities

2 The Japanese pension system and responsible investment

Recent reforms have prompted greater integration of ESG factors with 54% of pension assets now managed by PRI-signatory funds. But there remains significant upside on responsible investment. This session will review the industry's progress to date, led in the main by GPIF, and explore future priorities.

Presenter

Hiromichi Mizuno
Founder and CEO, Good Steward Partners and former Special Envoy on Innovative Finance and Sustainable Investments, United Nations

3 An update on the Transition Pathway Initiative and net zero for asset owners

The Transition Pathway Initiative (TPI) is an independent source of research and data on how companies are progressing towards a low-carbon economy. In this session, we will get an update on TPI's assessment processes and its plans for the future, and review how institutional asset owners are incorporating TPI data into their net zero strategies.

Presenter

David Russell
Chair of the Board of Directors,
Transition Pathway Initiative

4 Engagement with a focus on modern slavery

Eradicating the crime of modern slavery will require collaboration between investors and companies of a kind we have not previously seen. Corporate engagement on this issue is evolving but remains relatively nascent in terms of tangible outcomes around identifying, assessing, and managing modern slavery risk to people. This session will review progress outcomes based on recent research.

Presenters

Kate Turner
Global Head of Responsible Investment,
First Sentier Investors

Sudip Hazra
Director and Head of First Sentier MUFG
Sustainable Investment Institute

Hideki Suruga
Head of Distribution Japan & Representative Director,
First Sentier Investors

Ken Mitsutani
Chief Research Officer,
MUFG Asset Management Sustainable Investment

Frontier Advisors

Frontier Advisors Japan responsible investment study tour agenda

Day 1: Monday, 2 October

5 Transition to net zero – sector pathways in the aviation industry

At around 30% of current emissions, hard-to-abate sectors are a significant technological challenge to achieving the Paris goals. The aviation industry is a textbook case in point, with low emission fuels, aircraft efficiencies and operational optimisation not yet a meaningful part of the picture. This session explores the likely future pathways to decarbonise air travel, including a deep dive into synthetic fuels, and the implications for investors.

Presenter

Madeleine Hill
Investor Engagement Manager,
Climate Catalyst

6 Improvement in Japanese corporate governance

A recognition of the importance of appropriate corporate governance for the stability of Japan's financial system has led to significant reforms. In this session, we examine the crucial role played by the Japanese Stock Exchange in driving these efforts including its initiatives relating to improving board composition, gender diversity, and governance on valuations.

Presenter

Ayla Wagatsuma
Senior Manager, Corporate Communications,
Japan Exchange Group

7 Measuring the impact of stewardship: Academic and practical observations from the GPIF experience

GPIF, Japan's largest asset owner and the largest pension fund in the world, had an important role to play in the revolution Japanese companies have experienced from an ESG perspective. In 2018, they launched their "stewardship-focused passive investment program", where they explicitly appointed two asset managers (now expanded to four managers), including Fidelity International, to engage with companies and raise the ESG standards of the market. The program also intends to enhance corporate value creation through stewardship activities. GPIF follows up on various empirical studies conducted by academics in order to understand the state of engagement and verify its effectiveness.

In this dinner presentation, Professor Kotaro Inoue PhD from Tokyo Institute of Technology, whose research was presented in the GPIF ESG report, will share the findings from his empirical study. He will be accompanied by Tomohiro Ikawa, Head of Engagement and PM at Fidelity International who will share how the investment program worked in practice.

Presenters

Kotaro Inoue
PhD Professor, School of Engineering,
Tokyo Institute of Technology

Tomohiro Ikawa
Head of Engagement and Portfolio Manager,
Fidelity International

Frontier Advisors

Frontier Advisors Japan responsible investment study tour agenda

Day 2: Tuesday, 3 October

1 Global policy update

Global policy update, with a focus on climate change metrics, TCFD reporting, the EU's sustainable finance disclosure regulation and stewardship reporting. Regulation plays an important role in responsible investment standards and disclosures. In this session, we consider key global ESG regulatory requirements relevant to Australian investors. We will end with a lively debate on whether there is a point where regulation becomes over-regulation and counterproductive.

Presenters

Will Martindale
Co-founder and Managing Director,
Canbury Insights

Fiona Reynolds
Director,
Frontier Advisors

2 Site visit: Tokyo Tatemono (Nakano Central Park)

Our first site visit is a first-hand opportunity to see how sustainability is being integrated into Tokyo urban property development. We will study how asset manager Nuveen is adapting to the demographic challenges in Japan's capital city to create value, and positive social and environmental impact in the residential sector.

