2021

The Current State and Challenges of Impact Investing in Japan

FY2021 Survey

March 31, 2022

The Japan National Advisory Board, The Global Steering Group for Impact Investment
(GSG-NAB Japan)

About The Current State and Challenges of Impact Investing in Japan - FY2021 Survey

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About GSG-NAB Japan

The Global Steering Group (GSG) is a global network, with 33 nations plus the EU as members, which aims at promoting impact investing in partnership with financial institutions, governments, international organizations, businesses, and other entities around the world. The Japan National Advisory Board, The Global Steering Group for Impact Investment (GSG-NAB Japan) was established in 2014 as GSG's national advisory board in Japan. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG-NAB Japan's activities revolve around three pillars of research and publication, awareness-raising, and networking.

Positioning of this report

This report summarizes the current state of impact investing in Japan for the purpose of promoting it in Japan. It has been published under the supervision of GSG-NAB Japan every year since 2016, reporting the current state of impact investing in Japan.

The main part of the report presents the impact investment balance[1] in Japan based on the questionnaire survey results. It also provides examples of institutions engaged in impact investing, and trends in the field in Japan as derived from the questionnaire.

Acknowledgements

We would like to express our appreciation to everyone who cooperated in the questionnaire, interviews and the preparation of this report, particularly to Researchworks Corporation, the company that administered the collection of responses.

1 Please note that what is presented is based on the results of the questionnaire survey, and the figures are not strict market estimates.

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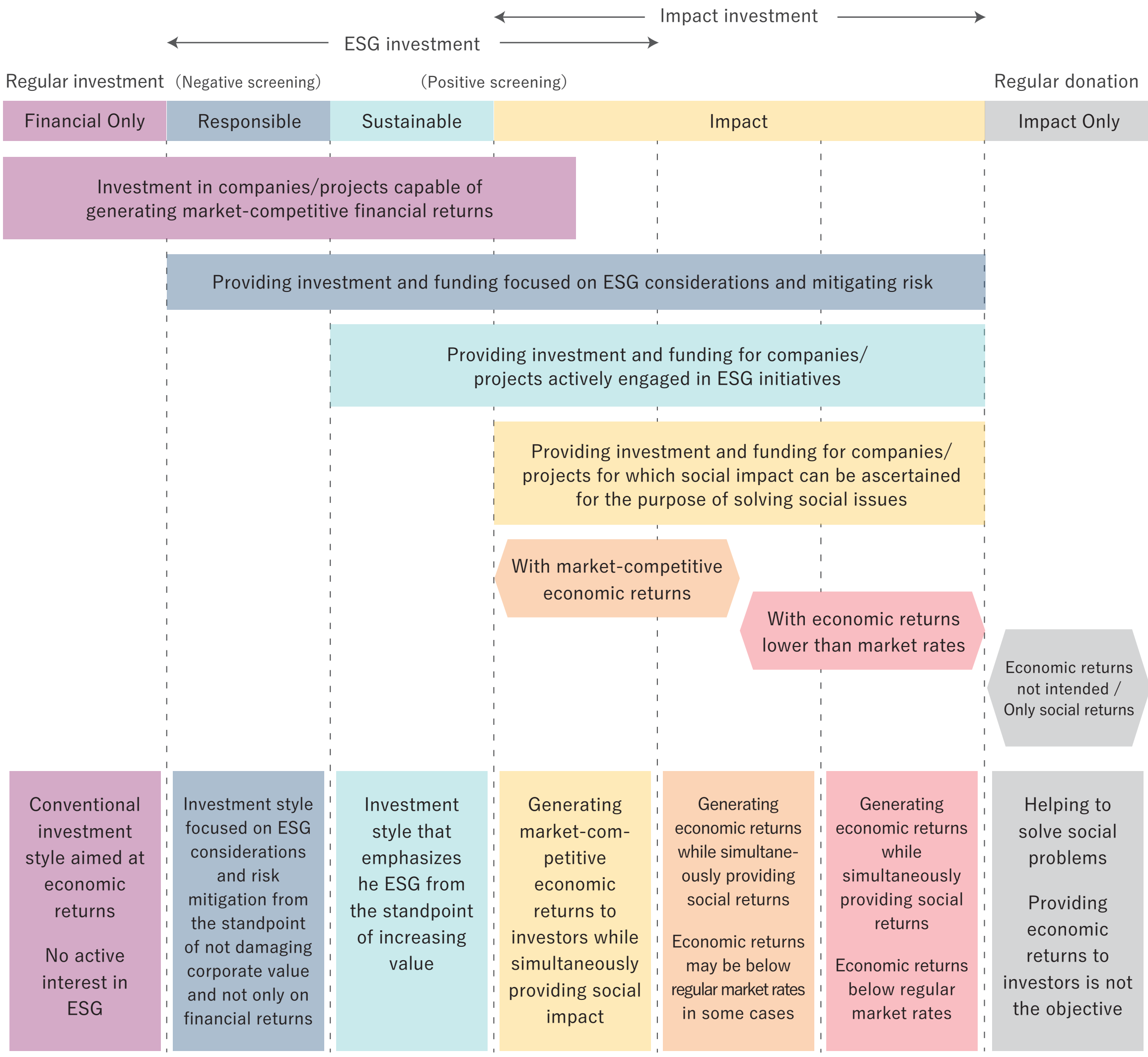
Executive Summary

This year's report presents the current state of impact investing in Japan. It is for the purpose of sharing information for the promotion of impact investing in the country and has been published under the supervision of GSG-NAB Japan.

"Chapter 1 : What Is Impact Investing" outlines the definition of impact investing, goes over its history globally, presents the background to its development in Japan, and summarizes topics from recent years.

In accordance with the definition of the Global Impact Investing Network (GIIN), impact investing refers to investing activity that is intended to generate a positive, measurable social and environmental impact alongside financial returns.

Figure 1. Spectrum of impact investing



Source: *Position Paper on Expanding Impact Investing 2019* (GSG-NAB Japan)

The following are some of the notable developments in impact investing in Japan and overseas in 2021 and early 2022.

Figure 2. Developments in impact investing from 2021 to the beginning of 2022

Global movements	IFRS Foundation established the International Sustainability Standards Board (ISSB) - Set international disclosure standards for non-financial reporting
	G7 set up the Impact Taskforce within its framework - Toward impact-driven economies and societies
	The Impact Management Project was developmentally dissolved and the Impact Management Platform was set up - To make impact measurement and management be in the mainstream
Actions by governments of other countries	The British government announced a roadmap to sustainable investing - To lay down information disclosure requirements for businesses
	The EU published its sustainable finance strategy - Financial support for carbon neutrality, etc.
	The US government changed its stance on sustainable investing - The attitude toward ESG investing in employer-sponsored pension plans
Actions by the Japanese governments and other Japanese public bodies	Movements of the Financial Services Agency, the Ministry of the Environment, and the Bank of Japan for sustainable investing - Progress of specific measures
	Prime Minister Kishida mentioned impact investing in his first policy speech - Impact investing as part of public-private partnerships
Actions by Japan's private sector	Diversification of investees in impact investing - Emergence of public equity funds
	Diversification of investors engage in impact investing - Entry of regional financial institutions and incorporated schools into the market
	Financial business operators and institutional investors signed the Japan Impact-driven Financing Initiative - Agreement on contribution to practicing impact investing and expanding the impact investing market

"Chapter 2: Japan's Impact Investing Market" analyzes the responses to the Questionnaire Survey regarding Impact Investment (2021); and it is the main part of the report. It first describes the survey methods and the inclusion criteria of impact investing in the survey. The chapter then presents the impact investment balance in Japan based on the questionnaire and the compiled results of the responses, and summarizes the impact investing market in Japan, and shares its current state and the issues. The report includes a new initiative that started last year. In addition to the conventional questionnaire, a survey of market estimates based on public information has been conducted to calculate the estimated maximum (potential) of Japan's impact investing market. Details on the survey method are provided in the body of the report.

Summary of survey method

- Survey period: September 2021 - January 2022
- 580 surveys were distributed and 77 were collected (a response rate: 13.2%). It was mainly distributed to institutional investors and financial institutions.

Definition of “impact investing” used in the questionnaire

The definition of “impact investing” used in the Questionnaire Survey and presented to respondents includes all of the following.

■ **Impact investments are investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return**(*1)[2]

*1 Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called “investments.” Donations, subsidies, and grants are excluded.

■ **Impact Measurement and Management**[3] **(IMM)**(*2) **is conducted before and after making investments (who does the post-investment measurement does not matter)**

*2 IMM refers to the assessment and management process based on impact measurement. This process incorporates into the investment process the quantitative and qualitative assessment of an impact in order to determine the value of the business and/or activities (for example, the value may be used as a criteria when an investment decision is made, or in the reports during the investment period and after investment). Improvements are made to the business and decisions are made based on the information that is acquired through the process, aiming to increase the impact.

■ **The results of Impact Measurement and Management (IMM) are shared with investors**(*3)

*3 In case of a privately placed financial product (e.g., a syndicated loan, an investment trust or privately placed corporate bonds for institutional investors), the lead bank, investment manager, and issuer share the results of impact measurement with investors. In case of a publicly offered financial product (e.g., an investment trust for individual investors, publicly traded bonds), the results of impact measurement are available to the public, as the product is publicly offered. As for impact investing that an investor does on his/her own account, this criteria is not applicable because the investor obviously knows the results of the impact measurement.

Notes:

- **The Survey is not meant to make an accurate market estimate :** The Survey results are the accumulation of responses to the questionnaire returned by mail or in electronic form. They are not meant to provide an estimated size of the impact investing market in a strict sense.
- **In principle, responses are self-reported :** Like the GIIN Annual Impact Investor Survey, responses are self-reported by the responding organization, and incomplete responses are supplemented with an additional interview (by email or telephone).
- **Data cleaning and accuracy :** The survey team removed or corrected responses that contain inconsistency or misunderstanding to the full extent possible and took great care to prevent a double-counting of AUM. These efforts, however, do not guarantee complete accuracy of the survey results.

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2 The description is based on the GIIN Annual Impact Investor Survey 2020. The GIIN questionnaire survey defines the term as “Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. They can be made across asset classes, in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the investors’ strategic goals.” The underlined sentence is presented in the survey form, and the remaining portion in the letter sent with the survey form.

Inclusion criteria applied to impact AUM

While the responses to the Questionnaire Survey were self-reported ones, impact AUM were classified to be included or excluded based on responses to the questions that asked about criteria for impact investing. As for inclusion criteria, the FY2021 Survey used a new criteria shown as ④, in addition to ① to ③ used for the FY2019 and FY2020 Surveys below. Impact AUM that meet all these four criteria were included.

① The responding organization is a corporation based in Japan.

This Survey is on impact investing in Japan. Hence, responding organizations must be corporations based in Japan. Note that the investee companies may be located outside of Japan. If a respondent is a multinational corporation, its responses must be about impact investing activities by its incorporated Japan office.

② The responding organization uses output [4] and/or outcomes [5] as metrics for Impact Measurement and Management (IMM).

This year's Survey, just as the FY2020 Survey, did not specify what must be measured about a business as metrics for an impact, including whether metrics for business outcomes were a requirement or whether metrics for output alone would do. Since there is no international standard for metrics that all countries follow, what should be included in the measurement will continue to be explored depending on the stages of Japan's market evolution.

③ The responding organization conducts Impact Measurement and Management (IMM) at the time of making an investment decision and after making the investment.

Impact Measurement and Management (IMM) at the time of an investment decision must be conducted by the investor organization, an investment manager, investment fund provider, or an outsourced third-party assessment organization. Post-investment IMM may be conducted by any qualified person, such as a financial intermediary (e.g., a securities firm other than those stated above, bond issuer, or business operator that receives the investment or loan).

④ The results of the Impact Measurement and Management (IMM) are shared with investors.

As stated in the definition, impact investing focuses on each investor's "intention (to generate an impact for investors)." When an intermediary (asset manager or investment fund provider) is used between the final investor and an investee, the results of IMM conducted by the intermediary must have been shared with the final investor in order to determine that the final investor, institutional or individual, has had "the intention to generate an impact" and made "a decision based on the impact."

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3 This term has been created to represent the concept that integrates the conventionally used terms "social impact evaluation" and "social impact management," so that it is consistent with the "Impact Measurement and Management (IMM)," which is an internationally accepted concept of impact investing initiatives. For details on the idea behind the change, please see "Consolidating Terms Related to Impact Investing" in this report and "Consolidating Terms Related to Impact Investing" in the FY2020 Report (Page 20).
FY2020 Report: https://impactinvestment.jp/user/media/resources-pdf/gsg-2020.pdf

4 "Output" refers to direct results of organizational or business activities such as products and services. E.g., the number of times the activities have been done; the duration of activities; the number of participants.

5 "Outcomes" refer to changes and benefits as a result of the output of a business or project. These changes are brought to beneficiaries as the effects of a program or activity that has been carried out. E.g., Vocational skills that have been acquired; a positive mental attitude; new employment.

Impact AUM

As the results of the Questionnaire Survey and the market estimate survey described later, the scale of the impact investing is presented with three types of figures.

1. Impact AUM, as ascertained by the Survey Questionnaire (new FY2021 criteria): 1.3204 trillion yen

*The figure was calculated using the new criteria in this year's Survey (i.e., the results of IMM were shared with the final investors) (all four inclusion criteria ① to ④ were met).

The figure is the sum of the investment balances of the 31 organizations that responded to the Questionnaire Survey regarding Impact Investment (2021) and met the aforementioned inclusion criteria for impact investing based on self-reporting. Which is to say, after the investing is recognized as impact investing, the figure represents the sum of investment balances for which Impact Measurement and Management (IMM) was conducted both before and after the investing, and when the results of the IMM were shared with the final investors.

2. AUM that was ascertained by the Survey Questionnaire when the results of Impact Measurement and Management (IMM) were not required to share with investors (old FY2020 criteria): 1.4814 trillion yen

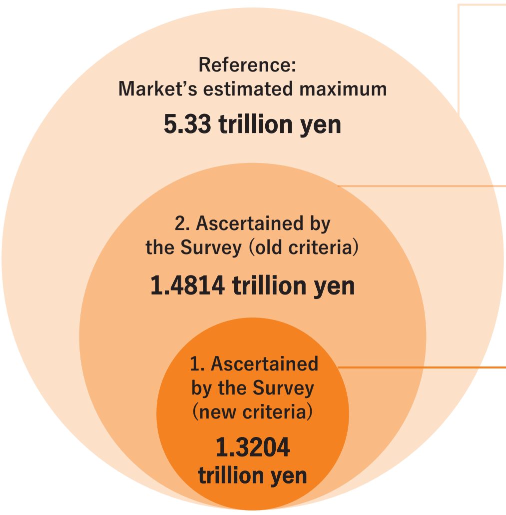
*The figure was calculated using the old criteria in the past Surveys (i.e., the results of Impact Measurement and Management (IMM) were not required to share with the final investors) (Criteria ① to ③ were met, but ④ was not).

The figure is the sum of the AUM of the responding organizations whose intermediaries were not required to share the details of measurement with the final investors. In order to ensure that it is the "intention (to generate an impact)" of the final investor, in cases in which an intermediary is the one that conducts Impact Measurement and Management (IMM), the results of the measurement should be shared with the final investors.

Reference figure: Maximum estimate (potential) in the market: 5.33 trillion yen

In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evluation based on impact measurement is conducted before and after investment, and is the maximum estimate of what can be impact investing. For details, refer to the "Market Estimate Survey" section below.

Figure 3. Scale of Impact AUM



Market's estimated maximum (potential)

Estimated maximum of potential impact investments. In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evaluation based on impact measurement is conducted before and after investment. (Details are in the "Market Estimate Survey" section below)

Impact AUM that was ascertained by the Survey Questionnaire when the results of Impact Measurement and Management (IMM) were not required to share(old FY2020 criteria)

The figure is the sum of the AUM of the responding organizations whose intermediaries were not required to share the details of measurement with the final investors.(Inclusion Criteria ① to ③ were fulfilled, but ④ was unfulfilled)

Impact AUM, as ascertained by this Survey Questionnaire (new FY2021 criteria)

The figure represents the sum of the investment balances which are based on the Survey, and for which Impact Measurement and Management (IMM) was conducted before and after the investing, and when the results of the IMM were shared with the final investors.(All Inclusion Criteria ① to ④ were fulfilled)

Observations about factors behind the growth of impact AUM

Last year's FY2020 Survey ascertained that the impact AUM totaled 328.7 billion yen (new FY2021 criteria was applied for the purpose of comparison)[6]. This year's FY2021 Survey found that the impact AUM amounted to **1.3204 trillion yen**, about **a four-fold increase**. This section explores factors behind this rapid growth.

The impact AUM in Japan shown in this report are figures that were ascertained based solely on the surveys of institutional investors and financial institutions. With this fact in mind, we believe that the following three factors are behind this increase in AUM.

1) **Existing** institutions that had already engaged in impact investing **increased** their investments.

2) **New** institutions **entered the market** of impact investing.

3) **Diversification of asset classes** of impact investing, which underlies 1) and 2).
(Investments increased particularly in **public equity** and **debt**, as they easily grow in scale)

Regarding 1), we extracted 20 organizations engaged in impact investing which responded to both FY2020 and FY2021 Surveys. These repeat respondents' impact AUM calculated from the FY2020 Survey totaled approx. 322.6 billion yen (new FY2021 criteria was applied for the purpose of comparison), and those from the FY2021 Survey approx. 656.3 billion yen. This means that the year-over-year growth rate of impact investing by these institutions alone doubled to reach 203 percent (the chart below).

Figure 4. Impact AUM, asset manager AUM, and growth rate of repeat responding institutions[7]

*Number of institutions that had year-over-year growth

Impact investing institutions that responded to the Surveys for two consecutive years (n=20)	FY2020 Survey	FY2021 Survey	Growth Rate (YoY)	Count of Growth*
Impact AUM and Asset Manager AUM	322.666 billion yen	656.326 billion yen	203%	14

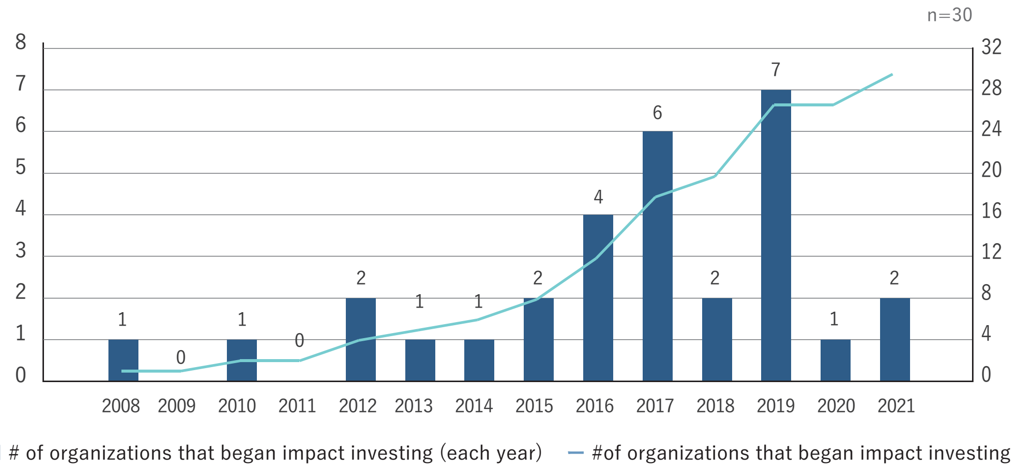
Source: Created based on the Questionnaire Survey regarding Impact Investment (2020 and 2021) (GSG National Advisory Board) - Question: "A2 (2). Please provide your organization's impact AUM and the size of asset manager AUM as of the last fiscal year-end. (Numerical Answer, hereafter "NA")"

6 Last year's impact AUM totaled 512.6 billion yen when it was calculated based on the impact AUM inclusion criteria used last year's Survey (FY2020). In order to compare last year's figure with this year's, this year's new criteria was applied to the last year's figure of the Survey, and the last year's figure became 328.7 billion yen.

7 The amounts from the FY2020 and FY2021 Surveys in Figure 4 show the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from responded organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

As for 2), major investment managers and banks have entered the impact investing market. In light of the numbers of new respondents to the Survey Questionnaire, 20 impact investing institutions last year met the new criteria set for the FY2021 Survey, and the number grew 1.5 times to be 31 institutions this year. As the chart below shows, the year of 2019 saw the largest number of organizations (survey respondents) that began impact investing. This may indicate that FY2020 covered by this year's Survey saw the new entrants begin full-scale investments.

Figure 5. Year in which organizations began engaging in impact investing[8]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board)- Question: "A1. Please answer the year in which you began engaging in impact investing. (NA)"

3) is a trend in impact investing that has emerged across the globe as well as in Japan. Impact investing at the early stage saw venture capital poured into unlisted companies, including start-ups. The background to the growth is a rise in large-scale amounts of investments that include debt financing for listed companies and impact investing funds consisting of public equity. In the breakdown of impact AUM by asset class confirmed in this year's survey, debt accounted for 58% and listed equities for 35%, with both accounting for 93% of the total. The moves for standardization, which includes the development of the principles and frameworks stated below, have created the investment climate that facilitates these initiatives.

■ Development of "The Impact Principles" (Operating Principles for Impact Management) (April 2019)[9]

The Impact Principles are operating principles for impact management. The International Finance Corporation (IFC) led the development of these rules. The nine principles provide a framework that enables investors to consciously incorporate their ideas about an impact into their investment lifecycles. As of January 2022, 151 institutional investors in 37 countries have signed on. Some of the impact investing institutions that responded to this Survey are organizations that have signed these principles, or organizations that have not signed the principles but apply them as general rules to the operation of their investment funds.

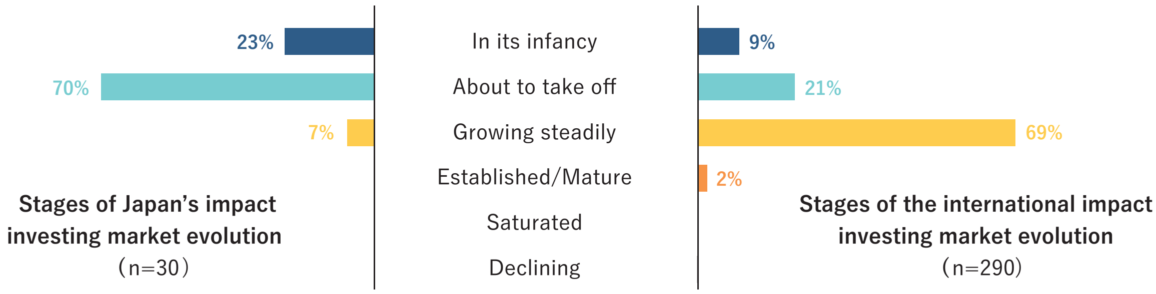
■ Establishment of the Principles for Positive Impact Finance[10] and their framework (2017 - 2018)

The United Nations Environment Program Finance Initiative (UNEP FI) led the development of these principles for investments and loans that aim to make a positive impact. The four principles provide a common financial framework for achieving the SDGs. In Japan, city banks and regional banks are increasingly turning to these principles as the basis of their impact investing initiatives in the form of loans.

We discussed the factors behind the growth of impact investing in the above paragraphs. These factors can be summarized as follows: both old-timers and newcomers in the impact investing market have increased their investments; what is behind the increase includes standardized principles and frameworks that have been created to facilitate investments that can be easily increased (e.g., investments in public equity; debt financing); and impact investing institutions in Japan took actions to apply and/or expand those frameworks during FY2020 (the year covered by the Survey). These facts indicate that FY2020 was probably a milestone year.

At the same time, with regard to the evolution of impact investing in Japan, a majority of impact investing institutions see the market as "about to take off." It was also found that, compared to the international impact investing market, which is viewed as "growing steadily," Japan is still at the stage immediately preceding growth (Figure 6). The evolution of Japan's impact investing market was confirmed to be one stage behind the international market and set for growth in the near future.

Figure 6. Stages of evolution in the Japanese and international impact investing market [11]



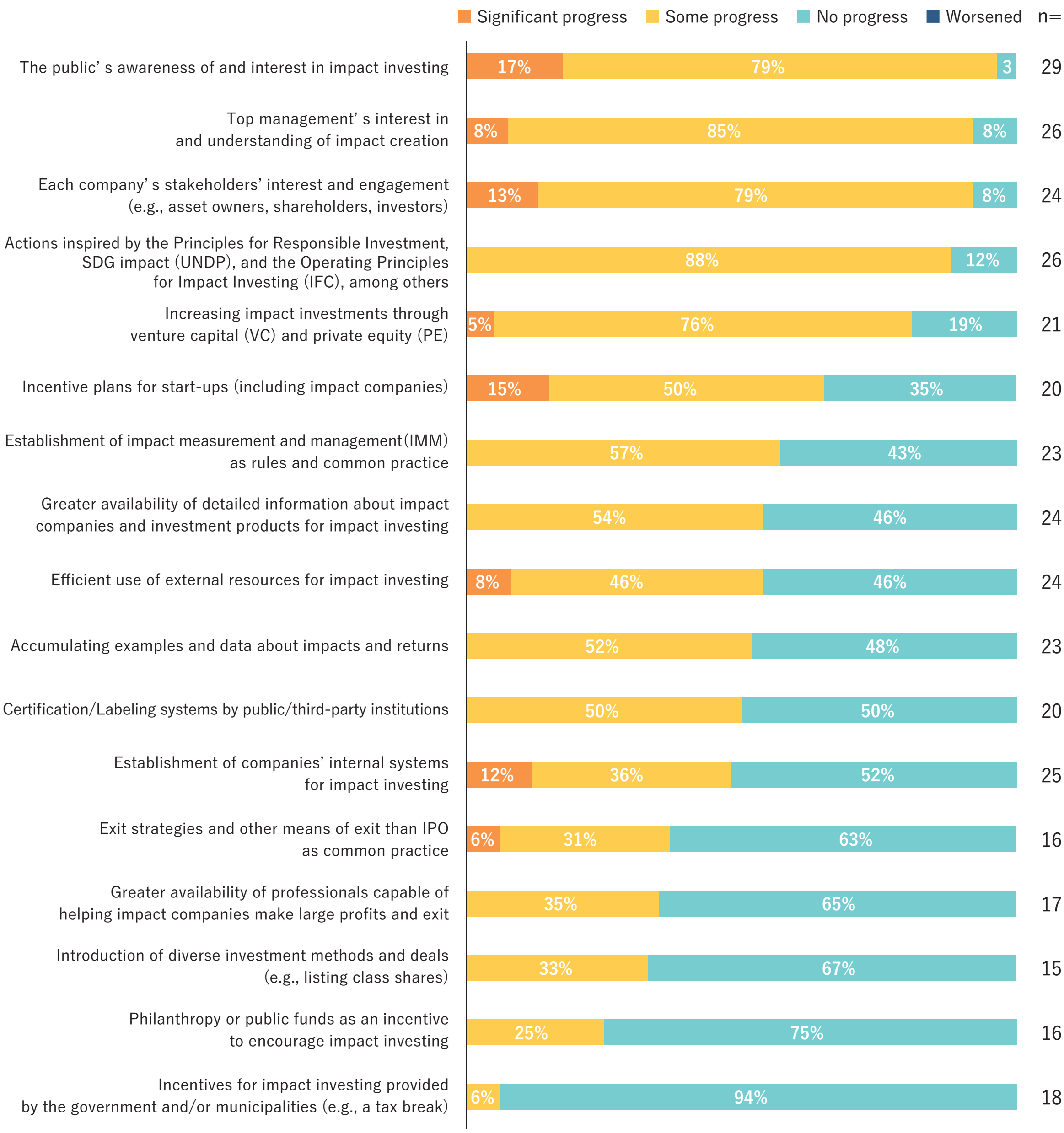
Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) and the GIIN Annual Impact Investor Survey 2020. - Question: "D5. How do you see the state of Japan's impact investing market? Please select the answer that most accurately describes your view. (Single Answer, hereafter "SA")"

On the other hand, most respondents view Japan's impact investing market as having progressed over the past year in "the public's awareness of and interest in impact investing," "Top management's interest in and understanding of impact creation," and "Each company's stakeholders' interest and engagement (e.g., asset owners, shareholders, investors)" (Figure 7), whereas "fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)" was the most commonly cited challenge going forward for two consecutive years both by institutions already engaged in impact investing and those considering entering the market in the future (Figure 8). After unsystematic IMM, the second most commonly cited challenges were "limited data on potential impact investee companies and investment

8 Figure 5 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.
9 https://www.impactprinciples.org
10 https://www.unepfi.org/wordpress/wp-content/uploads/2018/09/POSITIVE-IMPACT-PRINCIPLES-JAPANESE-WEB.pdf
11 Figure 6 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

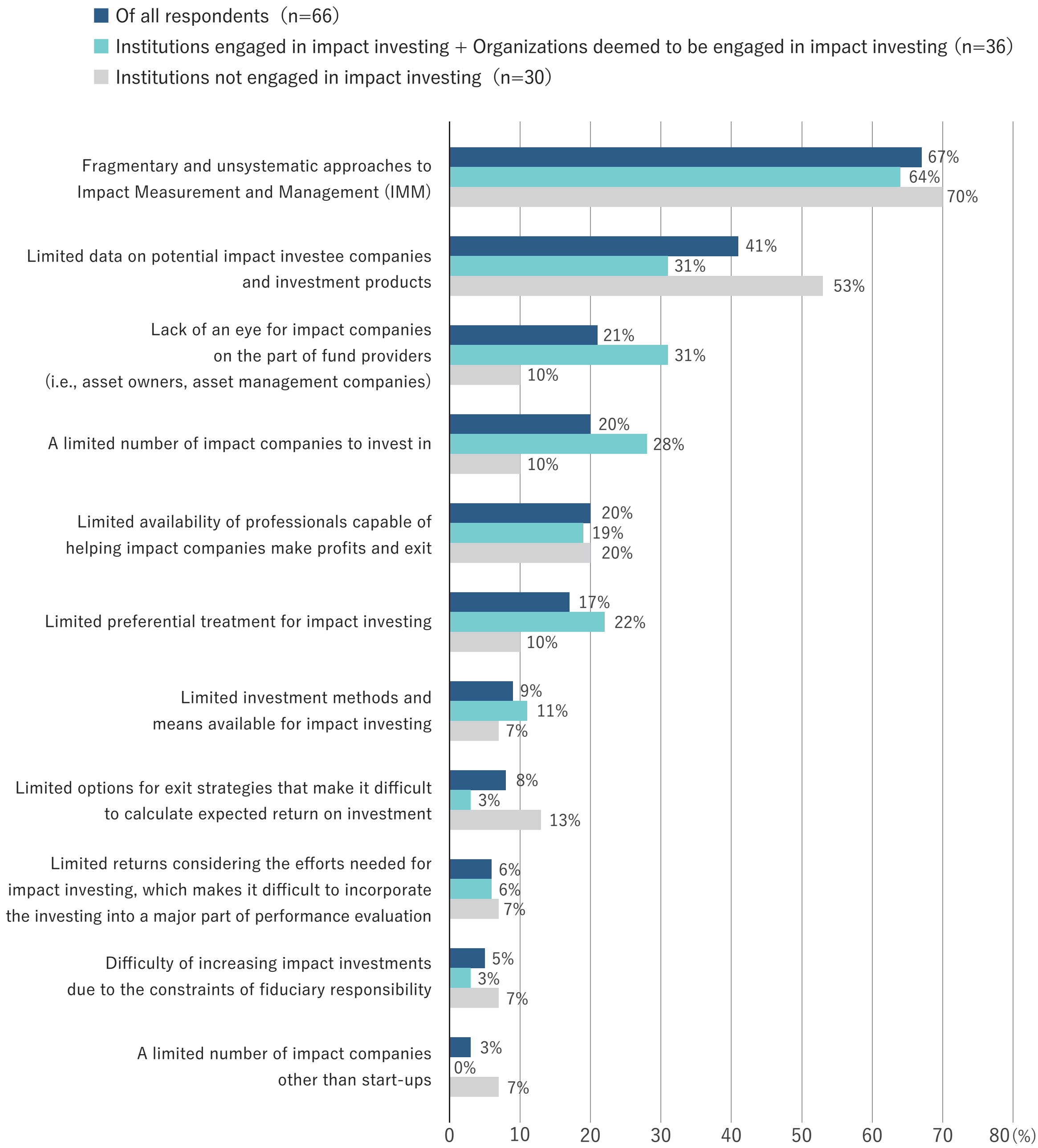
products," "a limited number of impact companies to invest in," and "limited availability of professionals capable of helping impact companies make profits and exit." These responses made it clear that Japan still has relatively few impact companies in which investors wish to invest and only a small pool of talent for operating impact investing (Figure 8). And, as the market grows, there is a concern of 'impact washing' (regular investments are dressed up to resemble impact investing) which may lose the essence of impact investing. In fact, the GIIN Survey 2020 (Figure 12) shows that a vast majority of impact investors cite impact washing as the single most important issue that the impact investing market will face over the next five years.

Figure 7. Progress of Japan's impact investing market over the past one year [12]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) - Question: "D11. How do you view the progress that Japan's impact investing market in general has made over the past one year? (SA for each statement)"

Figure 8. Challenges facing businesses that aim to increase impact investing [13]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) - Question: "D6/E1. What do you think is the problem when Japan plans to increase impact investing going forward? (Multiple Answer, hereafter "MA", up to 3)"

12 Figure 7 shows the results of responses only from the organizations that have taken actions to meet the requirements for inclusion in impact investing that are stated above. They are presented in descending order based on the combined percentage of "significant progress" and "some progress." The organizations that provided the answer "We don't know/NA" or no answer at all were not counted.

13 Figure 8 excluded invalid responses that had selected four or more answers, as respondents were asked to select up to three. Seven of the "institutions not engaged in impact investing" were in effect "institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For details, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed later.

The Survey asked organizations that fall into the category of impact investing institutions to describe what they think would "facilitate impact investing" in the open-ended question. Their demands included the accumulation of model businesses and successful examples around a variety of themes; training of talent for impact investing; the government's incentives and encouragement for financial institutions, investors, and major corporations; top management's better understanding of impact investing at not only large enterprises but also small- to medium-sized businesses; and the standardization of affordable and simply-designed impact measurement and management.[14]

"Case Studies of Impact Investing and Impact Companies" presents four example initiatives in order to identify trends in impact investing. Two of the four examples are from financial businesses that make investments, and the other two from operating companies that receive investments from financial businesses. Refer to the body of the report for details.

Figure 9. Case study examples selected and reasons for selection

Interviewee	Interviewee Profile & Highlights of Case Study
The Dai-ichi Life Insurance Company, Limited	A life insurance company established in 1902. Its assets under management at the end of March 2021 totals approx. 38 trillion yen. Dai-ichi Life began impact investing in 2017 as one of the first institutional investors in Japan to do so. • Dai-ichi Life has contributed to setting examples for the industry since the early days of impact investing. • It has an established system in which multiple departments work together for impact investing. • The company practices impact investing across multiple asset classes, including direct investments in unlisted and listed companies, and investments in funds.
Future Venture Capital Co., Ltd.	A Kyoto-based venture capital firm established in 1998. The company has acted as a pioneer providing local models of venture capital funds. • With the intention of creating impacts, Future Venture Capital offers financial products designed to revitalize local economies. • The company started local revitalization funds after the Great East Japan Earthquake in 2011. It has managed these funds across different regions since, acquiring unique know-how in how to agree on impact KPIs with investees.

14 Selected from responses to Question D10. "Please describe what you think is needed to facilitate more impact investing."

Interviewee	Interviewee Profile & Highlights of Case Study
CureApp, Inc.	Established in 2014, CureApp is the developer and operator of “Digital Therapeutics (DTx)®.” The company’ s mission is “Re-evolving ‘therapeutics’ with software,” and the company receives investments from several impact investors. • CureApp is a good example of an impact-oriented business in that the software it offers is designed to urge users to change their behavior in such a way that helps solve various issues in the healthcare and other related fields. • The company considers Impact Measurement and Management (IMM) as one of its business management tools and is working to make it a company-wide practice.
Pocket Marche, Inc.	A joint-stock company established in 2015. With the mission of “Connecting the Pieces,” Pocket Marche runs a website that offers consumers primary products (e.g., fruit, vegetables, meat, and fish) for direct purchase from producers. It also operates an electricity business. • The business attempts to solve the issue of the divide between urban and rural areas. • Investors who invest in Pocket Marche are enticed by the company’ s mission and make their investments in the hope that the connection will be a reality through the business. The company also practices Impact Measurement and Management (IMM).

The report includes two commentaries between chapters. **“Commentary 1: Introduction of the Impact Investing Forum”** refers to the topics that were discussed at the Impact Investing Forum, one of Japan’s largest impact investing conferences, to review the trends that have been observed. The Impact Investing Forum has been organized jointly by the GSG National Advisory Board (GSG-NAB) and Japan Social Innovation and Investment Foundation (SIIF) since 2018. “**Commentary 2: Introduction of the Consumer Survey on Impact Investing”** presents the gist of the General Consumer Awareness Survey on Impact Investment that has been conducted annually by SIIF since 2019.

The **“contributed articles”** at the end of the report take up important topics related to the promotion of impact investing in Japan and present the opinions of leading figures and specialists in various areas. The opinions expressed in these articles belong to the contributors and interviewees. They do not represent the official views of their affiliated organizations or the GSG-NAB Japan.

List of topics and contributors

Katsuji Imata, a contributor to The Current State and Challenges of Impact Investing in Japan - FY2020 Survey, illustrates global trends in impact investing in 2021. After presenting various international conferences and high-level meetings that have been held, along with changes in international affairs, Mr. Imata discusses the necessity of becoming involved in the transition to global economic and social systems, and how the Copernican Revolution-like changes are happening in the trends in impact investing. He also offers his views on new trends and issues in sustainable finance in general as well as on impact investing and Impact Measurement and Management (IMM).

In March 2021, Resona Asset Management began to manage an impact investing fund for investments in public equity in Japan. Mr. Hanyu illustrated issues and important points unique to impact investing in public equity that he faced as he worked on the fund, covering also Resona's view. Mr. Hanyu also presents some of the fund's efforts, as he believes that providing specific examples and views for accumulation is essential for further growth of impact investing.

Katsuya Sakai presents the objectives and history of asset management by private universities. Then he illustrates the background to Ritsumeikan's decision to create a social impact fund as an incorporated school, using the Ritsumeikan Social Impact Fund (RSIF) as a real-life example that is part of the Ritsumeikan Impact-Makers Inter X (Cross) Platform (RIMIX). Mr. Sakai also elucidates compatibility between impact investing and the education and research business, along with challenges related to social impact measurement, as part of what is expected of impact investing by an incorporated school as well as the outlook for the initiative.

Summary conclusion

We conducted the Survey and prepared this report in FY2021 when the coronavirus pandemic, which had begun the year before, remained rampant. The pandemic, however, apparently advanced the understanding of the benefits of impact investing. Let us quote again some of the responses to last year's Questionnaire Survey that were included in the FY2020 report. Institutions engaged in impact investing were asked about the impact of COVID-19 on impact investment activities. The question was open format, and the responses included comments such as "It has shined more light on the 'social' factor, and conditions are becoming more conducive to impact opportunities," and "The emergence of social issues has made more people aware of it."

There is likely to be more discussion and practice of impact investing in Japan going forward, and we believe that this report, a kind of fixed-point observation of the current location of impact investing in Japan, can serve as a foundation for discussion while providing suggestions for practice.

We would like to again express our appreciation to all of the people and organizations that participated in the Questionnaire Survey regarding Impact Investment (2021).

It is our hope that this report contributes to solving social issues through impact investing.

About GSG Headquarters and the GSG-NAB Japan

About the Global Steering Group for Impact Investment

The Global Steering Group for Impact Investment (GSG) is a global network organization that promotes impact investing having a better influence on people and the earth. The “G8 Impact Investment Task-force,” which was established in 2013 driven by the call of the former UK Prime Minister David Cameron, the then chair of Group of Eight (G8) summit, changed its name to GSG in August 2015. Currently, member nations and region (EU) in 33 countries worldwide have joined the taskforce as each country’s National Advisory Board. Sir. Ronald Cohen, a pioneer in venture capitals in the UK chairs the taskforce, and leaders in diverse fields, such as finance, business and philanthropy, have participated in GSG’s activities.

About GSG-NAB Japan

GSG-NAB Japan was established in 2014 as the Japan Branch of GSG. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG-NAB Japan’s activities revolve around three pillars of research and publication, awareness-raising, and networking.

