



ESG Portfolio Management

Session 14: Green and Transition Finance for Sustainable Investing
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2025 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES

Key Objectives

- “Risk Management (Protecting against sustainability risk)” is a key motivation for official institutions to incorporate Socially Responsible Investing into portfolio management

Official Institutions: Motivations to adopt SRI

Ranked motivations	2023	2020	2019
Protecting against sustainability risk	1	3	2
Reputational risk	2	1	1
To set a good example	3	2	3
Achieving positive impact	4	5	N/A
International standards/frameworks	5	4	5
Demand from stakeholders	6	6	4
Fiduciary duty	7	7	6
Legal requirements	8	9	N/A
Other	9	8	7

Source: Network for Greening the Financial System (May 2024)

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Key Objectives

- Applying ESG Scores and GSS (Green, Social, Sustainability) Bond Investing are commonly adopted ESG approaches within high-quality fixed income portfolios

ESG Approaches in High Quality Fixed Income Portfolio Management

ESG/SRI Approaches		Implementations in High Quality Fixed Income Portfolios
1	Negative Screening	Bloomberg MSCI Socially Responsible (SRI) Indices
2	Best-in-Class	Bloomberg MSCI ESG-Weighted Indices, Bloomberg MSCI Sustainability Indices
3	ESG Integration	Applying ESG Scores
4	Impact Investing / Labelled bonds	Investing in Green, Social, Sustainability Bonds
5	Voting and Engagement	Periodic Engagements with Issuers

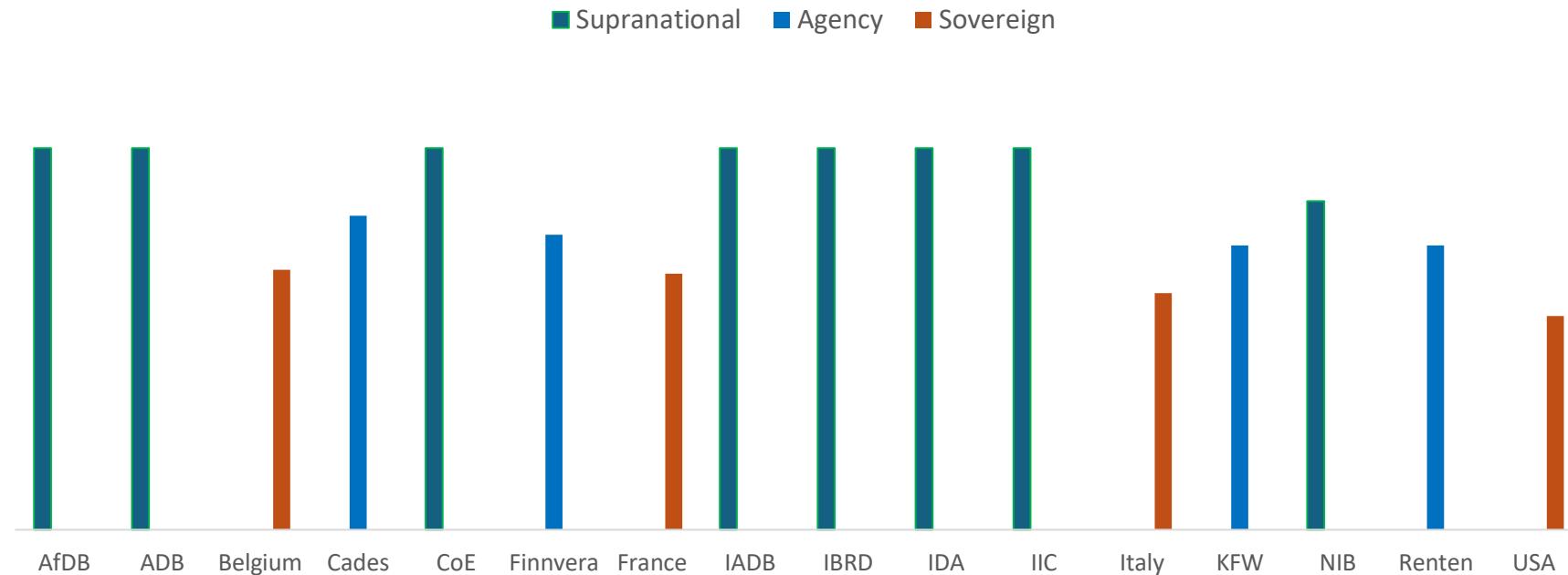
Source: Network for Greening the Financial System (May 2024)

