



# ESG Portfolio Management

**Session 14: Green and Transition Finance for Sustainable Investing**

Speaker: Itaru Fujieda, Ministry of Finance, Japan

**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)

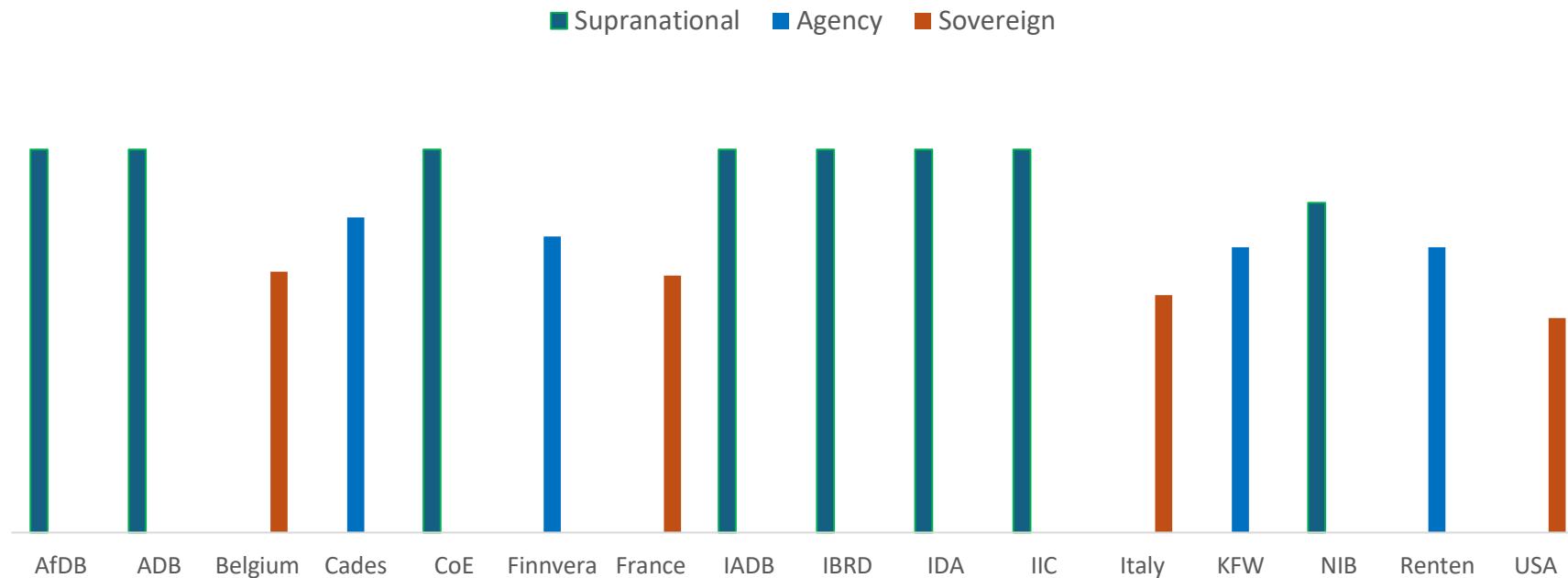
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# Supranational and Agencies