List of members

As of March 2022, GSG-NAB Japan consists of the following members.

Chairperson

Hiroshi Komiyama Chairman, Mitsubishi Research Institute, Inc.

Vice-chairperson

Masataka Uo Founder and CEO, Japan Fundraising Association

Members (in the order of the Japanese syllabary)

Mitsuaki Aoyagi Vice-chair of Executive Committee, Japan Social Innovation and Investment Foundation

Tadahiro Kaneko General Manager, Sustainable Business Promotion Department, Sumitomo Mitsui Banking Corporation

Ryousuke Kawahara Deputy Head of Retail & Business Banking Company/General Manager of Corporate Business Coordination Department, Operating Officer, Mizuho Financial Group, Inc.

Ken Shibusawa Chief Executive Officer, Shibusawa and Company, Inc.

Tomoya Shiraishi Director, Social Investment Partners

Miyuki Zeniya Fellow, Head of Sustainable Finance Investment Planning Dept., The Dai-ichi Life Insurance Company, Limited

Chunmei Huang Managing Director, Impact Investment Team, Shinsei Corporate Investment Limited

Masataka Fukao Professor, Faculty of Policy Science, Department of Policy Science, Ryukoku University

Hiroshi Mikitani Representative Director, Japan Association of New Economy

Megumi Muto Vice President, Japan International Corporation Agency (JICA)

Secretariat organizations

The following organizations are in charge of practical operations as the secretariat, including contact point operations, planning and operation of meetings and events, and research and transmission of information (in the order of the Japanese syllabary).

- Asian Venture Philanthropy Network (AVPN)
- Kazetotsubasa Co., Ltd.
- K-three Inc.
- Japan Social Innovation and Investment Foundation (SIIF)
- Japan Fundraising Association

Consolidating Terms Related to Impact Investing

While “impact investing” itself is a relatively new term, we would like to consolidate terms related to impact investing before getting to the main text of this report.

“Impact investing” is defined in this report and Questionnaire Survey regarding Impact Investment (2021) as investing that meets the following three conditions. This term is synonymous with “Social Impact Investment,” which was used by GSG-NAB Japan until 2019.

- **Impact investments are investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return.** [15]
- **Impact measurement and management (IMM) is conducted before and after making investments (who does the post-investment measurement does not matter).**
- **The results of impact measurement and management (IMM) are shared with investors.**[16]

Definitions of other terms related to impact investing are, in this report, as follows:

■ **“Impact”** refers to social and/or environmental change or effect as a result of a business or activity, whether it is long- or short-term.

■ **“Impact Measurement and Management (IMM)”** refers to the assessment and management process based on impact measurement. This process incorporates into the investment process the quantitative and qualitative assessment of an impact in order to determine the value of the business and/or activities (for example, the value may be used as a criterion when an investment decision is made, or used in reports made during the investment period and after investment). Improvements are made to the business and decisions are made based on the information that is acquired through the process, aiming to increase the impact.

■ An **“impact company”** refers to a company oriented to creation of impact.

15 Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called “investments.” Donations, subsidies, and grants are excluded.

16 As stated in the first condition, impact investing focuses on each investor’s “intention (to generate an impact).” When an intermediary (asset manager or investment fund provider) is used between the final investor and an investee, the results of IMM conducted by the intermediary must have been shared with the final investor in order to determine that the final investor, institutional or individual, has had “the intention to generate an impact” and made “a decision based on the impact.” Therefore, this condition was adopted as a new criterion in this year’s survey.

Change from “social impact evaluation” to “Impact Measurement and Management (IMM)”

About “social impact evaluation”

The traditional expression of “social impact evaluation” has not necessarily been discussed in accordance with the trends of impact investing. In 2016, with the “Working Group on Social Impact Evaluation”[17] of the Cabinet Office’s Council for Promotion of the Society of Mutual Assistance acting as a trigger, utilization of social impact evaluation was discussed with an aim to attracting private funds to solve social issues. Then, together with the introduction of impact investing into Japan, impact investing and social impact evaluation have come to be connected. On the other hand, a different term “impact evaluation” as causal research exists in the evaluation field. On another front, in actual discussions about impact investing, “impact evaluation,” with “social” removed, may also be used to imply environmental impact.

About “Impact Measurement and Management”

In addition, in the global context, a term “Impact Measurement and Management (IMM)” is commonly used as the term corresponding to “social impact evaluation” in the global impact investing initiatives.[18] This term literally means “measurement and management of impact,” the definition by GIIN is the “repetitive process that includes identification and examination of both positive and negative impact of business activities on people and the earth, and on that basis, finds and practices ways to reduce negative impact and maximize positive impact while being consistent with your own objective.”[19]

Consolidation at this stage in this year’s survey and report

In this year’s survey and report, the expression “Impact Measurement and Management” was adopted as a consolidated concept of “(social) impact evaluation” and “(social) impact management” that had been traditionally used, to ensure consistency with global trends. Changing the meaning to be synonymous with “Impact Measurement and Management (IMM)” as defined by GIIN has been avoided at this point, and the meaning of traditional “impact evaluation” and “impact management” have been consolidated under the Japanese expression “Impact Measurement and Management.” Consolidation of concepts and terms of “impact investing” and “Impact Measurement and Management” is expected to progress going forward as impact investing in Japan develops.

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17 “Working Group on Social Impact Evaluation” of the Cabinet Office’s Council for Promotion of the Society of Mutual Assistance: https://www.npo-homepage.go.jp/kaigi/kyoujo-shakai/work-kaisai-h27#wg_1

18 GIIN and IMP are striving to familiarize this term: https://thegiin.org/imm and https://impactmanagementproject.com

19 Explanation of IMM by GIIN: https://thegiin.org/imm (The translation was made by the writer in the Japanese version of this report.)

Chapter 1 : What Is Impact Investing

Summary of Impact Investing

Impact investing refers to investing activity that is intended to generate a positive, measurable social and/or environmental change or effect alongside financial returns.

Conventional investing judges value on the two axes of risk and return. Impact investing refers to investments that add a third axis "impact," which means social and/or environmental change or effect as a result of the investment.

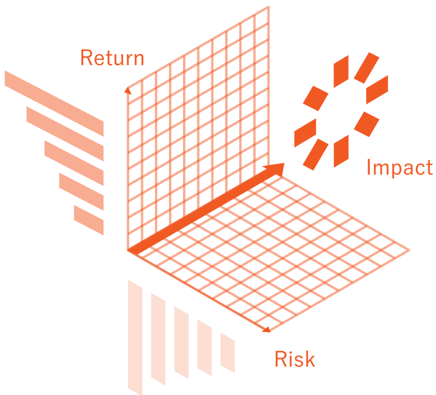

Figure 10. The third axis in investment

Source: *Position Paper on Expanding Impact Investing 2019*, The Japan National Advisory Board, The Global Steering Group for Impact Investment (GSG- NAB Japan), April 2020

What is impact

Impact refers to social and/or environmental change or effect as a result of a business or activity. In impact investing, it is required that social and/or environmental change, etc. as a result of investing activities is identified quantitatively and qualitatively and a value judgment is added by the entity that performs the act of investing. Activity that identifies social and/or environmental change, etc. as a result of investing activities and adds a value judgment is referred to as impact measurement, or recently, to impact measurement and management.[20]

Elements of impact investing

The following four elements determine whether an investing activity can be considered an impact investing.

(1) Intentionality
(2) Financial Returns
(3) Range of Asset Classes
(4) Impact Measurement

20 Guidelines for Impact Measurement and Management, first edition, The Japan National Advisory Board, The Global Steering Group for Impact Investment (GSG- NAB Japan), IMM Working Group, May 2021

(1) Intentionality refers to looking at whether the entity that performs the act of investing aims (intends) to generate a positive impact through its investing activity. (2) Financial Returns refer to looking at whether the entity that performs the act of investing aims not only to generate an impact, but also to receive financial returns through its investment. (3) Range of Asset Classes refers to the fact that impact investing is not limited to investment in specific assets. (All financial transactions that seek financial returns, including investments (stocks and bonds), loans, and leases, are collectively covered.) (4) Impact Measurement refers to looking at whether the entity that performs the act of investing carries out activities of identifying social and/or environmental change, etc. as a result of investing activities and adding a value judgment.

Any investment in which the entity that performs the act of investing has an intention, aims to generate financial returns, and carries out impact measurement and management can be classified as impact investing, regardless of the asset class in which investment is made.

The Birth of the Term “Impact Investing” and Its Background

The term “impact investing” was allegedly coined at the meeting convened by the Rockefeller Foundation of the U.S. in Bellagio, Italy, in 2007.[21] The meeting was to explore ways and means of investment to generate environmental and social impact, attended by leaders from the financial institutions, philanthropic sectors, and social development sectors including development of developing countries.

As the issues facing society had become more serious and complex, it had become clear that solving these issues cannot be carried out solely through philanthropy by governments and citizens. Against this backdrop, the term impact investing was born. In other words, the resources that can be invested by the public sector (public entities such as government) and social sector (non-profit activities) are insufficient compared to the scale of resources (including funds) that should be invested in solving social issues. In particular, in terms of “funds,” a resource that is easy to understand, at the time when the term “impact investing” was coined, administrative costs (and funds for aid to developing countries) were being reduced, especially in Western countries.

In addition, in the society of the year 2007, there was a growing momentum to reconsider investing activities due to the emergence of the subprime loan problem in the U.S., several successful business cases to seek to create positive social and environmental change had emerged, and the wealthy classes who seek “added value” in their investments beyond financial returns had become increasingly present among the entities that perform the act of investing in developed countries.

Under such circumstances, awareness naturally arose that the public and social sectors and the financial sector were operating under different discipline and value standards. The former pursues generating an impact while the latter pursues financial returns. The term “impact investing” was given

21 Accelerating Impact, Rockefeller Foundation, July 2012, https://www.rockefellerfoundation.org/wp-content/uploads/Accelerating-Impact-Full-Summary.pdf

to an investment approach that integrates both of these two value standards in a single financial transaction, that is, to realize environmental and social benefits while providing financial returns.[22]

Subsequently in September 2015, the Sustainable Development Goals (SDGs) were adopted at the UN Summit. The SDGs represent international goals to achieve a sustainable and better world by 2030. In the year prior to the adoption, the UN estimated that as much as 2.5 trillion dollars per year would be needed to achieve the SDGs.[23] It is unrealistic for public and social sectors alone to fund such a huge amount of money, therefore, entities in a wide range of fields, including private financial institutions and corporations, are expected to make investments. Partly due to such circumstances, expectations for impact investing are increasing.

☞ Impact Investing and Development Finance

Since the term "impact investing" was coined at the meeting in Bellagio, Italy, in 2007, impact investing has been closely linked to development finance in practice. Development finance refers to the financial field that is designed to achieve the economic and social development of a specific industry or a specific region. Development finance is provided by government-affiliated financial institutions within the same country, by developed countries to developing countries, or by international organizations. Most of its providers had been public institutions. As such, in the financing arrangement, it was common that the entities that provides financing are required to simultaneously generate (and be accountable for) financial returns as well as social and environmental impact as they originally intended. Therefore, much of the experience and knowledge of development finance can be applied to impact investing, and has played a major role in the development of impact investing.

In particular, International Finance Corporation (IFC), a member of the World Bank Group, which uses financial techniques to mobilize private funds for development in developing countries, is an institution that respects the discipline of capital markets and has pursued methods to generate an impact, not only with its own funds but also with private funds. It possesses extensive experience and knowledge that can be utilized by general private financial institutions and corporations in making their impact investing. Therefore, there are many methods and concepts of impact investing that can be referred to those originating from IFC. The Impact Principles (OPIM) that was created at the initiative of IFC [24] is a typical example, and as of January 2022, 151 financial operators in 37 countries have signed up to operate impact investing based on the Principles.

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22 "What is Impact Investing?", Rockefeller Philanthropy Advisors, https://www.rockpa.org/guide/impact-investing-introduction

23 World Investment Report 2014, United Nations Conference on Trade and Development, 2014年6月、 https://unctad.org/system/files/official-document/wir2014_en.pdf

24 The Impact Principles, IFC, April 2019, https://www.ifc.org/wps/wcm/connect/fe499630-792d-434f-8dd2-f5d06da4c1ed/Impact+Investing+Principles_+FINAL.pdf?MOD=AJPERES&CVID=mSUxyEd (in Japanese translation for reference)

Impact Measurement and Management (IMM)

It was stated that four elements of Intentionality, Financial Returns, Range of Asset Classes, and Impact Measurement are the requirements for impact investing. Impact Measurement and Management ("IMM") is positioned as a means of achieving investors' "intentionality" in impact investing. IMM adds a "management" element to "Impact Measurement," one of four elements of impact investing, in which investors and business operators make business improvements or decisions based on the results of measurement and aim to improve impact.

IMM is the result of the sophistication and standardization of impact measurement and its management techniques in the global impact investing market over the past decade. In response to the development of IMM, GSG-NAB Japan released the guidelines for IMM practice, a practice guidebook, a discussion paper to create global standards for IMM, and other materials in July 2021, with the purpose of sharing with impact investing practitioners the points to be considered that GSG-NAB Japan believes are important for them to practice IMM as well as issues they may face and measures they can take to address them.[25] Please refer to these documents for details of IMM.

Impact Investing and ESG Investing

ESG investing is an investing activity similar to impact investing. ESG investing is often defined as "investment that considers the elements of not only traditional financial information but also Environment, Social, and Governance" factors.[26] As stated earlier, impact investing refers to "an investing activity that is intended to generate a positive, measurable social and/or environmental change or effect alongside financial returns." Impact investing and ESG investing are similar in that they are both aware of the "environmental" and "social" impacts generated by their investing activities and are also aware of financial returns.

One clear difference between impact investing and ESG investing is that in impact investing, there is a requirement that the entity that performs the act of investing has the "intention" to generate an impact and that the entity conducts "impact measurement." (Please refer to "Elements of impact investing" in the previous section.) Therefore, in order to determine whether an investing activity is impact investing or ESG investing, the intentionality of the entity that performs the act of investing and the implementation status of impact measurement and management should be confirmed. When both are confirmed, the investing activity can be considered impact investing.

Apart from this method of distinguishing impact investing from ESG investing based on the requirement of impact investing above, the difference between impact investing and ESG investing can be simply expressed in terms of balance, that is, how much emphasis is to be placed on (1) financial returns and (2) non-financial impact, as shown in the figure below.

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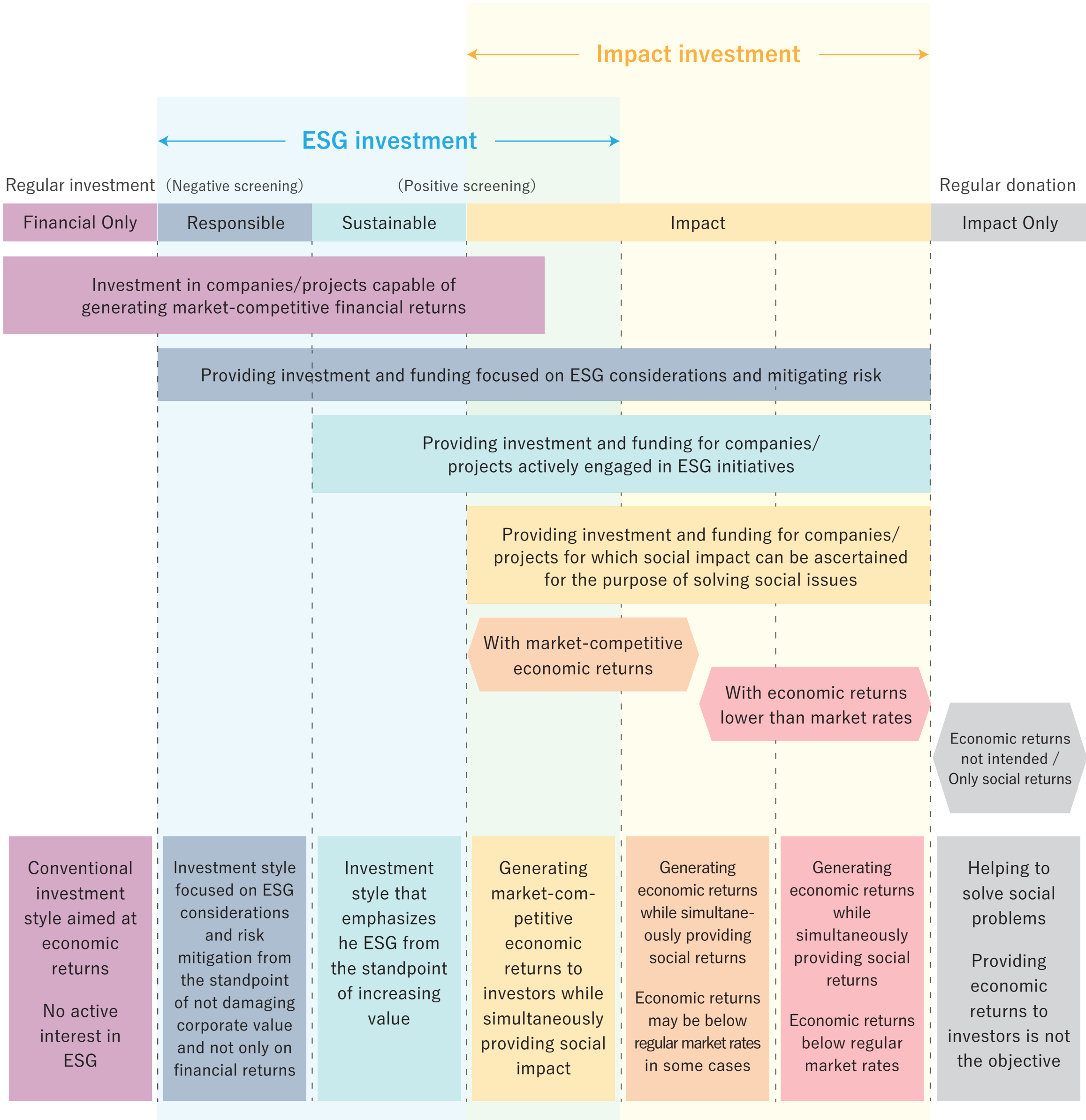
25 Press release "GSG-NAB Japan creates and releases the 'IMM Practice Guidebook' and other documents in impact investing (stocks)," GSG-NAB Japan, July 2021, https://impactinvestment.jp/news/research/20210701.html

26 Ministry of Economy, Trade and Industry website (viewed in January 2022), https://www.meti.go.jp/policy/energy_environment/global_warming/esg_investment.html

Figure 11. Depiction of the relationship of impact investing and ESG investing



Source: *Position Paper on Expanding Impact Investing 2019* (GSG-NAB Japan)

Impact Investing and SDGs

There are high expectations for impact investing from the perspective of contributing to the SDGs. SDGs is an abbreviation for Sustainable Development Goals, international goals that aim for a sustainable and better world by 2030.[27] Upholding the development with "leave no one behind," the 2030 Agenda for Sustainable Development sets 17 goals, including no poverty, gender equality, and

27 Ministry of Foreign Affairs of Japan website (viewed in January 2022), https://www.mofa.go.jp/mofaj/gaiko/oda/sdgs/about/index.html

climate action, which were unanimously adopted by all UN Member States at the UN Summit in September 2015.

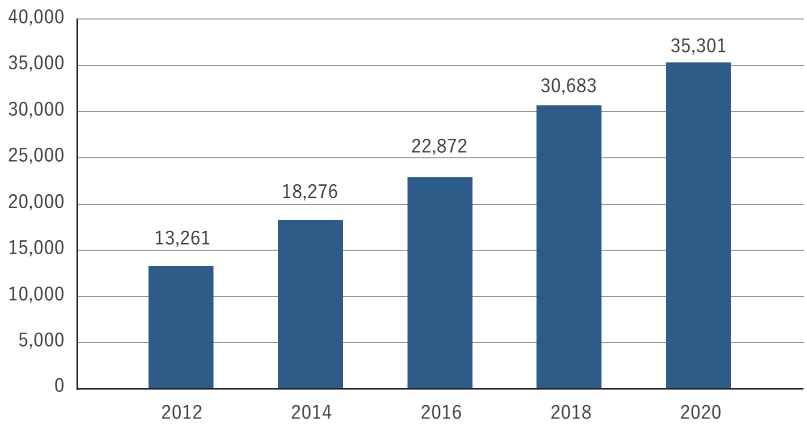
The 17 goals of the SDGs cover a wide range of economic and social themes. Although some themes are also covered by the "Environment," "Social," and "Governance" themes that ESG investing focus on, the SDGs covers a broader economic and social aspects. Therefore, it can be considered that ESG investing alone is not sufficient enough to achieve the goals of the SDGs. For that reason, high expectations are placed on impact investing.

As stated in "Elements of impact investing" in the previous section, impact investing requires that the entity that performs the act of investing has the "intention" to generate an impact, but places no restrictions on the theme of that impact. The theme could be any positive social or environmental impact. This means that impact investing is highly compatible with the SDGs. According to IFC's estimate,[28] additional financing of 2.6 trillion dollars will be needed in 2030 in emerging and low-income developing countries, just for some area of SDGs (education, health and wellness, roads, electricity, water and wastewater), and IFC urges that impact investing is essential to address this huge financing shortfall.

Recent Trends in Impact Investing

Impact investing is commonly positioned as a form of sustainable investing (investment that aims to realize a sustainable society), along with ESG investing. The sustainable investing market has kept expanding over the past decade, reaching 35.3 trillion dollars by 2020.[29]

Figure 12. Global sustainable investing AUM (USD billions)



Source: *Global Sustainable Investment Review 2020*, Global Sustainable Investment Alliance

28 "CREATING IMPACT", International Finance Corporation, 2019, https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/promise-of-impact-investing

29 Global Sustainable Investment Review 2020, Global Sustainable Investment Alliance, http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

With the expansion of the sustainable investing market, especially the expansion of ESG investing, the year 2021 witnessed a year of activation and materialization of global movements that transcended national boundaries, movements by the Japanese government, and movements by domestic private sector. Of which, major developments related to the impact investing market are shown in Figure 13.

Figure 13. Developments in impact investing from 2021 to the beginning of 2022

Global movements	IFRS Foundation established the International Sustainability Standards Board (ISSB) - Set international disclosure standards for non-financial reporting
	G7 set up the Impact Taskforce within its framework - Toward impact-driven economies and societies
	The Impact Management Project was developmentally dissolved and the Impact Management Platform was set up - To make impact measurement and management be in the mainstream
Actions by governments of other countries	The British government announced a roadmap to sustainable investing - To lay down information disclosure requirements for businesses
	The EU published its sustainable finance strategy - Financial support for carbon neutrality, etc.
	The US government changed its stance on sustainable investing - The attitude toward ESG investing in employer-sponsored pension plans
Actions by the Japanese governments and other Japanese public bodies	Movements of the Financial Services Agency, the Ministry of the Environment, and the Bank of Japan for sustainable investing - Progress of specific measures
	Prime Minister Kishida mentioned impact investing in his first policy speech - Impact investing as part of public-private partnerships
Actions by Japan's private sector	Diversification of investees in impact investing - Emergence of public equity funds
	Diversification of investors engage in impact investing - Entry of regional financial institutions and incorporated schools into the market
	Financial business operators and institutional investors signed the Japan Impact-driven Financing Initiative - Agreement on contribution to practicing impact investing and expanding the impact investing market

Global movements

IFRS Foundation established the International Sustainability Standards Board (ISSB)

Rules for financial information disclosure and ESG (non-financial) information disclosure are the two most important norms for the sustainable investing market. The announcement of the establishment of the International Sustainability Standards Board (ISSB) by the IFRS Foundation, a private non-profit organization responsible for developing international financial reporting standards, represents a global movement relating to these two norms. The announcement was made at the 26th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) on November 3, 2021.

There have been several disclosure standards for non-financial information developed by various organizations. The embarkation by the IFRS Foundation, which is responsible for developing international accounting standards, on developing standards for non-financial information is expected to eliminate confusion. With this move, several institutions (the Climate Disclosure Standards Board (CDSB) and the Value Reporting foundation (VRF)) that have developed disclosure standards for sustainability information focused on investors will be consolidated into the ISSB by June 2022.
This move is expected to ease some of the practical confusion that has tended to arise among companies and investors regarding ESG information disclosure.

The IFRS Foundation positions the International Sustainability Standards Board (ISSB) in parallel with the International Accounting Standards Board (IASB). They are expected to work closely in a complementary manner. In other words, disclosure of sustainability information, which is non-financial information, is expected to be recognized as equally important as disclosure of financial information, and disclosure of both information is expected to progress in a more coordinated manner.[30]

Although conducting impact measurement is one of the elements of impact investing (please refer to “Elements of impact investing” in the previous section), there are no rules for the disclosure of non-financial information. Therefore, there is no direct relationship between the practice of impact investing and the establishment of ISSB by the IFRS Foundation. However, it is inevitable that the practice of investors who make impact investing and the actions of impact creation-oriented companies will be affected by the unification of disclosure rules for non-financial information by companies, and the impact investing market will also be affected.

G7 set up the Impact Taskforce within its framework

At COP26, an important matter for the impact investing market was also announced. The UK, the chair of 2021 G7 summit, announced the launch of the Impact Taskforce (hereinafter referred to as “Taskforce”). The Taskforce aims to promote an impact-driven economy and society toward a sustained and comprehensive recovery from the global crisis caused by COVID-19. It will focus on facilitating discussion and recommendation around impact transparency, integrity, and trust, and promote impact investing, with a particular emphasis on impact investing in low- and middle-income countries. The Taskforce will have the following two working groups. The first is a discussion of impact transparency and reliability, including impact reporting methodologies, accounting, information disclosure, and industry integrity, for which the

30 https://www.asb.or.jp/jp/ifrs/press_release/y2021/2021-1103.html

GSG serves as the secretariat. The second is a discussion of financing vehicles that can mobilize private capital at scale to achieve impact in areas such as the creation of quality jobs, education and health, for which Impact Investment Institute that also serves as the UK GSG National Advisory Board, serves as the secretariat. The Taskforce will bring together diverse and practical voices who are focused on maximizing the impact of investments, drawing from the G7 countries and beyond, and coordinate with initiatives led by other relevant working groups and regulatory authorities of G7, G20, and COP26.

The GSG was originally established in 2013 as the "G8 Impact Investment Task- force," driven by the call of the UK, the then chair of Group of Eight (G8) summit, and changed its name to GSG in August 2015. It is significant that the UK, which had created an international framework to promote impact investing, has called for the establishment of the Taskforce to further materialize the movement.

The Impact Management Project was developmentally dissolved and the Impact Management Platform was set up

An international movement affecting the practical aspects of impact investing is the launch of the Impact Management Platform. Impact Management Platform was the successor to the Impact Management Project, which had been responsible for creating norms for impact measurement and management (please refer to "Impact Measurement and Management (IMM)" in the previous section), and was a limited-time project, running until 2021, promoted by the United Nations Development Programme (UNDP), International Finance Corporation (IFC), Organization for Economic Co-operation and Development (OECD), and Principles for Responsible Investment (PRI). In Impact Management Platform, key organizations that have provided standards, frameworks, tools, and guidance, will collaborate, as in the Project era, to mainstream impact measurement and management.

Actions by governments of other countries

As the year 2021 was also the year that COP26 was held, various government-led initiatives were confirmed for sustainable investing. Only major initiatives that are not directly related to impact investing, but could have an impact, are briefly presented.

The British government announced a roadmap to sustainable investing

In the UK, where COP26 was held, "Greening Finance: A Roadmap to Sustainable Investing," a government roadmap for sustainable investing, was released in October. As phase 1 of the roadmap, the UK government intends to work on the establishment of disclosure requirements for sustainability information, to provide information to investors and consumers.

The EU published its sustainable finance strategy

The EU has traditionally taken a strong stance on focusing on economic and social sustainability. Among them is the "EU Taxonomy," a set of related regulations to guide private funds toward achieving carbon neutrality by 2050. In April 2021, a series of policies related to the EU Taxonomy were announced, and the "Strategy for financing the transition to a sustainable economy" was adopted in July, 2021.

The US government changed its stance on sustainable investing

In the U.S., the government stance on sustainable investing has changed with the launch of the Biden administration in 2021. The regulations on the management of corporate pension funds shown by the US Department of Labor have attracted a great deal of attention, as symbolic of its stance. The Trump administration had taken a negative stance on taking into consideration ESG factors in the management of corporate pension funds; however, this became positive with the Biden administration.

Actions by the Japanese governments and other Japanese public bodies

Movements of the Financial Services Agency, the Ministry of the Environment, and the Bank of Japan for sustainable investing

In response to international trends in sustainable investing, the Japanese government has taken active action, led by the Financial Services Agency, the Ministry of the Environment, and the Bank of Japan. The Financial Services Agency published "Report by the Expert Panel on Sustainable Finance" in June 2021 and "Social Bond Guidelines" (final version) in October 2021. As for actions directly related to impact investing, the "Study Group on Impact Investment," jointly organized by the Financial Services Agency and the GSG-NAB Japan, reached a milestone (completion of Phase I), and the report on the "Achievements and Future issues for Phase I" was compiled and published as the outcome of the Study Group, which had been implemented over a period of approximately one year and three months. The Ministry of the Environment published the "ESG Regional Finance Practice Guide 2.0" and the "For Financial Institutions Guide for Adaptation Finance" in March 2021. The Bank of Japan published a rough draft of the "Funds-Supplying Operations to Support Financing for Climate Change Responses" (commonly called "Green Operations") in July 2021 to make its stance on sustainable investing-related instruments more specific than before.

Prime Minister Kishida mentioned impact investing in his first policy speech

In Japan, the Kishida Cabinet was inaugurated on October 4, 2021. The Kishida Cabinet, with "New Form of Capitalism" as its keyword, established the "Council of New Form of Capitalism Realization," chaired by the prime minister, to discuss this issue.[31] In his first policy speech on "New Form of Capitalism" (on January 17, 2022), Prime Minister Kishida mentioned impact investing as a way to achieve new public-private partnerships and to supplement public functions by the private sector.[32]

Actions by Japan's private sector

The year 2021 witnessed a year of acceleration in the expansion of awareness of impact investing among the private sector in Japan. The signing of the "Japan Impact-driven Financing Initiative" by 21 financial

31 Cabinet Secretariat website, https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/index.html

32 Prime Minister Kishida's first policy speech (full text), NHK, https://www3.nhk.or.jp/news/html/20220117/k10013435201000.html

institutions on November 29, 2021, which aims to solve environmental and social issues, was a symbolic event. As symbolized by the participation of financial institutions in the Japan Impact-driven Financing Initiative, the impact investing market in Japan is actually expanding and diversifying. (Statistical data on the expansion and diversification of the impact investing market will be presented in Chapter 2.)

In response to the establishment of the International Sustainability Standards Board (ISSB) by the IFRS Foundation, the Financial Accounting Standards Foundation resolved to establish the Sustainability Standards Board of Japan (SSBJ) in December 2021, and established the SSBJ Preparation Committee.[33] Transmission of information to the international movements and the development of a domestic standards structure for developing the sustainability disclosure standards are expected to progress in Japan.

Diversification of investees in impact investing

Diversification of impact investing has two aspects. One is the diversification of investees, which is represented by the origination of impact investing funds that invest in listed stocks. For example, asset management companies that are wholly owned subsidiaries of city bank-affiliated R Holdings and M Financial Group have actually established funds that make impact investing in listed stocks (including those to be listed). In addition, R company, a venture capital fund, formed Japan's first deep-tech impact investing fund.

Diversification of investors engage in impact investing

Another aspect of the diversification of impact investing is the diversification of investors engage in impact investing. The establishment of a venture capital subsidiary by a credit union in Kyoto, targeting social entrepreneurs who are challenging to solve social issues, is one example. The Ritsumeikan Social Impact Fund (established in 2020), an impact investing fund managed by the incorporated educational institution, released an impact report in October 2021 that described the results of the impact measurement and management of one of its investments.

Financial business operators and institutional investors signed the Japan Impact-driven Financing Initiative[34]

"Japan Impact-driven Financing Initiative" is an initiative to promote impact investment through cooperation and collaboration between diverse and multiple financial institutions that believe that the purpose of financial institution is to actively address social and environmental issues, holistically understanding impact. Financial institutions that signed the Initiative have agreed to seven commitments and actions for practicing impact investing and contributing to the expansion of the impact investing market. The fact that city banks, regional banks, trust banks, credit unions, credit cooperatives, asset management companies, investment funds, and other institutions have agreed to the commitments and actions for promoting impact investing, regardless of their business, is considered a significant turning point in the development of the impact investing market in Japan.

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33 https://www.asb.or.jp/jp/wp-content/uploads/news_release_20211220_02.pdf

34 Japan Impact-driven Financing Initiative website (viewed in January 2022), https://www.impact-driven-finance-initiative.com

Figure 14. History of impact investing in the world and Japan

Year	Global	Japan
2007	The Rockefeller Foundation used the term “impact investing” for the first time and started to promote impact investing	
2008	The Dormant Accounts Act was enacted in the UK	
2009	Global Impact Investing Network (GIIN), a global network of impact investors, was established IRIS, a reporting standard for impact investing, began operating	
2011	The U.S. gave legal recognition to Benefit Corporation, as a category for social enterprises (Maryland, as the first U.S. state)	The 21st Century Financial Behavior Principles were adopted mainly by private financial institutions
2012	Big Society Capital, a wholesale fund funded by dormant bank accounts, was established in the UK	
2013	Global Steering Group for Impact Investment (GSG) was established (at the time, it was called “G8 Impact Investment Task Force,” which was renamed “GSG” in 2015).	
2014		GSG National Advisory Board was established GSG National Advisory Board issued a report on the current state of impact investing in Japan for the first time.
2015		GSG National Advisory Board proposed 7 key recommendations towards promotion of impact investing The promotion of impact investing is mentioned for the first time in the government’s growth strategies and in basic policies for regional revitalization The Government Pension Investment Fund (GPIF) signed the UN Principles of Responsible Investment (PRI)
2016	Impact Management Project (IMP), an initiative for impact measurement and management, was established	Social Impact Management Initiative (SIMI) was established (at the time, it was called the “Social Impact Measurement Initiative,” which was later renamed.) The Dormant Deposits Utilization Act was promulgated
2017	TPG, a major private equity firm, established a JPY 200 billion Impact Investment fund	
2018	“Impact investing” was included in the leaders’ declaration of G20 Buenos Aires Summit The United Nations Development Programme (UNDP) started the SDG Impact in the expectation that the flow of private funds will expand to achieve the goals of the SDGs	The Dormant Deposits Utilization Act came into effect
2019	Prime Minister Abe declared at the G20 Osaka Summit that Japan will lead in innovative financing schemes such as impact investing and dormant bank accounts IFC developed operation principles for impact investing	The Cabinet Office designated Japan Network for Public Interest Activities (JANPIA) as the designated utilization organization based on the Dormant Deposits Utilization Act Japan International Cooperation Agency (JICA) signed up for operation principles for impact investing as the first organization in Japan
2020	UK’ s Big Society Capital and a major private-sector asset management institution partner to establish an impact investment trust company	Assistance for solving social issues using dormant bank accounts commenced
2021	The Impact Taskforce was set up, raised by the UK, the chair of 2021 G7 summit The Impact Management Platform was set up as the successor to the Impact Management Project	Prime Minister Kishida mentioned impact investing in his first policy speech 21 financial institutions signed the Japan Impact-driven Financing Initiative

Column 1 : Introduction of the Impact Investment Forum

We will introduce Japan's largest business conference to raise awareness of impact investing and to build the market in Japan.

WEBSITE https://impactinvestment.jp/iif/2021/index.html

This conference began in 2018 under the joint sponsorship of the GSG-NAB Japan and the Japan Social Innovation and Investment Foundation (SIIF). Every year, this event provides the opportunity to learn about the latest trends in the world and the future prospects of the Japanese market, and is widely attended by public offices and government municipal offices, financial institutions, and think tanks.

In this column, we will introduce the major topics raised at each conference and look back at the trends to date.

In 2018 when the first forum was held, interest in sustainable development goals (SDGs) adopted by the United Nations and ESG investments had just begun to spread domestically. We introduced pioneering examples of impact investments which was just beginning to garner attention as a method to utilize private funds for social issues such as the aging population and regional revitalization. In 2019, at the second forum, there was heightened global expectation with the importance of "innovative financing" being mentioned in the Leaders' Declaration at the G20 Summit in Osaka. Amidst this, we invited key persons from ministries and agencies, financial institutions, and institutional investors and introduced trends on a government level, as well as the challenges and prospects faced by investors seriously looking to take initiatives. At the third forum in 2021, with such rising momentum both domestically and internationally, the continued rapid growth in ESG investments, and the unexpected attention given to trends in purpose-driven management, we introduced the three major possibilities in mainstreaming impact investment.

First Social Impact Investment Forum 2018

Theme "Building Sustainable Capital Markets for the Future" | Feb. 19th (Mon) & 20th (Tue), 2018

WEBSITE https://peraichi.com/landing_pages/view/iif2018

Summary: The impact investing market has grown to a market scale of 111.4 billion dollars (*in 2018). In order to realize the sustainable development goals (SDGs) adopted by the United Nations in 2015, it was estimated that approximately 2.5 trillion dollars would be required per year, requiring a mechanism that would introduce private capital at a large-scale. Through the use of private capital, the construction of a future-oriented capital market that is solid and sustainable is imperative for the comprehensive and sustainable growth of Japan.

Panel Theme : Demand for growing social impact investments and the role of financial institutions
Regional revitalization and social impact investment - the role of regional finance
The eco-system of Japan's social impact investment
The pioneer of social impact investments
Gender lens and social impact investing
Towards the further promotion of social impact investment
Innovative business that seeks to solve social issues
1) The aging society and healthcare 2) Child rearing and education 3) Regional revitalization
Financing methodologies for social impact investments
1) Social Impact Bond (SIB) 2) Financial products and platforms 3) Social impact measurement

Second Social Impact Investment Forum 2019

"Post G20: The Potential of Innovative Financing Towards Achieving SDGs" | Sep. 6th (Fri), 2019

WEBSITE https://peraichi.com/landing_pages/view/iif2019

Summary: It has been said that to achieve SDGs, we will require funds in the amount of five to seven trillion dollars per year. In place of public funds such as development assistance funds, solution-oriented innovative financing methods that use private capital is gathering attention. At the G20 Osaka Summit held at the end of June 2019, "innovative financing mechanisms" was mentioned in the Leaders' Declaration and the speech by Prime Minister Abe. We have invited key persons in financial institutions, government officials, business leaders, and think tanks in Japan and abroad to discuss the shape of innovating financing.

Panel Theme : SDGs and Innovative Finance
Impact Investing x Private Financial Institutions Case Studies
1) Aging and Health 2) Gender Lens Investment 3) Environment
Subgroups by Method
1) Pay for Success Contracts and Social Impact Bonds (SIB) 2) Digital Technology (Fintech)
3) Social Impact Evaluation and Social IPO

Third Social Impact Investment Forum 2021

Theme "Global Standardization of ESG Investments and the Awakening of Impact Investments"
Sep. 28th (Tue), 2021

WEBSITE https://impactinvestment.jp/iif/2021/index.html

Summary: The balance of ESG investments under management has grown to account for one third of the world's assets under management and the market for impact investments, which further focuses on intention to solve social issues, is also showing remarkable growth. At the G20 Osaka Summit in 2019, the Japanese government announced proactive initiatives towards impact investments. Given such trends both domestically and globally, we introduce three latest developments for impact investments; Expansion in scale of impact investments and diversification of growth models, From theory to social implementation. Evolution of information disclosure and evaluation, and Challenges of financial institutions to adopt impact-oriented, purpose-driven management.

Panel Theme : Towards an impact-oriented, purpose-driven management. Challenges of financial institutions
Information disclosure of impact investing
Expansion in scale of impact investment generating social unicorns
Breakout sessions
1) An impact company becoming a listed company - Challenges seen from case studies
2) Investments that tackle gender equality: The spread to the open market and its possibilities
3) IMM: Latest trends in development regarding principles, frameworks, standards
4) Practicing public equity impact investing by financial institutions
5) Start of risk money diversification!
- The possibilities of impact investing without the IPO requirements
6) Retail marketing of impact investing: Insights from latest consumer survey
7) Challenges for the gender gap through financial initiativesrequirements

The summary of lectures from each forum is available on the GSG-NAB Japan website.
▶▶ https://impactinvestment.jp/resources/lectures/index.html?tag=17

Chapter 2 : Impact Investing Market in Japan

Chapter 2 provides an overview of the impact investing market in Japan based on responses to the "Questionnaire Survey regarding Impact Investment (2021)," presenting the current situation and challenges surrounding the market. The Chapter first describes the survey method and the inclusion criteria of impact investing in the survey. It then presents the impact investment asset under management ("impact AUM") in Japan that have been identified through the survey, along with the results of responses to the questionnaire survey.