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Supranational and Agencies

- Supranational and Agencies typically score higher in ESG metrics versus that of Sovereigns, creating a powerful outlet to incorporate responsible investing within high-quality fixed income portfolios

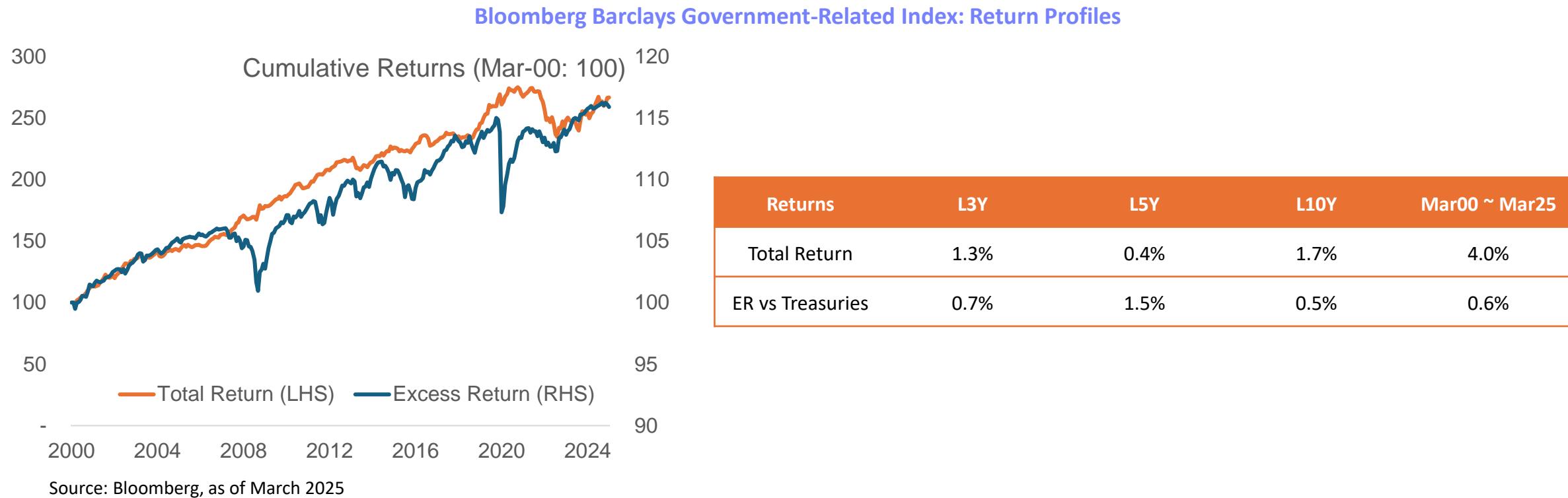
Stylistic ESG Scores: Supranational, Agencies, Sovereigns



Source: Created by the author based on ISS scores

Supranational and Agencies

- Bonds issued by Supranational and Agencies have outperformed US Treasuries over an investment cycle, primarily through accumulating additional coupon income over time



GSS (Green, Social, Sustainability) Bond Investing

- Market size of GSS bonds is at an estimate ~\$2.4 trillion, having nearly doubled in size over recent years
- **Supranational and Agencies in aggregate are the largest issuers**, owning primarily to their societal' accretive agendas

