

# sustainable japan

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## PRI's Morisawa discusses Japan institutional investors

### Unraveling Japanese Companies

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As the world struggles to curb global warming and other threats to the environment and society, what role should Japanese institutional investors play?

What they need to do, says Michiyo Morisawa, the Japan senior lead of the global network Principles for Responsible Investment (PRI), is to build up more knowledge and analytical capacity to support investee companies' long-term sustainable business strategies.

European institutional investors have gained a high reputation among top Japanese managers for their expertise on making good suggestions for businesses' futures. The United Nations-supported PRI was launched in 2006 to encourage institutional investors to incorporate ESG (environmental, social and governance) factors into their investment decisions.

In recent years, companies have faced increasing pressure to disclose information about the risks and opportunities of how environmental and social issues influence their businesses, while institutional investors have come to feel more responsible to help support a sustainable society.

Asked what Japanese investors can do to create effective dialogues with their investees, Morisawa said, "The first thing they must

do is to expand their knowledge." The ultimate purpose of such engagement between institutional investors and companies is to raise corporate values in the long run. "Those who promote engagement need to have the ability to analyze the companies and make suggestions," Morisawa said in the recent interview, part of a monthly series by Naonori Kimura, a partner for the consulting firm Industrial Growth Platform Inc. (IGPI).

"What asset owners think decides their course of action in the capital markets, as they are positioned in the upstream of investment chains," Morisawa said. Asset owners, based on their fiduciary duty to act in the best interest of their beneficiaries, give investment directions to asset management companies, which determine where the money is invested. This means asset owners' investment policies strongly affect asset managers, she said.

It would be ideal if asset owners set up clear policies or frameworks and showed them to asset management firms. Also, a set of rules like the EU's taxonomy system for sustainable finance would be useful, she said. The European Commission says the EU taxonomy, launched in 2020, helps companies and investors identify "environmentally sustainable" economic activities and make investment decisions accordingly.

Morisawa said the global investment landscape has changed drastically in the past decade, with an approach that takes ESG issues into account coming to permeate the financial markets.

Since PRI was established, more than



**Michiyo Morisawa, PRI senior lead and Japan Times ESG Consortium chair** YUICHO TAIYA

5,300 institutions around the world have signed the framework aiming to promote investments with a long-term perspective. As a result, there is a global consensus in the business world to protect the environment and natural and human resources.

In Japan, the Financial Services Agency set up the Stewardship Code, based on the U.K. Stewardship Code, in 2014 to encourage constructive dialogue between investors and investees for sustainable corporate growth. The following year, the Tokyo Stock Exchange created its Corporate Governance Code, requiring companies to make fair and transparent decisions for all kinds of stakeholders — including shareholders, customers, employees and local communities. Those listed on the Prime market are now required to prepare disclosures in English for

overseas investors.

Also, the 17 sustainable development goals adopted by the United Nations in 2015 and the 2015 Paris Agreement on climate change have affected the progress of the global consensus on ESG issues, Morisawa said.

However, Japanese institutional investors need to catch up with their Western counterparts, she said. "Although more than 5,300 institutions are PRI signatories, about 4,000 of them are those in Europe and North America," Morisawa said, and the number in Japan is a mere 120 or so. "Among Japanese asset owners, many insurance companies signed the PRI, but few public pension funds did. There is a gap between how the Japanese government has committed itself to carbon neutrality and how the public pension funds act."

Japan's commitment dates to 2020, when then-Prime Minister Yoshihide Suga pledged in his first policy speech that the country aimed to cut greenhouse gases to zero by 2050 and become a carbon-neutral society.

Since the Government Pension Investment Fund (GPIF), the nation's largest public fund investor by assets, became the first Japanese institution to sign the PRI in 2015, it has proactively worked on ESG-related investments. But few other pension funds followed suit. Hoping to speed up this slow progress, Prime Minister Fumio Kishida last October told the annual global conference PRI in Person that at least seven Japanese pension funds managing as much as ¥90 trillion (\$580 billion) would join the initiative. In March, one of the pension funds, the Federation of National Public Service Personnel Mutual Aid Associations, signed the PRI.

Kishida's pledge is part of the government's plan to encourage a larger portion of the nation's household financial assets, worth more than ¥2 quadrillion, to be channeled into investments, which would benefit both corporate growth and households themselves. Other parts of the plan include widening the Nippon Individual Savings Account (NISA) program, a new type of tax exemption for small investments, reforming asset management businesses and encouraging good corporate governance.

Investees' ESG-related disclosures have progressed in the last decade. Last year, the International Sustainability Standards Board (ISSB), a global body for setting disclosure standards, published the final version of its standards, addressing the issue that global companies' disclosures had been based on many different standards. Based on these new standards, the Sustainability Standards Board of Japan (SSB) plans to finalize the Japanese version by the end of this business year next March.

Morisawa said one problem is that a large number of small-capitalization firms listed on the Tokyo Stock Exchange are not yet ready for sustainability-related disclosures.



**"The first thing [Japanese investors] must do is to expand their knowledge."** YUICHO TAIYA

Many global companies have been able to figure out how much carbon they emit and how and where to reduce it, based on data gathered scientifically. "But in the case of companies that are not able to do so, what they should do first is to identify the emissions and disclose the data," she said.

Such smaller firms also have issues of transparency, Morisawa pointed out.

Some of them have cross-shareholdings to protect themselves from activist investors. But it is important, she said, to unwind these holdings in order to improve their market transparency as well as their management. "They have to work on disclosure, taking into account what they must do to attract investors who can become their long-term supporters," she said.