Survey Method

■ Summary of the method

- A questionnaire survey. The respondents selected a survey form either in print or Microsoft Excel to provide their answers.
- Survey period: September 2021 - January 2022
- Number of collected survey forms: 77 organizations / number of distributed survey forms: 580 (collection rate: 13.2%)
  - To survey institutions that may be connected to impact investing, this Survey, just as in the FY2020 Survey, covered a wide range of institutions, including those that have declared compliance with the Principles for Responsible Investment and the Principles for Financial Action for the 21st Century, among others.
  - This Survey consulted the "GIIN Annual Impact Investor Survey," which defines qualified respondents as those who "manage at least 10 million dollars in impact investing assets and/or have made at least five impact investments." Given that Japan's impact investing market is still in an early stage, this Survey does not specify any qualifications.
  - ResearchWorks Corporation provided assistance in conducting the Survey and collecting the forms.
- Target period for the Survey: As of the end of FY2020 ("the last fiscal year-end" on the survey form) and the plans and forecasts for FY2021 ("this fiscal year" on the survey form).

■ Design of the survey form

To make the analysis comparable with trends in global impact investing markets, we used the survey form for the "GIIN Annual Impact Investor Survey" as guide in designing our survey form. Note that we mostly used the content of our survey form for the last year designed using the content of GIIN's 2020 survey, which is its most recent one as it did not conduct a survey for 2021 due to various reasons.[35]

Structure of the survey form:

– Attributes of the responding organizations (e.g., business category)
– Results and plans of the impact investing (e.g., investee's sectors, types of organizations, asset classes, regions)
– Implementation status of impact measurement and management (IMM)
– Present state of the impact investing market in Japan and perceived challenges

35 GIIN Annual Impact Investor Survey 2020」(Global Impact Investing Network, GIIN):
https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf
As stated above, GIIN did not conduct a survey for 2021 due to various circumstances. As such, the international comparison data referred to in tallies and analyses in the main text of this report are for 2020.

Notes: **The Survey is not meant to make an accurate market estimate.**

The Survey results are the accumulation of responses to the questionnaire returned by mail or in electronic form. They are not meant to provide an estimated size of the impact investing market in a strict sense.

Responses are essentially self-reported

The results are based on self-reported answers from the responding organizations, just as the "GIIN Annual Impact Investor Survey." That said, when any response about the state of impact investing was partial or incomplete, or when any inconsistent responses were found, a follow-up interview was conducted with the organization by email or phone to have a complete and accurate answer.

Data cleaning and accuracy

The survey team removed or corrected responses that contained an inconsistency or misunderstanding to the full extent possible and took great care to prevent double counting of balances. These efforts, however, do not guarantee complete accuracy.

Definition of "Impact Investing" and Inclusion Criteria in This Survey and Report

Definition of "impact investing" used by the questionnaire survey

The definition of "impact investing" used for the Questionnaire Survey and presented to respondents includes all of the following.

■ **Impact investments are investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return** (*1) [36]

*1 Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called "investments." Donations, subsidies, and grants are excluded.

■ **Impact Measurement and Management [37] (IMM)(*2) is conducted before and after making investments (who does the post-investment measurement does not matter).**

*2 IMM refers to the assessment and management process based on impact measurement. This process incorporates into the investment process the quantitative and qualitative assessment of an impact in order to determine the value of the business and/or activities (for example, the value may be used as criteria when an investment decision is made, or used in reports made during the investment period and after investment). Improvements are made to the business and decisions are made based on the information that is acquired through the process, aiming to increase the impact.

■ **The results of IMM are shared with investors** (*3)

*3 In case of a privately placed financial product (e.g., a syndicated loan, an investment trust or privately placed corporate bonds for institutional investors), the lead bank, investment manager, and issuer share the results of IMM with investors. In case of a publicly offered financial product (e.g., an investment trust for individual investors, publicly traded bonds), the results of impact measurement are available to the public, as the product is publicly offered. As for impact investing that an investor does on his/her own account, this criteria is not applicable because the investor obviously knows the results of impact measurement.

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36 The description is based on the GIIN Annual Impact Investor Survey 2020. The GIIN questionnaire survey defines the term as "<u>Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.</u> They can be made across asset classes, in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the investors' strategic goals." The underlined sentence is presented in the survey form, and the remaining portion in the letter sent with the survey form.

37 This term has been created to represent the concept that integrates the conventionally used terms "social impact assessment" and "social impact management," so that it is consistent with the "Impact Measurement and Management (IMM)," which is an internationally accepted concept of impact investing initiatives. For detail on how the change was determined, please see "About Consolidating Terms Related to Impact Investing" in this report and "About Consolidating Terms Related to Impact Investing" in the FY2020 Report (Page 20).
FY2020 Report: https://impactinvestment.jp/user/media/resources-pdf/gsg-2020.pdf

Definitions of related terms

The Questionnaire Survey presented the definitions of terms related to impact investing as below:

Figure 15. Terms related to Impact Investing

Term	Definition
Impact	Social and/or environmental change or effect as a result of a business or activity, whether it is long- or short-term
Impact Measurement and Management (IMM)[38]	IMM refers to the assessment and management process based on impact measurement. This process incorporates into the investment process the quantitative and qualitative assessment of an impact in order to determine the value of the business and/or activities (for example, the value may be used as criteria when an investment decision is made, or used in reports made during the investment period and after investment). Improvements are made to the business and decisions are made based on the information that is acquired through the process, aiming to increase the impact.
Impact company	An "impact company" refers to a company oriented to creation of impact.

Inclusion criteria applied to impact AUM

While the responses to the Questionnaire Survey were self-reported ones, impact AUM were classified to be included or excluded based on responses to the questions that asked about criteria for impact investing. As for inclusion criteria, the FY2021 Survey added new criteria shown as ④ below in addition to ① to ③ used for the FY2019 and FY2020 Surveys. Impact AUM that meets all these four criteria were included.

① The responding organization is a corporation based in Japan.

This Survey is on impact investing in Japan. Hence, responding organizations must be corporations based in Japan. Note that the investee companies may be located outside of Japan. If a respondent is a multinational corporation, its responses must be about impact investing activities by its incorporated Japan office.

② The responding organization uses output[39] and/or outcomes[40] as metrics for IMM

This year's Survey, just as the FY2020 Survey, did not specify what must be measured about a business as an impact indicator, including whether indicators for business outcomes were a requirement and whether indicators for output alone would do. Since there is no international standard for metrics that all countries follow, what should be included in the measurement will continue to be explored.

③ The responding organization conducts IMM at the time of making an investment decision and after making the investment.

IMM at the time of making an investment decision must be conducted by the investor organization, investment manager, investment fund provider, or an outsourced third-party assessment organization. Post-investment IMM may be conducted by any qualified person, including a financial intermediary (e.g., a securities firm other than those stated above, bond issuer, or business operator that receives the investment or loan).

④ **The results of impact measurement and management (IMM) are shared with investors.**

As stated in the definition, impact investing focuses on each investor's "intention (to generate an impact)." When an intermediary (asset manager or investment fund provider) is used between the final investor and an investee, the results of IMM conducted by the intermediary must have been shared with the final investor in order to determine that the final investor, institutional or individual, has had "the intention to generate an impact" and made "a decision based on the impact."

For consideration of inclusion criteria

This Survey conforms to globally used criteria for impact investing that have the four key elements listed below. The GIIN presents these key elements as "Core Characteristics of Impact Investing."[41] Note that the "GIIN Annual Impact Investor Survey" does not state these key elements. Instead, it presents only the definition presented in the above footnote and asks for self-reported responses.

Four Key Elements of Impact Investing Stated in "Core Characteristics of Impact Investing"(GIIN)

❶ INTENTIONALITY

Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.

❷ FINANCIAL RETURNS

Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.

❸ RANGE OF ASSET CLASSES

Impact investments can be made across asset classes.

❹ IMPACT MEASUREMENT AND REPORTING

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

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38 This term has been created to represent the concept that integrates the conventionally used terms "social impact assessment" and "social impact management," so that it is consistent with the "Impact Measurement and Management (IMM)," which is an internationally accepted concept of impact investing initiatives. For detail on how the change was determined, please see " About Consolidating Terms Related to Impact Investing" in the FY2020 Report (Page 20).
FY2020 Report: https://impactinvestment.jp/user/media/resources-pdf/gsg-2020.pdf

39 "Output" refers to direct results of organizational or business activities such as products and services. E.g., the number of times the activities have been done; the duration of activities; the number of participants.

40 "Outcomes" refer to changes and benefits as a result of the output of a business or project. These changes are brought to beneficiaries as the effects of a program or activity that has been carried out. E.g., Vocational skills that have been acquired, a positive mental attitude, new employment.

41 "Core Characteristics of Impact Investing" (GIIN) https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

These GIIN's four key elements above were considered when the questions (questions for screening) that asked about inclusion criteria of impact investing in this Questionnaire Survey were designed.

❶ Impact investments have intentions to generate positive and measurable impacts.

Since it is difficult to judge in a tangible way whether the "intention" exists, the Survey only presented a definition, instead of giving questions about the intention.

❷ Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate.

The answers that the Survey asked for were solely about investments (not about donations, subsidies, or grants) that seek returns, as mentioned in the footnote on the definition. The questions in the Questionnaire were designed to ask about expected values of returns.

❸ Impact investments can be made across asset classes.

Just as ❷, the Survey asked solely about investments that seek returns, and the questions in the Questionnaire were designed to ask about asset classes.

❹ A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

As explained in "Inclusion criteria applied to impact AUM" above, the questions were designed to ask about the types of impact indicators, the timing of the measurement (at the time of making an investment decision and after making an investment), and whether results of impact measurement and management are shared with final investors.

Key points for consideration of future inclusion criteria

The angles detailed below were not included as inclusion criteria for this year's Questionnaire Survey and the market estimate survey discussed later. However, they may serve as important focus points in the process of facilitating improvements of quality on impact investing in Japan.

While most of them are reposted here from the last fiscal year's report, we may further explore these possible focus points and, while considering practical issues and actions, incorporate them into the inclusion criteria from the next fiscal year onward, or discuss them as efforts that should be encouraged if they are not included in the criteria.

"④. The results of impact measurement and management (IMM) are shared with investors." (mentioned above), which is adopted as new criteria in this fiscal year's survey, was taken up as an issue in the corresponding place in the last fiscal year's report. It is included herein after being discussed by a GSG-NAB Japan subcommittee to ensure final investors' judgment and intentions are based on the impacts.

1) Quality of impact measurement and management

1-1) Types of metrics to use and causal relationships between output and impact/outcome

This year's Survey includes impact investing that uses "output only" as metrics. However, given that impact investing essentially aims to realize an impact in the form of a social and environmental change or effect as a result of a business or activity, outcome should probably be set as metrics. However, if a causal relationship is proven between the output and the hoped-for impact or outcome, using "output only" as metrics may be acceptable.

1-2) Range of impact investing: time and space

For impact investing to serve as a means of fundamentally solving social issues going forward, specific details of an "impact" as metrics should be clarified in accordance with the IMP framework, that is, how long it takes for an "impact" to emerge (time), and to what extent the metrics cover geographical regions, society, and the global environment (space).

If emergence over a shorter period as a KPI of an impact, that would be similar to output and approximate to a mere KPI of an investee organization's business. If an impact is limited to that of its own company or on direct stakeholders of the own company, the investing would approximate to an activity for its own company's survival, rather than for the sustainability of a region, society, or the global environment.

On the other hand, "sales" of an investee company were not previously regarded as a metric for impact investing at first glance, but we think there are potentially cases where they can have an impact in regional contexts. In a region in which outflow or reduction of population is significant, for example, one cannot deny the possibility that even economic metrics such as sales may lead to revitalization of the regional economy or an increase in tax revenues for the local government, eventually leading to social benefits. It is necessary to take account of the context of the business environment to determine what constitutes an impact.

1-3) Setting target values for metrics

If setting and monitoring impact indicators is inadequate as a drive to generate an impact, setting a target value for indicators may become standard. Studying how much has been achieved toward a target value would provide an investor with a good indication of whether an impact investing has been successful or not.

2) Relations with ESG investing

2-1) “Comprehensiveness” of impact measurement and management

“Comprehensiveness” here refers to two actions: ① Pursuing both of the creation of a positive impact and reduction in a negative impact, and ② Comprehensively assessing, for example, corporate activities across supply chain, rather than individual projects run by an investee company.

Principle 1 of the Principles for Positive Impact Finance presented by the United Nations Environment Program Finance Initiative (UNEP FI) states, “It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.” The “positive contribution” in this statement can probably be understood as the “positive impact” in the definition of impact investing presented by the GIIN.

However, it would be practically extremely difficult that “potential negative impacts to any of the pillars” are “duly identified and mitigated,” and that “a positive contribution” is delivered to “at least one of the three pillars of sustainable development (economic, environmental and social),” in each project launched by an individual investee company.

Let us suppose that impact investing has the following two aspects:

① Internalization of positive market externalities
② Internalization of negative externalities

Even with these two aspects, especially in order to mitigate negative impacts through the internalization of negative externalities as stated in ②, and make a positive contribution, impact investing is expected to set impact indicators for comprehensiveness of the corporate activities by each investee company, rather than for a single project by the investee company.

2-2) “Additionality” of an impact

It is important to confirm that an additional impact is generated through impact investing. “Additionality” refers to how much the impact investing has contributed to the creation of an additional positive impact, or to reduction in a negative impact, on the pre-investment condition (baseline), when the case in which the impact investing is not made (counterfactual) is compared with the case in which the impact investing is made. It is required that a net impact generated by an impact investing is strictly measured.

Impact AUM

As the results of the Questionnaire Survey and the market estimate survey described later, the scale of the impact investing is presented with three types of figures.

1. Impact AUM, as ascertained by the Questionnaire Survey: 1.3204 trillion yen

*The figure was calculated using the new criteria in this year's Survey (i.e., the results of IMM are shared with the final investors) (all four inclusion criteria were met).

The figure is the sum of the investment balances of the 31 organizations that responded to the "Questionnaire Survey regarding Impact Investment (2021)" and met the aforementioned inclusion criteria for impact investing based on self-reporting. Which is to say, after the investing is recognized as impact investing, the figure represents the sum of investment balances for which IMM was conducted both before and after the investing, and when the results of IMM were shared with the final investors.

2. AUM calculated when the results of IMM ascertained by the Questionnaire Survey were not required to share with the final investors: 1.4814 trillion yen

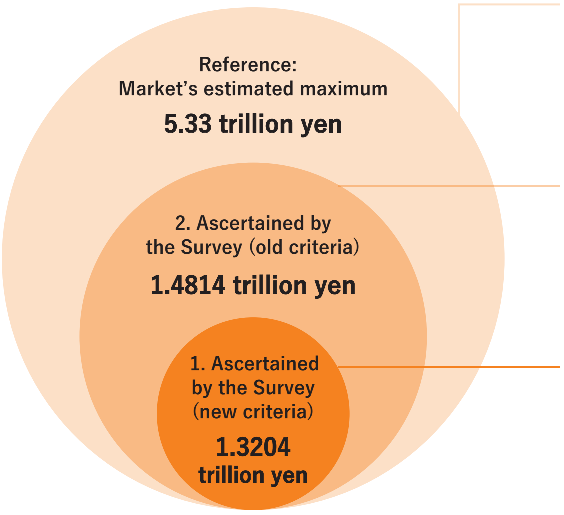
*The figure was calculated using the old criteria in the past Surveys (i.e., the results of IMM are not required to sharewith the final investors) (Criteria ① to ③ were met, but ④ was not).

The figure is the sum of the AUM of the responding organizations of the Questionnaire Survey whose intermediaries were not required to share the details of measurement with the final investors. In order to ensure that it is the "intention (to generate an impact)" of the final investor, in cases in which an intermediary is the one that conducts IMM, the results of the measurement should be shared with the final investors.

Reference figure: Estimated maximum (potential) in the market: 5.33 trillion yen

In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evaluation based on impact measurement is conducted before and after the investment, and is the estimated maximum of what can be impact investing. For details, refer to the "Market Estimate Survey" section below.

Figure 16. Scale of Impact Investment Balance



Market's estimated maximum (potential)

Estimated maximum of potential impact investments. In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evaluation based on impact measurement is conducted before and after investment. (Details are in the "Market Estimate Survey" section below.)

Impact AUM calculated when the results of IMM ascertained by this Questionnaire Survey were not required to share(old FY2020 criteria)

The figure is the sum of the impact AUM of the responding organizations of the Questionnaire Survey whose intermediaries were not required to share the details of measurement with the final investors.(Inclusion Criteria ① to ③ were fulfilled but ④ was unfulfilled)

Impact AUM, as ascertained by this Questionnaire Survey (new FY2021 criteria)

The figure represents the sum of the investment balances which are based on the Survey, and for which IMM was conducted both before and after the investing, and when the results of the IMM were shared with the final investors.(All Inclusion Criteria ① to ④ were fulfilled)

We will introduce the figures of global impact AUM for the purpose of comparison with the scale of impact AUM in Japan.

According to the GIIN Annual Impact Investor Survey 2020 [42] (GIIN),

- The impact AUM grasped in the Questionnaire Survey equivalent to **1** or **2** above was 404.0 billion dollars (approx. 44 trillion yen).
- The impact AUM equivalent to the reference figure above as the market's maximum was 715.0 billion dollars (approx. 79 trillion yen).

According to the "Growing Impact - New Insights into the Practice of Impact Investing"[43] (IFC),

- The impact AUM equivalent to the reference figure above as the market's maximum was 505.0 billion dollars (approx. 56 trillion yen).

Observations about factors behind an increase in impact AUM

Last year's Survey ascertained that the impact AUM for FY2020 totaled 328.7 billion yen (calculated with the new FY2021 criteria applied for the purpose of comparison).[44] This year's Survey found that the impact AUM for FY2021 amounted to **1.3204 trillion yen, a four-fold increase**. This section explores factors behind this rapid growth.

The impact AUM in Japan that this report presents are figures that were ascertained based solely on the surveys of institutional investors and financial institutions. With this fact in mind, the following three factors may be behind this increase in AUM.

1) **Existing** impact investing institutions **increased** their investments.

2) **New** impact investing institutions **entered** the impact investing market.

3) Impact investing has spread to **diverse asset classes**, which underlies 1) and 2).
(Investments increased particularly in **public equity** and **debt**, as they easily grow in scale)

Regarding 1), 20 organizations engaged in impact investing (impact investing institutions) responded to both the FY2020 and FY2021 Surveys. These repeat respondents' impact AUM calculated from the FY2020 Survey totaled approx. 322.6 billion yen (with the new FY2021 criteria applied for the purpose of comparison), and those from the FY2021 Survey approx. 656.3 billion yen. This means that the

42 (Reposted) "GIIN Annual Impact Investor Survey 2020" (Global Impact Investing Network, GIIN): https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

43 "Growing Impact - New Insights into the Practice of Impact Investing" (International Finance Corporation): https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impact.pdf?MOD=AJPERES&CVID=naZESt9

44 Last year's impact AUM totaled 512.6 billion yen when it was calculated based on the impact AUM inclusion criteria used last year (FY2020). Here, to compare last year's figure with this year's, the new criteria that was adopted this year was also applied, which led last year's figure to be 328.7 billion yen.

year-over-year growth rate of impact investing by the existing impact investing alone doubled to reach 203% (see the chart below).

Figure 17. Impact AUM, asset manager AUM, and growth rate of repeat responding institutions [45]

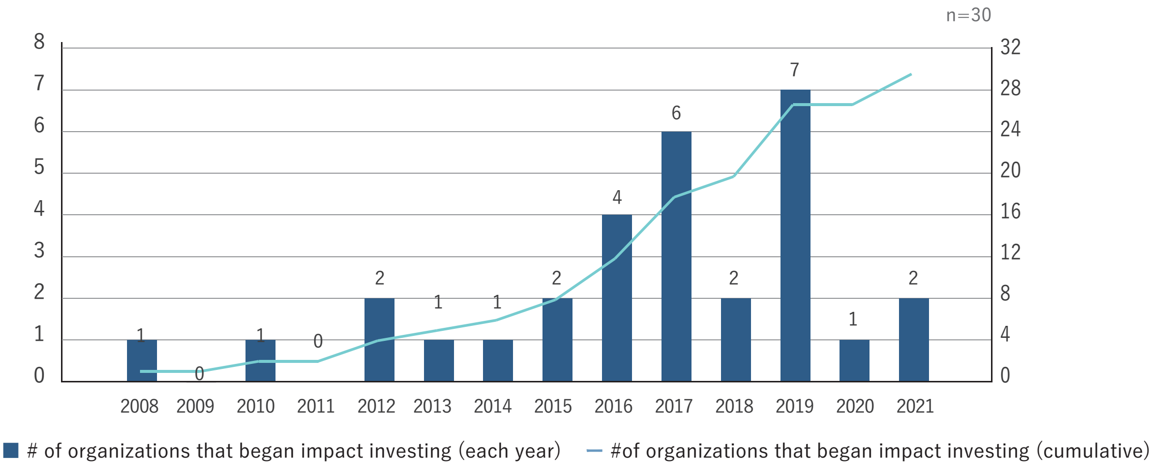
*Number of institutions that had year-over-year growth

Impact investing institutions that responded to the Surveys for two consecutive years (n=20)	FY2020 Survey	FY2021 Survey	Growth Rate (YoY)	Count of Growth*
Impact AUM and Asset Manager AUM	322.666 billion yen	656.326 billion yen	203%	14

Source: Created based on the Questionnaire Survey regarding Impact Investment (2020 and 2021) (GSG National Advisory Board) - Question: "A2 (2). Please provide your organization's impact AUM and the size of asset manager AUM as of the last fiscal year-end. (Numerical Answer, hereafter "NA")"

As for 2), major investment managers and banks have entered the impact investing market. In terms of the numbers of new respondents to the Questionnaire Survey, 20 impact investing institutions last year met the new criteria set for the FY2021 Survey, and the number grew about 1.5 times to be 31 institutions this year. As the chart below shows, 2019 saw the largest number of organizations (survey respondents) that began impact investing. This may indicate that FY2020 covered by this year's Survey saw the new entrants began full-scale investments.

Figure 18. Year in which organizations began engaging in impact investing [46]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board)- Question: "A1. Please answer the year in which you began engaging in impact investing. (NA)"

45 The amounts from the FY2020 and FY2021 Surveys in Figure 17 show the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from responded organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

46 Figure 18 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

3) is a trend in impact investing that has emerged in Japan as well as across the globe. The early days of impact investing saw a lot of venture capital for unlisted companies, including start-ups. The background to the growth is a rise in large-scale amounts of investments that include debt financing for listed companies and impact investing funds consisting of public equity. In the breakdown of impact AUM by asset class confirmed in this year's survey, debt accounted for 58% and listed equities for 35%, with both accounting for 93% of the total. The moves for standardization, which includes the development of the principles and frameworks stated below, have created the investment climate that drives these initiatives.

■ Development of "The Impact Principles" (Operating Principles for Impact Management) (April 2019)[47]

The Impact Principles are operating principles for impact management led the development by the International Finance Corporation (IFC). The nine principles provide a framework that enables investors to consciously incorporate their ideas about an impact into their investment lifecycles. As of January 2022, 151 institutional investors in 37 countries have signed on. Some of the impact investing institutions that responded to this Survey are organizations that have signed these principles, or organizations that have not signed the principles but apply them to the operation of their investment funds.

■ Establishment of the Principles for Positive Impact Finance[48] and their framework (2017 - 2018)

The United Nations Environment Program Finance Initiative (UNEP FI) led the development of these principles for investments and loans that aim to make a positive impact. The four principles provide a common financial framework for achieving the SDGs. In Japan, city banks and regional banks are increasingly turning to these principles as the basis of their impact investing initiatives in the form of loans.

We have discussed the factors behind an increase in impact investing. These factors can be summarized as follows: both old-timers and newcomers in the impact investing market have increased their investments; what is behind the increase includes standardized principles and frameworks that have been created to facilitate easy-to-expand initiatives (e.g., investing in public equity, debt financing); and impact investing institutions in Japan took actions to apply and/or expand those frameworks during FY2020 (the year covered by the Survey). These facts indicate that FY2020 was probably a milestone year.

47 https://www.impactprinciples.org
48 https://www.unepfi.org/wordpress/wp-content/uploads/2018/09/POSITIVE-IMPACT-PRINCIPLES-JAPANESE-WEB.pdf

List of Institutions That Make Impact Investing and Investment Cases

Figure 19. List of institutions that make impact investing and investment cases[49]

(in billions of yen)

Industry	Organization Name	Examples of Impact Investing	Impact AUM[50]
Asset managers	Asset Management One Co., Ltd.	Management of impact investment portfolio in public equity in Japan	(undisclosed)
	Kamakura Investment Management Co., Ltd.	“Yui 2101” (investment in listed and privately held companies through public investment trusts)	28.682
	Nomura Asset Management Co., Ltd.	Global Sustainable Equity Strategy, Japan Sustainable Equity Growth, Improve the World Corporate Fund (Nomura Japan equity ESG investment), Nomura ACI Advanced Medical Impact Fund, Global Food Related Equity Open “Smart Food” (public equity investment through a public mutual fund)	(undisclosed)
	Sumitomo Mitsui Trust Asset Management Co., Ltd.	Japan Equity Impact Investment Fund, Global Equity Impact Investment Fund (public equity impact investment fund)	2.574
	Mitsubishi Corp. - UBS Realty Inc.	Real estate investment trusts and asset management for investment corporations	0.1
	Resona Asset Management Co., Ltd.	Japan Equity Local Impact Fund (public equity impact investment fund)	(undisclosed)
Venture capitals	Energy & Environment Investment, Inc.	EEI Fund 4 Innovation and Impact Investing Limited Partnership (private equity impact investing fund)	(undisclosed)
	Shinsei Corporate Investment Limited	Japan Impact Investment I Limited Partnership “Child-care Support Fund,” Japan Impact Investment II Limited Partnership “HATARAKU FUND” (private equity impact investment fund)	(undisclosed)
	Future Venture Capital Co., Ltd.	Osaka Social Issue Solving Fund in collaboration with Osaka Shinkin Bank (private equity impact investment fund)	(undisclosed)
Insurance companies	The Dai-ichi Life Insurance Company, Limited	Impact investing (private equity, PE funds), SIB projects[51]	Approximately 8.2
Government-run development agencies and financial institutions	Japan International Cooperation Agency	Overseas loans and investments	212.6

49 We referred to the content of the responses to the relevant questions in the questionnaire upon classification of industry.

50 “Impact AUM” in this Figure is not limited to investment assets under management for which the company has ownership rights. Depending on the industry, it can include entrusted assets under management for asset management companies, and for some institutions that deal with other financial products, it can include structuring and sales amounts. Figures are for the period of the Questionnaire Survey and are as of the end of FY2020.

51 SIB denotes social impact bonds and is one type of performance-linked private sector consignment contract. A private entity raises funds from financial institutions and investors to implement a project outsourced by a governing authority and the returns and repayment are paid by the governing authority administration depending on payments (consignment fees) linked to performance results.

Industry	Organization Name	Examples of Impact Investing	Impact AUM
Banks and trust banks	The Shizuoka Bank, Ltd.	Positive impact finance (includes syndicated loans), sustainability-linked loan, ESG/SDGs assessment loan	8.42
	Mizuho Bank, Ltd.	Japan Impact Investment II Limited Partnership "HATARAKU FUND" (private equity impact investment fund)	(undisclosed)
	Sumitomo Mitsui Banking Corporation	SDGs Green/ social/ sustainability loan, PIF-principle applied ESG/SDGs assessment loan, green bond (private placement bond)	(undisclosed)
	Sumitomo Mitsui Trust Bank, Limited	Positive Impact Finance (loans to businesses)	(undisclosed)
	MUFG Bank, Ltd.	BlackRock Global Renewable Power III Fund, Ares Climate Infrastructure Partners Fund (real assets investment fund), financing of green projects such as renewable energy	(undisclosed)
	Mitsubishi UFJ Trust and Banking Corporation	Baillie Gifford Impact Investment Fund for institutional investors "Positive Change" (public equity impact investment fund)	(undisclosed)
Credit associations, credit unions	The Kyoto Shinkin Bank	Toyonaka City SIB Project	(undisclosed)
	Dai-ichi Kangyo Credit Cooperative	Social business support loan (financing for private companies)	(undisclosed)
Securities companies	Daiwa Securities Group Inc.	World Impact Investment Fund "Better World" (public equity investment through public investment trusts)	(undisclosed)
Foundations	KIBOW Foundation	KIBOW Impact Investment Fund (private equity impact investment fund)	0.5
	The Sasakawa Peace Foundation	Blue Orchard Micro Finance Fund (BOMF), Japan ASEAN Women Empowerment Fund (JAWEF) (investments in microfinance funds)	4.0
	The Social Innovation and Investment Foundation	SIB Project (Okayama City, Toyonaka City), Japan Impact Investment II Limited Partnership "HATARAKU FUND" (private equity impact investment fund), Healthcare New Frontier Fund (private equity impact investment fund), private equity direct investment / J-KISS share option	0.369
	Mitsubishi Corporation Disaster Relief Foundation	Investments to support businesses in areas affected by disasters (silent partner investments)	1.554
Incorporated educational institutions	Sophia School Corporation	Japan International Cooperation Agency bonds, African Development Bank bonds, bonds issued by the University of Tokyo (social bonds), Social Investment Fund, Global Green Bond Fund, Aavishkaar Bharat Fund (impact investment fund in India), U.K. offshore wind power project, private global stock impact investment funds	5.086

Industry	Organization Name	Examples of Impact Investing	Impact AUM
Incorporated educational institutions	The Ritsumeikan Trust	Ritsumeikan Social Impact Fund (impact investment fund for private equity/bonds)	(undisclosed)
Other organizations	Crowd Credit, Inc.	Microfinancing, financing, solar power generation, and social lending to projects by female entrepreneurs, etc. in regions such as Central and South America, Africa, Asia, and Middle East	2.295
	Gojo & Company, Inc.	Investments in microfinance institutions in India, Myanmar, Cambodia, Sri Lanka	39.2
	Digisearch and Advertising, Inc.	Angel investment, silent partnerships, share funds, SIB projects	(undisclosed)
	Plus Social Investment Co., Ltd.	Management of SIB Projects (cities of Saijo, Higashiomi, Okayama, etc.) and Ritsumeikan Social Impact Fund (impact investment fund for private equity/bonds)	0.857
	Music Securities,Inc.	Project-based fund by social businesses in the region (mainly silent partnership investments)	(undisclosed)

Questionnaire Survey Result

From next page, we introduce the result of the “Questionnaire Survey regarding Impact Investment (2021).” In addition to the aggregation of the number of all the responding institutions (n=77), we also performed some analysis based on the two types of subgroups described below.

Subgroup ① institutions engaged in impact investing / institutions not engaged in impact investing

The questionnaire survey also targets institutions that may engage in impact investing in the future, so some responding institutions have not engaged in impact investing as of the writing of this report. Organizations that met the aforementioned inclusion criteria for impact investing based on self-reporting are categorized as “institutions engaged in impact investing,” while those which did not submit self-report or did not meet the criteria are categorized as “institutions not engaged in impact investing.”

Subgroup ② equity-focused / debt-focused

The organizations categorized as “institutions engaged in impact investing” in subgroup ① were categorized into equity-focused and debt-focused based on their industry categorization.

Figure 20. Number of responding institutions in analysis subgroups (n) and the ratio to the total number of the respondents (%)

		n	%
	Total number of respondents	77	100%
Analysis axis ①	Institutions engaged in impact investing	31	40%
	Institutions not engaged in impact investing	46	60%

		n	%
	Institutions engaged in impact investing	31	100%
Analysis axis ②	Equity-focused	22	71%
	Debt-focused	9	29%

Institutions deemed to be engaged in impact investing

Seven of the institutions not engaged in impact investing did not disclose impact AUM in this Survey or did not engage in impact investing at the end of FY2020, or around the target period of the Survey ("the last fiscal year-end" on the Survey form), but was already engaging in impact investing or had specific plans to engage in one in FY2021, or the period in which the Survey was conducted.

As the impact AUM in this Survey was strictly for the period through the end of FY2020, their balances and numbers of investments made are not included in the tallies or analyses of numerical questions.

However, considering that the number of the samples of institutions engaged in impact investing is limited in this Survey, for multiple-choice and open-ended questions, responses from these seven institutions were regarded as institutions effectively engaged in impact investing, whenever appropri-ate, in carrying out tallies and analyses.

Comparison with GIIN Survey

As stated earlier, in preparing the survey method and questionnaire-form design of this Survey, the "GIIN Annual Impact Investor Survey" was referred to as guide to make it comparable with trends in the global impact investing market. Just as this Survey, GIIN's survey was conducted every year, but GIIN did not conduct it for 2021 due to various reasons.

As a result, GIIN's survey for 2020 is the latest that can be referred to in comparing between global and Japanese trends. This fiscal year's report again quotes GIIN's survey for 2020 ("GIIN Annual Impact Investor Survey 2020"), considering the importance of comparison with overseas data, although comparison with GIIN's survey for 2020 was already made in the last fiscal year's report and the content repeats and is one-year old.

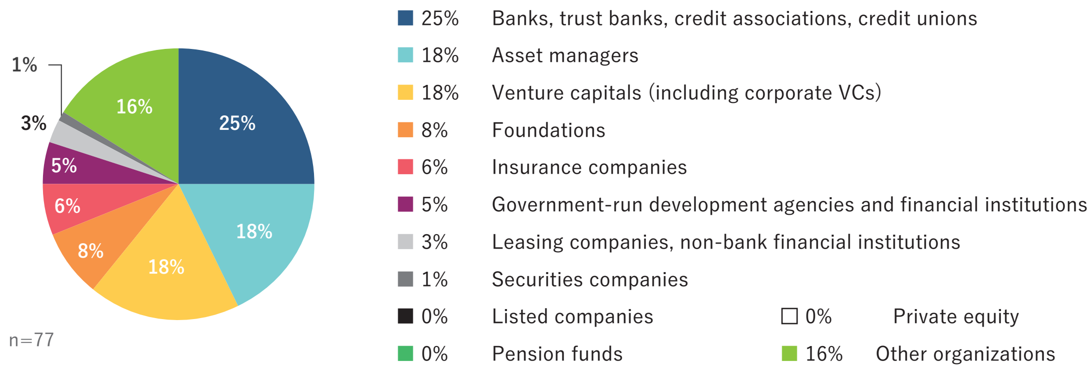
Features of Organizations That Responded to the Questionnaire Survey

This section confirms when and how the "institutions engaged in impact investing" (impact investing institutions) that meet the aforementioned inclusion criteria began working on impact investing and with what motivation, upon confirming the industry type of the institutions that responded to the "Questionnaire Survey regarding Impact Investment (2021)."

Industry type of all organizations that responded to the questionnaire survey

- Of all organizations that responded to the questionnaire survey, those who answered "banks, trust banks, credit associations, credit unions" answered were the largest (25%) followed by "venture capitals (including corporate VCs)" and "asset management companies" (both 18%).

Figure 21. Industry type of all organizations that responded to the questionnaire survey



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board)
- Question: "2. Please select one answer that most accurately describes your industry (Single Answer, hereafter, "SA")"

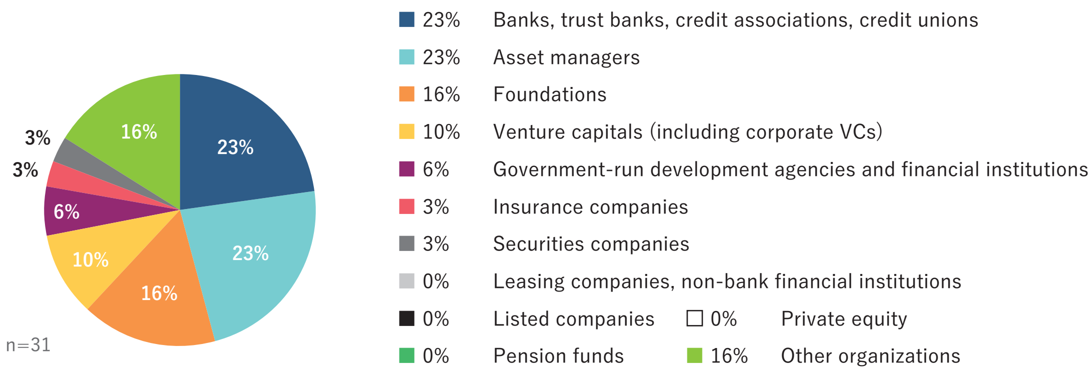
Industry type of institutions engaged in impact investing

- When the organizations that met the aforementioned inclusion criteria for impact investing alone are extracted, those who answered "banks, trust banks, credit associations, credit unions" and "asset management companies" were the largest (both 23%).

- In Figure 1 of the "GIIN Annual Impact Investor Survey 2020"[52] (hereinafter referred to as "GIIN Survey 2020"), the answer "Asset managers: for-profit" (51%) accounted for the majority of the organizations that responded to the survey (n=294).

52 "GIIN Annual Impact Investor Survey 2020" (https://thegiin.org/research/publication/impinv-survey-2020)

Figure 22. Industry type of institutions engaged in impact investing [53]

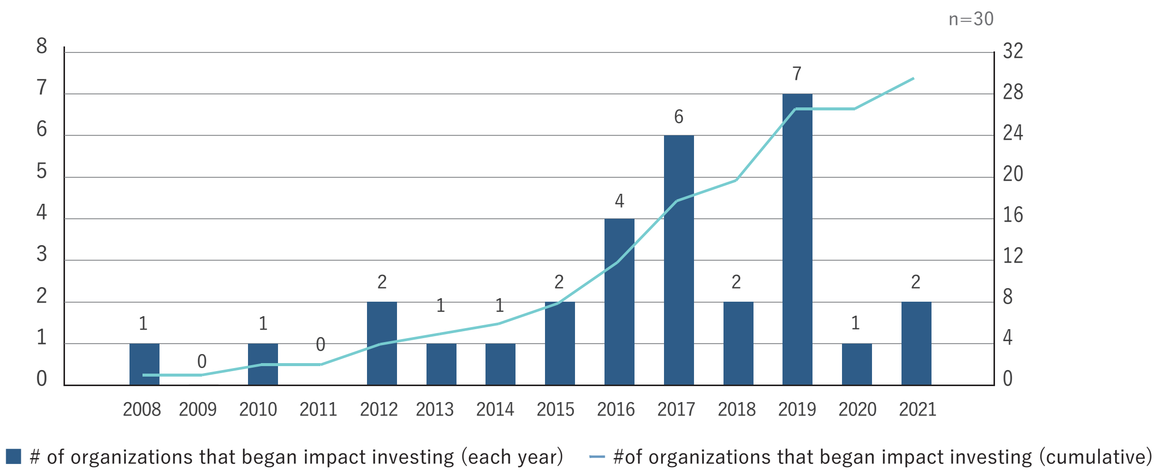


Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "2. Please select one answer that most accurately describes your industry (SA)"

Year in which organizations began engaging in impact investing

- Year 2008 was the earliest when one of the organizations began engaging in impact investing and many organizations started it in 2017 and 2019 (six to seven organizations each).
- In the GIIN Survey 2020 (Figure 4), 64 organizations of the responded organizations (n=294) were already engaged in impact investing before 2000. Also, almost 40% of the total were already engaged in impact investing as of 2007.
- The global comparison above showed that there was about 10 years of delay in development of impact investing in Japan.