Estimation of GSS Bond Market Capitalization (\$ billion-equiv., select currencies)

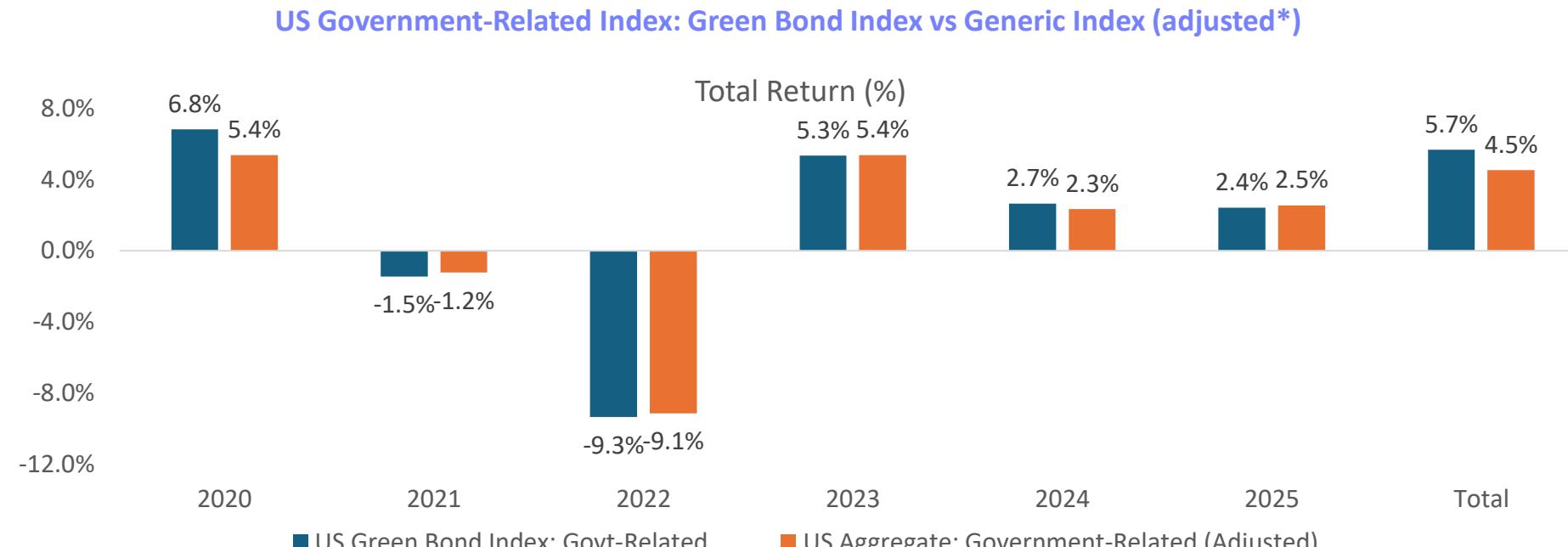
Dec/24	AUD	GBP	CAD	EUR	NZD	USD	Tot
AGENCY	9	4	5	279	3	59	359
CORP	3	52	21	547	0	175	797
EMERGING MARKETS	0	0	0	49	0	168	218
LOCAL GOVERNMENT	34	0	20	95	0	7	157
SOVEREIGN	5	46	8	234	5	0	298
SUPRANATIONAL	22	36	15	247	6	210	535
Grand Total	73	138	69	1,451	14	619	2,364

Source: Bloomberg, as of December 2024

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Green Bonds vs Nominal Bonds

- In the USD Government-Related market, Green Bonds generally exhibit equivalent performance to their nominal counterparts, refuting arguments of underperformance due to tighter spreads