Tour Lead

Shusaku Watanabe
Managing Director, Head of Japan Real Estate,
Nuveen Real Estate

3 PRI in Person conference

Day 3: Wednesday, 4 October

1 PRI in Person conference

Day 4: Thursday, 5 October

1 PRI in Person conference

Frontier Advisors Japan responsible investment study tour agenda

Day 5: Friday, 6 October

1 Impact investing in disadvantaged urban areas - Research insights

A key determinant of economic inequality is persistent asymmetry of access to productive capital between different businesses and societal groups. Impact investing is increasingly seeking to address such gaps but questions on the adequacy of financial returns are raised frequently. This session introduces recent research which challenges preconceptions around the risks of impact investing.

Presenter

Caroline Flammer
Professor of International and Public Affairs and of Climate, Columbia University

2 Site visit: Central Tank Terminal tour

Our second site visit is to a chemical storage tank facility in Tokyo Bay run by Central Tank Terminal (CTT), the largest independent chemical storage tank operator in Japan. We explore how asset manager KKR is leveraging global best practice in supporting CTT to build a culture of responsible safety and environment management, and how this is expected to materially enhance risk-adjusted investment outcomes.

Tour leads

David Katz
Managing Director, Public Affairs, KKR

Tatsuaki Tokunaga
Associate, Infrastructure, KKR

3 Responsible Investment with GPIF

At circa US$1.5 trillion, GPIF is the world's largest pool of retirement savings and so attracts significant interest in how its capital is managed. In its investment principles, GPIF has committed to incorporating ESG factors in its portfolios and promoting long-termism and sustainable growth in capital markets. Insights and lessons from GPIF's ESG journey feature in our visit to GPIF's offices.

Presenters

Kenji Shiomura
Managing Director, Chief Strategist & Head of ESG Team, GPIF

Mari Murata
Director, Stewardship and ESG Division, GPIF

Jun Arima
Senior Director, Head of Management Communications, GPIF

4 Japanese sustainable equity

The Nikkei 225's sharp rise in mid-2023 on the back of improving economic data saw investors paying more attention to Japanese equities than they had for some time. A key question is whether Japanese companies are genuinely becoming more sustainable and regaining competitiveness on the world stage. This session will explore the toolkits that we can use to assess sustainability from multiple perspectives, how to apply those tools to Japanese equities, and what insights they tell us.

Presenters

Andrew Howard
Global Head of Sustainability, Schroder Investment Management

Natsuki Iida
Sustainable Equity Analyst, Schroder Investment Management

The final word

Frontier's trip, together with our enthusiastic study tour group, to the wonderful city of Tokyo reinforced the importance of several ongoing responsible investment themes, while also opening our eyes to new and emerging ones for further action.

The immense challenge of actually undertaking the work to achieve net zero greenhouse gas emissions by 2050 has dawned on the investment community. However, we must not be discouraged; it is vital to continue to act on our ambitious targets and support our fellow investors to do the same. In the face of potential hurdles such as the 'anti-woke' movement and concerns around greenwashing, we urge clients to act with authenticity and determine ways to progress in a manner which is fit-for-purpose for your portfolio. Relatedly, nature is an interconnected and important issue and one which investors should begin to consider alongside climate. Clearly, it is a highly complex topic, however, we recommend asset owners begin to build their understanding of the key facts and socialise nature-related financial risks and opportunities among investment teams with the help of the TNFD's guidance.

Japan is making leaps and bounds towards a more sustainable economy, with policies being implemented across a range of ESG factors. We were extremely encouraged to see first-hand the sophistication of Japanese corporates and investors quickly coming up the curve and we look forward to seeing what we expect will be a continuation in this trend. In time, we foresee Japan taking its place as a leader in global sustainability. Japan's GX is an area of keen interest as the country seeks to catchup to its global peers on the climate transition, fuel sustainable growth and ultimately, unlock value.

We look forward to discussing our insights further with clients and consider how they can be incorporated into your portfolio's unique set of objectives and constraints.

Want to learn more?

If you are interested in learning more about a specific topic, get in touch with a member of our Responsible Investment Group or your client team for a tailored discussion on how we can help with advancing your responsible investment objectives.

Frontier Advisors

Level 17, 130 Lonsdale Street, Melbourne, Victoria 3000

Tel +61 3 8648 4300

Frontier Advisors is one of Australia's leading asset consultants. We offer a range of services and solutions to some of the nation's largest institutional investors including superannuation funds, charities, government / sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis and general investment consulting advice. We have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

Frontier Advisors Pty Ltd ABN 21 074 287 406 AFS Licence No. 241266

Frontier Advisors