- 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



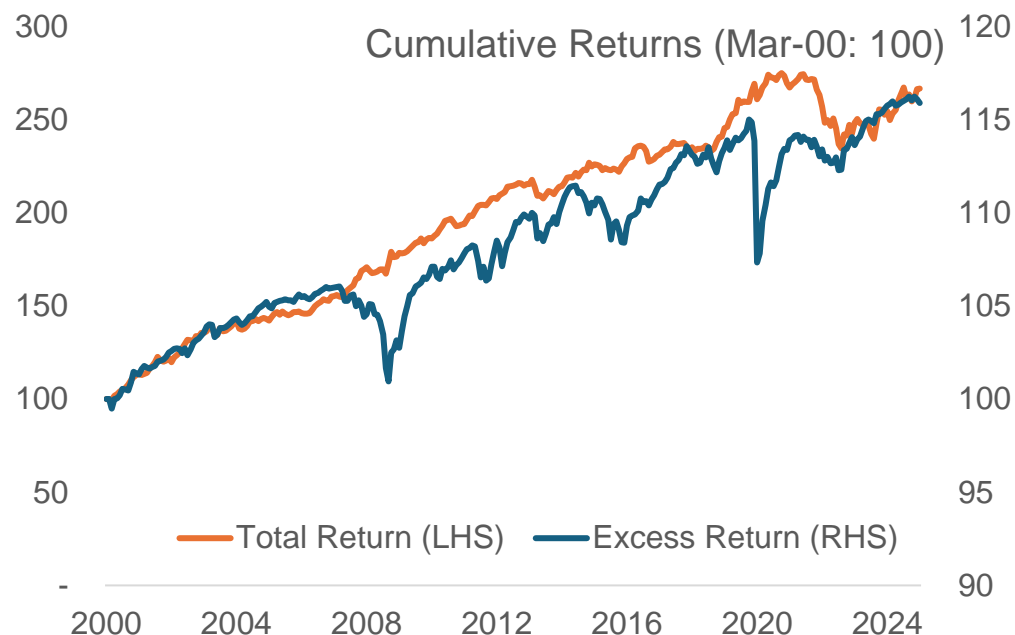
Source: Created by the author based on ISS scores

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# 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

Bloomberg Barclays Government-Related Index: Return Profiles



Source: Bloomberg, as of March 2025

Returns	L3Y	L5Y	L10Y	Mar00 ~ Mar25
Total Return	1.3%	0.4%	1.7%	4.0%
ER vs Treasuries	0.7%	1.5%	0.5%	0.6%

# 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**, owing 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
<b>Grand Total</b>	<b>73</b>	<b>138</b>	<b>69</b>	<b>1,451</b>	<b>14</b>	<b>619</b>	<b>2,364</b>

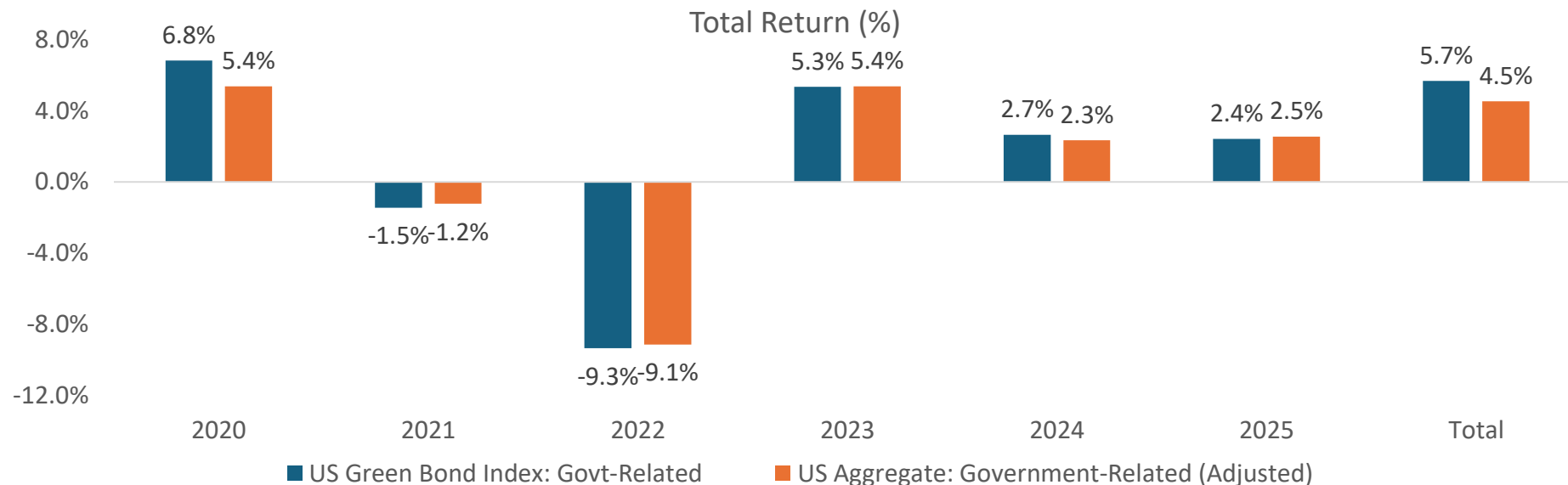
Source: Bloomberg, as of December 2024

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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