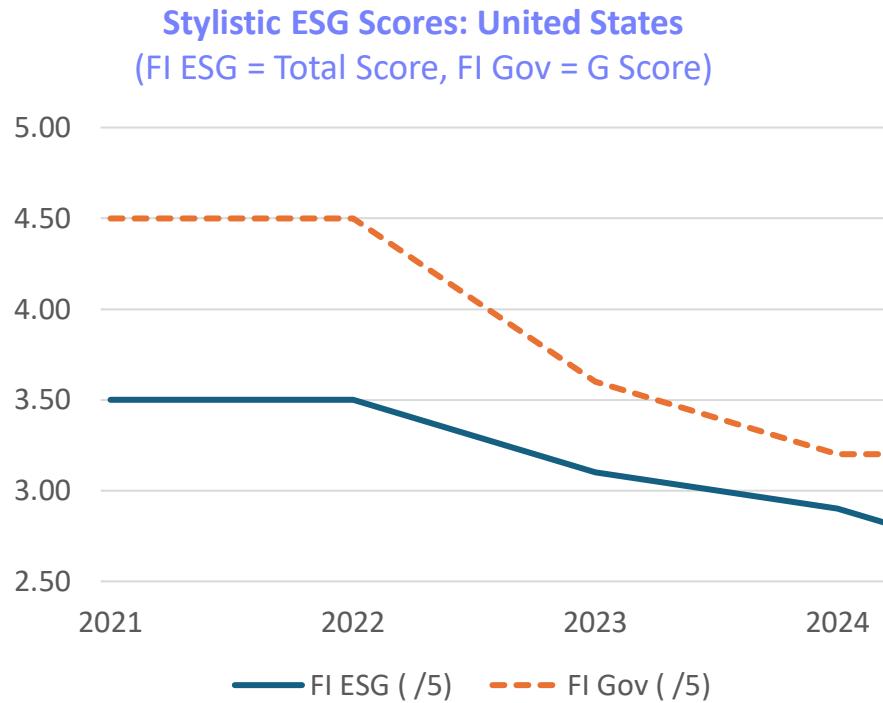


Duration: Green Bond Index 4.30 years, Generic Index (adjusted) 4.37 years

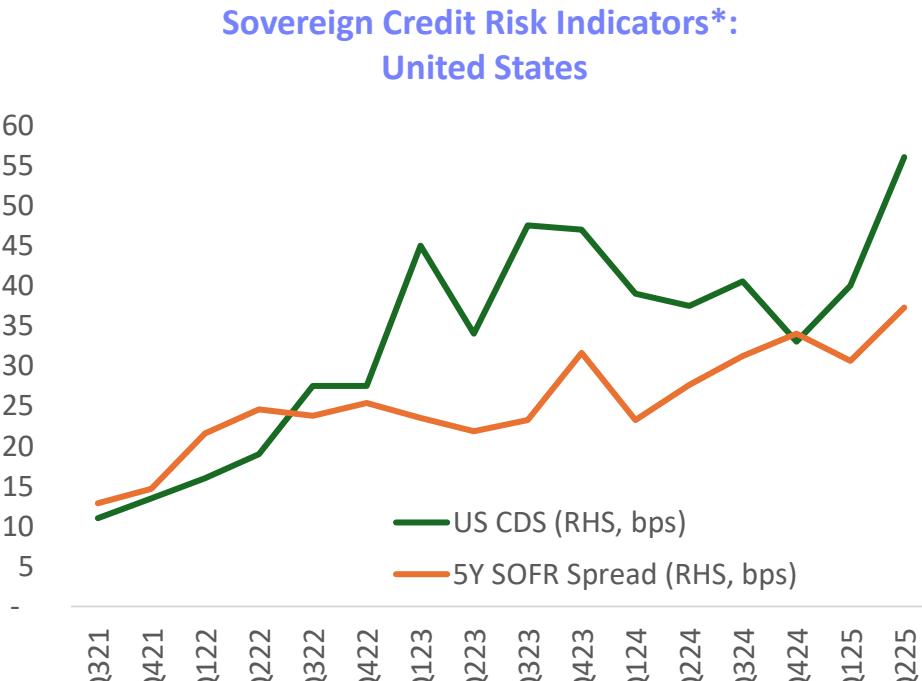
Source: Bloomberg, as of March 2025

ESG Scores and Sovereign Credit Risk

- Some support using ESG scores as a standardized risk metric in sovereign bond investing, citing their correlation with market indicators like CDS