Figure 23. Year in which organizations began engaging in impact investing [54] (reposted)

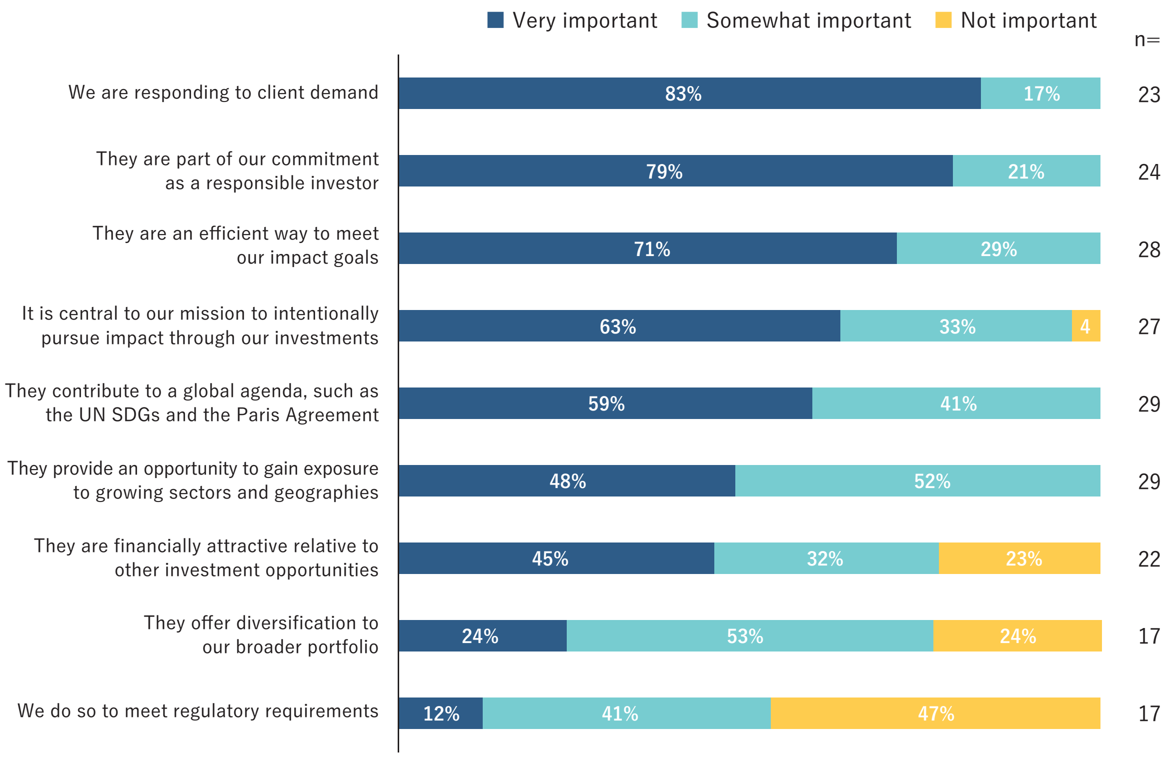


Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board)- Question: "A1. Please answer the year in which you began engaging in impact investing. (NA)"

Motivation for engaging in impact investing

- As a motivation for engaging in impact investing, the highest ratio of respondents considered "responding to client demand" (83%) as "very important" motivations, followed by "their commitment as responsible investors" (79%).
- In the GIIN Survey 2020 (Figure 6), the highest ratio of respondents considered both "impact being central to their mission" and "their commitment as responsible investors" as "very important" motivations (both 87%).
- The above global comparison revealed that impact investors in Japan tended to cite "more client oriented" and responding to client demand as their motivations for engaging in impact investing.

Figure 24. Motivation for engaging in impact investing [55]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "D4. How important are each of the following in terms of motivating your organization to engage in impact investing? (SA)"

53 Figure 22 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria.

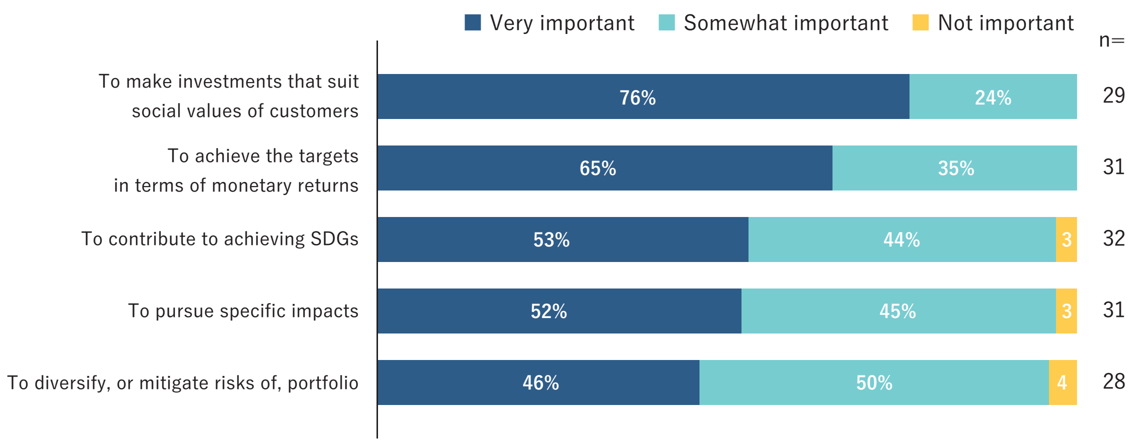
54 Figure 23 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

55 Figure 24 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided the answer "We don't know/NA" or no answer were excluded.

Importance in terms of requests from customers

- The most frequent response chosen by the impact investing institutions as a "very important" request about investing activity from customers was "to make investments that suit social values of customers" (76%), followed by "to achieve the targets in terms of monetary returns" (65%).
- This indicated pursuing both social and environmental impacts and the economic goal of generating returns is regarded as important in practical aspects, as in the definitions in impact investing.

Figure 25. Importance in terms of requests from customers [56]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "D1. How important is each of the following to your organization's investing activities, when it is asked by customers? (both SA)"

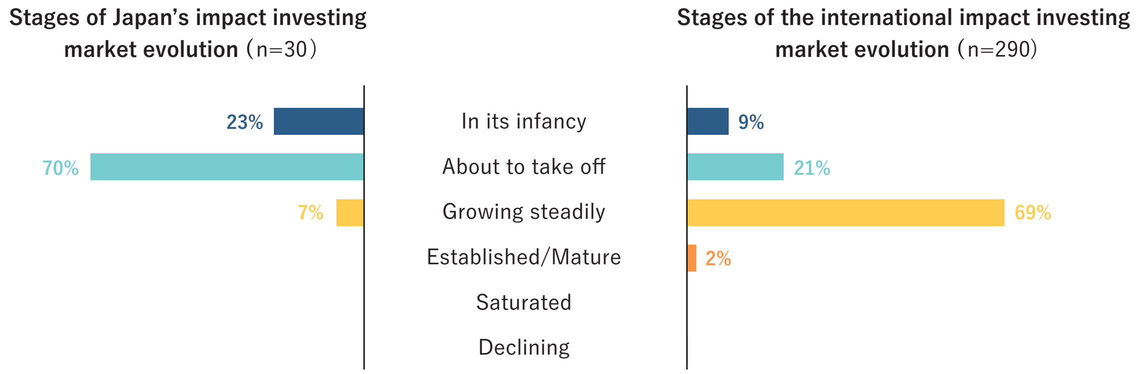
Progress and Challenges of Impact Investing in Japan

This section provides an overview of the progress of Japan's impact investing market and the challenges facing the country going forward based on responses to the "Questionnaire Survey regarding Impact Investment (2021)."

Stages of Japan's impact investing market evolution

- Regarding the stages of Japan's impact investing market evolution, a clear majority of respondents considered that the market is "about to take off" (70%), and some considered the market is "in its infancy" (23%).
- To the question about the stages of the international impact investing market evolution in the GIIN Survey 2020 (Figure 9), a clear majority of respondents answered that the market is "growing steadily" (69%), and some answered that the market is "about to take off" (21%).
- As mentioned in "Year of first impact investing (Figure 23)," this Survey confirmed that Japan is one stage behind in the evolution of the impact investing market when internationally compared, and its market is about to take off.

Figure 26. Stages of evolution in the Japanese and international impact investing market [57]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) and the GIIN Annual Impact Investor Survey 2020. - Question: "D5. How do you see the state of Japan's impact investing market? Please select the answer that most accurately describes your view. (Single Answer, hereafter "SA")"

Progress of Japan's impact investing market over the past one year

- The largest proportion of respondents said that Japan's impact investing market had progressed over the past one year in "the public' s awareness of and interest in impact investing" ("significant progress": 17%; "some progress": 79%), followed by those who said progress was made in "top management' s interest in and understanding of impact creation" ("significant progress": 8%; "some progress": 85%) and "each company' s stakeholders' interest and engagement (e.g., asset owners, shareholders, investors)" ("significant progress": 13%; "some progress": 79%).
- In the GIIN Survey 2020 (Figure10), many respondents noted that progress had been made over the past one year in "research on market activity, trends, performance, and practice" ("significant progress": 42%; "some progress": 55%) and "sophistication of impact measurement and management (IMM) practice" ("significant progress": 39%; "some progress": 59%).[58]。
- Respondents in the international markets noted "research on market activity and practice" and "sophistication of impact measurement and management (IMM) practice" as the areas of progress over the past one year. It is expected that Japan's market may make progress in impact investing and measurement coupled with the sophistication of impact management practice going forward.

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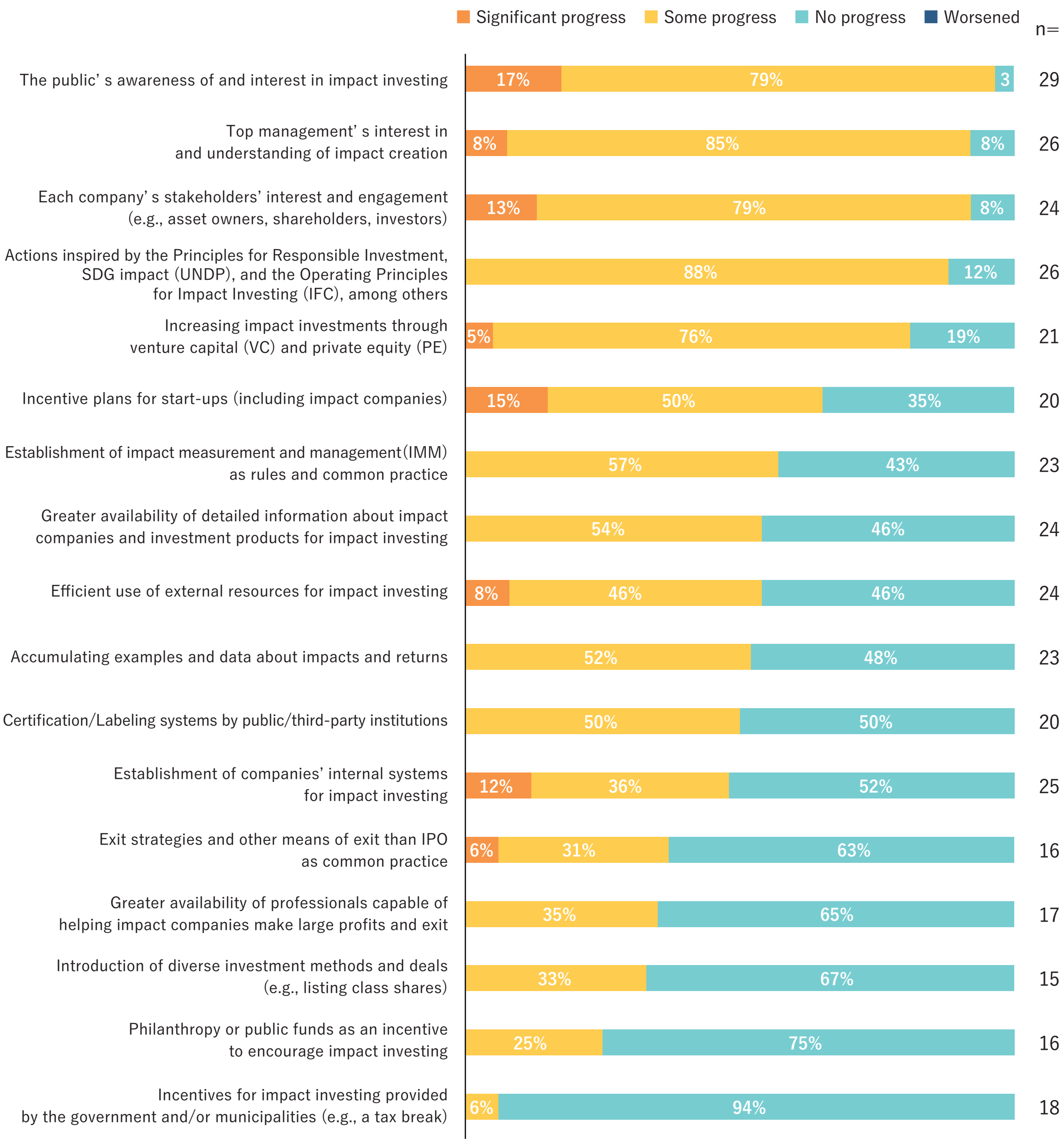
56 Figure 25 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided the answer "We don't know/NA" or no answer were excluded. Some items do not add up to 100% due to the processing of decimal points.

57 Figure 26 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

58 The "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) was designed based on survey forms used in the GIIN Survey 2020 where possible to facilitate comparison with that survey, but considering the level of development of Japan's impact investing market, we did not use exactly the same wording in questions as those in its nearest equivalent in the GIIN Survey 2020.

Figure 27. Progress of Japan's impact investing market over the past one year [59]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) - Question: "D11. How do you view the progress that Japan's impact investing market in general has made over the past one year? (SA for each statement)"

59 Figure 27 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided the answer "We don't know/NA" or no answer were excluded.

Progress of Japan's impact investing market[60]

The Survey asked impact investing institutions to comment on "the progress of Japan's impact investing market over the past one year." Some of the responses to this open-ended question are provided below. While there were general opinions that reflected respondents generally felt recognition and awareness in society about impact investing have increased, some pointed out that dividing lines between sustainability financing and impact investing and between startups in general and impact companies have become blurred. This suggested that, for impact investing to gain further traction, there is the need for disclosure/-publication of impact information, sharing of good practices, efforts to incorporate impact measurement and management (IMM) into actual practice, training of personnel and development of proper organizational structures.

> "As ESG investing became mainstream, impact investing is increasingly known and there have been interesting developments across the globe, including moves to create new markets and searches for ways to exit impact investing (SDGs IPO, SPO, etc.). However, there have not been successful examples in which these have reflected economic value. We see growing interest among businesses in sustainability management in general and a tendency for more businesses to disclose/publish the information that includes purposes/SDGs/ESG/impacts. We expect a stronger interest among investors in investees practicing appropriate disclosure will lead to more positive impact on share prices, and as more cases exemplifying such an effect emerge, impact disclosure/investing will further grow."

> "We have the impression that sustainability finance, especially the products that feature impact measurements, increased rapidly in the area of loans over the past year and the dividing line between it and impact investing has become increasingly blurred (in terms of the perception of the general public and the issue of the realization of IMM aside). Accountability of measurement remains the key to prevent impact washing, but as there is the possibility that we may have come to a point where either of them may become the mainstream as a process for measurement and management, it is necessary to make IMM easy to understand and especially ensure profit is felt. Under such circumstances, an issue is that there are few cases in which investment has been completed and can be examined."

> "Some progress has been made in the dissemination of information about impact investing by various media, listed companies, and asset managers in Japan. Nevertheless, a complete cycle of impact investing has not yet established across the investment chain."

> "Businesses have significantly deepened their understanding of impact investing over the past one year. Now, impact measurement should be incorporated into practical business processes to accelerate the efforts for impact investing. In some cases, social impacts are measured as investment results in the process of investments that focus on the pursuit of financial returns. Impact investing can be promoted and facilitated by flexibly selecting good practices from cases that may not be considered impact investing in a strict sense."

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60 Some of the responses to Question D11 SQ1. "Please write your comment about the progress (of Japan's impact investing market over the past one year)" were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

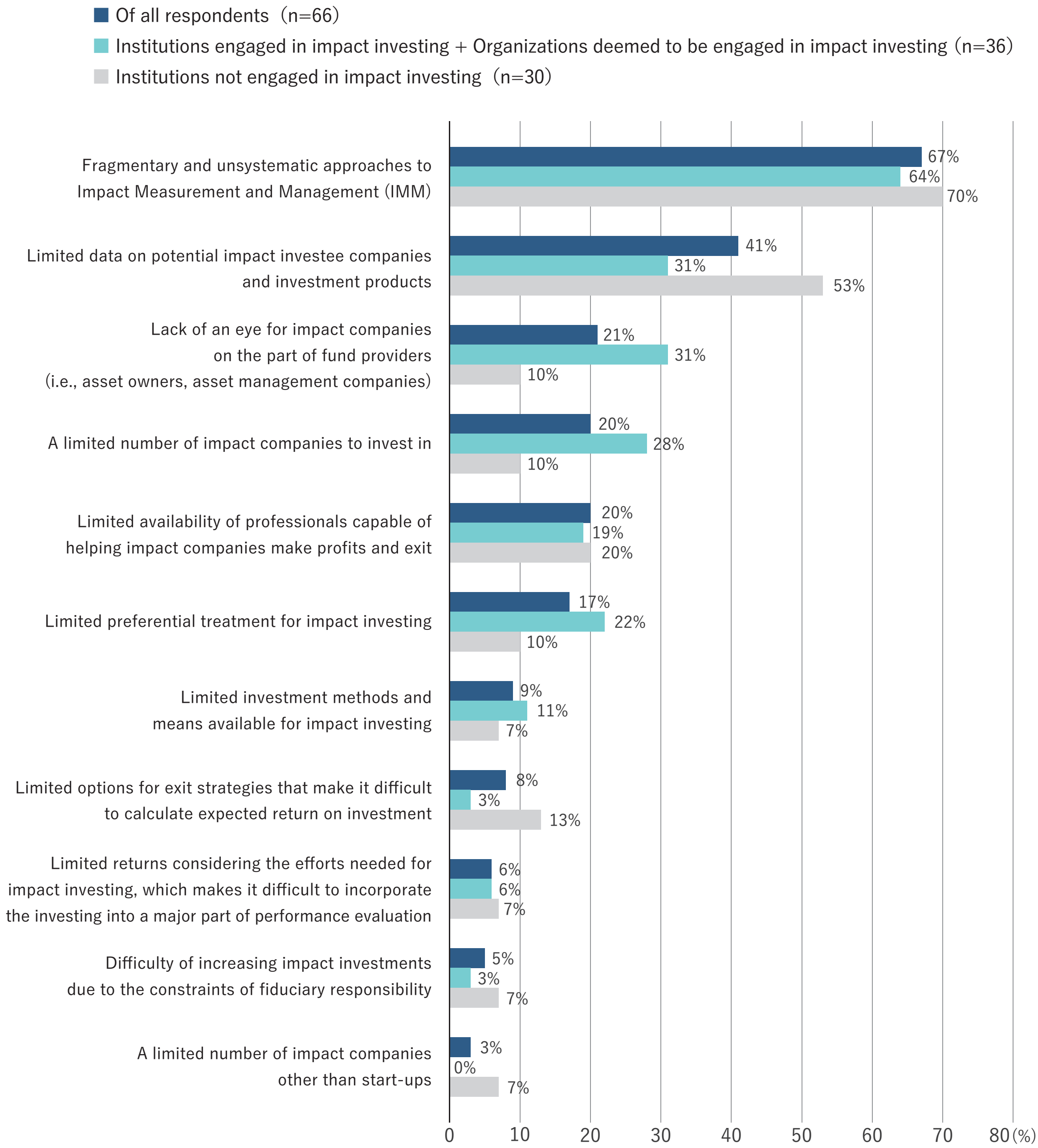
“ Impact measurement criteria should be standardized and companies should disclose detailed information about social impacts so that impact investing will become more common. ”

“ We feel the dividing line between startups and impact companies has become increasingly blurred since a few years ago. In that sense, we feel companies with the potential of engaging in impact investing have increased as startups have become revitalized. On the other hand, an emerging issue is that the number of individuals in charge of investing who are capable of considering impact investing. We feel there is a need to train individuals in charge of investing who can address impact investing needs and create viable structures. ”

Challenges facing businesses that aim to increase impact investing

- The majority of responding organizations in the Questionnaire Survey perceive that the challenge facing businesses that aim to increase impact investing is “fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)” (67%), followed by those citing “limited data on potential impact investee companies and investment products” (41%).
- The majority of responding impact investing institutions believe that the challenge is “fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)” (64%), followed by those citing “limited data on potential impact investee companies and investment products” and “lack of an eye for impact companies on the part of fund providers (i.e., asset owners, asset management companies)” (both 31%).
- The majority of the responding non-impact investing institutions believe that the challenge is “fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)” (70%), followed by those citing “limited data on potential impact investee companies and investment products” (53%).
- This means that “a limited number of impact companies to invest in” may be one of the major reasons why these companies have not started impact investing.
- When we sort responses into the groups of “all responding organizations,” “impact investing institutions,” and “non-impact investing institutions,” we see that “fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)” is noted across all groups as a challenge facing businesses that aim to increase impact investing. This indicates, as was the case in the last fiscal year’s Survey, that systematic Impact Measurement and Management (IMM) will be needed so that institutions that are already making impact investing will invest more, and that more institutions will begin impact investing.
- Following the issue of Impact Measurement and Management (IMM) as the biggest challenge, the following three responses were the second most frequent responses: “limited data on potential impact investee companies and investment products,” “a limited number of impact companies to invest in,” and “limited availability of professionals capable of helping impact companies make profits and exit.” This means that a limited number of impact companies and limited availability of professionals capable of handling practical aspects of impact investing is a major issue for impact investing in Japan.

Figure 28. Challenges facing businesses that aim to increase impact investing [61]



Source: Created based on the Questionnaire Survey regarding Impact Investment (2021) (GSG National Advisory Board) - Question: "D6/E1. What do you think is the problem when Japan plans to increase impact investing going forward? (Multiple Answer, hereafter "MA", up to 3)"

61 Figure 28 excluded invalid responses that had selected four or more answers, as respondents were asked to select up to three. Also, as stated above, note that seven of the "institutions not engaged in impact investing" were in effect "institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For detail, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed earlier.

Conditions that facilitate impact investing

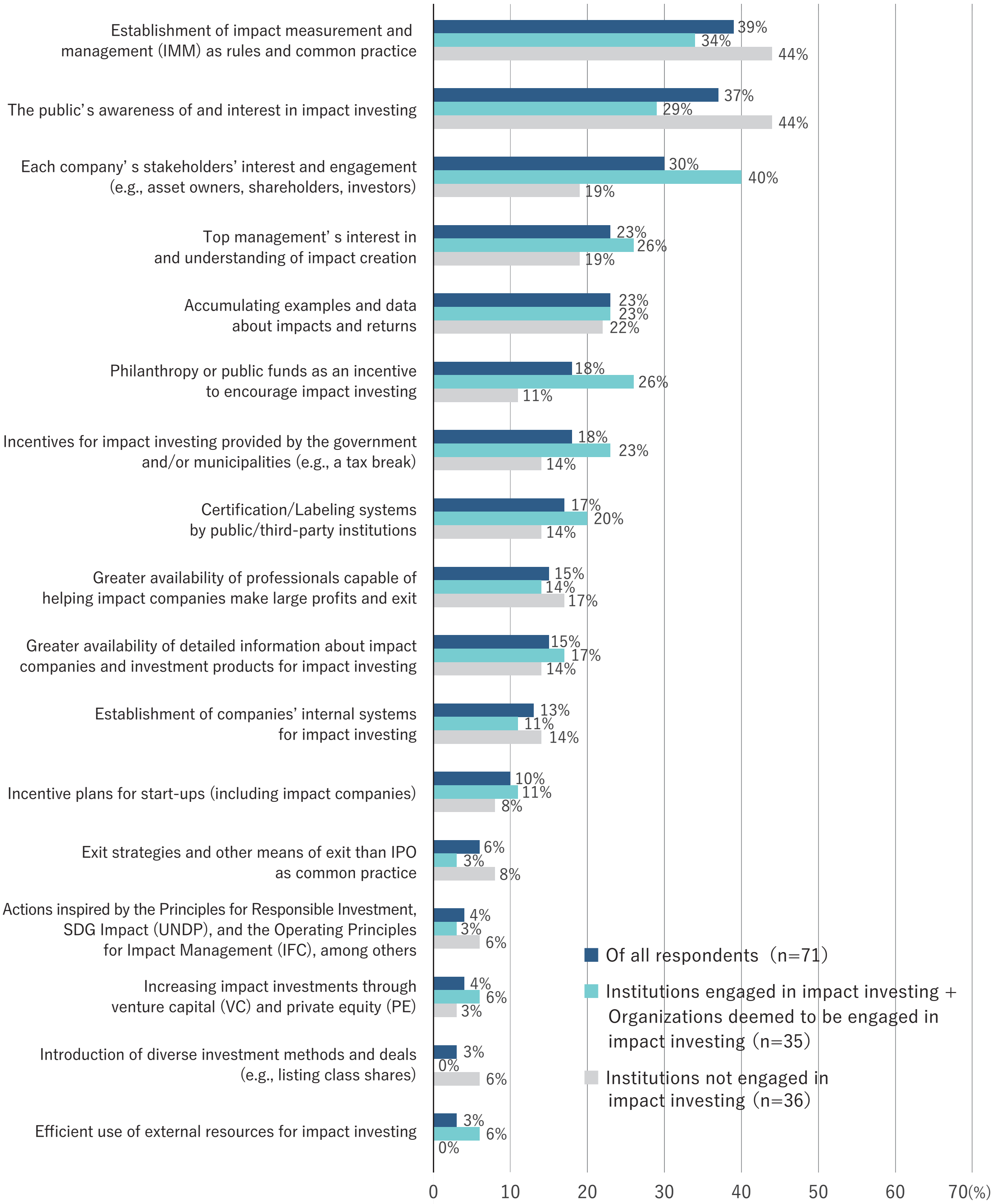
- The majority of responding organizations responded that “establishment of impact measurement and management (IMM) as rules and common practice” (39%) would facilitate impact investing, followed by those citing “the public’ s awareness of and interest in impact investing” (37%).

- The majority of responding impact investing institutions selected the answer “each company’s stakeholders’ interest and engagement (e.g., asset owners, shareholders, investors)” (40%), followed by those selecting “establishment of impact measurement and management (IMM) as rules and common practice” (34%).

- The most frequent responses by the non-impact investing institutions were “establishment of impact measurement and management (IMM) as rules and common practice” and “the public’s awareness of and interest in impact investing” (both 44%).

- The responses suggest that establishment of impact measurement and management (IMM) as rules and common practice is the key in encouraging new institutions to engage in impact investing and existing investing institutions to expand impact investing, and that the market’s interest has shifted to practical aspects (“how”) from awareness in society (“why”) of impact investing. Another observation is that, for institutions already engaged in impact investing, how to increase interest and engagement of institutional investors, including asset owners, who are customers of asset management companies, is the focus in the future.

Figure 29. Conditions that facilitate impact investing [62]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "D9 / E4. What do you think would facilitate more impact investing? (MA, up to 3)"

62 Figure 29 excluded invalid responses that had selected four or more answers, as respondents were asked to select up to three. Also, as stated above, note that seven of the "institutions not engaged in impact investing" were in effect "institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For detail, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed earlier.

Conditions that facilitate impact investing[63]

The Survey asked the responding institutions to describe "Conditions that facilitate impact investing" in the open-ended question, and the following responses were obtained. Their demands included the accumulation of model businesses and successful examples around a variety of themes; training of talent for impact investing; the government's incentives and encouragement for financial institutions, investors, and major corporations; top management's better understanding of impact investing at not only large enterprises but also small- to medium-sized businesses; and the standardization of affordable and simply-designed impact measurement and management.

<Opinions of institutions engaged in impact investing >

" The impact investing market needs diverse investors, including traditional institutional investors, financial institutions and other mainstream investors. The following are needed to encourage their entry into the market: ① Successful examples to present, ② Talent development within investment team to avoid impact investing with no substance (i.e., a balance between economic efficiency and social benefits, know-how for impact measurement, and a network for collecting and spreading information), ③ Support from administration (e.g., Financial Services Agency's encouragement to financial institutions, a tax break, branding and marketing), and ④ Deep understanding by management coupled with the ability to design and promote practical and feasible initiatives on the part of capital providers. "

" There is a tendency for impact investing to be concentrated on relatively easy-to-understand themes, such as renewable energy and international cooperation. Accumulation of projects that can serve as a model for impact investing on other, wide-ranging themes and successful examples are needed. "

" We think it is important to train human resources with skills for impact investing. A currently noticeable issue is that there are hardly enough human resources who can assess investment on the level of normal venture investment and have skills or ability to work out theory-of-change and logic models for intended impacts. "

" It is necessary that the government urge asset owners and asset managers to include impacts in investment evaluation and listed companies to disclose information about impacts, and that common guidelines are formulated in order to facilitate measurement and disclosure of impacts by asset owners, asset managers, and listed companies. "

" Efforts should be made to boost awareness of impact investing so that it can become a common language for companies in general, not just among financial institutions. For this to happen, it is necessary to increase investing opportunities by reducing costs, make impact investing common through certification by independent rating agencies, increase understanding of large businesses, and influence supply chains. "

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63 Some of the responses to Question D10. "Please describe what you think is needed to facilitate more impact investing" were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

“ Impact creation at listed companies is indispensable for generating impacts on a large scale. For this to happen, listed company executives must be interested in generating impacts. In other words, listed companies need to have top-down initiatives and their management teams need to have advanced understanding. ”

“ Moves to build track records in impact investing are expected to be led mainly by large businesses, but it is necessary to expand such efforts among small and medium businesses. For that, there is the need to create models for impact-measuring methods that are cheap and simple to use. ”

“ I can feel the importance of impact investing has grown, driven by a rapid increase in the awareness for sustainability in society. However, I get the impression that development of methods for measuring and managing impacts has yet to catch up, slowing down the wider adoption of impact investing. There is the need to reduce costs of impact measurement by standardizing rules. ”

<Opinions of institutions not engaged in impact investing >

“ The following three points are required to revitalize impact investing: ”

① Perception of impact investing itself: Impact investing is currently recognized to be positioned as a special method that additionally pursue social returns (and sometimes at the cost of economic returns) among wide-ranging investing methods. In order for impact investing to be practiced more widely, it is necessary to promote the perception that the act of pursuing social impacts is justifiable from the perspective of economic rationality and is one of the wide-ranging investment strategy options available to investors, rather than being something that increases social returns at the cost of economic returns.

② Creation of uniform criteria for impact measurement that make outcomes easy to see

③ Revitalization and expansion of the impact investing-fund market that enables comparison and analysis of products

“ Development of rules and manuals for impact measurement methods; reduction in workload of measuring impacts (simplification to enable in-house evaluation for companies) ”

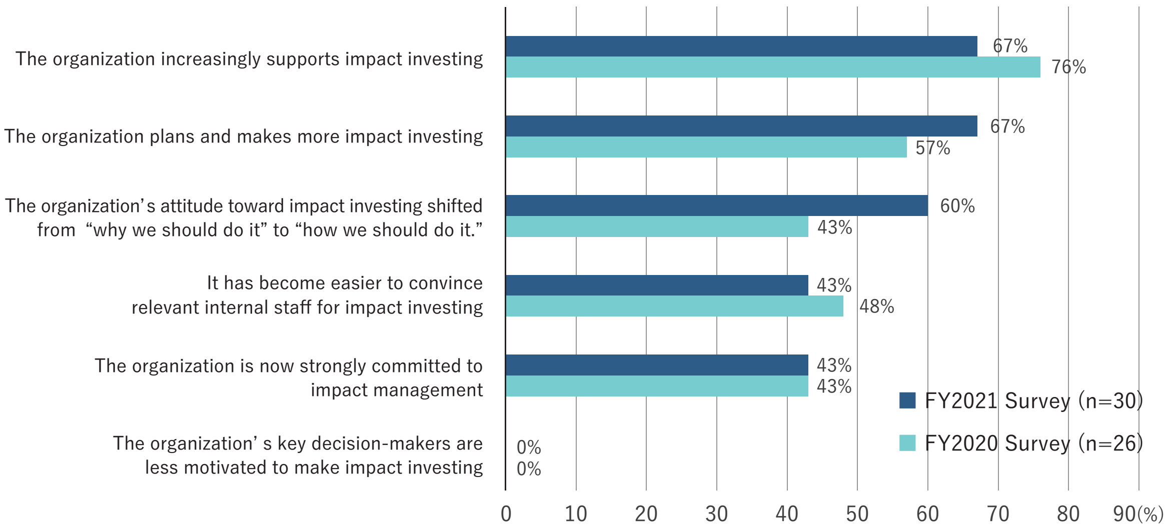
“ For companies to develop processes for its business by which they can achieve both financial and social returns, steadily commit to them and work to grow as a company. In addition, for listed companies to actively incorporate such companies into their ecocycles through business acquisition or tie-ups and have many successful experiences. ”

“ Creation of easy-to-understand guidance that features specific examples of impact investing in different industries. ”

Changes within an organization from the year before in relation to impact investing

- To the question about changes within an organization from the year before in relation to impact investing, the majority of responding impact investing institutions note that their organizations "increasingly support impact investing" and "plan and make more impact investing" (both 67%).
- When responses are compared to the FY2020 Survey (last year), more respondents perceived that their organizations' "attitude toward impact investing shifted from 'why we should do it' to 'how we should do it'."

Figure 30. Changes within an organization from the year before in relation to impact investing [64]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2020 and 2021)" (GSG National Advisory Board) - Question: "D2. What changes do you observe within your organization compared to the year ago? Please select all that apply. (MA)"

Japan's Impact Investing Activities

This section provides an overview of how "impact investing institutions" that are engaged in impact investing and meet the aforementioned inclusion criteria are doing in their impact investing based on the responses to the "Questionnaire Survey regarding Impact Investment (2021)."

Impact AUM and the number of investments made in Japan based on responses to the Questionnaire Survey

- The total of impact AUM and asset manager AUM in Japan was approximately **1.3204 trillion yen** (as shown in Figure 16 (1) in the previous section) as of the last fiscal year-end, based on the respondents of this Survey (FY2021). The total impact AUM calculated from the last year's Questionnaire Survey (FY2020) was 328.7 billion yen (new FY2021 criteria was applied for the purpose of comparison).[65]。
- The number of impact investing made as of the last fiscal year-end was **293**.

Figure 31. Total impact AUM and asset manager AUM and the number of investments made [66]

Last Fiscal Year-end	AUM (n=29)	# of Investments Made (n=22)
Median	2.574 billion yen	10
Average	45.531 billion yen	13
Total	1,320.402 billion yen	293

Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A2 (2). Please provide your organization's impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)" and "A3 (2). Please provide the number of impact investing your organizations made as of the last fiscal year-end. (NA)"

Changes in impact AUM held by impact investing institutions that participated in both FY2020 and FY2021 Surveys

- We extracted 20 organizations engaged in impact investing that responded to both FY2020 and FY2021 Surveys. These repeat respondents' impact AUM calculated from the FY2020 Survey totaled approx. 322.6 billion yen (new criteria introduced in the FY2021 Survey was applied for the purpose of comparison), and those from the FY2021 Survey totaled approx. 656.3 billion yen.
- The year-on-year growth rate was 203%, and 14 out of the total 20 organizations had increased their impact AUM.
- These results confirmed that, generally speaking, the institutions that have long been making impact investing further increased the investments.

Figure 32. Impact AUM, asset manager AUM, and growth rate of repeat responding institutions (reposted)[45]

*Number of institutions that had year-over-year growth

Impact investing institutions that responded to the Surveys for two consecutive years (n=20)	FY2020 Survey	FY2021 Survey	Growth Rate (YoY)	Count of Growth*
Impact AUM and Asset Manager AUM	322.666 billion yen	656.326 billion yen	203%	14

Source: Created based on the "Questionnaire Survey regarding Impact Investment (2020 and 2021)" (GSG National Advisory Board) - Question: "A2 (2). Please provide your organization's impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)"

64 Figure 30 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

65 The impact AUM grasped through last year's questionnaire totaled 512.6 billion yen when it was calculated based on the impact AUM inclusion criteria used in last year's Survey (FY2019). In order to compare last year's figure with this year's, this year's new criteria was applied to the last year's figure of the Survey, and the last year's figure became 328.7 billion yen.

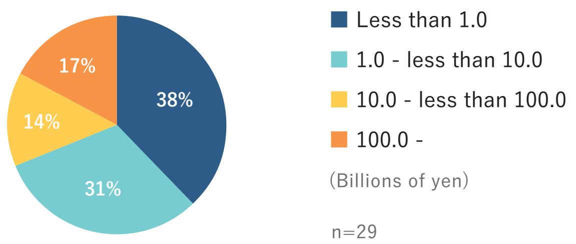
66 Figure 31 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. As for the AUM, responses from two organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded. This means that the responses from 29 organizations out of the impact investing institutions (n=31) were counted. The number of investments made excludes responses from organizations that provided no answer.

67 The amounts from the FY2020 and FY2021 Surveys in Figure 32 show the results of responses only from the organizations that are engaged in impact investing and meet the inclusion criteria. Responses from responded organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Proportions of impact AUM and asset manager AUM

- About 70% of the impact investing institutions had impact AUM of less than 10.0 billion yen as of the last fiscal year-end, based on the respondents to this Survey (38% and 31%, respectively, had less than 1.0 billion yen and less than 10.0 billion yen).
- A not-so-insignificant number (17%) of these institutions had impact AUM of at least 100 billion yen.

Figure 33. Proportions of impact AUM and asset manager AUM [68]

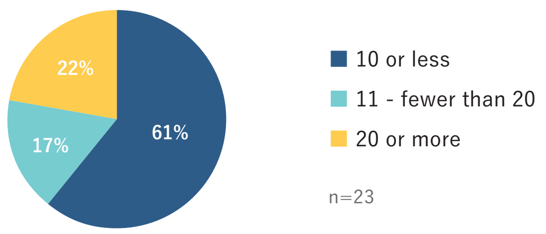


Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A2 (2). Please provide your organization's impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)"

Proportions of the number of impact investing made

- 61% of the impact investing institutions had made 10 or fewer instances of impact investing as of the last fiscal year-end, based on the respondents to this Survey.
- A not-so-insignificant number (22%) of these institutions had at least 20 instances of impact investing.

Figure 34. Proportions of the number of impact investing made [69]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A3 (2). Please provide the number of impact investing your organization made as of the last fiscal year-end. (NA)"

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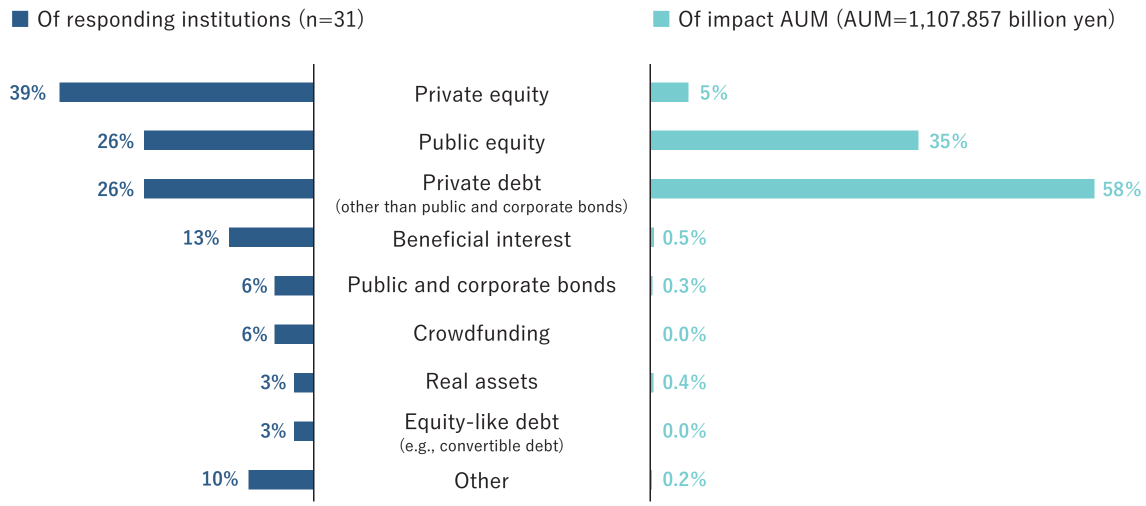
68 Figure 33 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

69 Figure 34 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Asset classes of impact investing

- To the question about the asset classes of impact investing, the largest proportion of the responding institutions answered that they allocate their impact investing to "private equity" (39%), followed by those who answered, "public equity" and "private debt (other than public and corporate bonds)" (both 26%).
- On the other hand, the largest proportion of impact assets under management (AUM) were "private debt (other than public and corporate bonds)" (58%), followed by "public equity" (35%).
- These results confirmed that impact investing is widely allocated to the asset class of equity (especially private equity), while most of the impact AUM are allocated to the classes of private debt or public equity.