US Government-Related Index: Green Bond Index vs Generic Index (adjusted\*)

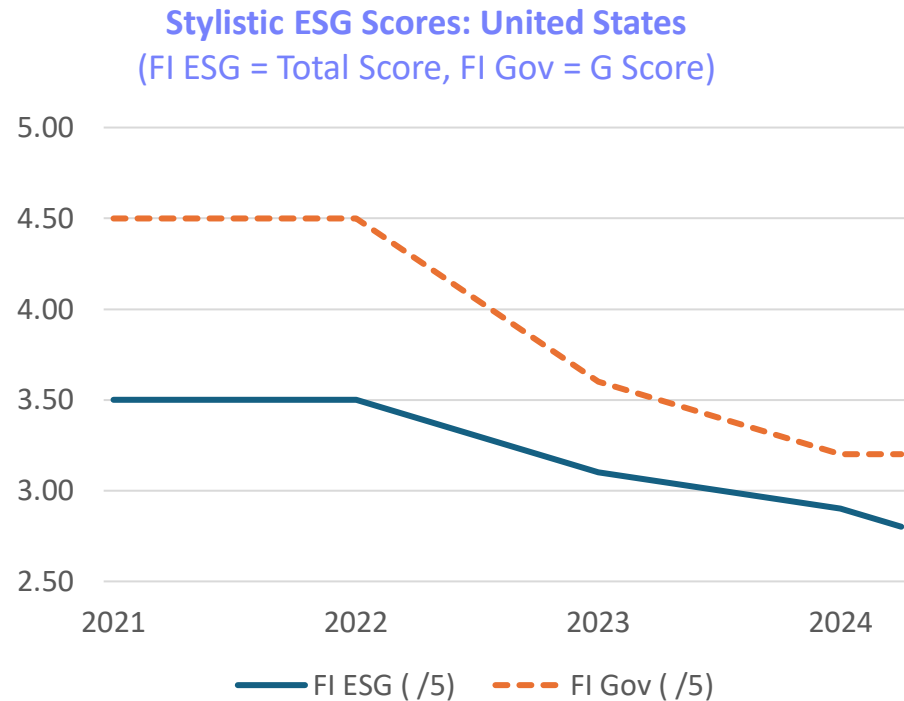


Duration: Green Bond Index 4.30 years, Generic Index (adjusted) 4.37 years

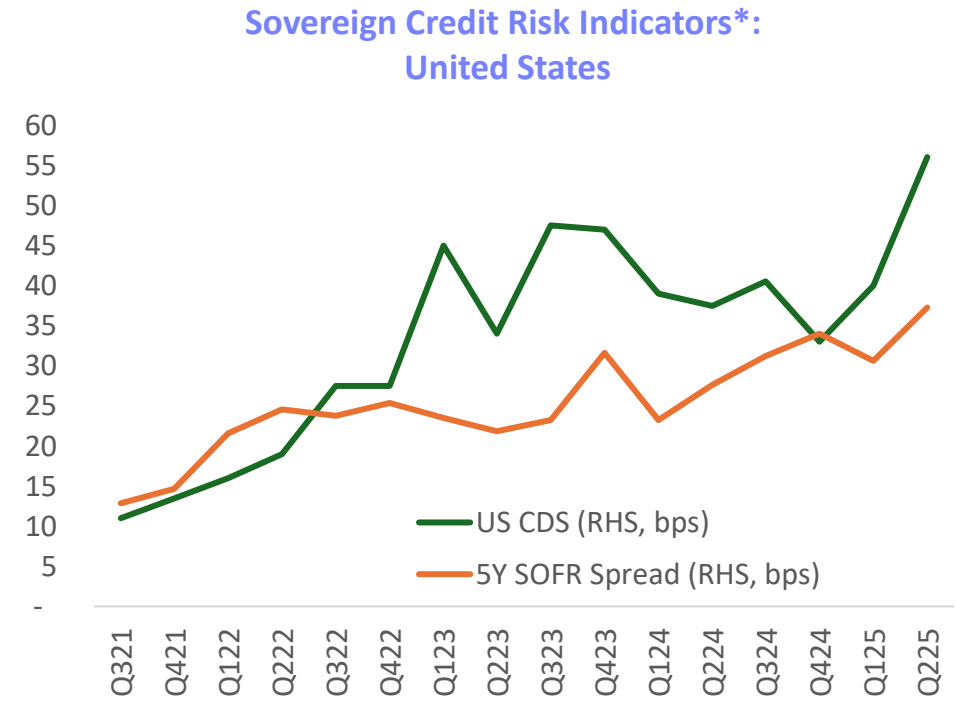