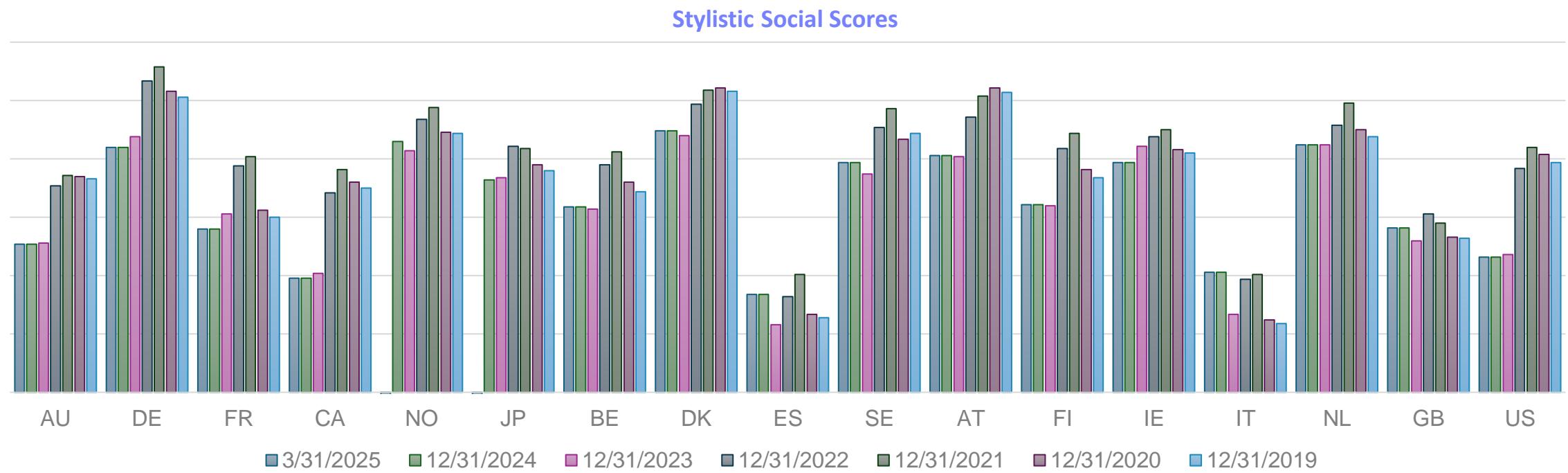
Source: Created by the author based on ISS scores



Source: Bloomberg, as of April 2025 *US CDS EUR SR 5Y D14 Corp, USSFCT05 BGN Ccy (inverted)

ESG Scores and Sovereign Credit Risk

- Social Scores are on a downtrend; possibly driven by the unwind of large fiscal packages endorsed during the pandemic
- A sovereign's political stability and governance are further challenged