Figure 35. Asset classes of impact investing [70]



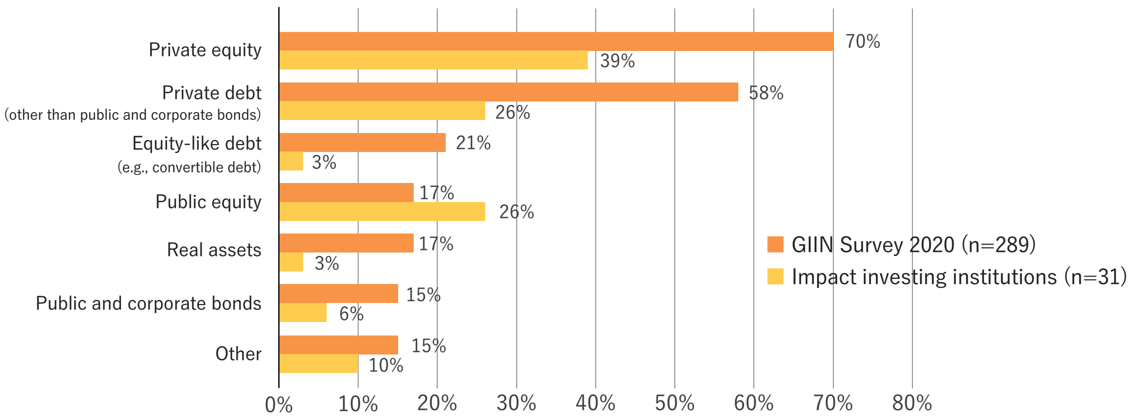
Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A5 ⑤ Investment methods (MA)"

Impact investments by asset class: International comparison

- The results of the GIIN Survey 2020 (Figure 30) used for international comparison show that the majority of responding institutions allocate their impact investments to "private equity" (70%), followed by "private debt (other than public and corporate bonds)" (58%).
- These results confirmed that private equity is internationally more common as an asset class of impact investing than in Japan.

70 Figure 35 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Figure 36. Impact investing by asset class: International comparison [71]

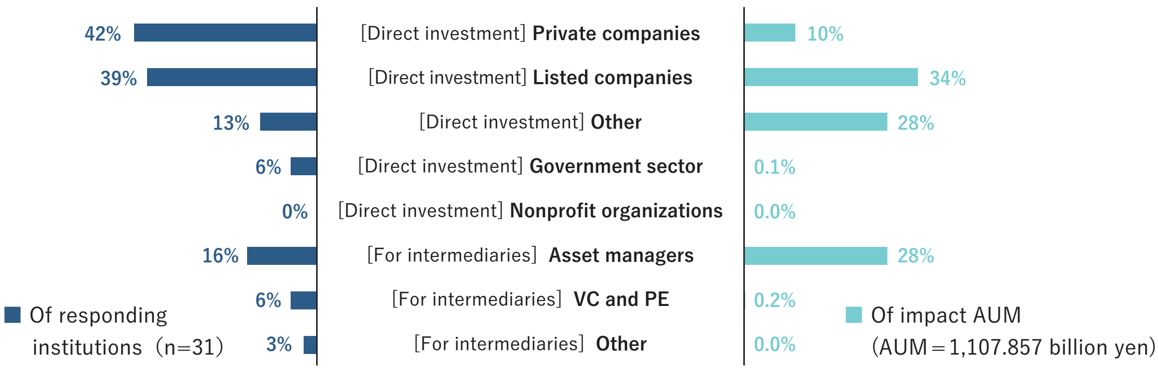


Source: These figures have been created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) and the "GIIN Annual Impact Investor Survey 2020." - Question: "A5 ⑤ Investment methods (MA)"

Impact investees by organization type

- As for the impact investees by organization type, the largest percentage of responding institutions answered that they invest in "(direct investments) private companies" (42%), followed by those citing "(direct investments) publicly traded companies" (39%).
- On the other hand, the majority of impact AUM are allocated to "(direct investments) publicly traded companies" (34%), followed by "(for intermediaries) asset managers " (28%).
- These results confirmed that impact investing is widely made in private companies in line with asset class, and allocations of the impact AUM are concentrated on publicly traded companies not only in equity investment but also in debt.

Figure 37. Impact investees by organization type [72]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) Question: "A5③ Types of investee organizations (MA)"

71 Figure 36 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. The chart shows only comparable items from the GIIN Survey.

72 Figure 37 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

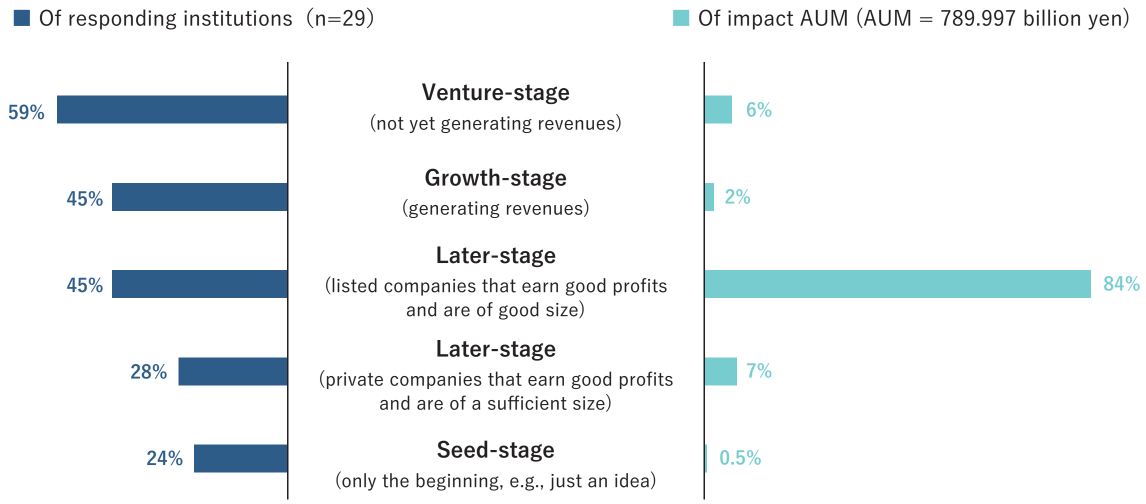
Impact investees by growth stage of business

- As for the growth stages of the impact investees, the largest percentage of responding institutions answered that the impact investees are at the “venture-stage (not yet generating revenues)” (59%), followed by the “growth-stage (generating revenues)” and “later-stage (publicly traded companies that earn good profits and have good size)” (both 45%).

- On the other hand, a clear majority of impact AUM are allocated to companies at the “later-stage (publicly traded companies that earn good profits and have good size)” (84%), followed by the “later-stage (unlisted private companies)” (7%).

- These results confirmed that certain percentages of impact investing are evenly made in companies at different stages of business, while most of the impact AUM are allocated to listed companies at a later stage.

Figure 38. Impact investees by growth stage of business [73]



Source: Created based on the “Questionnaire Survey regarding Impact Investment (2021)” (GSG National Advisory Board)
Question: “A5④ Stages (MA)”

Impact investees by growth stage of business: International comparison

- The results of the GIIN Survey 2020 (Figure 33) used for international comparison show that the majority of responding institutions invest in companies at the “growth-stage (generating revenues)” (76%), followed by the “venture-stage (not yet generating revenues)” (63%).

- These results confirmed that impact investing institutions around the world more commonly invest in private companies across at the growth, venture, and seed stages than their investees in Japan.

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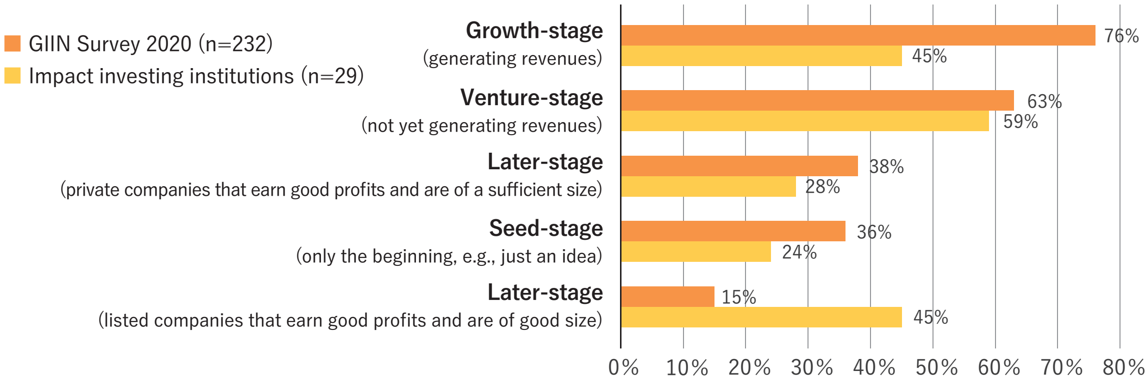
73 Figure 38 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded.

Figure 39. Impact investees by stage of business: International comparison [74]

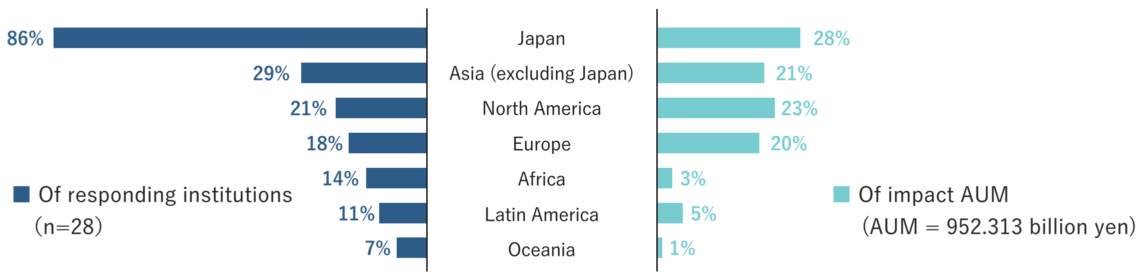


Source: These figures have been created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) and the "GIIN Annual Impact Investor Survey 2020." - Question: "A5④ Stages (MA)"

Impact investees by region

- As for investees by region, the majority of responding institutions answered Japan (86%). The majority of impact AUM are also allocated to companies in Japan (28%).
- Secondly, as high as 29% of responding institutions noted "Asia" (excluding Japan) and 23% of impact AUM are allocated to companies in "North America."
- The results of the GIIN Survey 2020 (Figure 26) show that the majority of responding institutions invest in companies in the United States and Canada (47%), followed by Sub-Saharan Africa (43%). The majority of impact AUM are allocated to companies in the United States and Canada (30%), followed by Europe (excluding Eastern Europe) (15%).
- These results confirmed that, while many respondents noted Japan as the region where their impact investing go partly because this Survey is intended for companies in Japan, about three-fourths of impact AUM are allocated to overseas businesses.

Figure 40. Impact investees by region [75]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A8. Please provide a breakdown of impact AUM by region, with all assets being 100." (NA)"

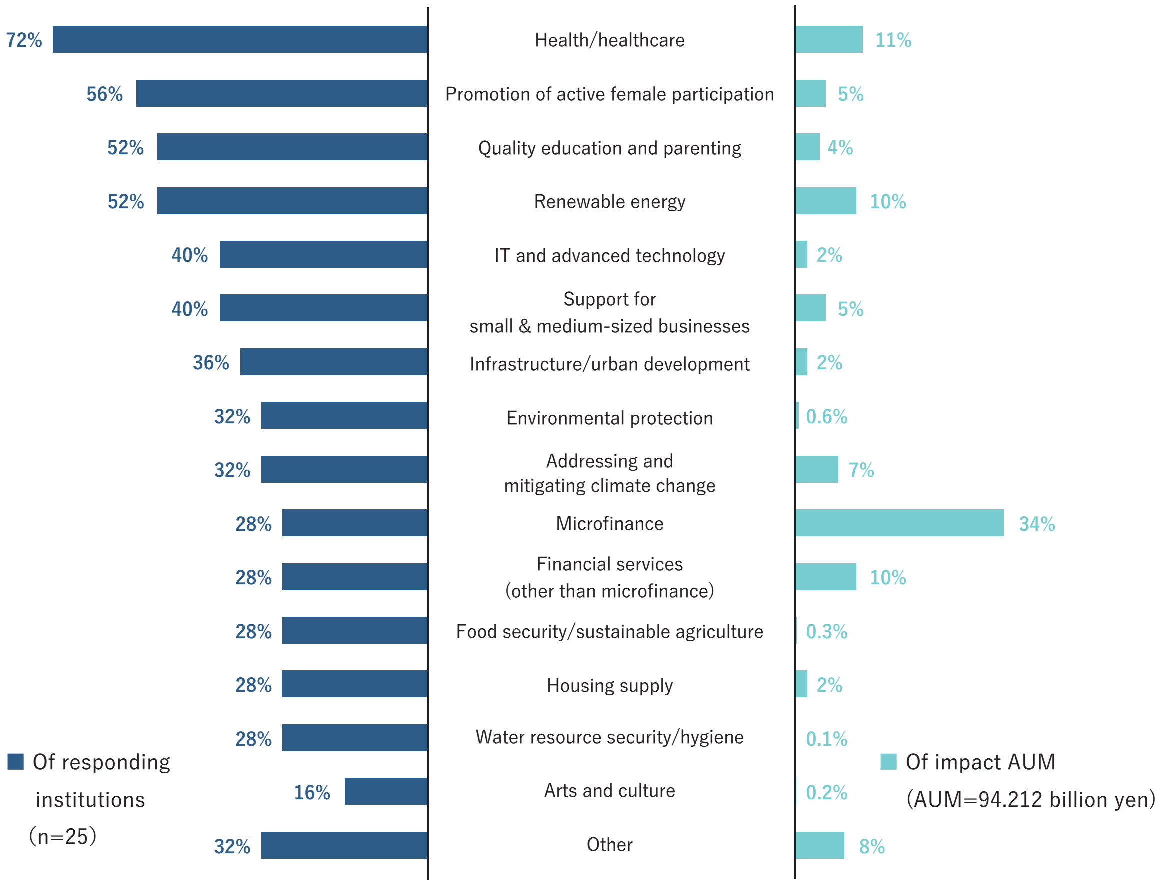
74 Figure 39 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded. The chart shows only comparable items from the GIIN Survey.

75 Figure 40 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from organizations that provided no answers or whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Impact investees by sector

- As for the impact investees' sectors, a clear majority of responding institutions answered that they invest in "health/healthcare" (72%), followed by "promotion of active female participation" (56%).
- The majority of impact AUM are allocated to "microfinance" (34%), followed by "health/healthcare" (11%). Note that the share of one organization specializing in a particular issue as a percentage of the AUM was significant. Excluding this organization, the most common response in terms of balance was "health/healthcare" (18%), followed by "renewable energy" (17%).
- As for the impact investees' themes, respondents noted the themes to address serious social issues in Japan, including the declining birthrate, aging population and gender inequality. In terms of impact AUM basis, however, the Survey confirmed that most of their impact AUM focused on global issues such as climate change and the area of health/healthcare in anticipation of aging of domestic population.

Figure 41. Impact investees by sector [76]



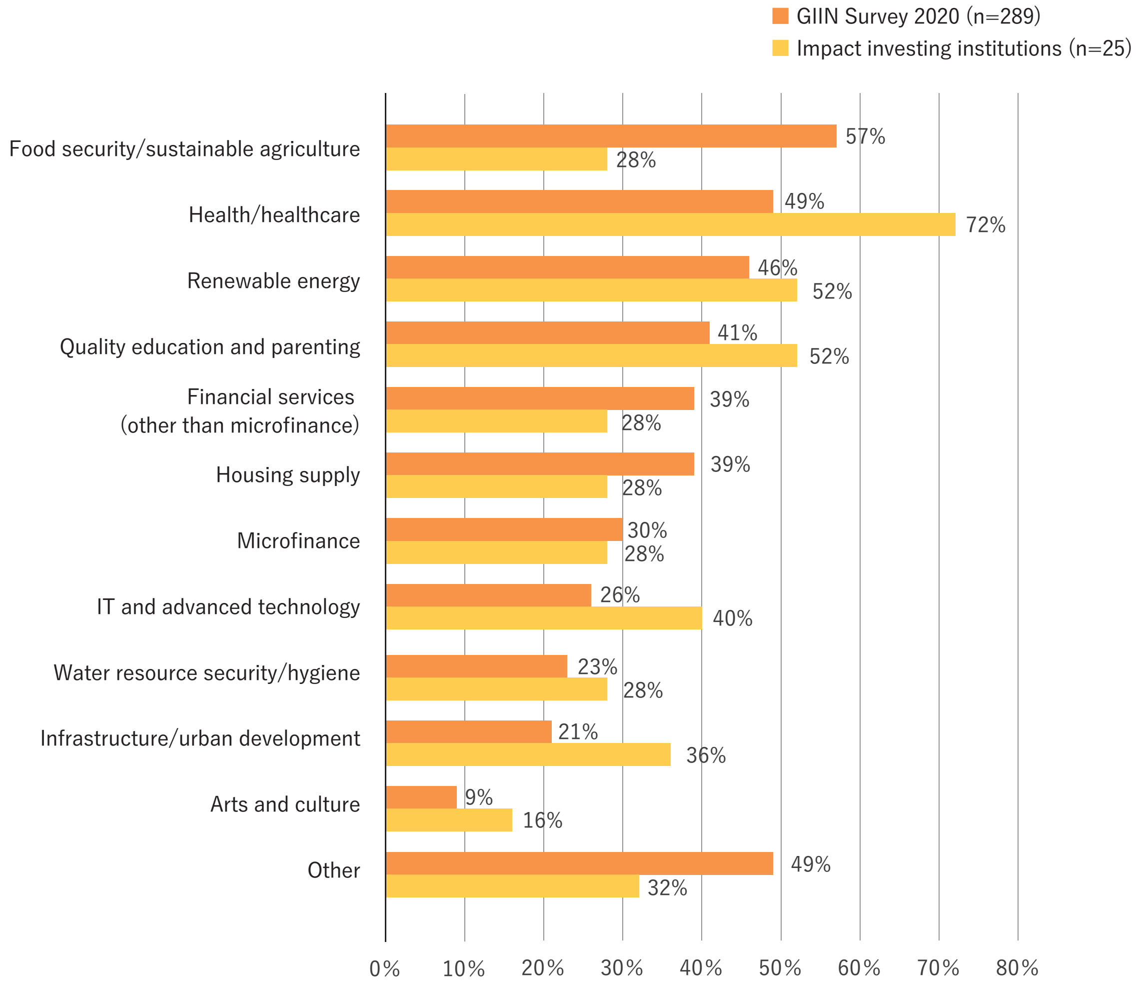
Source: Created based on the "Questionnaire Survey regarding Impact Investment (2020)" (GSG National Advisory Board) - Question: "A7. Please provide whether you make impact investing by sector, and a breakdown of impact AUM by sector, with all assets being 100." (SA, NA)"

76 Figure 41 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Impact investees by sector: International comparison

- The results of the GIIN Survey 2020 (Figure 28) used for international comparison show that a clear majority of responding institutions invest in “food security/sustainable agriculture” (57%), followed by “health/healthcare” (49%).
- There was a considerable difference between these international respondents and respondents in Japan in percentage points for “food security/sustainable agriculture” (29 points, international > Japan), and “health/healthcare” (23 points, Japan > international).

Figure 42. Impact investees by sector: International comparison [77]



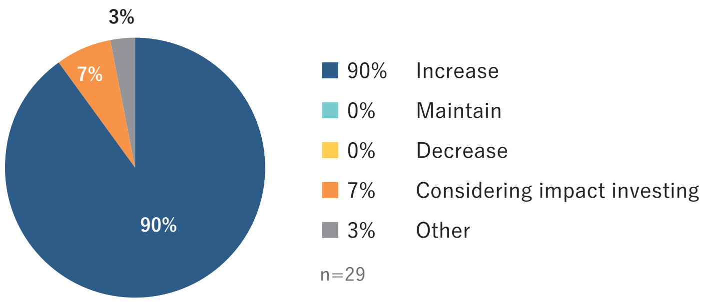
Source: These figures have been created based on the “Questionnaire Survey regarding Impact Investment (2021)” (GSG National Advisory Board) and the “GIIN Annual Impact Investor Survey 2020.” - Question: “A7. Please provide whether you make impact investing by sector, and a breakdown of impact AUM by sector, with all assets being 100.” (SA, NA)”

77 Figure 42 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, responses from organizations whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded. The chart shows only comparable items from the GIIN Survey.

Impact investing institutions' plans for future impact investment

- A clear majority of impact investing institutions answered that they plan to "increase" (90%) impact investing. None of the institutions plan to "decrease."
- A combined 40% of non-impact investing institutions either "plan to engage in" or are "considering" impact investing (n=35).
- Ninety percent of the impact investing institutions plan to increase impact investing, which indicates that the market will likely grow.

Figure 43. Impact investing institutions' plans for future impact investment [78]



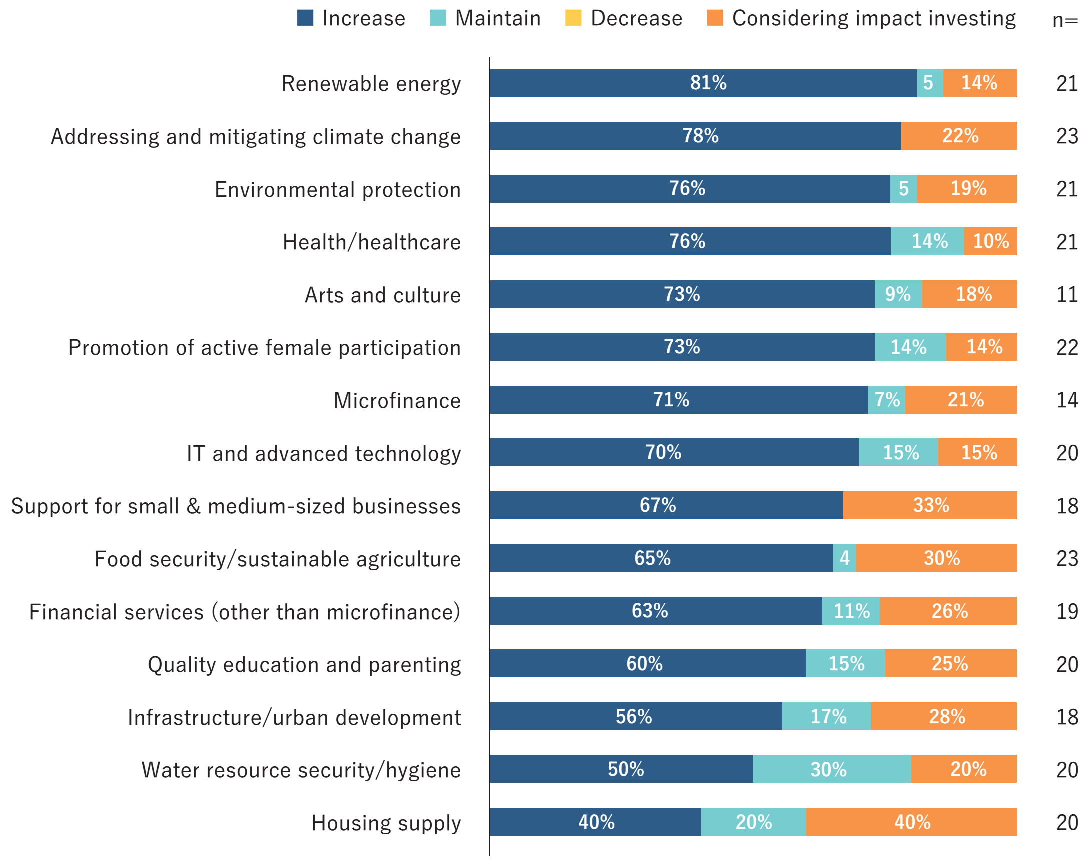
Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "D7. Please select one of the following that is closest to your organization's plan for future impact investment. (SA)"

Impact investing institutions' plans for future impact investment (by sector)

- The majority of the impact investing institutions plan to "increase" impact investing in "renewable energy" (81%), followed by "addressing and mitigating climate change" (78%).
- In the GIIN Survey 2020 (Figure 29), the majority of respondents plan to "increase" impact investing in "food and agriculture" (54%), followed by "renewable energy" (53%).

78 Figure 43 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

Figure 44. Impact investing institutions' plans for future impact investment (by sector) [79]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "D8. Please circle options that apply about your organization's plan for future impact investment. (SA)"

Ideas and efforts to the planning, implementation, and measurement of impact investing [80]

The Survey asked impact investing institutions to describe "ideas and efforts applied to the planning, implementation, and measurement of impact investing." Some of the responses to this open-ended question are provided below. These answers show how the respondents use creativity to incorporate impact measurement and management, which differentiate impact investing from conventional investment methods, into the process, as well as in conducting dialogue with investees and increasing their engagement in pursuing impacts.

> "We spent a lot of time in examining deals in light of SDGs, and studied both positive and negative impacts in advance."

79 Figure 44 shows the results of responses only from the organizations that are engaged in impact investing and meet the above inclusion criteria. The organizations that provided no answer were excluded.

80 Some of the responses to Question D3. "Please describe ideas or efforts that your organization applies to the process of impact investing from planning and implementation to post-investment measurement, if any" were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

“ In interviewing investee candidates, we work to have in-depth communication from the viewpoint of what social issues they are seeking to solve. Even if we cannot make investments as a result, we think we had a positive impact on future business growth of the investee candidates through what we discussed in the interviews. ”

“ Along with evaluation of and a critical eye for investees' business, the methodology aspect of what investment scheme to use in investing is also important. We think that, if the method changes, the quality of business operator that we want to procure using the method will also change and the quality of the investor that wants to invest will change. By building a new financial structure in line with such purposes, we are working to "develop a new structure, implement it, (participate in it ourselves as an investor,) and create followers and trends." ”

“ We are working to disclose impact indicators to investors beginning in the phase of soliciting fund investment money and disclose monitoring results throughout investment periods. In doing so, we try to make sure especially small- and medium businesses can recognize their business' value in society and showcase it as their strengths toward investors. Beginning in the fund-structuring phase, we keep conducting discussions from the perspective of social impacts, brush up on logic models and set indicators. In addition, we always ask businesses to make monthly and annual reports during a fund management period, to ensure a PDCA cycle is adhered to. ”

“ In impact investing in public equity, we focused on what investment philosophies and concepts are important and the process and discussion of planning and designing them. In investing in public equity, we think it is important to ensure that intentions of investors and investees are aligned. ”

“ We defined our company's purposes, which we believe will play an important role in practicing impact investing. ”

Implementation Status of Impact Measurement and Management (IMM) in Japan

This section provides an overview of impact measurement and management (IMM), which differentiates the methods between impact investing and conventional investment, primarily by "impact investing institutions" that are engaged in impact investing and meet the aforementioned inclusion criteria, based on the responses to the "Questionnaire Survey regarding Impact Investment (2021)."

Tools and frameworks utilized in impact measurement

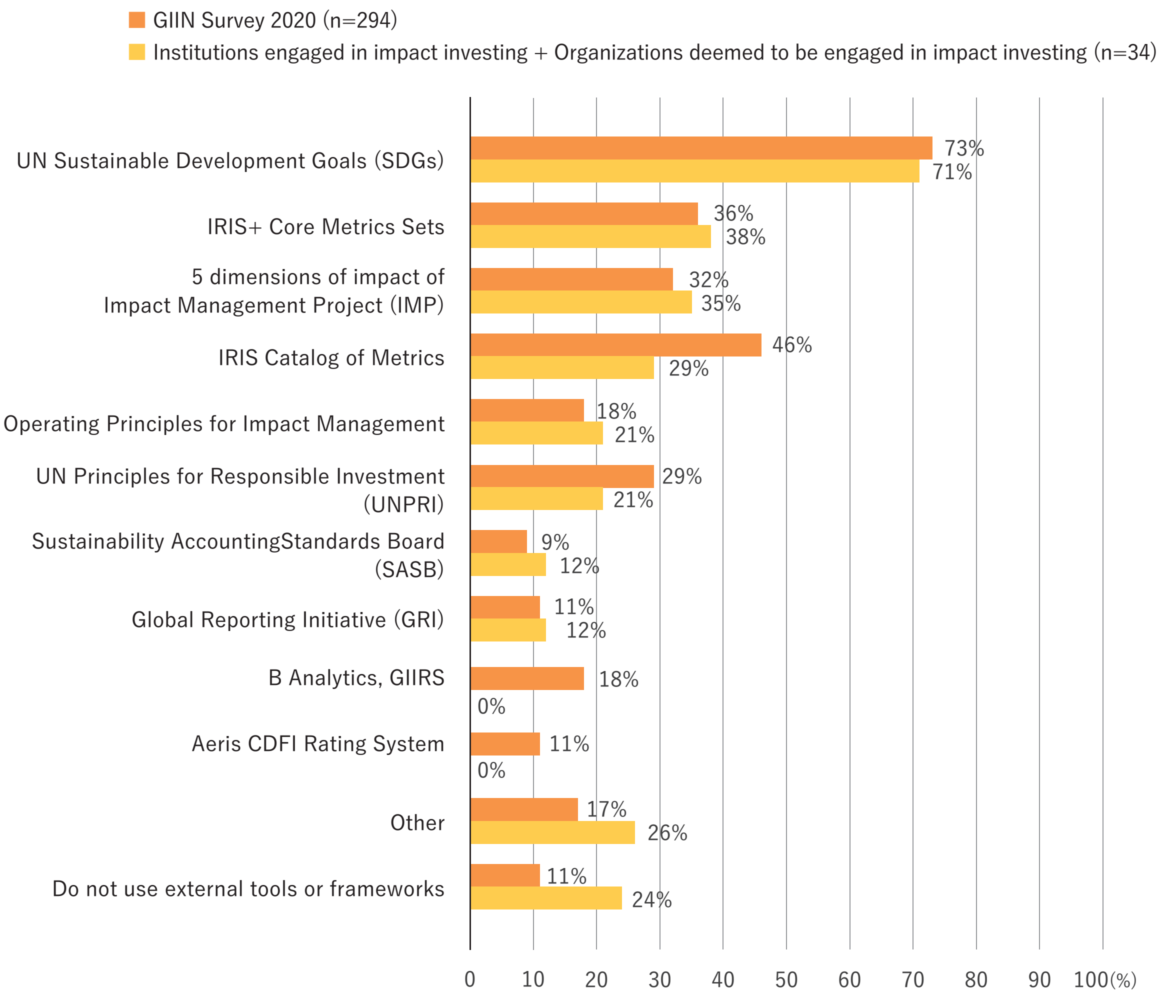
- The most respondents answered "Sustainable Development Goals (SDGs)" (71%) as tools and frameworks utilized in impact measurement, followed by "IRIS+ Core Metrics Sets" (38%) and "5 dimensions of impact of Impact Management Project (IMP)" (35%).

- In the GIIN Survey 2020 (Figure 36) also, the most respondents answered "Sustainable Development Goals (SDGs)" (73%).

- This confirmed that SDGs are being utilized widely in Japan as well as globally. The IRIS and IMP tool sets, which are becoming a standard among impact investing institutions are used less frequently than SDGs, but were utilized at about the same level in Japan as globally.

- Not a negligible number of banks cited the “Principles for Positive Impact Finance,” which was worked out in an effort led by the United Nations Environment – Finance Initiative (UNEP FI), in “other” responses.

Figure 45. Tools and frameworks used in impact measurement[81]



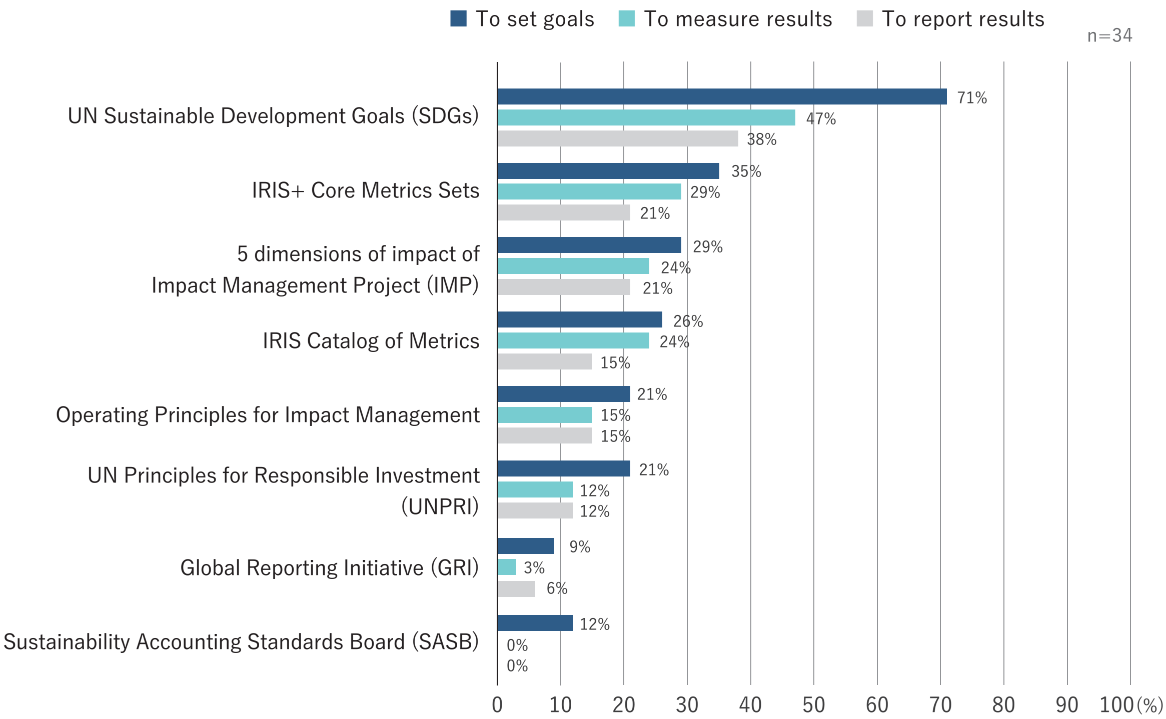
Source: These figures have been created based on the “Questionnaire Survey regarding Impact Investment (2021)” (GSG National Advisory Board) and the “GIIN Annual Impact Investor Survey 2020.” - Question: “C1. Do you use the following tools and frameworks for measuring impact of your impact investing activities? Please select all that apply. (MA)”

81 Figure 45 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Also, as stated above, note that seven of the “institutions not engaged in impact investing” were in effect “institutions engaged in impact investing” when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from “institutions deemed to be engaged in impact investing” for analysis of answers to this question. For detail, see “About ‘Institutions deemed to be engaged in impact investing’” in the opening of “Questionnaire Survey Result” discussed earlier.

Purpose of using tools and frameworks

- The largest number of respondents answered "setting goals" (71%) as the purpose of using "Sustainable Development Goals (SDGs)," which is most frequently used for measurement of impact, followed by "measuring results" (47%) and "reporting results" (38%).
- The tool sets of IRIS (IRIS Catalog of Metrics and Core Metrics Sets) were used for setting goals and measuring results.

Figure 46. Purpose of using tools and frameworks [82]



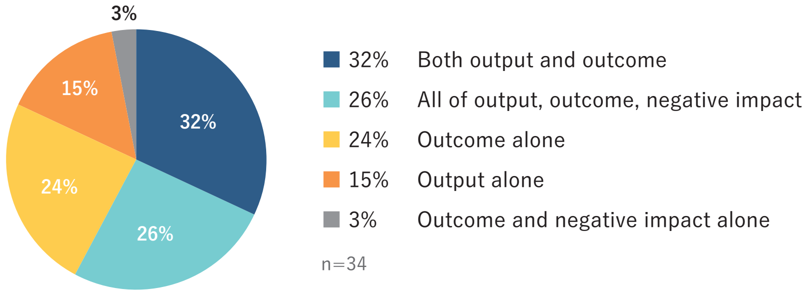
Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C1. Do you use the following tools and frameworks for measuring impact of your impact investing activities? Please select all that apply. (MA)"

82 Figure 46 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Also, as stated above, note that seven of the "institutions not engaged in impact investing" were in effect "institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For detail, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed earlier.

Types of Impact Indicators

- "Both output and outcome" (32%) was cited the most as a pattern among the types of impact indicators, followed by "all of output, outcome, negative impact" (26%).
- At the same time, there was a small number of respondents selecting "output alone" (15%).

Figure 47. Types of measurement metrics adopted for implementation of impact investing [83]

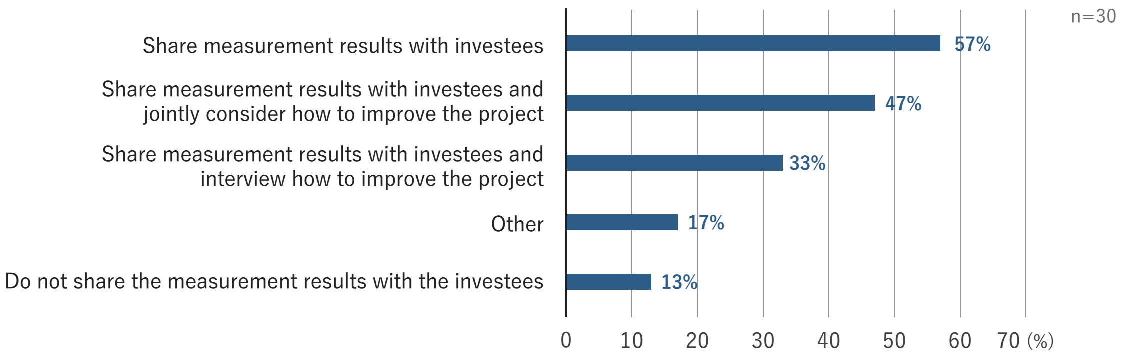


Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "A5 ⑦. Type of measurement metrics (MA)"

Status of information sharing with <u>investees</u> regarding impact measurement results

- In terms of status of information sharing with investees regarding impact measurement results, 57% of impact investing institutions answered that they "share measurement results with impact investees."
- Upon sharing results, 47% of the respondents said they "jointly consider how to improve the project," while 33% were limited to "interviewing how to improve the project."
- At the same time, although few, some responded that they "do not share the measurement results with the investees" (13%).

Figure 48. Status of information sharing with investees regarding impact measurement results [84]

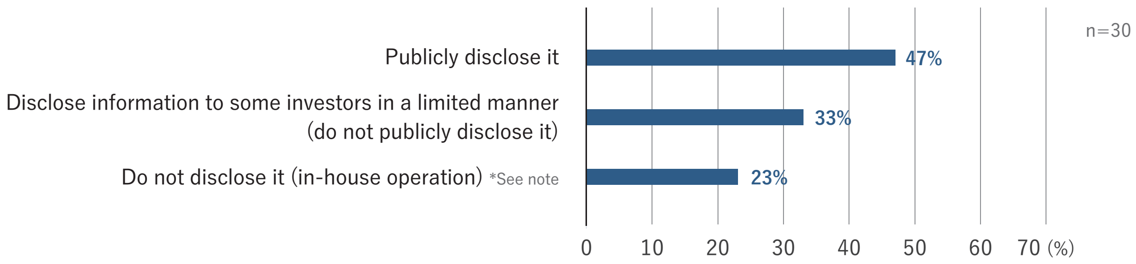


Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C3. Do you share impact measurement results with investees? Please select all that apply. (MA)"

Status of information sharing with investors regarding impact measurement results

- In terms of sharing of information about impact investing, some 47% of the impact investing institutions said they "publicly disclose" such information. Some 33% said they "share information with some investors in a limited manner (do not publicly disclose it)," and 23% said they "do not disclose (in-house operation)."

Figure 49. Status of information sharing with investors regarding impact measurement results [85]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C4. Do you share impact measurement results with investors? Please select all that apply. (MA)"

83 Figure 47 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Also, as stated above, note that seven of the "institutions not engaged in impact investing" were in effect "institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For detail, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed earlier.