Source: Bloomberg, as of March 2025

# 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 Curncy (inverted)

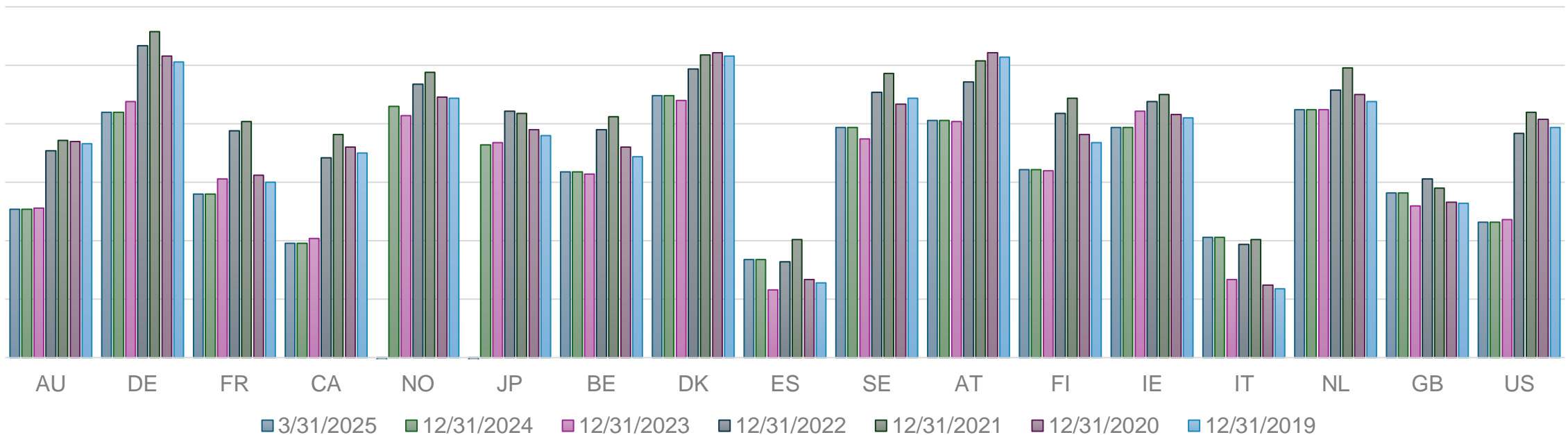
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# ESG Scores and Sovereign Credit Risk