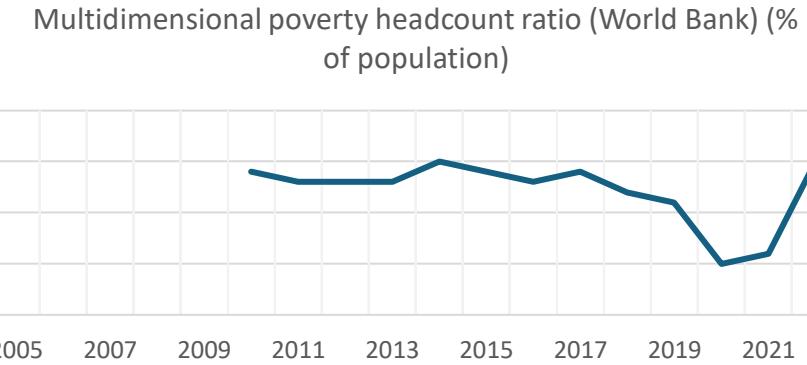
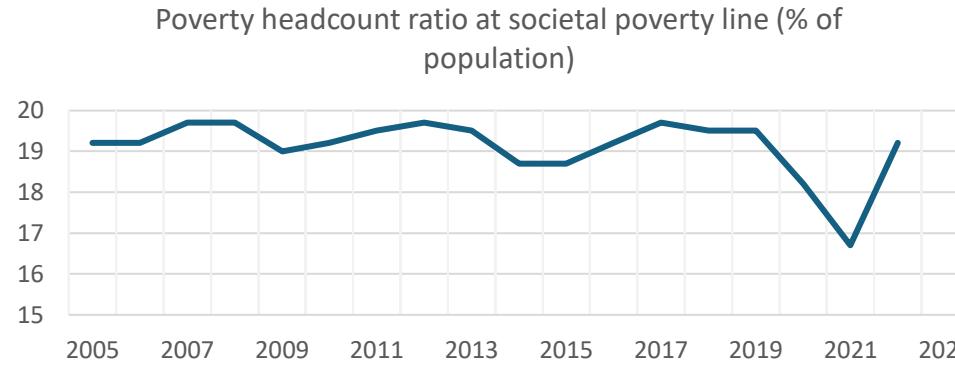
Source: MSCI, as of March 2025

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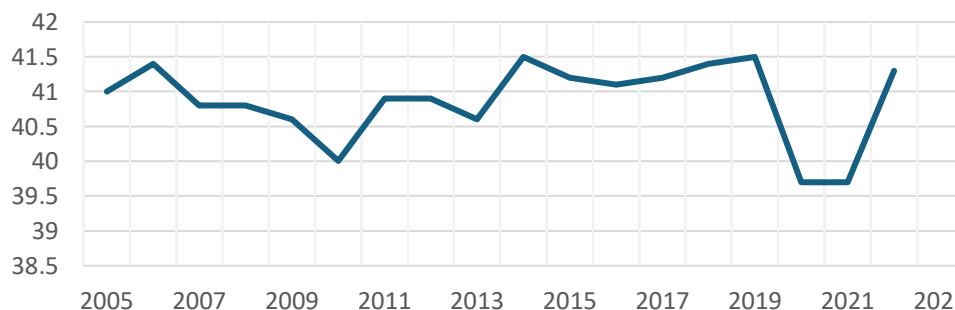
ESG Scores and Sovereign Credit Risk

- Social Scores are generally based on indicators such as Poverty Rates and the Gini Index, which are seen as reflective of widening social disparities

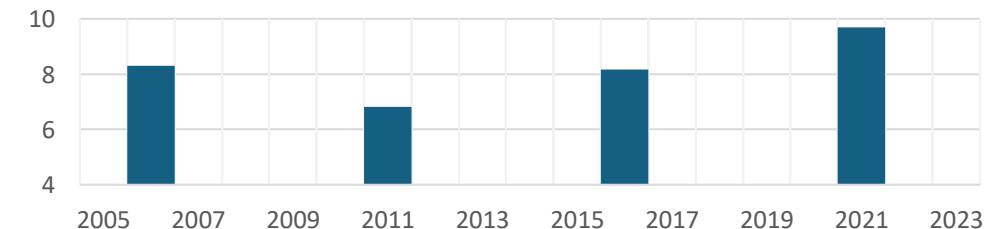
World Development Indicators: Sample societal-related data, United States



Gini index



Learning poverty: Share of Children at the End-of-Primary age below minimum reading proficiency adjusted by Out-of-School Children (%)



Source: World Bank, as of April 2025

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Thank you for your kind attention

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