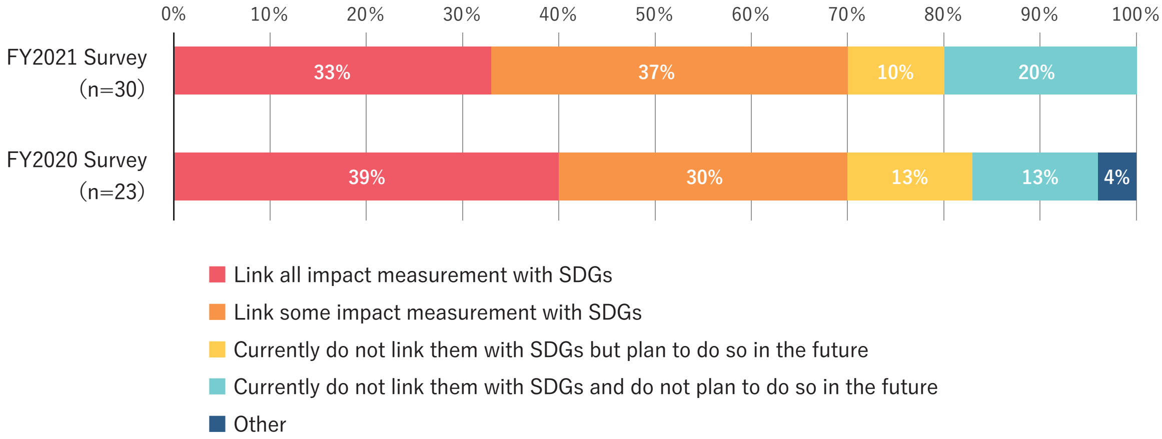
84 Figure 48 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

85 Figure 49 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. In this year's survey, we introduced new criteria, "the results of the Impact Measurement and Management (IMM) are shared with investors." As we stated in the note, "as for impact investing that an investor does on his/her own account, this criteria is not applicable because the investor obviously knows the results of the impact measurement," not all impact investing institutions disclose such information, neither are there always final investors with whom they should share results.

SDGs-linked impact measurement

• Regarding the implementation status of SDGs-linked impact measurement, 33% of the impact investing institutions said they "link all impact measurement with SDGs." Some 37% said they "link some impact measurement with SDGs" and 10% replied that they "currently do not link them with SDGs but plan to do so in the future."

Figure 50. SDGs-linked impact measurement [86]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C5. Are you carrying out impact measurement linked to Sustainable Development Goals (SDGs)? Please select all that apply. (MA)"

Reasons for linking impact measurement with SDGs

• As a reason for linking impact measurement with SDGs, the largest number of the respondents said "it is a framework that is widely recognized and it is helpful when explaining impact investing externally" (100%), followed by "it is important to link with the international development paradigm, as an impact investor" (60%).

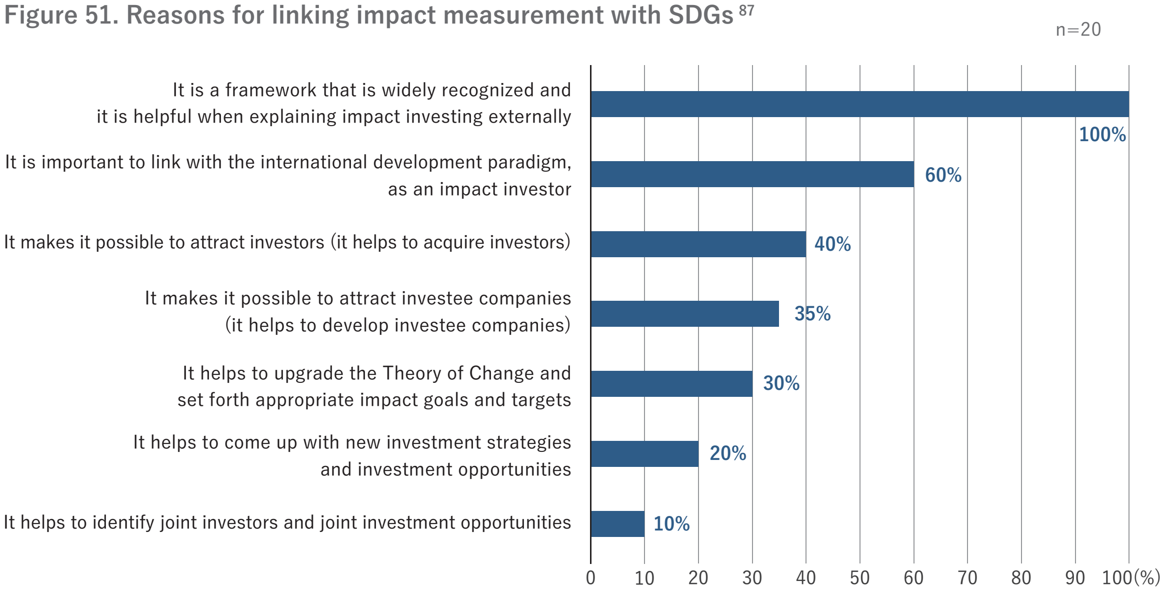
• As SDGs are widely utilized globally (Figure 45), the trend of institutions considering the link with SDGs as effective also for linking and collaborating with global impact investing initiatives was confirmed from the responses to the top questions.

86 Figure 50 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Note that "impact measurement" in this year's survey were referred to as "social impact measurement" in the 2020 survey form.

87 Figure 51 targets the impact investing institutions that said they "link all or some social impact measurement with SDGs" in Question C5. "Theory of Change" in the figure denotes the theory that systematically sorts out the causal relationship by grasping steps towards final outcome and missions that the institutions aim to achieve.

88 Figure 52 targets the impact investing institutions that said they "link all or some social impact measurement with SDGs" in Question C5.

Figure 51. Reasons for linking impact measurement with SDGs [87]

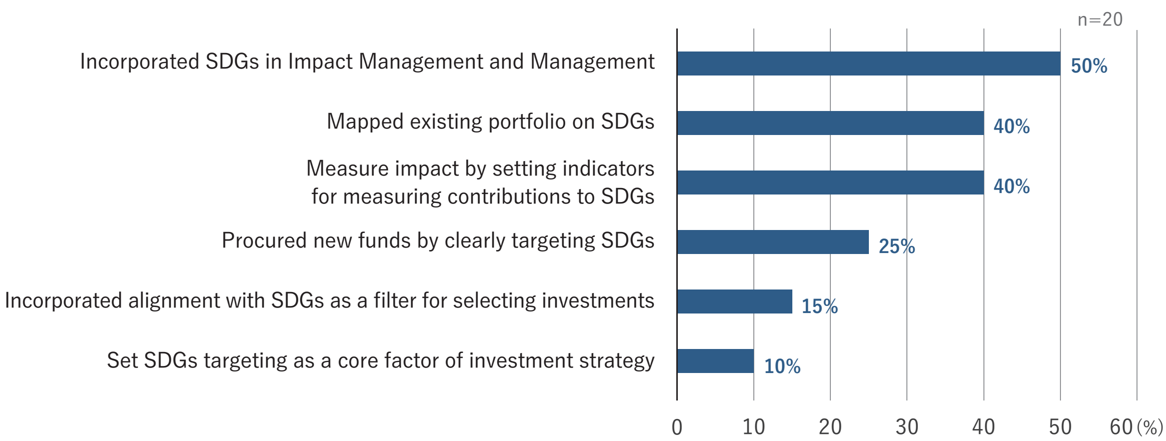


Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C5SQ1. Please select all that apply as reasons for linking impact measurement with SDGs. (MA)"

Method of linking impact measurement with SDGs

- As a method of linking impact investing and SDGs, the largest number of institutions answered that they "incorporated SDGs into Impact Measurement and Management" (50%), followed by "mapped existing portfolio on SDGs" and "measure impact by setting indicators for measuring contributions to SDGs" (both 40%).
- These results confirmed that, while efforts to integrate Impact Measurement and Management (IMM) with SDGs represent a half, SDGs are also used primarily in efforts to align such efforts with existing initiatives.

Figure 52. Method of linking impact measurement with SDGs [88]



Source: Created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) - Question: "C5SQ2. How did you link impact investing with SDGs? Please select all that apply. (MA)"

Impact measuring method and process [89]

The Survey asked the impact investing institutions to comment on "impact measuring method and process" in the open-ended question. Some of the responses are provided below. The impact investing institutions appeared to be going through trial and error in incorporating the impact measurement and monitoring. As basically response contents that overlap with last fiscal year's questionnaire survey are not included here, check out the corresponding parts in the last fiscal year's report, as necessary.

" We work out a logic model for each company's business before making investments, and set output/outcome indicators based on it. Quantitative measurement is carried out using these indicators. In addition, we record impact stories in reports based on interviews with each company and on-site inspection. "

" Having targets indicated in logic models and monitoring their outcomes is the main part. This is an issue that should be examined along with the method of measuring impacts, costs associated with it, etc., in our view. "

" We identify positive and negative impacts by comprehensively analyzing supply chains and areas for all sectors and use UNEP FI's tools to categorize the impacts thus identified. Impacts are measured relative to global targets, industry standards, etc. "

" We set impact indicators by referring to materiality issues indicated in the impact radars of SASB and UNEP FI for each company and also check their relevance with SDGs. For measuring and disclosing impacts, we use principles regarding sustainable finance and guidelines by government ministries and agencies as guides. "

" We work to gain global knowledge through the sociality project of the GSG National Advisory Board and activities of SIMI and try applying them. "

Return and Impact of Impact Investing

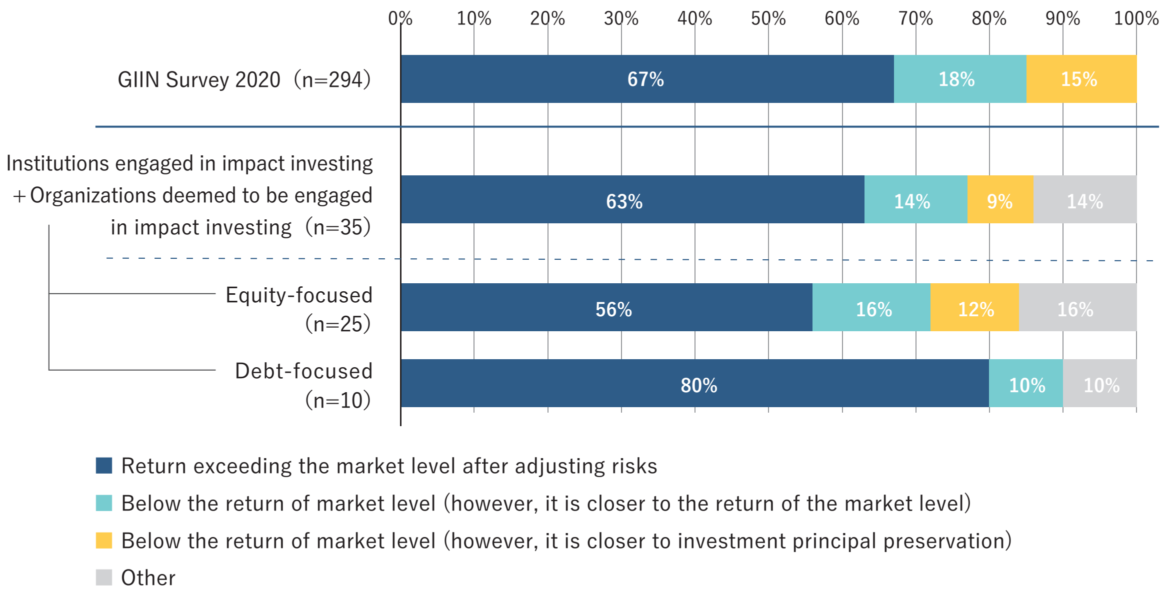
This section confirms expected level of returns by institutions that are engaged in impact investing and meet the aforementioned inclusion criteria as well as the rate of achievement of the actual return impact based on responses to the "Questionnaire Survey regarding Impact Investment (2021)."

89 We edited and excerpted part of answers of Question C2. "Please describe the impact measuring method and process as much as possible," without changing the meaning. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

Expected levels of financial returns in impact investing

- Concerning expected levels of financial returns, the largest number of the impact investing institutions said "return exceeding the market level after adjusting risks" (63%), while there were certain number of institutions that said "below the return of market level (however, it is closer to the market level)" (14%) and "below the market level (however, it is closer to investment principal preservation)" (9%).
- More equity-focused investment institutions said they would allow "below the return of market level" compared with the overall institutions.
- On the other hand, "return exceeding the market level after adjusting risks" was the most frequent answer from debt-focused investment institutions (80%).[90]
- In the GIIN Survey 2020 (Figure 5), the ratio of respondents answering "return exceeding the market level after adjusting risks" was at 67%, which is about the same level as in Japan, but the ratio of those answered "below the market level (however, it is closer to investment principal preservation)" (15%) tended to be slightly more than in Japan.

Figure 53. Expected level of financial returns [91]



Source: These figures have been created based on the "Questionnaire Survey regarding Impact Investment (2021)" (GSG National Advisory Board) and the "GIIN Annual Impact Investor Survey 2020." - Question: "A9. What level is your goal for financial returns of impact investing? Please select one answer that most accurately describes your view. (SA)"

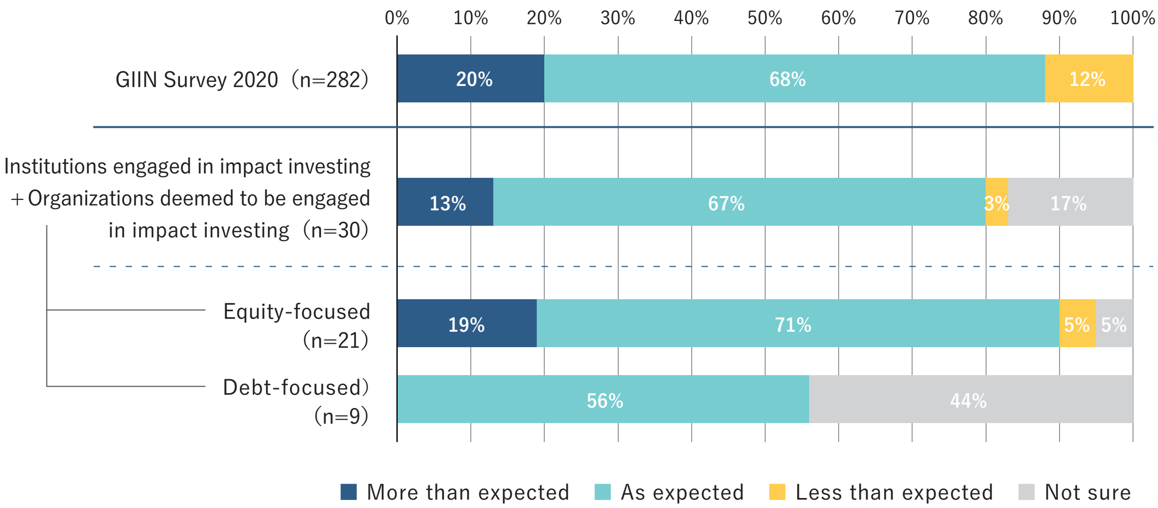
90 The sample count of debt-focused investment institutions is small, so they are treated as a reference.

91 Figure 53 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Also, as stated above, note that seven of the "institutions not engaged in impact investing" were in effect " institutions engaged in impact investing" when they responded to the Survey (i.e., not during the period covered by the Survey), and thus their responses were counted as those from "institutions deemed to be engaged in impact investing" for analysis of answers to this question. For detail, see "About 'Institutions deemed to be engaged in impact investing'" in the opening of "Questionnaire Survey Result" discussed earlier.

Rate of achievement of financial returns in impact investing

- Regarding the rate of achievement of financial returns, the largest number of impact investing institutions said it was “as expected” (67%), but there were certain numbers of institutions answering “not sure” (17%), “more than expected” (13%), and “less than expected” (3%).
- Slightly more equity-focused investment institutions said the returns were “as expected” (71%) compared with the overall institutions.
- Meanwhile, debt-focused investment institutions were equally divided between those answering that the returns were “as expected” (56%) and “not sure” (44%).[92]
- In the GIIN Survey 2020 (Figure 47), those who answered “in line with expectations” was also the highest (68%), but those who replied “more than expected” (20%) accounted for more than in Japan. Compared with the global survey, impact investing initiatives in Japan have just begun and the survey result showed that there has been not enough track record of financial returns being accumulated.[93]

Figure 54. Rate of achievement of financial returns [94]



Source: These figures have been created based on the “Questionnaire Survey regarding Impact Investment (2021)” (GSG National Advisory Board) and the “GIIN Annual Impact Investor Survey 2020.” - Question: “A10. How much financial returns and impact in impact investing have been achieved compared with the expectations? Please select one answer that most accurately describes your view. (SA)”

92 The sample count of debt-focused investment institutions is small, so they are treated as a reference.

93 It is necessary to pay attention to the fact that the GIIN Survey 2020 excludes “not sure” in aggregation of this question. In this report, we also considered excluding “not sure” from the aggregation, but we decided to adopt the treatment shown in Figure 54, taking into consideration that a certain number of respondents answering “not sure” gives some suggestions in the current stage in Japan, where impact investing is expected to develop from now on.

94 Figure 54 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria.

Rate of achievement of impact in impact investing

- Regarding the rate of achievement of impact, the largest number of impact investing institutions as a whole answered that it was “as expected” (66%), but there were certain numbers of institutions answering “not sure” (31%) or “more than expected” (3%).

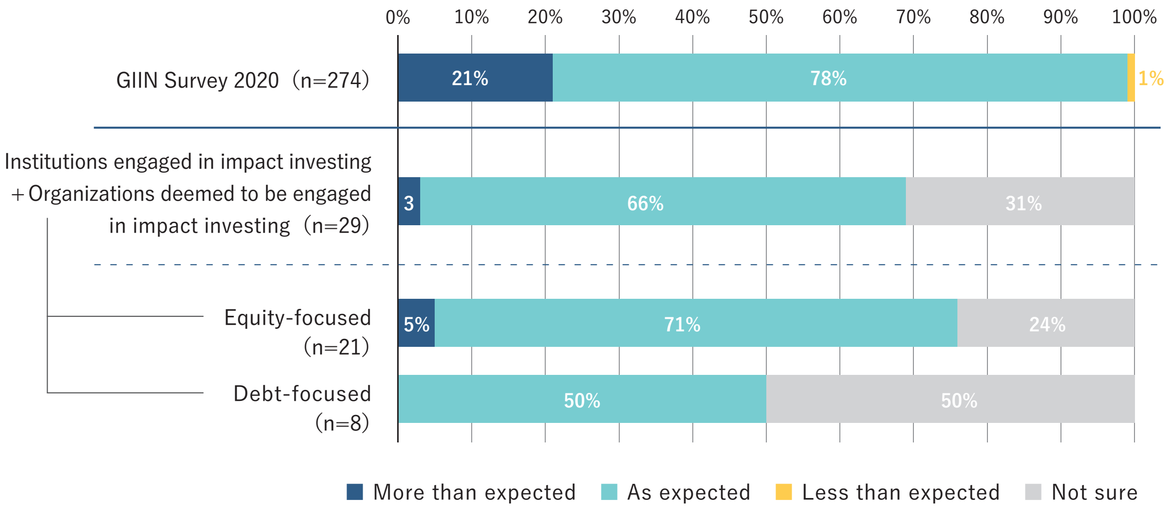
- Slightly more equity-focused investment institutions said the returns were “as expected” (71%) compared with the overall institutions.

- On the other hand, debt-focused investment institutions were equally divided between those answering that the returns were “as expected” (50%) and “not sure” (50%).[95]

- In the GIIN Survey 2020 (Figure 47), those who answered “in line with expectations” was also the highest (78%), but those who replied “more than expected” (21%) accounted for more than in Japan.

- Compared with the global survey, impact investing initiatives in Japan have just begun and the survey results showed that there has been not enough track record of impact generation being accumulated.[96]

Figure 55. Rate of achievement of impact [97]



Source: These figures have been created based on the “Questionnaire Survey regarding Impact Investment (2021)” (GSG National Advisory Board) and the “GIIN Annual Impact Investor Survey 2020.” - Question: “A10. How much financial returns and impact in impact investing have been achieved compared with the expectations? Please select one answer that most accurately describes your view. (SA)”

95 The sample count of debt-focused investment institutions is small, so they are treated as a reference.

96 It is necessary to pay attention to the fact that the GIIN Survey 2020 excludes “not sure” in aggregation of this question. In this report, we also considered excluding “not sure” from the aggregation, but we decided to adopt the treatment shown in Figure 55, taking into consideration that a certain number of respondents answering “not sure” gives some suggestions in the current stage in Japan, where impact investing is expected to develop from now on.

97 Figure 55 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. In the sub-analysis of equity-focused and debt-focused investment institutions, the sum of the count n does not match the total because four institutions falling under outliers are excluded.

Summary: Vision of Impact Investing in Japan Based on Questionnaire Survey Result

According to the results of the Questionnaire Survey (FY2021), the total of Japan's impact AUM and asset manager AUM as of the last fiscal year-end was approximately 1.3204 trillion yen. The impact AUM as ascertained in the same survey of the previous fiscal year (FY2020) was 328.7 billion yen (new FY2021 criteria was applied for the purpose of comparison), so major progress has been made.[98] At the same time, with regard to the evolution of impact investing in Japan, impact investing institutions that see the market as "growing steadily" remains small while many investors see it as "about to take off." This outcome confirmed that the Japanese market is still at the stage immediately preceding growth, compared to the international investing market, which was viewed as "growing steadily" by the majority (Figure 26).

Regarding the motivation for impact investing, the most common response was "responding to client demand," and second was "part of our commitment as a responsible investor." This may suggest that Japan's impact investing market is poised for further growth going forward (Figure 24).

On the other hand, most respondents view Japan's impact investing market as having progressed over the past year in "the public's awareness of and interest in impact investing," "top management's interest in and understanding of impact creation," and "each company's stakeholders' interest and engagement (e.g., asset owners, shareholders, investors)" (Figure 27), whereas "fragmentary and unsystematic approaches to Impact Measurement and Management (IMM)" was the most commonly cited challenge going forward for two consecutive years both by institutions already engaged in impact investing and those considering entering the market in the future (Figure 28). After unsystematic IMM, the second most commonly cited challenges were "limited data on potential impact investee companies and investment products," "a limited number of impact companies to invest in," and "limited availability of professionals capable of helping impact companies make profits and exit." These responses made it clear that Japan still has relatively few impact companies in which investors wish to invest and only a small pool of talent for operating impact investing (Figure 28). And, as the market grows, there is a concern of 'impact washing' (regular investments are dressed up to resemble impact investing) which may lose the essence of impact investing. In fact, the GIIN Survey 2020 (Figure 12) shows that a vast majority of impact investors cite impact washing as the single most important issue that the impact investing market will face over the next five years.

The Survey asked organizations that fall into the category of impact investing institutions to describe what they think about "conditions that facilitate impact investing" in the open-ended question. Their demands included the accumulation of model businesses and successful examples around a variety of themes; training of talent for impact investing; the government's incentives and encouragement for financial institutions, investors, and major corporations; top management's better understanding of impact investing at not only large enterprises but also small- to medium-sized businesses; and the standardization of affordable and simply-designed impact measurement and management.[99]
There is likely to be more discussion and practice of impact investing in Japan going forward, and we believe that this report, a kind of fixed-point observation of the current location of impact investing in Japan, can serve as a foundation for discussion while providing suggestions for practice.

We would like to again express our appreciation to all of the people and organizations that participated in the "Questionnaire Survey regarding Impact Investment (2021)."

It is our hope that this report contributes to solving social issues through impact investing.

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98 The impact AUM grasped through last year's questionnaire totaled 512.6 billion yen when it was calculated based on the impact AUM inclusion criteria used in the last year's Survey (FY2020). In order to compare last year's figure with this year's, this year's new criteria was applied to the last year's figure of the Survey, and the last year's figure became 328.7 billion yen.

99 Selected from responses to Question D10. "Please describe what you think is needed to facilitate more impact investing."

List of Organizations that Responded to the Questionnaire Survey

The list shows the 77 organizations that responded to the "Questionnaire Survey regarding Impact Investment" (including 14 organizations which declined to disclose their names; in Japanese alphabetical order). However, not all organizations that responded to the survey listed below are engaged in impact investing as of the preparation of this report.

Figure 56. List of Organizations that Responded to Questionnaire Survey

- Asset Management One Co., Ltd.
- SG Incubate Inc.
- NPO Yume Bank
- The Ehime Bank, Ltd.
- Oita Venture Capital Co., Ltd.
- Kamakura Investment Management Co., Ltd.
- Energy & Environment Investment, Inc.
- JAPAN POST INSURANCE Co., Ltd.
- KIBOW Foundation
- Capital Medica Ventures Co., Ltd.
- Kyoeki Investment Fund Japan
- The Kyoto Shinkin Bank
- Crowd Credit, Inc.
- GLIN Impact Capital
- Global Brain Corporation
- KSP, Inc.
- Japan International Cooperation Agency
- Gojo & Company, Inc.
- The Sasakawa Peace Foundation
- Shizuoka Yaizu Shinkin Bank
- The Shizuoka Bank, Ltd.
- The Japan Social Innovation and Investment Foundation
- Sophia School Corporation
- Shonan Shinkin Bank
- Shinsei Corporate Investment Limited
- Sumitomo Life Insurance Company
- Zebras and Company
- Dai-ichi Kangyo Credit Cooperative
- The Dai-ichi Life Insurance Company, Limited
- Daido Life Insurance Company
- Daiwa Securities Group Inc.
- Takayama Shinkin Bank
- Tajima Shinkin Bank
- taliki, Inc.
- DBJ Asset Management Co., Ltd.
- Digisearch and Advertising, Inc.
- The Tottori Bank, Ltd.
- Nanto Capital Partners, Inc.
- Nissay Asset Management Corporation
- Development Bank of Japan Inc.
- Nomura Asset Management Co., Ltd.
- Nomura Real Estate Asset Management Co., Ltd.
- Beyond Next Ventures Inc.
- Fidea Lease Co., Ltd.
- Fukoku Capital Management, Inc.
- Future Venture Capital Co., Ltd.
- Plus Social Investment Co., Ltd.
- Breakpoint Co., Ltd.
- Hokkaido Rokin Bank
- Mizuho Financial Group, Inc.
- Mitsui Sumitomo Insurance Co., Ltd.
- Sumitomo Mitsui Banking Corporation
- Sumitomo Mitsui Trust Bank, Limited
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- MUFG Bank, Ltd.
- Mitsubishi Corporation Disaster Relief Foundation
- Mitsubishi Corp. - UBS Realty Inc.
- Mitsubishi UFJ Trust and Banking Corporation
- Music Securities,Inc.
- Meiji Yasuda Asset Management Company Ltd.
- Resona Asset Management Co., Ltd.
- The Ritsumeikan Trust
- Rheos Capital Works Inc.
- 14 organizations declined to disclose their names.

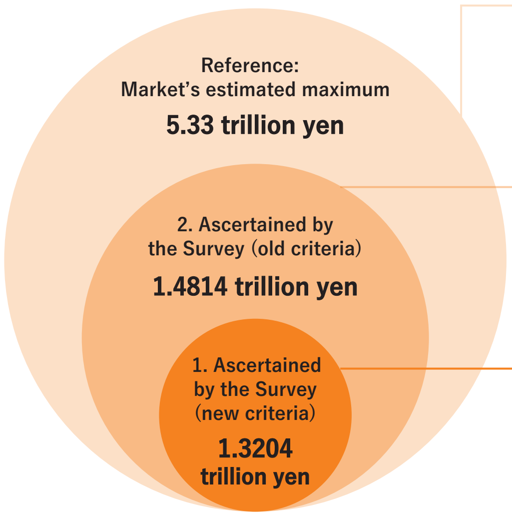
Potential of Japan's Impact Investing Market
– Estimated Maximum and Methodology –

As stated earlier, along with the annual Questionnaire Survey, a market estimate survey based on publicly available information was conducted, continuing from the last fiscal year, to ascertain aspects of the current state of impact investing that cannot be grasped from the survey responses alone. The estimated maximum (potential) of Japan's impact investing market is as shown below. This section reintroduces the methodology used for the market estimate survey, which has been conducted on a trial basis since last fiscal year.

(Reposted) **Market's estimated maximum (potential): 5.33 trillion yen**
In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evaluation based on impact measurement is conducted before and after the investment, and is the estimated maximum of what can be impact investing.

As stated earlier, the estimated maximum of the market based on the "GIIN Annual Impact Investor Survey 2020" [100] (GIIN) was 715.0 billion dollars (approx. 79 trillion yen). The estimated maximum of the market based on "Growing Impact - New Insights into the Practice of Impact Investing" [101] (IFC) was 505.0 billion dollars (approx. 56 trillion yen).

Figure 57. Scale of Impact Investment Balance (Reposted)



Market's estimated maximum (potential)

Estimated maximum of potential impact investments. In addition to the figures ascertained through the Survey, this figure was confirmed based on published data. It is the sum of the amounts generated by "products" for which an evaluation based on impact measurement is conducted before and after investment. (Details are in the "Market Estimate Survey" section below.)

Impact AUM calculated when the results of IMM ascertained by this Questionnaire Survey were not required to share(old FY2020 criteria)

The figure is the sum of the impact AUM of the responding organizations of the Questionnaire Survey whose intermediaries were not required to share the details of measurement with the final investors.(Inclusion Criteria ① to ③ were fulfilled but ④ was unfulfilled)

Impact AUM, as ascertained by this Questionnaire Survey (new FY2021 criteria)

The figure represents the sum of the investment balances which are based on the Survey, and for which IMM was conducted both before and after the investing, and when the results of the IMM were shared with the final investors.(All Inclusion Criteria ① to ④ were fulfilled)

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100 (Reposted) "GIIN Annual Impact Investor Survey 2020" (Global Impact Investing Network, GIIN):
https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

101 "Growing Impact - New Insights into the Practice of Impact Investing" (International Finance Corporation, IFC):
https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impact.pdf?MOD=AJPERES&CVID=naZESt9

The following is a simplified explanation of the methods used by these two global market estimate surveys. The GIIN survey makes its estimates based on disclosure data from institutional investors by combining a database it created based on its annual questionnaire survey and the impact investor databases of other companies. On another hand, the IFC survey creates its estimate by relying on reporting of impact investment balances by development financial institutions as well as unlisted impact investing funds. Details on the specific methods of estimation for both global surveys were provided in the last fiscal year's report.[102]。

Our survey uses the same method as last fiscal year that makes reference to both surveys of GIIN and IFC. Specifically, the sum of the self-reported balances of impact investments by institutions engaged in impact investing as compiled in the "Questionnaire Survey on Impact Investing (2021)" is combined with the amount of money originated from (impact investing) products for which assessment based on impact measurement is conducted before and after making investments as found in publicly available information we have desk researched, and this total amount is set as the market's estimated maximum (potential).

The specific steps in this method of estimation are stated below. Like the market estimate surveys of GIIN and the IFC, the estimate methodology will be reviewed going forward in order to raise the precision of market estimates. Along with this, points to consider regarding inclusion criteria going forward ("Inclusion criteria" at the beginning of Chapter 2) are also discussed in connection with revisions to the estimate methodology.

102 Refer to Figure 63. on page 85 of "The Current State and Challenges of Impact Investing - FY2020 Survey."

Methodology of the market estimate survey – Combined approach on investor and product basis –

Step 1. Summary of responses to "Questionnaire Survey regarding Impact Investment (FY2021)"

The impact investment balance of institutions engaged in impact investing has been compiled based on the result of the responses to "Questionnaire Survey on Impact Investing (FY2021)" (only 2021 response data were referenced due to updating inclusion criteria in this year's survey). Regarding impact investing through an investment management institution or other intermediary, double-counting with the investment balance of final investors was eliminated to the extent possible.

Step 2-1. Specify product categories for which the assessment based on impact measurement is conducted before and after investing, based on the principles and guidelines of each financial product category

The principles and guidelines for each financial product category (bonds, loans, etc.) were confirmed and product groups identified for which matters applicable to assessment based on impact measurement are conducted before and after making investments (sustainability-linked loans, positive impact finance, sustainability-linked bonds, impact investment funds, etc.). Specifically, it was confirmed whether the principles and guidelines clearly state that matters applicable to assessment based on impact measurement should be conducted before and after making investments, including whether or not impact indicators are set and monitored at the time of product origination.

Step 2-2. Specify individual product for which the assessment based on impact measurement is conducted before and after making investments

Individual financial product and fund were identified for which assessment based on impact measurement is conducted before and after making investments, based on publicly available information and questionnaire survey (question group on a financial product basis) in Step 2-1. Specifically, a list was made of individual financial products for which assessment based on impact measurement has been established based on corresponding information (measurement reports, press releases, etc.) published by third-party measurement institutes, institutional investors, and financial institutions, etc.

One of the following patterns is assumed.

- Belongs to a category specified in Step 2-1 and complies with corresponding principles and guidelines.
- Even if the product does not belong to a category specified in Step 2-2, it can be confirmed that impact indicators have been set and measurement conducted before and after as separate initiatives (some sustainability loans, bond products, etc.).

Step 3. Estimated maximum (potential) of the Japanese market

Compiled after eliminating double-counting from Step 1 and Step 2-2 to the extent possible.

As an assumption, regarding Step 2-2, unlike information ascertained through the questionnaire survey, whether final investors investing in products that could constitute impact investing make their investments after confirming that it does constitute impact investing, and whether the investors themselves conduct their own version of impact measurement and management are not known, so it differs from the impact investing balance grasped via the questionnaire survey. On this point, it will be necessary to consider revising the methodology going forward based on whether or not to make the intentionality of final investors a requirement for inclusion in impact investment.

Column 2 : Introduction of a consumer survey on impact investing

Every year since 2019, SIIF has conducted the *General Consumer Awareness Survey on Impact Investment* (hereinafter, "Consumer Survey") with consumers responding to the questionnaire in addition to "The Current State and Challenges of Impact Investing in Japan" with businesses responding the questionnaire. The Consumer Survey explores the future potential of impact investment in retail market such as the general consumers' awareness of impact investment and their interest in purchasing impact investments.[103]

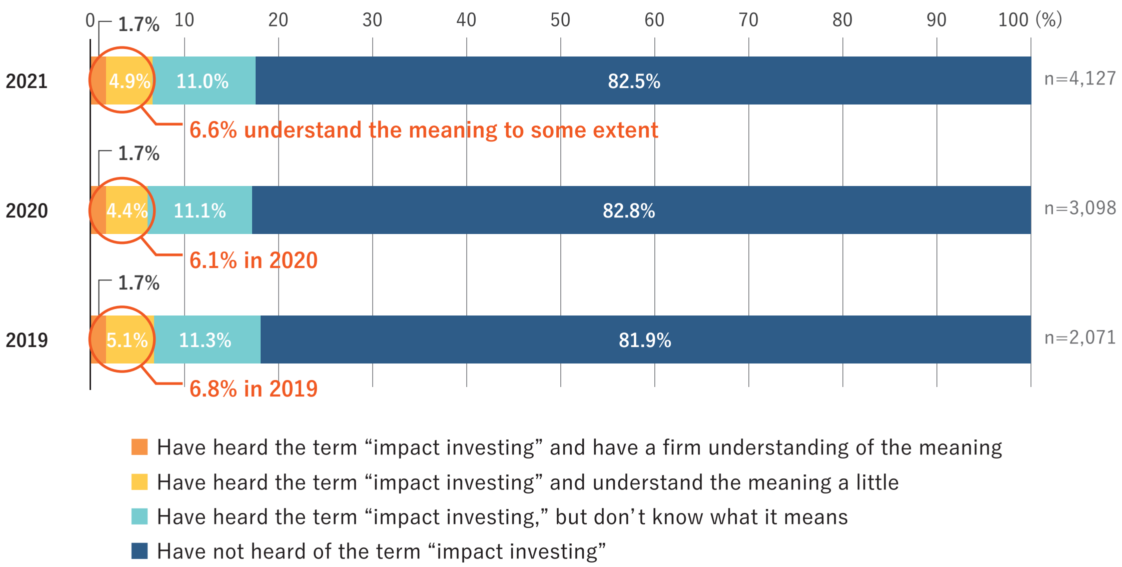
This column provides an overview of the main findings of the Consumer Survey conducted in August 2021. Read in combination with the main body of "The Current State and Challenges of Impact Investing in Japan," it is considered to aid the reader's understanding of the trend of impact investment.

[Summary of the survey] Survey period: August 8-9, 2021
Respondents: 4,127 general consumers across Japan, age 20 to 79

1. Awareness of impact investing

SIIF defines the "awareness of impact investing" as the sum of the number of respondents who have "heard of the term 'impact investing' and have a firm understanding of its meaning" and "heard of the term and have some understanding of the meaning." The awareness in 2021 was 6.6%, which shows a flat trend compared to the results of 2020 (6.1%) and 2019 (6.8%). Although impact investing is becoming a buzzword in the world of finance and government, awareness among the general consumers is yet to occur.

Figure 58. Awareness of the term "impact investing"

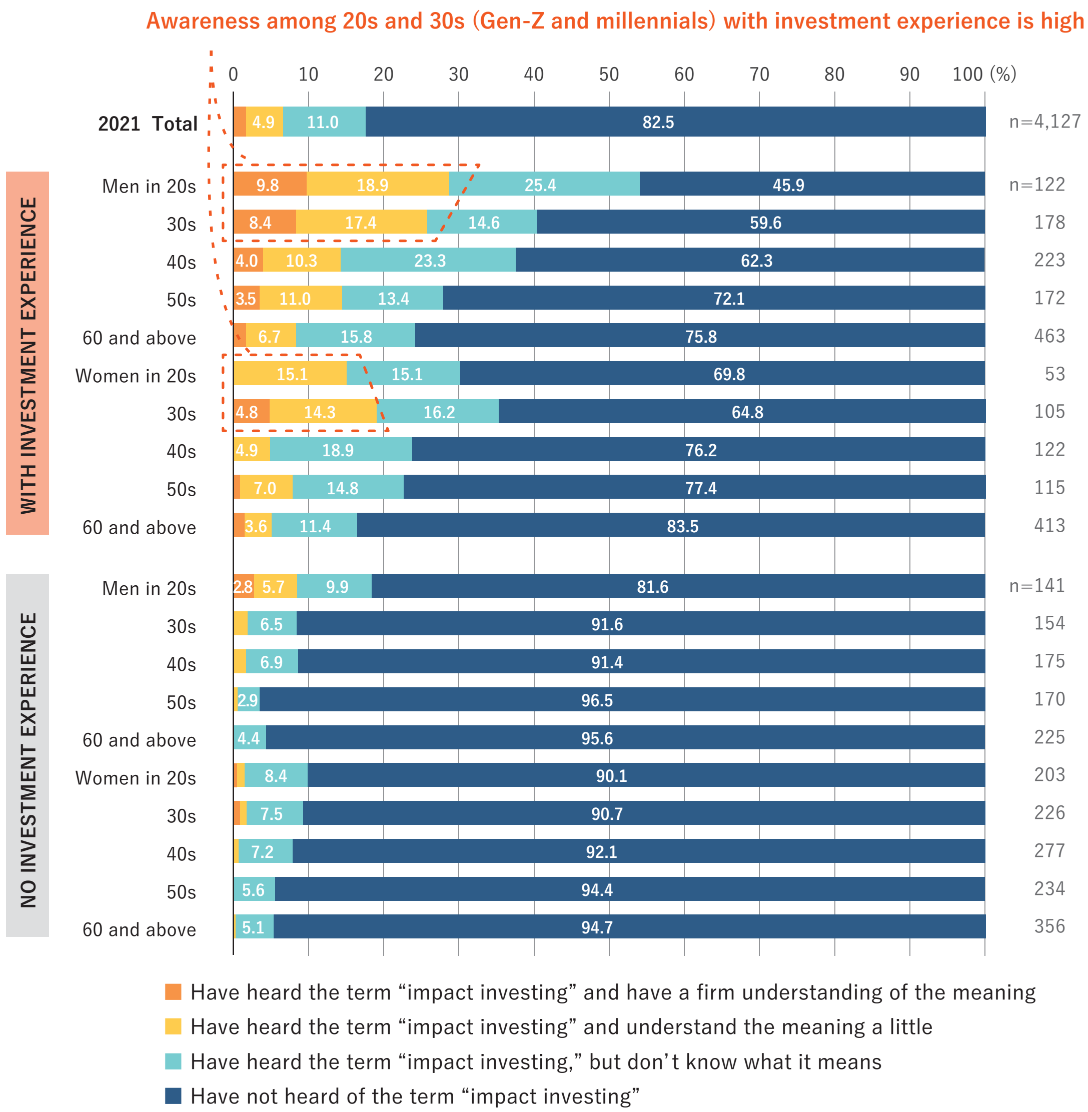


103 The entire report of the Consumer Survey can be found by searching the website using the keywords, "SIIF 2021 Consumer Survey."