- 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

Stylistic Social Scores

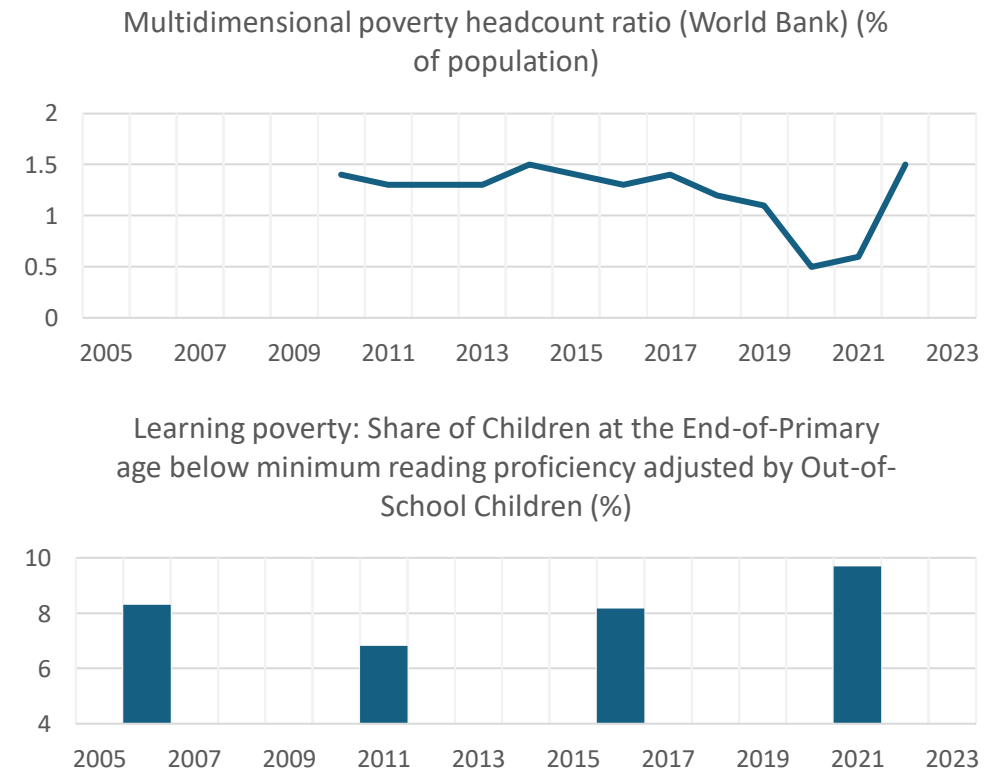
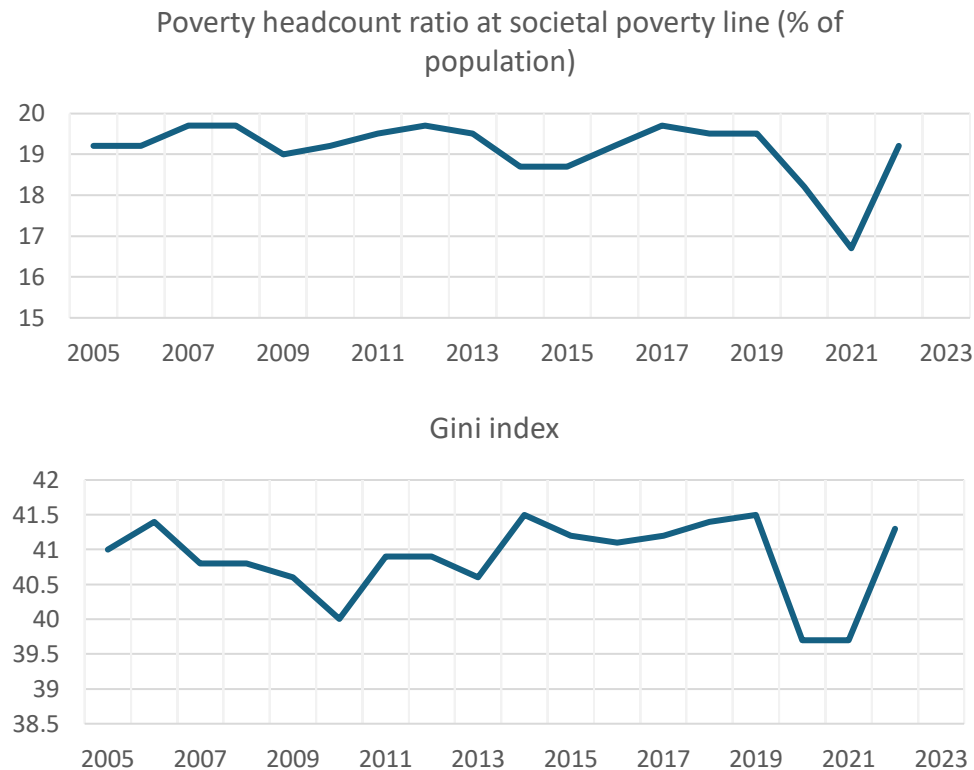


Source: MSCI, as of March 2025

# 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



Source: World Bank, as of April 2025

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# Thank you for your kind attention

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