Also, some companies outsource their production and have a wide range of suppliers, like Apple, which makes it hard to figure out their overall emissions. They need to prompt their suppliers to identify and disclose their carbon emissions and then make plans for reducing them, she said.

In rural areas, not only megabanks but local banks and *shinkin* credit banks have expertise in regional businesses and therefore through their investments and lending should be able to play a role in encouraging local companies to reduce carbon emissions, shift to renewables and update manufacturing facilities, she said. "It is time for them to work for their local communities."



**"What asset owners think decides their course of action in the capital markets, as they are positioned in the upstream of investment chains," Morisawa said.** YUICHO TAIYA

## Tottori wagyu and wine paired at New Otani Tokyo fair

### Satoyama - Authentic Japan

**MAIKO MURAOKA**  
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The Tottori Wagyu Fair is taking place at six restaurants in the Hotel New Otani Tokyo until July 15. The event has been hosted by the hotel every year since 2018, and this year is offering a new way of enjoying the premium wagyu together with wine from Tottori Prefecture.

In a recent interview that took place at Seisen-tei, a *teppanyaki* grill restaurant located in the Japanese Garden of the hotel, Tottori Gov. Shinji Hirai and Shinsuke Nakajima, the executive managing director and executive chef of New Otani Co. Ltd., talked about the high-quality wagyu and its pairing with wine produced by Hojyo Winery in Tottori.

In Tottori, with centuries of tradition as one of the major horse and cattle markets in Japan, there are descendants of the Ketaka sire that won first prize at the first wagyu contest in the 1960s. "Descendants of the Ketaka are characterized by its high level of oleic acid in loin, the main constituent of olive oil. Unlike lard, fat that contains a lot of oleic acid is not cloying. It is light and melts easily in your mouth," Hirai said. This beautiful flavor and texture has been inherited by many of the descendant of the Ketaka in Tottori.

Hirai said local farms have never stopped trying to produce better high-quality wagyu despite many hardships in recent years such as the rising cost of feed and utilities. "Against

such a backdrop, we are extremely encouraged by the Hotel New Otani Tokyo's commitment in promoting Tottori wagyu and serving it with refined techniques," he said.

He was also delighted to see the successful pairing of Tottori wagyu and the local wine. "This wine is also the result of continuous effort by the producer, who has overcome a massive loss of wine equal to 50,000 bottles due to an earthquake that occurred in central Tottori Prefecture in 2016. The third-generation manager of the winery and his Ukrainian wife have been pouring their hearts and minds into making good wines. We are proud and grateful that Hojyo wine was chosen as part of the fair," Hirai said.

Nakajima said Executive Chef Sommelier Nobuhide Tani recommended the wine in the process of creating the menus for this year's fair. "The moment I tasted it, I was sure that it matches perfectly with Tottori wagyu. In the culinary world, we often combine various ingredients produced in the same region for a harmonious effect. Similarly, I think that the wine and beef made in the same area using the same, clean water from the rich natural environment should be an ideal match," Nakajima said.

The combination of the delicate and sophisticated wine and flavorful and tender Tottori wagyu can be enjoyed at Sekishin-tei, a *teppanyaki* restaurant next to Seisen-tei with a view of a carp-filled pond and the Japanese Garden. The wine can be ordered by the bottle or the glass, and is best enjoyed with meals that feature sirloin and beef filet along with rice and other Japanese-style side dishes.

"Tasting and comparing different parts of the meat such as sirloin and filet is something we often do as chefs to evaluate the quality of the meat in deciding what and how to serve our guests. Offering our guests a chance to eat the meat the same way chefs do in the kitchen is proof of our confidence in Tottori wagyu," Nakajima said.

This year's Tottori Wagyu Fair menus have both new items and standards that have proved popular in the previous fairs. One of the perennials is round steak topped with



**Tottori Gov. Shinji Hirai (left) with Shinsuke Nakajima, executive chef at the Hotel New Otani Tokyo** YUICHO TAIYA

sliced lemon and lemon sauce, served at the Satsuki coffee shop. "The fat high in oleic acid goes well with the freshness of lemon," Nakajima said.

One of the new offerings is a smashed hamburger with sauteed mushrooms and onions, red wine sauce and cheddar cheese. "We thought that the easiest way to present the unique characteristic of the beef would be to make something that many people are accustomed to eating," Nakajima said.

Hirai commented that Tottori is also blessed with an abundant variety of livestock and crops nurtured by the rich nature and soil. "For example, Tottori is a major production area for scallions, watermelons, *nashi* pears and Hakushu Bijin, a kind of leek that becomes melty and sweet when stewed — another ingredient that goes perfectly with Tottori wagyu," he said. The prefecture also has many must-see sights such as the vast Tottori Sand Dunes; Mount Daisen, the highest peak in the Chugoku region; and the vast Sea of Japan. "Through the encounter with Tottori's delicacies at the Hotel New Otani Tokyo, we hope that many people will be inspired to visit our prefecture to feel the environment and tradition that have nurtured the rich food culture," Hirai said.

Tani explained that the reason why this wine is not labeled as vintage is because it is a blend of multiple great vintages from the past years. "As a result, the concentration and maturation unique to a great vintage is achieved to make this wine exceptionally well-balanced," he said.



**Tottori wagyu** YUICHO TAIYA

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# Destination Restaurants

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A list of the best restaurants in Japan, selected by Japanese experts with international diners in mind.

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