The average awareness is 6.6%, however, an examination of the result by the respondents' investment experience and age range shows a significant difference.

Specifically, the respondents with investment experience in their 20s and 30s, the so-called Generation Z and the millennial generation, have high degree of awareness. In particular, the awareness among men in 20s reaches nearly 30%. On the other hand, even among those with investment experience, the awareness drops significantly among the 40s, for both men and women.

Figure 59. Awareness of Impact Investment: Cross analysis by investment experience, gender, and age

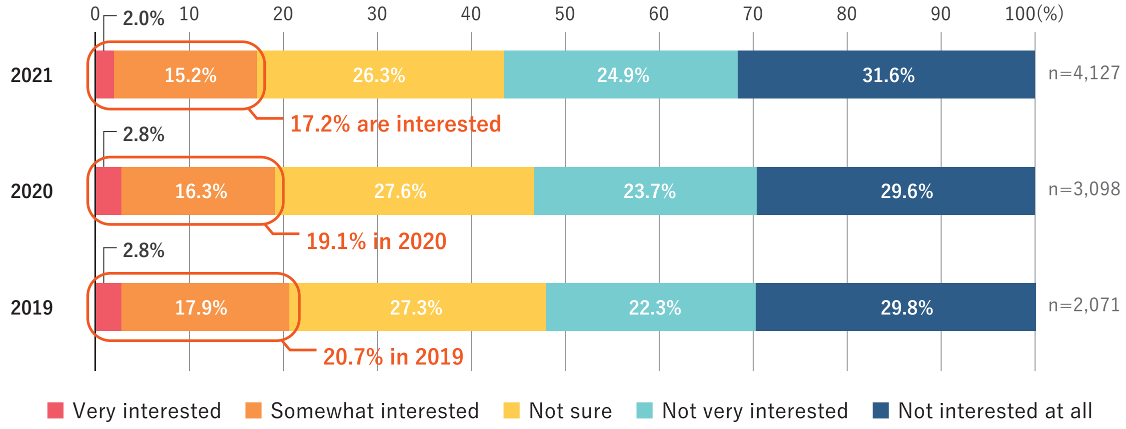


2. Consumers' interest in purchasing impact investments

SIIF defines "consumers interested (in impact investment)" as the sum of the respondents who answered, "very interested" and "somewhat interested." In 2021, it was 17.2%.

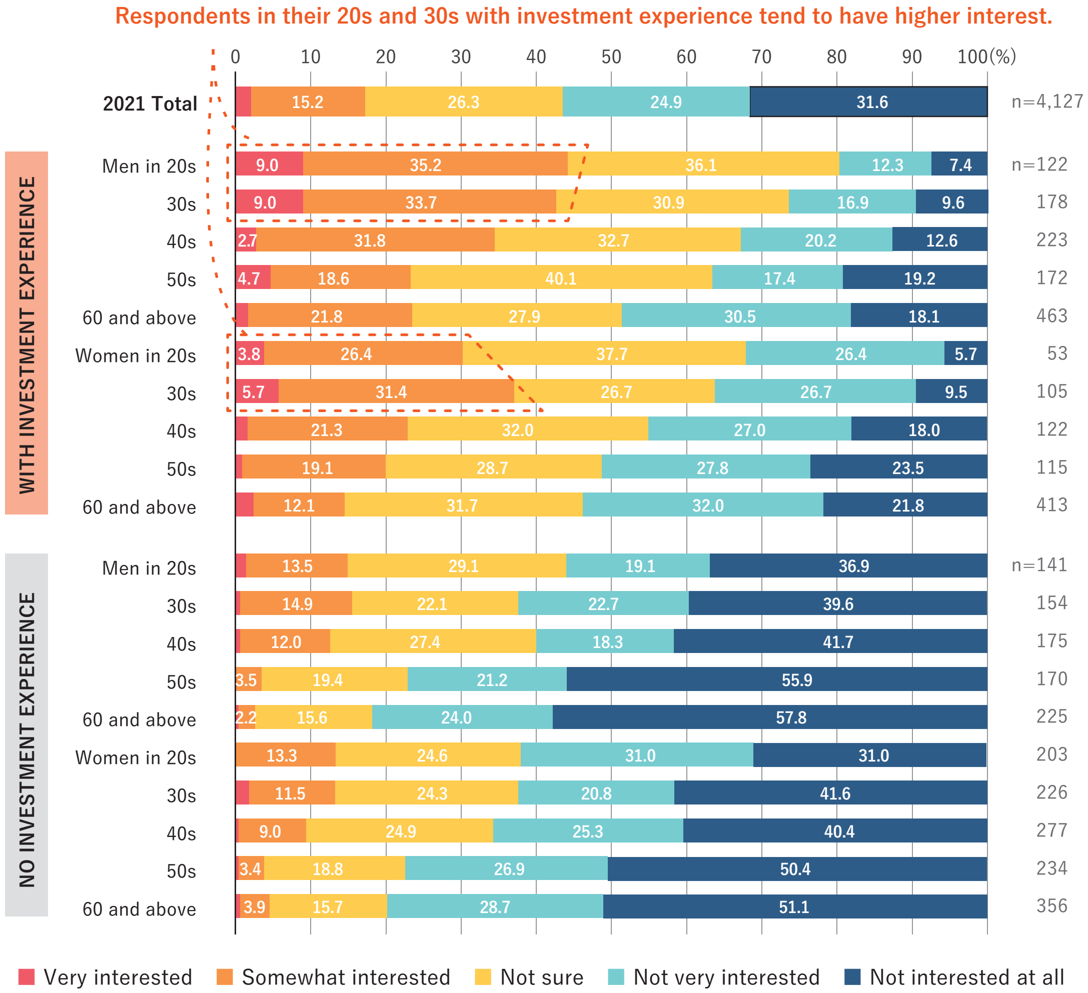
Although the figure decreased slightly from 19.1% in 2020 and 20.7% in 2019, it is assumed that the decline was caused by the reduction in the general appetite for investment during COVID-19.

Figure 60. Consumers' interest in purchasing impact investments



The average in total of interested consumers was 17.2%. Similar to the response for awareness, the respondents in their 20s and 30s with investment experience tend to have higher interest.

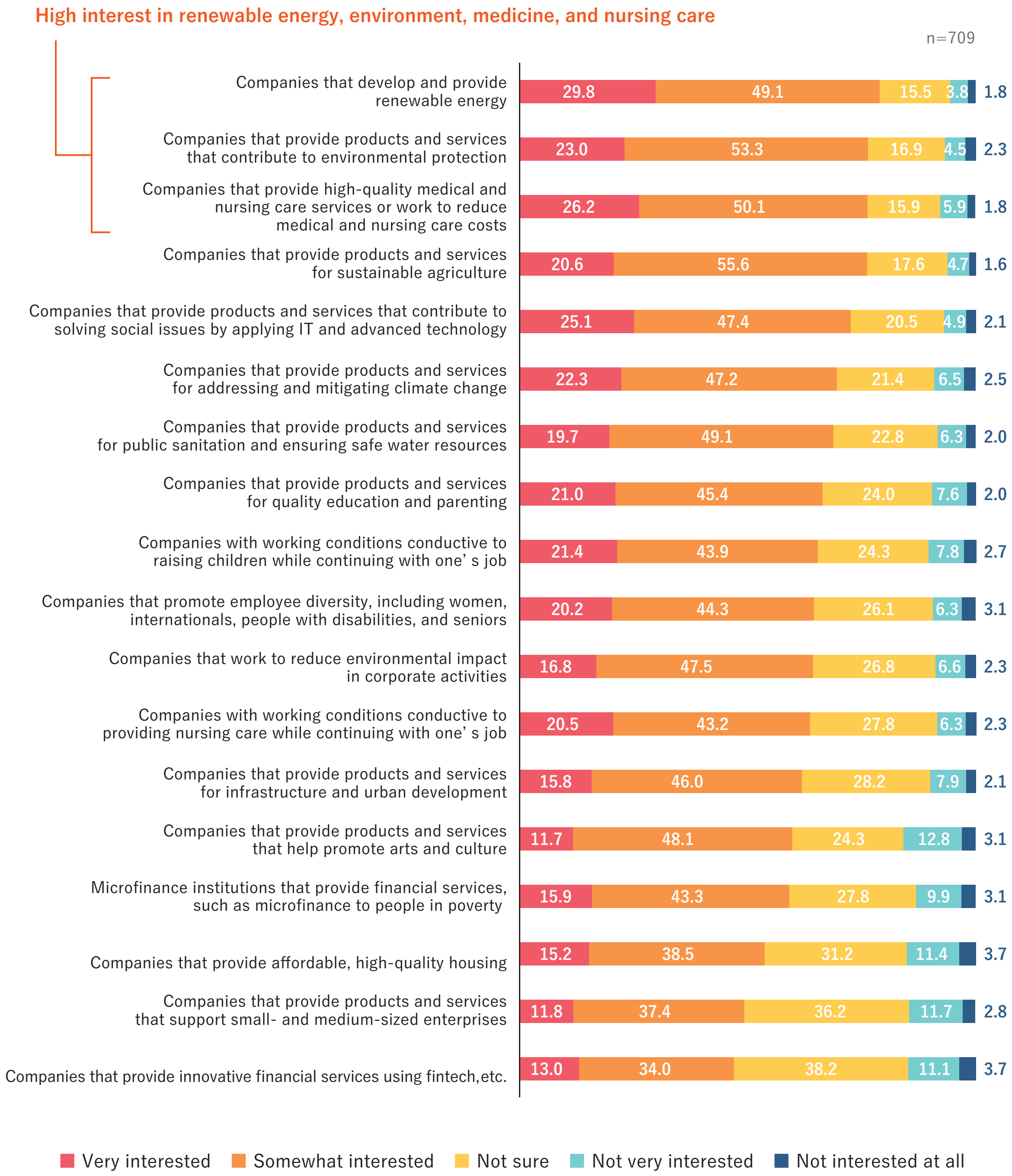
Figure 61. Interest of consumers in purchasing impact investments: Cross analysis by investment experience, gender, and age



3. Areas of interest to general consumers who are potential impact investors

Respondents who were interested in impact investment were asked which areas of investment they were interested in, and companies promoting renewable energy, environment, medicine, and nursing care were in the top. Looking at the businesses that ranked below fourth, the respondents had higher appetite for investing in companies that worked on implementing SDGs including ensuring safe water resources.

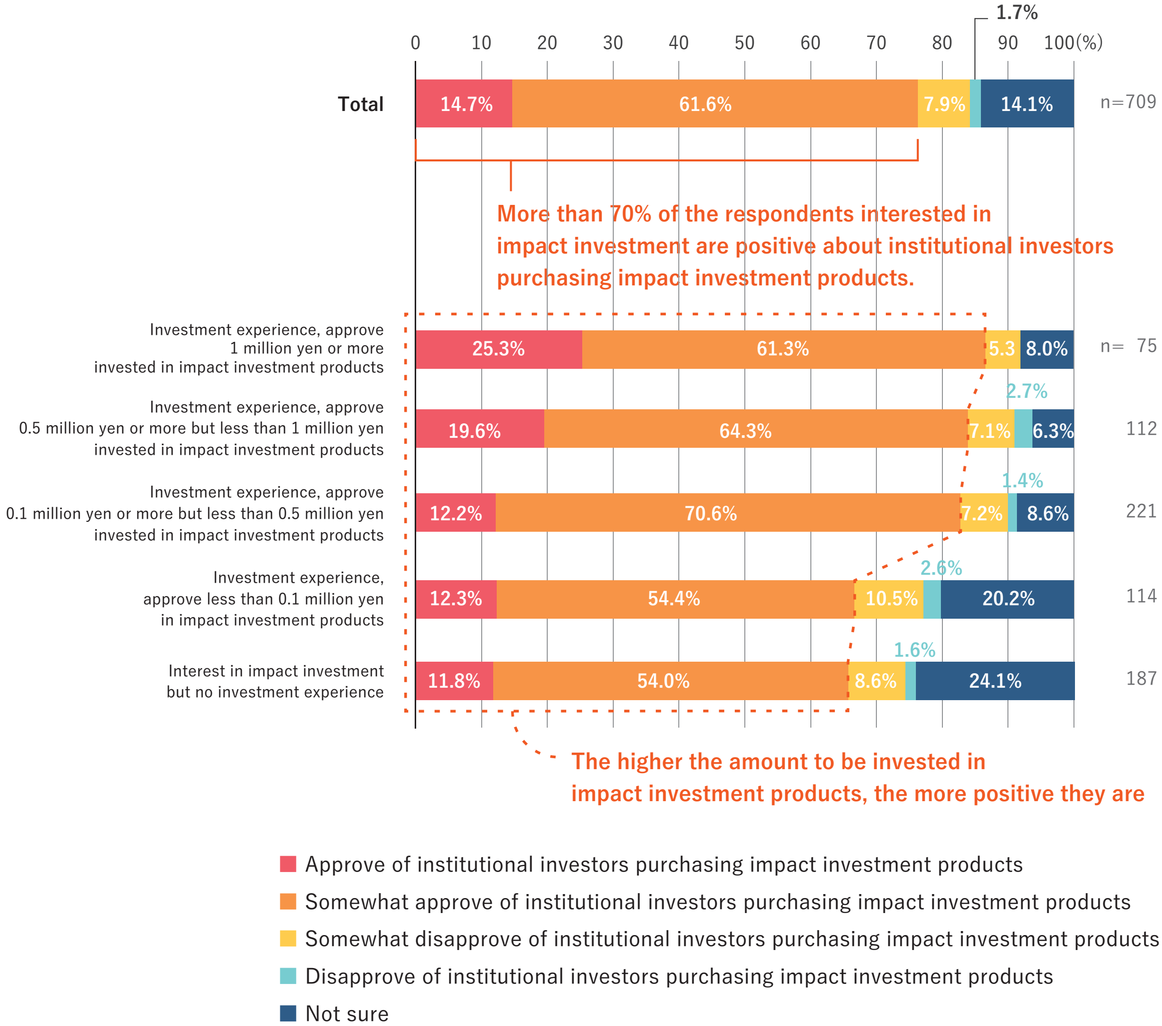
Figure 62. Type of businesses that the consumers interested in impact investment want to invest for solving social issues



4. Positive response to institutional investors purchasing impact investment products

More than 70% of the respondents interested in impact investment were positive about the institutional investor managing his/her asset to purchase impact investment products. The higher the amount the respondent agreed to allow being invested in impact investment products, the higher the rate of positivity for institutional investors to purchase impact investment products. This is considered to have an implication for the future retail strategy of financial institutions.

Figure 63. Positive response of the respondents interested in impact investment to institutional investors purchasing impact investment products



The survey findings give various interesting insight other than those introduced in this column. It is strongly recommended to read the main report.

It is available by searching with SIIF 2021 Consumer Survey or via QR code here.

Case Studies of Impact Investments/Impact Companies

In this chapter, we will introduce four case studies to understand impact investment trends. Two of the four case studies are from financial businesses that invest and the remaining two are from operating companies that receive investments from financial businesses.

The four case studies are based on interviews conducted and the details are presented as case studies. The interviewee name and profile, and the highlights of the case studies are as below.

Figure 64. Case study examples selected and reasons for selection

Interviewee	Interviewee Profile & Highlights of Case Study
The Dai-ichi Life Insurance Company, Limited	A life insurance company established in 1902. Its assets under management at the end of March 2021 totals approx. 38 trillion yen. Dai-ichi Life began impact investing in 2017 as one of the first institutional investors in Japan to do so. • Dai-ichi Life has contributed to setting examples for the industry since the early days of impact investing. • It has an established system in which multiple departments work together for impact investing. • The company practices impact investing across multiple asset classes, including direct investments in unlisted and listed companies, and investments in funds.
Future Venture Capital Co., Ltd.	A Kyoto-based venture capital firm established in 1998. The company has acted as a pioneer providing local models of venture capital funds. • With the intention of creating impacts, Future Venture Capital offers financial products designed to revitalize local economies. • The company started local revitalization funds after the Great East Japan Earthquake in 2011. It has managed these funds across different regions since, acquiring unique know-how in how to agree on impact KPIs with investees.
CureApp, Inc.	Established in 2014, CureApp is the developer and operator of “Digital Therapeutics (DTx)®.” The company’ s mission is “Re-evolving ‘therapeutics’ with software,” and the company receives investments from several impact investors. • CureApp is a good example of an impact-oriented business in that the software it offers is designed to urge users to change their behavior in such a way that helps solve various issues in the healthcare and other related fields. • The company considers Impact Measurement and Management (IMM) as one of its business management tools and is working to make it a company-wide practice.

Interviewee	Interviewee Profile & Highlights of Case Study
Pocket Marche, Inc.	A joint-stock company established in 2015. With the mission of "Connecting the Pieces," Pocket Marche runs a website that offers consumers primary products (e.g., fruit, vegetables, meat, and fish) for direct purchase from producers. It also operates an electricity business. • The business attempts to solve the issue of the divide between urban and rural areas. • Investors who invest in Pocket Marche are enticed by the company' s mission and make their investments in the hope that the connection will be a reality through the business. The company also practices Impact Measurement and Management (IMM).

CASE STUDY #1

The Dai-ichi Life Insurance Company, Limited.

Reason for selecting The Dai-ichi Life Insurance Company, Limited.

In Japan, impact investment by major financial institutions has expanded in line with the increase in ESG investment and as corporations seek solutions for social issues. The signing of "Japan Impact-driven Financing Initiative" in November 2021 is likely to further enhance the interest in impact investment.

In the case study for this report, The Dai-ichi Life Insurance Company, Limited. (hereinafter, "Dai-ichi Life") has been selected as the company is an early adopter of impact investing among the large life insurance companies investing in multiple asset classes. This study reviews the development from the time when the concept of impact investment was not well known until today, followed by an examination of Dai-ichi Life's decision process of impact investment and the difference in investment decision and monitoring per asset class. Finally, the relevant points for further expansion of impact investment are summarized.

Profile of The Dai-ichi Life Insurance Company, Limited.

Dai-ichi Life and ESG investment

Dai-ichi Life is a life insurance company established in 1902. It manages the funds of customers from all over Japan, with approximately 38 trillion yen of assets in custody as of the end of March 2021. As a "universal owner" of a wide range of assets, the company manages its assets conscious of a wide variety of stakeholders. Dai-ichi Life has promoted responsible investment (ESG investment and stewardship activities) as one of the important issues for sophisticating asset management as a life insurance company, and it seeks to strike a balance between earning medium- to long-term investment return and solving social issues. In April 2020, the company formulated and announced its "Basic ESG Investment Policy" in order to commit to enhancing efforts to realize sustainable society, including "Incorporate ESG factors in investment policies and processes for all assets (target completion by FY2023).” Dai-ichi Life classifies impact investment as part of its ESG investment (ESG-themed investment). As of the end of August 2021, its impact investment asset is approximately 30 billion yen.

History

1902 Dai-ichi Mutual Life Insurance Company was founded
2015 Signed the Principles for Responsible Investment (PRI)
2016 Started formulating basic ESG investment policy
2017 Established a unit dedicated to the responsibility (Responsible Investment Department)
2017 Initiate impact investment
2020 Appointment of ESG analyst
2021 Became signatory of Japan Impact-Driven Financing Initiative

Impact Investment

Trend of Impact Investment

Dai-ichi Life initiated impact investment in October 2017 and became one of the pioneers among institutional investors in Japan. Looking back, Dai-ichi Life remembers how the term “impact investment” was hardly known at the time and feels that awareness and scale (impact investment amount) of impact investment have grown rapidly. In August 2018, Principles for Responsible Investment, an investor initiative in partnership with UN, published “Impact investing market map,” summarizing the international trend of impact investment, and Dai-ichi Life believes that impact investment will be mainstreamed and widespread in the future.

The start of impact investment and the paths until today

Dai-ichi Life embarked on impact investing by investing in an unlisted company in 2017. The company feels that its identity going back to its establishment is the motivation for starting impact investment. Dai-ichi Life has invested in unlisted companies including start-ups since its establishment. Investments to start-up companies tend to take long before payout. By nature, life insurance companies can provide long-term financing, and such investments fit the characteristic. Dai-ichi Life has been active in ESG investment since the early 2010s when it was still in its infancy. This was also based on the company’s wish to provide funds to start-ups that bring about innovation in social structure.

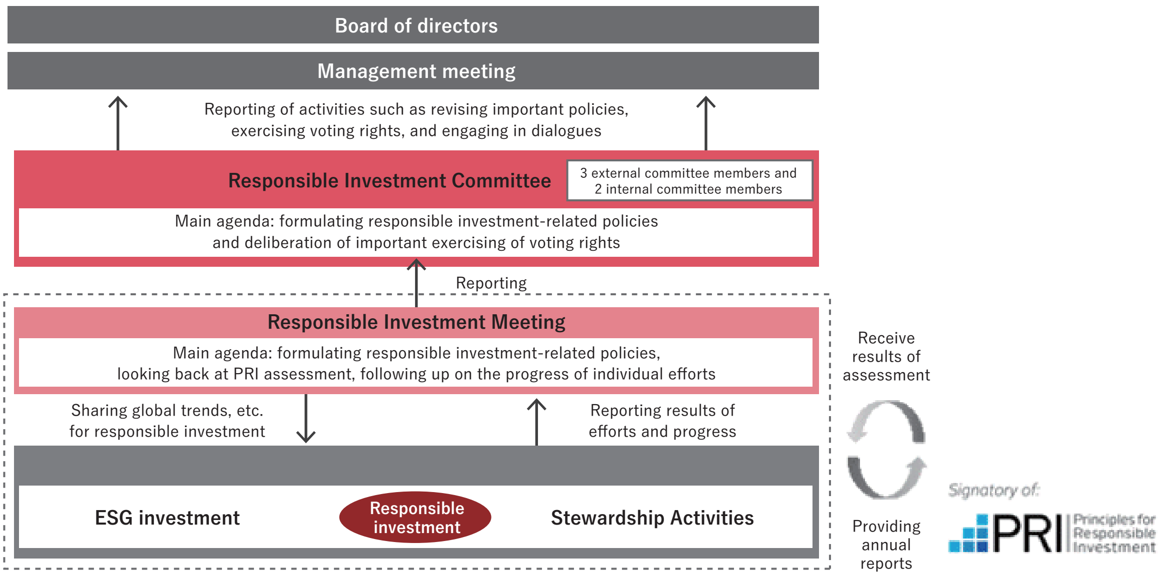
Dai-ichi Life engaged in internal discussions from varied viewpoints before starting impact investing. There were many issues that needed consideration, including investments to which companies could be defined as “impact investment,” how to make decisions and the difference with existing ESG investment, etc. As a result, Dai-ichi Life defined impact investment as “an investment method in which decisions for investments are made through intending to both obtaining income from investments and creating social impact (structural changes to society, etc.).” Today, the decision-making method for impact investment has been established. Impact investment started from investing in unlisted companies, however, Dai-ichi Life also invests in listed companies and funds today.

Framework for impact Investment

Decision-making process of impact investment

Dai-ichi Life has established various processes before deciding that a certain case is impact investment. Normally, the front section or its staff with direct contact with the company subject to investment makes a request to categorize it as "impact investment stock name." The Responsible Investment Meeting reviews the request and judges if it is an impact investment. The Responsible Investment Meeting is comprised of Responsible Investment Department and the general managers and managers of relevant departments. It also aims to standardize the views on impact investment among relevant division and staff. Each stock name requested to be recognized as impact investment is reviewed against decision-making standards for impact investment (described below) and other materials and the final decision is made by the head of Responsible Investment Department. Subsequently, the decision is reported to the Responsible Investment Committee which includes external committee members.

Figure 65. Structure to promote responsible investments



https://www.dai-ichi-life.co.jp/dsr/investment/ri.html

The decision-making standards for impact investment are as follows.

[List] Decision-making standards for impact investment

1. The management of the company possesses a clear vision for solving social issues
2. An appropriate monitoring metrics for social impact may be designed
3. Whether the company's business exhibits "innovativeness" and "originality and certain barriers to entry," and it has the capacity to create social impact Dai-ichi Life expects
4. Impact business is (or could become in the future) the main business of the company

Especially important among the decision-making standards for impact investment is whether the management of the investee candidate possesses a clear vision for solving social issues (No. 1 above). Dai-ichi Life makes sure to meet with the management of the investee candidate in order to confirm the thoughts of the management and the intention to create impact in society. This step is taken in the case of investing in listed companies as well. Dai-ichi Life also confirms whether a monitorable impact indicator is disclosed or not. If not, Dai-ichi Life engages with the company and includes the prospect of disclosure in the check items for the investment candidate. The match with the five important themes of Dai-ichi Life (QOL improvement, regional development and revitalization, mitigation of climate change, sustainability of natural capital, and respect of human rights and promotion of diversity) are also reviewed before it a certain case is determined to be an impact investment.

About Impact Measurement and Management

In impact investment, Dai-ichi Life prioritizes impact measurement and management (IMM). When Dai-ichi Life engages with the company as an investor, it requests for the establishment of monitorable and understandable indicators and information disclosure. Some companies are actively engaged in IMM. However, as the number of impact investees increases, the monitoring cost for the IMM to Dai-ichi Life as an investor also increases, creating another issue. In Dai-ichi Life, the front departments that primarily engage with the investee is responsible for IMM. The Responsible Investment Department collects information on IMM related moves outside of the company and share such information with the front departments. Dai-ichi Life recognizes that, in order to reduce its IMM cost through efficient measurement and management, it is necessary to standardize impact measurement indicators, develop rules for IMM such as deciding the medium used by investees to disclose their IMM activities and sharing best practices on impact indicators and information disclosure among financial institutions (including asset management companies, etc.).

Difference by asset class – Comparison between listed companies and unlisted companies –

The basic thinking for impact investment such as its decision-making standards is common, notwithstanding whether a company is listed or not. On the other hand, there are some different points in each process.

Let us look at the decision-making standards. In the case of listed companies, it is the “originality” of the business rather than its “innovativeness” that tends to have higher priority in decision making. Here, “originality” refers to the uniqueness of the way the approach of the business contributes to the sustainability of global environment and society. For example, in the case of a listed company that provides new technology, service and business model, Dai-ichi Life emphasizes the novelty of the company’s technology, service and business model. In addition, it also considers whether the company has sufficient share in the relevant industry and its impact to the whole market in making decision. Listed companies often engage in multiple businesses. Therefore, Dai-ichi Life requires the business creating impact to be the main business of the investee company as a necessary condition for deciding whether it meets the standard of impact investment. Whereas in the case of unlisted companies, few companies engage in multiple businesses, and thus, this point rarely becomes an issue.

Dai-ichi Life thinks that there is a different approach for IMM and exit strategy of listed and unlisted companies it invests in. In IMM of the companies that Dai-ichi Life currently determines as impact investment, there is not much difference in measurement and monitoring between listed and unlisted companies. However, management is different. In impact investment for unlisted companies, Dai-ichi Life is the major stockholder in many cases, and it engages with these companies by getting inside access such as participating in or observing the Board of Directors meeting when necessary. Since it is difficult to sell stocks of unlisted companies before public trading, the company makes efforts to thoroughly follow-up on the activities of these unlisted companies. In the case of impact investing in listed companies, Dai-ichi Life is rarely the largest shareholder. Therefore, it is aware that the extent of reflecting its wish in the company's business is uncertain. This tendency becomes more pronounced as the size of the company gets bigger. Dai-ichi Life clarifies its thinking on exit strategy and standards for divestiture to ensure its investment to deviate from its definition of impact investment.

Another difference is when the investment could not create the expected impact after making IMM efforts. In the case of unlisted companies, Dai-ichi Life can make active intervention through engagement. With listed companies, however, there are cases where it is difficult for engagement to be effective. For example, if the business intended to create impact has not become the main business or if expected IMM and information disclosure cannot be expected, Dai-ichi Life says it may consider exiting by divestiture, etc.

Dai-ichi Life's philosophy on exit strategy is unique. It understands that its impact investment is made up of two elements; supplying funds from the viewpoint of risk vs. return and recognition as an impact investment stock name. Thus, the exit strategy for impact investment does not mean just dissolving the financial relationship by selling off the stock of the investee, etc. Another option for exit is to rescind the recognition as an impact investment stock name. In other words, if the impact investee has failed to satisfy the conditions for impact investment as a result of activities such as IMM, Dai-ichi Life can rescind its recognition as an impact investment stock name but continue to hold the shares in some case.

Difference by asset class – Fund investment –

Dai-ichi Life also conducts impact investment in managed funds. For example, in July 2021, Dai-ichi Life invested approx. 5.5 billion yen in "Climate Finance Partnership Fund," a BlackRock® fund focusing on investments to renewable energy related infrastructure in developing countries as its impact investment. In impact investment through investing in funds, Dai-ichi Life considered the difference with impact investing in companies, and adopted decision-making criteria such as the companies the fund plans to invest in and their selection criteria as well as the originality and the innovativeness of the fund's scheme. In addition, Dai-ichi Life makes supplementary confirmation on whether the majority of the companies and the projects the fund invests are capable of creating the impact expected by Dai-ichi Life.

As for monitoring, if the management company of the fund is a foreign company, physical constraints make it difficult to hold frequent meetings. Therefore, Dai-ichi Life continuously monitors whether the fund satisfies its impact investment standards by other means including written reports.

To avoid "Impact-washing"

As described above, Dai-ichi Life has conducted impact investment in listed companies, unlisted companies, and funds. The company is aware that the diversification of asset class has led to varied discussions within the company. For example, especially when considering impact investing to a listed company, the company undergoes significant discussions on whether the investee may be recognized as an impact investment stock name. Even in a case where other fund management companies recognize the investee as "impact investment," Dai-ichi Life, mainly its Responsible Investment Department, compares the investee against its definition of impact investment and decides if it can be recognized as an impact investment from the viewpoint of a third-party. The reason for adopting the scheme is to avoid "impact-washing," that is, investments that are impact investment only in appearance. Dai-ichi Life's Responsible Investment Department promotes responsible investment including ESG investment and plays a central role in providing a thorough and detailed explanation to the front sections and internal stakeholders on why a certain stock brand is recognized as an impact investment or not.

At the same time, the company is aware that there are multiple standards for "impact investment," there is no international consensus and investors do not have uniform view on what is considered an "impact investment." Thus, Dai-ichi Life believes it is important to set its own standards for decision-making and approach on impact investment. In addition, Dai-ichi Life considers it necessary to constantly review and revise its decision-making standards and keeps brushing up incorporating the views of the front sections.

Summary

Prospects

Currently, Dai-ichi Life aims to work on standardizing indicators on the effect created by impact investment so it may be communicated to the final beneficiaries in an easy-to-understand fashion. For example, mitigation of climate change, one of the five priority themes of Dai-ichi Life, has standardized indicators such as the volume of greenhouse gas emission and its reduction rate, thus it is possible to add the effect across various impact investment projects. Even for themes that are difficult to standardize indicators, Dai-ichi Life will continue to work so it will become possible to visualize how much change its impact investment projects caused the overall society.

Towards expanding impact investment in Japan

Dai-ichi Life believes that, to expand impact investment in Japan, it is essential that a consensus will be developed and shared among the investors and the investee companies on the definition on impact, decision-making standards and flow for "impact investment," standardization of indicators, knowledge-sharing for IMM. Specifically, it feels that investors and corporations must share the same recognition on the design of impact key performance indicator (KPI) for smooth disclosure and communication to become possible.

Dai-ichi Life is one of the signatories of Japan Impact-Driven Financing Initiative in November 2021. The initiative includes a goal to share the best practices of financial institutions (fund management companies). Dai-ichi Life believes that expanding common awareness of impact investment, even incrementally, will aid its further growth.

Dai-ichi Life's impact investment has centered on unlisted companies and its impact asset balance is not so large compared to its total assets. ESG-themed investments, including sustainability-linked loans and bonds, will have more investments that Dai-ichi Life can measure and monitor KPIs. The company hopes to apply the insights and experience accumulated through impact investment to the entire ESG-themed investment and enhance the measurement of impact of these investments. This will in effect contribute to the mainstreaming of impact investment.

Hint for impact investment from the case study of Dai-ichi Life

Dai-ichi Life has been conducting impact investment since its infancy. As the whole world has engaged in trial and error, Dai-ichi Life is considered one of the leading impact investors as one of the largest institutional investors in Japan who has contributed to the financial industry through actively promoting impact investing cases. Especially noteworthy is how Dai-ichi Life implements impact investment with multiple sections cooperating in its large organization. The division of roles where the front sections are responsible for IMM and Responsible Investment Department for providing coordination and support to the front sections is the key to the success of the company to increase impact investment assets. Formulating internal operational processes such as the criteria for recognition as impact investment and the implementation method of IMM became necessary as impact investment grew. During Dai-ichi Life's commitment to impact investment over the years, these processes have been developed and have now become the company's source of competitiveness in impact investment.

Dai-ichi Life has promoted developing organizational structure for impact investment as well. It recognizes that it is now in a stage where building consensus within the finance industry including the definition of terminology, standardization of decision-making standards, flow and indicators for impact investment and knowledge sharing on IMM are necessary. As a signatory of Japan Impact-Driven Financing Initiative in November 2021, it believes that society expects further enhancement of the initiative.

CASE STUDY #2

Future Venture Capital Co., Ltd.

Reason for presenting a case study of Future Venture Capital Co., Ltd.

Impact investing by regional financial institutions will likely increase. This is because impact investing, which is to invest in businesses that intend to make certain impacts on society, is thought to be highly compatible with the business of regional financial institutions whose aim is to help revitalize local communities and develop local economies.

This report discusses the case study of Future Venture Capital Co., Ltd. (hereafter, "Future Venture Capital"), a business that has been a pioneer of local models of venture capital funds. This case study allows us to observe what issues the company perceived and what realization it had, and what social impact regional financial institutions can make through local venture capital funds. It also presents what is expected of impact investing and impact measurement and management (IMM), along with implications of what value the use of impact investing and IMM offers, which became apparent through the management of various funds.

Profile of Future Venture Capital

Summary

Future Venture Capital is a venture capital (VC) based in Kyoto. It was established in 1998 with the aim of offering risk capital to businesses that have difficulty raising funds due to lack of credit but have great growth potential if they have capital, thereby supporting these business owners in fulfilling their dreams.

History

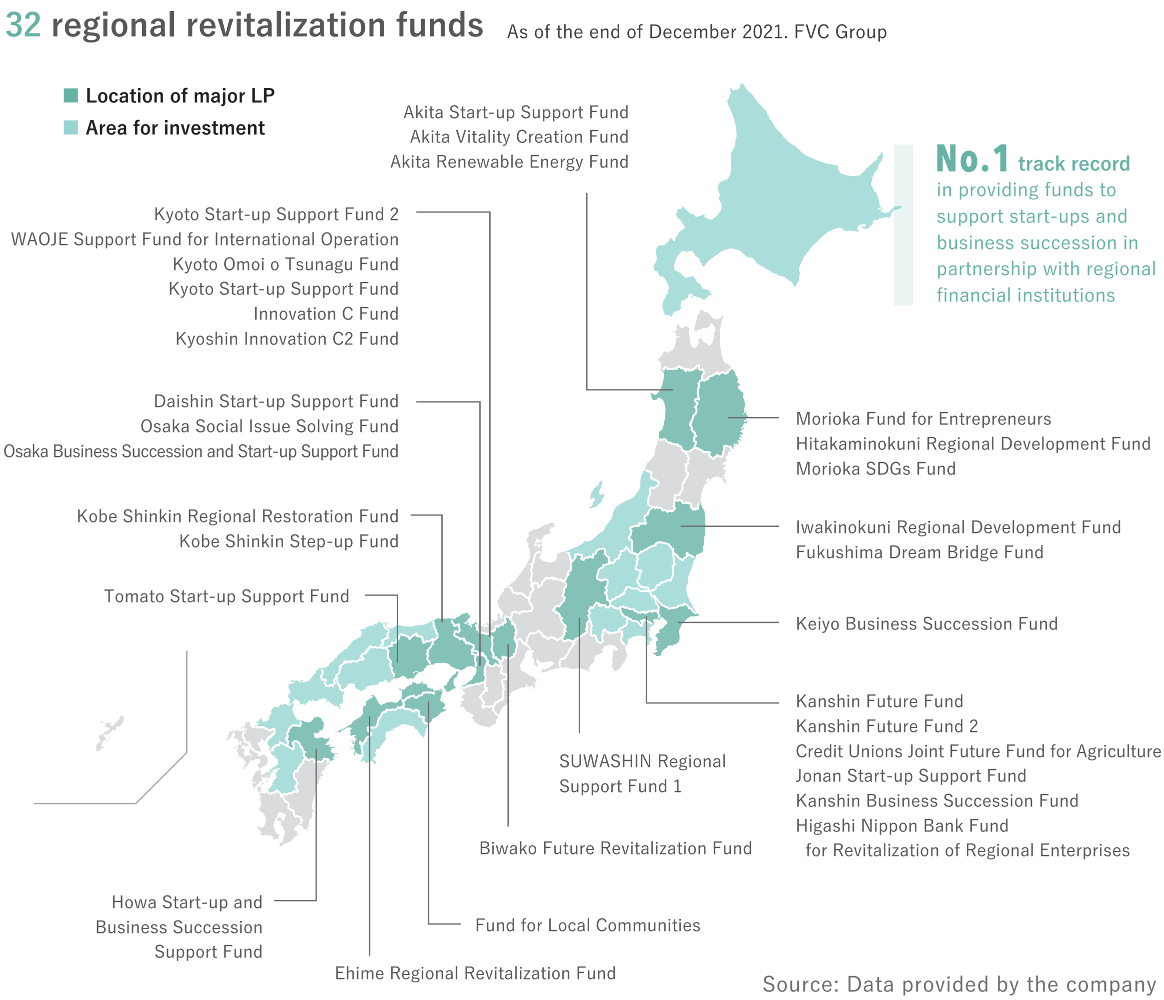
Sep. 1998	Future Venture Capital Co., Ltd. (FVC) is established.
Nov. 1998	The "Future No.1" fund, Japan's first investment limited partnership, is established.
Feb. 2001	The Ishikawa Investment Limited Partnership for Venture Development is established in Kanazawa, Ishikawa Prefecture. It is Future Venture Capital's first fund financed by a local government.
Oct. 2001	FVC becomes listed on the NASDAQ Japan (currently JASDAQ).
Aug. 2012	The Morioka Investment Limited Partnership for Entrepreneurs is established to help the reconstruction of the region devastated by the Great East Japan Earthquake. Exiting through stock listing is not part of the plan for this partnership.
Sep. 2017	The Osaka Investment Limited Partnership for Resolution of Social Issues is established jointly with Osaka Shinkin Bank to support entrepreneurs who have business models designed to solve social issues.

Jan. 2020 The "Kyoto Omoi o Tsunagu Partnership (Kyoto Investment Limited Partnership for Connecting Hopes)" is established jointly with the Kyoto Shinkin Bank, Kyoto Chuo Shinkin Bank, Kyoto Hokuto Shinkin Bank, and Credit Guarantee Corporation of Kyoto to support small- and medium-sized enterprises in business succession. This partnership is Japan's first fund specifically for business succession that is financed by shinkin banks and a credit guarantee corporation all based in the same prefecture.

Apr. 2021 Future Venture Capital operates 32 regional revitalization funds in partnership with regional financial institutions across Japan, hosted the first Matching Event for Regional Revitalization, an event for pitches that is designed to connect start-ups as investees and the regional financial institutions.

Sep. 2021 The Kyoshin Innovation C2 Investment Limited Partnership is established jointly with the Kyoto Shinkin Bank and Kyoshin Social Capital Co., Ltd. to support small- and medium-sized enterprises. (This partnership is a fund that has succeeded the Innovation C Investment Limited Partnership, which was set up in August 2018 to support the growth of businesses contributing to the revitalization of the local economy.)

Figure 66. Regional Revitalization Funds Established by FVC



Source: Data provided by the company

Currently, Future Venture Capital sets up and manages regional revitalization funds and corporate venture capital (CVC) funds to accomplish its mission “creating businesses that will last 100 years.” These regional revitalization funds in particular are funds for start-ups and/or business succession that are designed specifically for the local communities. Future Venture Capital creates funds jointly with local shinkin banks or other institutions to offer hands-on support to closely work with investee companies. The company does not limit these funds’ exit strategies to an initial public offering (IPO) or M&A. The main approach is to collect each fund’s equity stake through a share repurchase by an investee company after a three- to five-year investment period. The focus is always on raising the percentage of local start-ups, revitalizing local economies, and smooth business succession. In the process of supporting businesses, Future Venture Capital imparts to regional financial institutions how to use its unique financial schemes and how to communicate with future-oriented business owners. Many regional financial institutions provide loans as the only means of supporting businesses. Future Venture Capital hopes that these local institutions will become knowledgeable about the potential of equity capital.

Future Venture Capital invests only in unlisted companies. While all listed companies work to increase the value of their own shares in order to meet the demand from the stock market, unlisted companies do not have this constraint, and they may be encouraged to do the opposite of what listed companies do when they consider what is involved in succession. This would limit the growth of these companies and might have a negative impact on economic revitalization in the regions where the businesses are located. Future Venture Capital is aware of this potential problem, and thus it creates funds designed for regional financial institutions to become (non-voting) shareholders of unlisted companies in the region, thereby helping boost the value of companies across Japan.

How regional revitalization funds have drawn attention as hope for the future

It was the Great East Japan Earthquake that had Future Venture Capital fully realize the need for the use of equity capital in local communities. The disaster left many people unemployed, and regional financial institutions explored ways to support those who lost their jobs and planned to start a new business. Offering a loan was not the best solution, as it would require each borrower to have good credit history. Hence, Future Venture Capital launched a fund jointly with regional financial institutions on an experimental basis as an alternative to a loan.

The abolition of the Financial Inspection Manual in 2019 also facilitated the creation of funds with regional financial institutions. The Financial Inspection Manual was used when the Financial Services Agency (FSA) inspected financial institutions. It presented guidelines for checking the health of an institution’s business management. The manual led financial institutions’ credit management to center on each business’s current financial statements, financial history, and whether the company has a collateral, making it difficult to grant loans to high-risk business ventures. Once the Financial Inspection Manual was abolished, the FSA began to expect financial institutions to adopt the approach of extending a loan based on the evaluation of business feasibility. This is how a business’s long-term sustainability became one of the metrics used to evaluate a business asking for a loan. Assessing what type of activities a business plans to engage in going forward goes well with investment strategies, and this is why regional financial institutions and VCs turned their attention to the potential of equity capital.

Significance of the term “region” as the keyword

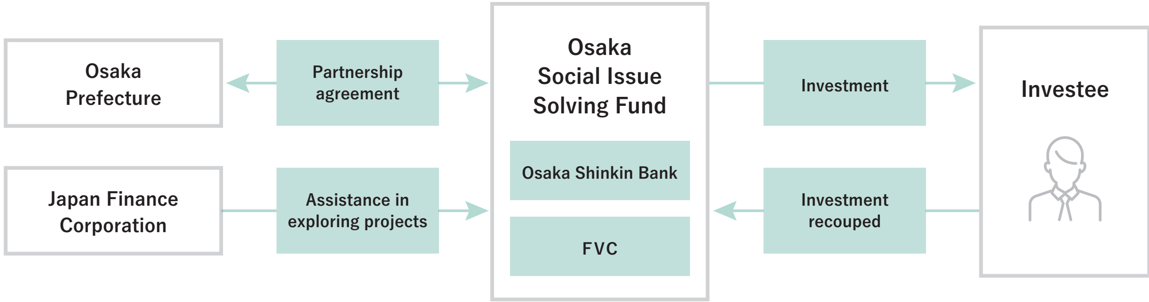
Potential of regional businesses and regional financial institutions

Becoming a VC for solving social issues was not Future Venture Capital’s initial intention. After analyzing businesses with high probability of growth, the company concluded that many successful businesses look to solve social issues, that is, businesses that focus on solving social issues have a competitive edge. Future Venture Capital observes that most entrepreneurs and proprietors who run local businesses take up a new challenge specifically because they wish to solve problems for people they know, and that these businesses take a long-term view, rather than jump on the bandwagon. Furthermore, businesses that tackle social issues likely appeal to their local communities and receive support from them, and they begin to take pride in their work that encourages people to get involved. Future Venture Capital believes that this pride leads to motivate these businesses to do well in management as well as to boost their sense of responsibility, creating a positive cycle that keeps the businesses running.

The current reality is that enough financial support has not reached all these local entrepreneurs and business owners. Moreover, with money becoming commoditized and interest rates remaining low, financial institutions find themselves in a situation where loans alone cannot represent the unique advantages their products offer. To regional financial institutions, the decline of local economies meant their existence would be jeopardized. Hence, they considered that local start-up support would be necessary. However, an issue arose. It became evident that, if a regional financial institution alone was to support a start-up by granting a loan (i.e., the institution’s conventional financial instrument) on its own, it had to record an allowance for doubtful accounts because the risk was high, which would have a negative effect on the institution’s financial statements, while the financial climate necessitated the institution lending at a low interest rate. Furthermore, it was possible that, if the institution’s start-up support improved a lender’s financial condition, the financial rating of the lender would go up, which would prompt the business to turn to a megabank or other institution that offered a loan at an even lower interest rate as a new loan provider. This all meant that a regional financial institution providing a loan (a means of financing) to support a start-up did not work as a business model, although the action was of great significance.

Noting this problem, Future Venture Capital worked with local financial institutions to design a unique fund scheme and successfully created a process through which funds would be provided to businesses across the region. Future Venture Capital involves regional financial institutions in designing each fund because it believes that local financial institutions have the largest data on local businesses. The company is aware that working on regional revitalization with these institutions as a leading player generates a great social impact. The aim of Future Venture Capital is to create a new financial ecosystem in which regional financial institutions and local businesses take a lead role. This can be achieved by leveraging the advantages offered by regional financial institutions and the significance of their existence while carrying out Future Venture Capital’s financial scheme.

Figure 67. Case: Osaka Social Issue Solving Fund



https://www.fvc.co.jp/service/social_fund.html

The Osaka Social Issue Solving Fund (official name: Osaka Social Issue-solving Investment Limited Partnership) is a good example of a system that enables a regional financial institution and a local business to take a lead role. This fund aims to support the growth of businesses that look to solve administrative or social issues in Osaka Prefecture, thereby advancing industrialization. It was established in 2017 with investments by Osaka Shinkin Bank and Future Venture Capital. It is a 0.5 billion-yen fund and its duration is 10 years. The fund invests in companies engaging in businesses that look to solve social issues, and they must be located in the region where Osaka Shinkin Bank conducts sales operations (including Osaka Prefecture (excluding certain areas), Amagasaki City, and Itami City).

Another key feature of this fund is a partnership with municipalities and Japan Finance Corporation, as it is unlikely that Osaka Shinkin Bank and Future Venture Capital alone would create a significant impact. Osaka Shinkin Bank and Future Venture Capital have signed the Agreement on the Use and Promotion of the Osaka Social Issue Solving Fund with Osaka Prefecture to publicize the fund on the website of the Prefecture. This is one of the actions they have taken to spread the information to as many local businesses as possible. The collaborative effort with Japan Finance Corporation is to tailor support to each investee company's financing needs. This collaboration has enabled them to provide support that combines investments and loans. For example, they granted equity subordinated loans to the Osaka Social Issue Solving Fund's investee companies to help them through the coronavirus pandemic.

Example 1 CI Partners

◆ Investment：10 million yen

◆ Founder's motivation for starting the business

- The founder's first daughter was born deaf. Not wanting his daughter to face a future where she would be unable to choose schools or jobs she liked, he took a job in personnel affairs to engage in the employment of people with disabilities. The work made him painfully aware that it would be extremely difficult for people with disabilities to lead the life they would like.
- Only 0.07 percent of graduates from special schools enroll at regular vocational schools or universities. Most of these graduates work at social welfare institutions or workshops, and their average monthly income is 16,000 yen -- far from being enough to secure their financial independence. The founder decided to start this business to help people with disabilities become as independent as possible.

◆ Business overview

As a Type-B business to support continuous employment, CI Partners works with apartment/condominium management companies to receive outsourced cleaning work as employment opportunities for people with disabilities. The company has its employees work on each job as a team, providing an environment where they feel comfortable working. It also has a quantitative and qualitative performance evaluation system so that their salaries are raised according to the ratings their work receives.

◆ KPI：Rise in salary levels (improvements in financial conditions are set as metrics for whether each employee is more independent than before)

Example 2 **BABY JOB Inc.**

◆ Investment：20 million yen

◆ Founder's motivation for starting the business

50 percent of working women today are part-timers. The reason behind women's unsuccessful career paths is most likely the difficulty women have in balancing work and parenting. Women are said to work 16 hours a day, four more hours than men do, unable to spend any minute doing something for themselves. The founder conceived the idea of this business to help people spend more time with their children so that they observe and perceive the children's growth, finding happiness in parenting.

◆ Business overview

BABY JOB offers a service to which its customers subscribe for unlimited numbers of diapers and baby wipes of any size delivered directly to their children's day care centers. The service is called "Just Bring Your Baby." The service saves mothers time writing names on diapers to bring to their baby's day care centers, and the day care centers managing diapers for each child. That is, the service affords parents and day care centers more time and headspace for communicating with children.

◆ KPI：The number of users of the Just Bring Your Baby service, the number of subscribing day care centers, and the number of partnerships with municipalities

Interpretation of an "impact" in the "regional" context

Regions with social issues that are rapidly becoming serious have the advantage of being able to set precedents.

For example, social issues such as low birthrates combined with aging and declining populations are rapidly becoming serious in regional communities. However, addressing a social issue serves as a process of creating a new market. A region can view this as an opportunity to set a precedent for finding a solution before other regions do because a new market likely emerges when a social issue is clearly acknowledged. Social issues may also represent characteristics unique to each region. A solution that is developed according to the local situation likely finds acceptance in the local community, creating an impact smoothly across the region.

In a "regional" community, a minority may be in the majority

As the case of the Osaka Social Issue Solving Fund shows, a regional financial institution as an investor and a municipality as the institution's partner publish information about their fund as evangelists who understand the social significance of their investees' businesses. It is also hoped that businesses using this type of fund will become genuine fund enthusiasts once they--highly problem-conscious entities--experience the social significance of the support, and that they will voluntarily encourage others to take advantage of the fund. The cycle of activities for impact creation by the whole community of supporters and users has the potential for leading a minority into the majority.

Impact investing

What IMM and KPIs should look like

Investing in businesses that look to solve social issues is not Future Venture Capital's prime objective. The company does not make an investment decision based solely on whether a potential investee's business will likely help solve a social issue. Future Venture Capital does not take the lead in defining an impact, either, although one of the features of impact investing is impact measurement and management (IMM). This is because the company believes that an impact and key performance indicators (KPIs) may act as obstacles to diversifying on-the-ground social impact across each region if they are set primarily led by a financial institution. Future Venture Capital maintains that its role is to advocate the issues and the performance indicators that businesses identify on their own, so that it will run alongside each of the entrepreneurs toward the goal.

Moreover, the company thinks that the essence of a KPI lies in why the KPI is set, and assumes that the KPIs for impact measurement set before investment are bound to change as the business makes progress. It is often the case that a start-up changes its business activities. Therefore, what matters is not that the original KPIs are kept, but that the idea behind each KPI set by the business remains unchanged. Future Venture Capital and each of its investee discuss, as many times as needed, the social impact the investee aims to make and the background to the KPIs that should be set, thereby creating indicators that have wide appeal to entrepreneurs who the company hopes will become enthusiasts for its funds.

Through fund management, Future Venture Capital is also committed to providing an environment that allows each business to focus on its activities for impact creation. Business owners in general are said to often find themselves in a situation where they need to put a brake on social impact creation in order to pursue profits to keep their companies in business. However, if pressure from a financial institution causes mission drift to business owners whose business activities revolve around social impact creation, the whole point of impact investing would be lost.

Challenges involved in impact investing

Impact investing requires investees to achieve specific social goals and produce financial returns. Future Venture Capital regards the following as challenges that entrepreneurs must overcome in order to fulfill those two objectives.

<u>1) Having a point of view that enables adjustments for product-market fit</u>

Business owners who tackle social issues work with passion, which could lead them to be output-centric. To develop a business from the start-up period to the growth phase, they should retain a point of view that allows them to objectively examine the business model they have in mind and make necessary adjustments from users' perspective. One of a fund's key roles is to help them become aware of the need for this point of view.

2) Sharing the essence of the business with stakeholders to create an ecosystem that is open to change

To secure financial returns, it is vital to set KPIs according to changes in the business environment. The degree of attention given to the external environment for a business tackling a social issue depends heavily on how fast the issue is becoming critical, how severe it is, what policy the municipality decides, and how much media coverage the issue receives, among others. Depending on changes in the business environment, not only KPIs but also the business model may need to be changed. The key to overcoming this challenge is to “opt for the approach that will most likely lead the business to achieve the envisaged social goal,” and to create an ecosystem of partnerships in which necessary changes are shared and accepted by the investee and local supporters including the fund.

Outlook for Future Venture Capital

Awareness of the issues regarding the financial market

Business activities involve uncertainty. However, despite businesses’ efforts to achieve growth, money in a financial market tends to go exclusively to risk-free assets. VCs provide financial support for businesses with high degrees of uncertainty, yet their exit strategies are limited to IPOs. M&A can also be an exit strategy other than IPOs. However, in most cases, M&A does not add value to most Japanese ventures, and this is why exit strategies are limited to IPOs. While an IPO often produces high returns, the strategy tends to lead corporate management to adopt a short-term view, as the cycle of business popularity tends to be fast. Hence, it is not always desirable that a local business works toward an IPO when it plans to tackle a certain social issue over a long term.

Future Venture Capital also points out that, although the monetary easing in recent years helped increase money in the market, the money has not reached regional businesses. That is, business owners who look to make the world a better place does not have enough funds, which has created a massive void in the market. In this context, money may be likened to blood that needs to reach every part of the body so that new cells are generated, otherwise the body begins to decay from extremities. If money does not reach local and/or unlisted businesses, it is perfectly possible that Japan’s economy as a whole will stagnate. Given that 99 percent of Japanese companies are unlisted, Future Venture Capital believes that Japan’s economy will improve when unlisted shares in businesses that do not plan to go public are valued and gain more liquidity to revitalize regional economies.

What Future Venture Capital aims to achieve

Future Venture Capital believes that equity capital works in such a way that urges people in different positions to move toward the same goal. This is because equity capital enables shareholders and investors to support businesses in achieving growth over a long term. Entrepreneurs and proprietors who run businesses in regional communities do not have enough supply of equity capital. Future Venture Capital hopes to provide them with equity capital, which may be 1 percent of a loan from a regional financial institution, thereby helping develop win-win relationships between regional financial institutions and local businesses. By continuing to develop a variety of fund products, the company intends to create a platform that connects local businesses and regional financial institutions, providing an environment in which these businesses can focus on their growth and value creation. Future Venture Capital aims to generate a virtuous cycle in which the growth of local businesses benefits regional financial institutions to revitalize local economies.

Tips for Impact Investing Picked Up from the Example of Future Venture Capital

Future Venture Capital offers financial products designed to revitalize local economies. The company is a financial business that has “the intention to generate an impact,” which is required for impact investing. What is interesting about Future Venture Capital is that the company does not require its investees to adopt the KPIs for the social impact that the funds it offers aim to generate. Valuing the diversity of investee companies, Future Venture Capital only helps its investees set impact-related indicators themselves. The company also takes it for granted that the impact-related KPIs set by an investee before the investment change as the businesses make progress. The company also makes sure that the idea behind the KPIs set by an investee, that is, what the investee aims to achieve, remains unchanged. Impact investing recommends the use of IMM and, in the context of IMM, what characterizes Future Venture Capital is that the company is aware of how critical it is that investees remain committed to a specific medium- to long-term impact, rather than stick to a short-term goal to produce a certain outcome.

CASE STUDY #3

CureApp, Inc.

Reason for selecting CureApp, Inc.

It has been quite some time since the term social business began to be used in Japan. And companies that aim to solve environmental and social issues using the methods of business have increased both quantitatively and qualitatively. Companies that aspire for impact and could be recipients of impact investment, the so-called “impact-driven companies” have increased, and there are more cases where they raised funds from investors. In light of this situation, the viewpoint of the recipient of investment is considered to be ever more important for further development of impact investment.

In the case study for this report, CureApp, Inc. (hereinafter, “CureApp”) is taken up as a company that has worked on creating social impact since its establishment. Through sincere pursuit of the company’s mission and its dialogue with various investors and stakeholders, CureApp has acknowledged that it is an impact-driven company and is working on impact measurement and management (hereinafter, “IMM”) with advice from investors, too. Based on this experience, possibilities and issues of impact investment and IMM from the viewpoint from the business-side are addressed below. In addition, through comparison with ESG investment, future requests for the impact investing market are also introduced.

Profile of CureApp, Inc.

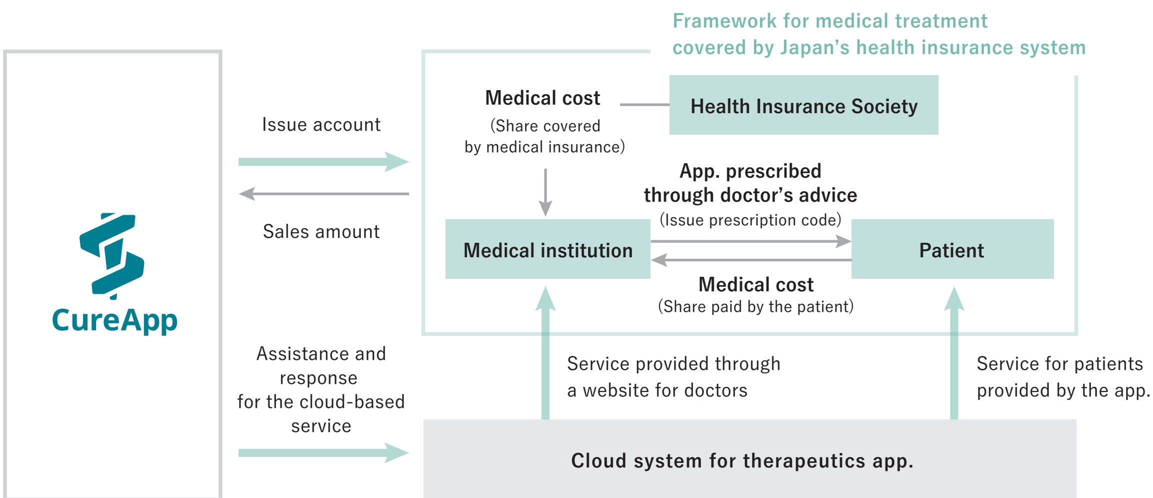
Summary

CureApp was established in July 2014. It develops and manages “Digital Therapeutics (DTx)." Based on its mission, "Re-evolving 'therapeutics' with software," CureApp aims to evolve new treatment with the power of technology and solve social issues surrounding healthcare. "Digital Therapeutics (DTx)" developed and managed by the company aims to realize therapeutic effect through a new approach, behavior modification for conditions that have not been effectively treated by conventional therapies such as addiction and lifestyle disease. In August 2020, CureApp's app-based prescription treatment for nicotine addiction received the first regulatory approval in Japan for digital therapeutic. Since December 2020, it has become the first digital therapeutic to be covered by Japan's public healthcare insurance system. Efficacy of CureApp's hypertension therapeutics app was confirmed in a clinical trial and the company is currently applying for regulatory approval.

History

Jul. 2014	CureApp, Inc. was established.
Apr. 2017	Launched the "'ascure' smoking cessation program" as the first series of a mobile health program for corporate users. (As of now, renamed "ascure smoking-graduation program")
Mar. 2019	Established CureApp North America, Inc.
Sep. 2019	Started the world's first social impact bond for smoking cessation, "Toyonaka Sotsuen Project," an anti-smoking project operated by the Toyonaka Municipal Government in Aichi, Japan.
Jun. 2020	"Nicotine addiction treatment app with CO checker" received regulatory approval from Medical Devices and In-Vitro Diagnostics Working Group, Pharmaceutical Affairs and Food Sanitation Council of Ministry of Health, Labor and Welfare.
Aug. 2020	"Nicotine addiction treatment app" received pharmaceutical approval.
Dec. 2020	Introduced "CureApp SC Digital Therapeutic for Nicotine Addiction" reimbursable by Japan's healthcare insurance system.
Aug. 2021	Clinical trial results of "CureApp Hypertension Therapeutics App" announced at ESC Congress 2021 and published in the European Heart Journal, a leading cardiovascular journal

Figure 68. CureApp Business Model



Source: Data provided by the company

Mission

Re-evolving "therapeutics" with software

We strive for the ideal of medical care,
a world where all people can receive high-quality treatment without worry.
Evolving treatment with the power of technology,
we will solve the social issues surrounding healthcare and realize ideal medical care.

Vision

Pioneering the field of digital therapeutics

We aim for a world where personalized digital therapeutics is widely recognized
and adopted by prescribing physicians,
and our mobile applications are a natural choice
in the practice of evidence-based medicine.

Self as an impact-driven company

What led to the establishment of CureApp was a scientific paper which Kohta Satake, the company's CEO, read while he was studying in the United States. The paper described a case that promoted lifestyle behavior change for patients with diabetes using software. He realized the potential for digital therapeutics in clinical practice, and after returning to Japan, established the company with Shin Suzuki, the Chief Development Officer (CDO).

Since establishment, CureApp has promoted business to create social impact. In Japan, with the expansion of ESG investment and the heightened interest of the Sustainable Development Goals (SDGs) which the UN introduced in 2015, the company has drawn increasing attention as an impact-driven company. Through its business, CureApp met with impact investors and started to implement IMM which made the company realize the importance of visualizing the social impact and the effects derived from visualization.

Changes through its encounter with impact investment

CureApp recognizes the value of impact investors and investors who decide to invest in support of the company's attitude to pursue impact creation. The company aims to build deep relationship with these investors in the future. CureApp is engaged with themes that cannot be solved by money alone, therefore, it understands that evaluation of factors other than financial impact and trust for the company are the basis for the company's business growth. Impact investors seek financial returns just as traditional investors; however, the company's view is that the former does not seek the final financial profit alone but also emphasize the importance of value-added that give back to the society over the long run. Impact investors do not just focus on the annual management policy, or the most recent profit and the company feels that it has gained trust for deeper values that form the backbone and the core of CureApp.

In February 2015, CureApp raised funds for the first time (through third-party allocation of shares). Through a dialogue with Tsuyoshi Ito, Managing Partner & CEO of Beyond Next Ventures Inc. which was the lead investor in the funding, CureApp earned support for its vision and the importance of reducing health care cost. At the time, CureApp was not aware of the term impact investment or such field. However, looking back, the success at raising funds based on the support for its business direction and capability including impact creation allowed CureApp to reconfirm the importance of conducting business with social mission and creating social value through its business.

The first time CureApp raised funds that were clearly marked as impact investment was from The Dai-ichi Life Insurance Company, Limited (hereinafter, "Dai-ichi Life") in 2018. Dai-ichi Life defines "impact investment" as one type of investment method in ESG investment that makes investment decision aiming for both earning returns and creating social impact (such as the change in social structure). Dai-ichi Life selected CureApp as its third case and provided funding as impact investment. Dai-ichi Life considers CureApp as an impact investment that contributes to the implementation of SDGs No.3, "Ensure healthy lives and promote well-being for all at all ages." [104]

CureApp also implemented third-party allocation of shares in March 2021 to Japan Impact Investment II Limited Partnership (hereinafter, "Hataraku Fund"). Focusing on urgent social issues, such as declining birthrate and working-population, and aging population, Hataraku Fund was established in 2019 with a focus on "working people." The Fund aims to support and promote the businesses creating environment where people can continue working even through and after various life events, including childcare and nursing care. As a full-fledged impact investment involving a diverse group of institutional investors, a style which is still rare in Japan, Hataraku Fund aims to offer a wide range of investment in order to contribute to solving social issues through the practice of impact investing, and ultimately to creating impact investment ecosystems.[105] CureApp conducted discussions with impact investors that led to the verbalization of the social impact the company seeks, path to realize impact, and the clarification of the milestone for creation of social impact.

CureApp engages regularly with impact investors. They not only ask for the update of the current business but ask questions on the progress of setting up the internal structure and the status of review related to impact. CureApp continues to discuss issues such as the monitoring system for impact, also introducing practices of other companies.

104 https://www.dai-ichi-life.co.jp/company/news/pdf/2017_071.pdf
105 https://hatarakufund.com

Attitude towards impact measurement and management (IMM)

CureApp considers IMM as something necessary to realize the company's final goal and a tool directly related to the actualization of its mission and vision. CureApp feels that IMM allows visualization of implicit knowledge and is an effective tool to share the same view—both internal and external—aimed at creating impact. Actually, IMM brought change to CureApp. As described earlier, the company's mission and vision are the starting point of its founding, and its day-to-day business operation also places the creation of social impact at its center.

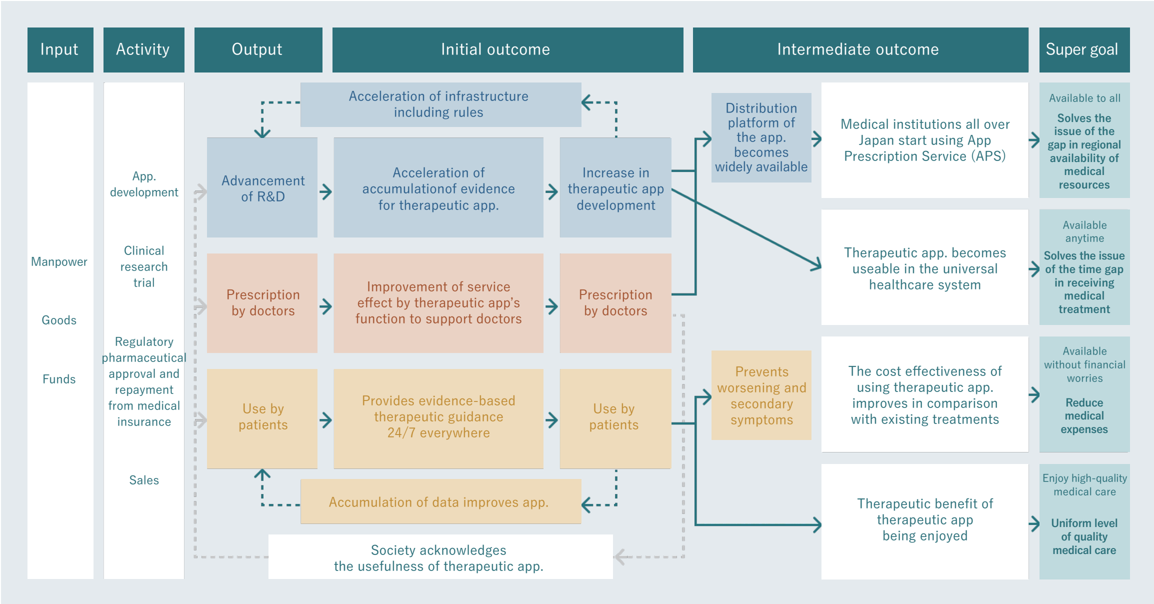
The philosophy is widely shared by its employees and the culture to work towards fulfillment of its mission and vision has been spread thoroughly. On the other hand, CureApp had not found ways to show the rate of actualization of its mission and vision and the creation of impact quantitatively using figures. In the past, its day-to-day operation was conducted based on its key message, "We strive for the ideal of medical care, a world where all people can receive high-quality treatment without worry. Evolving treatment with the power of technology, we will solve the social issues surrounding healthcare and realize ideal medical care." Before learning of IMM, CureApp did not have means to set and measure indicators for social impact and used traditional key performance indicators (KPIs) such as sales and profit, or the progress of its business.

When CureApp first discussed KPIs for impact, various new indicators were considered although many of the final candidates were directly related to sales or profit such as the number of prescriptions or accounts of medical institutions that directly overlapped with business indicators. One of the characteristics of CureApp's business is that its pursuit of impact creation that leads to the realization of its mission overlaps significantly with the creation of business values. The exercise allowed CureApp to clearly see that sincerely working on its business endeavors also led to the creation of impact.

CureApp recognizes that IMM should be utilized fully as a management tool from the viewpoint of business management. IMM is essential for the true realization of impact creation, thus CureApp believes it is necessary to put IMM into the context of each business. For this reason, CureApp does not regard the implementation of IMM as a "cost." The company believes that merely going through the motion of IMM just to impress investors who value impact is meaningless. It is because whether a company implements IMM or not is not the factor that investors use to evaluate. They look at the sincerity of the company's efforts and its positive impact on business management.

Currently, CureApp keeps track of its social impact KPIs, and also takes into account the decision rules that used to be shared only implicitly in the company. Information on impact KPIs and key goal indicator (KGIs) are proactively announced through CureApp's website, in the page on sustainability. CureApp aims to implement PDCA cycle by receiving comments from the society through stakeholder communication including IR.

Figure 69. CureApp's Impact Logic



https://cureapp.co.jp/sustainability.html

Recognition of ESG investment and impact investment

CureApp understands the difference between ESG investment and impact investment as the area to be focused out of the various impact that corporations create in the environment and social arena. ESG investment, whose framework for information disclosure is being developed and shared, tends to be useful for reducing negative impact. Whereas the main focus of impact investment is in maximizing the positive impact. Both ESG investment and impact investment cause impact to society. However, there is a big difference between minimizing or neutralizing the inevitable negative impact and maximizing the positive impact. CureApp is aware of the difference, and, while the company focuses on maximizing the positive impact of its investments, it also checks for any unintended negative impact.

CureApp believes that the trend seeking sustainability is irreversible. Its view is that incorporating the concept of sustainability in management and business will become widespread and companies that have not made sufficient efforts in sustainability will likely find difficulty in raising funds in future. CureApp's business has been driven by R&D, and it is working on improving its total corporate value including the financial aspects. However, the company firmly believes that realizing its mission is the purpose of its business. In future, CureApp expects there will be more investors who support its philosophy and investments that value the company. In fact, the company feels that the interest among investors is gaining momentum on how the investee company can bring change to the environment and society.

Also, CureApp acknowledges that conducting business to create impact from the viewpoint of ESG and SDGs can be a rationale for various stakeholders including doctors and employees to choose the company. CureApp believes that accurately grasping the trend to support sustainability and continuing to work sincerely on its business will have positive effect on the company's business progress and fundraising.

Requests for the impact investing market

Balanced and flexible rule-making

For impact-driven companies to realize maximum impact, CureApp hopes that balanced and flexible rules will be developed in the impact investing market. The company is aware that impact may differ significantly according to business or industry. For example, businesses that use software like CureApp and those dealing with steel have different areas and scope of influence. Therefore, it is difficult to evaluate companies using a uniform standard, and it is necessary to conduct a flexible evaluation according to a company's status. On the other hand, the company is aware that there are negative impacts that are regardless of business or industry. It hopes that IMM and information disclosure will be developed so that individual companies do not have to struggle needlessly, and to this end, promotion of proactive and efficient sharing of knowhow and knowledge is desirable.

The need for "patient capital" to create impact

CureApp expects various forms of support from impact investors throughout the investment period, not limited to funding. The company's view is that IMM is still in its infancy and the rules will be established in future. Thus, support related to governance and other aspects will also be a support for CureApp to increase its corporate value.

The company hopes that impact investors would clarify their stance as "patient capital" who invest with a long-term view. It takes a long time before CureApp to develop a new product. And it takes even more time for the product to be widely used and generate positive impact. Impact investors have evaluated companies from a medium to long-term viewpoint, and the company wishes they will continue to seek returns from a long-term viewpoint, as a "patient capital."

Prospects

Aim proactive announcement both financial and non-financial news

CureApp is working on sophistication of a logic model for impact. The logic model stylizes how the company's business brings what kind of external change and creates what kind of final environmental or social impact. The logic model is essential for internal training to raise awareness of impact and to foster culture to visualize mission and vision, and in future the company believes it will play an important role in managing impact KPIs. The model uses the accomplishment of the company's mission and purpose as the model objective and its impact is set linked with the business, thus impact KPIs are directly proportional to financial KPIs by its logic.

CureApp believes that it is necessary to announce information on materiality with the viewpoint of ESG as well as negative impact. In the medium- to long-term, the company envisions summarizing these efforts in its sustainability report or integrated report that explains the process of value creation. In addition, the company envisages to incorporate evaluation of ESG and social impact KPIs into its executive pay system so that efforts on impact and incentive design are organically connected in CureApp's organization.

Expansion of impact investment will lead to social changes

CureApp thinks that the major difference between impact investment and traditional investment by financial institutions is in the mindset of the investor and the investee. The investee company understands the meaning and believes that it is necessary to seriously work on how it could meet the expectation of impact investors. At the same time, for the investor side, clarifying the social impact expected of the investee at the time of investment and committing to the social impact creation of the investee will lead to earning financial return. Both the investor and the investee working sincerely in their respective roles will lead to social changes, according to CureApp's belief.

Hint for impact investment from the case study of CureApp

CureApp is a good example of an impact-oriented business. The company focuses on its social impact (ripple effect of change) and the software it offers is designed to urge users to change their behavior in such a way that helps solve various issues in the healthcare field, along with other related fields. The company recognizes IMM as one of its business management tools and is seriously working to make it a company-wide practice. CureApp set its impact linked with its business for the purpose to accomplish its mission and vision. As a result, it realized a structure where impact KPIs are directly proportional to financial KPIs. Such feature is noteworthy as an exemplary impact-oriented company. The company seeks "balanced and flexible rule-setting" and "patient capital" from the impact investing market. In other words, CureApp's message to investors is that they should not have a uniform measure on the social impact that investee companies seek but engage more deeply by trying to understand, interpret, and patiently support the investee company.

CASE STUDY #4

Pocket Marche, Inc.

Reason for presenting a case study of Pocket Marche, Inc.

Companies that look to solve social issues through their businesses are on the rise. These companies aim to realize change (impact) in society and the environment through their businesses. They are called impact-driven businesses and becoming increasingly common in Japan. Also increasing are cases in which these businesses receive funds from impact investors, which indicates that investees' points of view will become more important than ever as impact investing continues to grow.

This report discusses the case study of Pocket Marche, Inc. (hereafter, "Pocket Marche"). Pocket Marche runs a website that offers consumers primary products (e.g., fruit, vegetables, meat, and fish) for direct-purchase from producers (a "C-to-C platform"), and it also operates an electricity business. Through these activities, the company works to foster relationships between urban and rural residents. Pocket Marche CEO Hiroyuki Takahashi has tackled challenges of revitalizing regional communities and developing relationships between urban and rural areas through various approaches. Receiving investments from investors and operating companies that advocate its vision, Pocket Marche is in the midst of growth as an impact-driven business. By studying Pocket Marche's experience and vision, this report observes what efforts should be made toward impact measurement and management (IMM), what challenges an impact-driven business must overcome to maximize the impact it tries to make, and what is expected of an impact investing market.

Profile of Pocket Marche

Summary

Pocket Marche is a stock company that was established in February 2015 (it started as Kakaxi, Inc. and changed the trade name to "Pocket Marche Inc." in March 2016). With the mission of "Connecting the Pieces," the company aims to heal divisions in today's society that values convenience and comfort (e.g., divisions between consumers and producers, rural and urban areas, and humans and nature) and to help deepen relationships between those groups, thereby overcoming these divides. It plans, develops, and manages the C-to-C platform "Pocket Marche" designed to connect consumers directly to producers.

History

May 2013	NPO Tohoku-Kaikon is established (incorporated on October 16, 2013)
Jul. 2013	Tohoku Taberu Tsushin (Tohoku Food Monthly) is launched
Apr. 2014	Nippon Taberu Tsushin League (the Japanese Food Journal League) (general incorporated association) is established. The "Taberu Tsushin" model starts to be rolled out across Japan.
Nov. 2014	Tohoku Taberu Tsushin wins the Good Design Gold Award
Feb. 2015	KAKAXI K.K. is established (the trade name is changed to Pocket Marche, Inc. on March 31, 2016)
Sep. 2016	Pocket Marche launches its services
Sep. 2017	Pocket Marche increases capital by allotting new shares to third parties, including Euglena and Mercari, forming capital and business tie-ups.
Aug. 2019	Pocket Marche increases capital by allotting new shares to third parties, including Dentsu and Kobashi Industries.
Aug. 2020	Pocket Marche increases capital by allotting new shares to third parties, including the Marui Group and Orange Page.

Issues perceived and solutions offered by Pocket Marche

Mix and stir the city and the country

Pocket Marche attempts to solve the social issue of divisions between urban and rural areas through its company management and business operation. The experience that motivated the founder to start this business dates back to the Great East Japan Earthquake that occurred 10 years ago. Representative Director Hiroyuki Takahashi was a member of the Iwate prefectural assembly at the time, working to solve issues facing local communities. Iwate Prefecture is one of the fastest-population-shrinking regions, and it was vital to maintain the primary sector that is the prefecture's key industry.

Mr. Takahashi witnessed how urban consumers and rural producers met and bonded when consumers from cities visited the region devastated by the earthquake to work as volunteers. During their volunteer work in the region, these urban consumers got to observe local problems that had existed since before the disaster, such as depopulation and aging communities, which they found disturbing. They also had a chance to directly learn about food producers' philosophy and way of life that underlay food production. Mr. Takahashi believes that these experiences urban consumers had led to continuous, not temporary, activities to support reconstruction. He also saw these volunteers feeling saved by disaster survivors through their volunteer work and other activities. These consumers awakened to the meaning of life and had a sense of fulfillment, which was difficult to attain in their lives in urban settings, as they experienced nature in Tohoku and received gratitude after helping people who suffered before their eyes. Mr. Takahashi realized then that people living in cities away from nature were as exhausted as people living in the provinces.

After that, Mr. Takahashi supported food producers in rural areas through non-profit activities. When he noticed that non-profit activities were not enough to help fast-declining regional communities, he turned his organization into a stock company. The present state as he sees it is that, although regional revitalization is a national agenda, no workable solutions have been found. He hopes to keep advancing his business so that the company as a private enterprise will be able to present an answer to society.

Pocket Marche believes that rural areas support urban areas that constitute a consumer society, and that the sustainability of rural areas underlies that of urban areas. However, there are divisions between the city and the country, and the current reality is that it is difficult to find a connection between the two. This is why Pocket Marche runs a C-to-C platform as a venue where urban consumers and rural food producers communicate directly to trade vegetables, fruits, meat, and fish, among others. Pocket Marche receives fees out of producers' sales through the C-to-C platform as revenue.

The business's aim to solve the social issue of the divisions between urban and rural areas has remained unchanged since the time Mr. Takahashi was a member of the Iwate prefectural assembly. What has changed is only the form of the organization. It started out as an NPO, changed to a general incorporated association, and then to a stock company. Hence, Pocket Marche appreciates that it has been acknowledged as an impact-driven business since it was selected as an organization to subsidize in the dormant deposit accounts utilization project[106] (FY2019), in which the Japan Social Innovation and Investment Foundation (SIIF) acts as an organization distributing funds.

106 The dormant deposit accounts utilization project, which was launched in FY2019, is a system to utilize deposits that have not been transacted for 10 years or longer since January 1, 2009 (i.e., dormant deposits) for solving social issues and promoting nongovernmental activities in accordance with the Dormant Accounts Utilization Bill.

Impact investing

Challenge of visualizing an impact of a business

Now that it is subsidized by the dormant deposit accounts utilization project, Pocket Marche is working to demonstrate how its C-to-C platform helps the business pursue its mission “Connecting the pieces.” The company is trying to measure the degree of this help using specific metrics. It is also planning to set up a new business and form partnerships with other businesses to make up for what the C-to-C platform is unable to cover.

Through the business activities it has engaged in so far, Pocket Marche has perceived the positive effects that are generated on urban consumers and rural food producers when these two groups are connected. However, the company was unable to put into words how positive those effects were and what processes and conditions were needed to produce them. Hence, Pocket Marche conducted an extensive survey to illuminate the quantitative and qualitative benefits that the C-to-C platform creates for producers and consumers. The company also organizes study tours on which urban consumers visit rural food producers in order to observe the effects that these tours have on the behavior of these consumers and producers. This is part of its efforts of “research, development, and verification related to the visualization and expansion of the relevant population in rural areas,” which cannot be easily done if a business focuses solely on profitability. These actions prompted the company to internally set up the Rural Relevant Population Laboratory in order to establish a system as an impact-driven business. Pocket Marche hopes that, once the process in which urban consumers and rural food producers are connected and bonded becomes scientifically clear, it will publish the knowledge and insight regarding the process to make them available for use by municipalities, businesses, and nonprofit organizations.

Today’s shareholders and “impact investing”

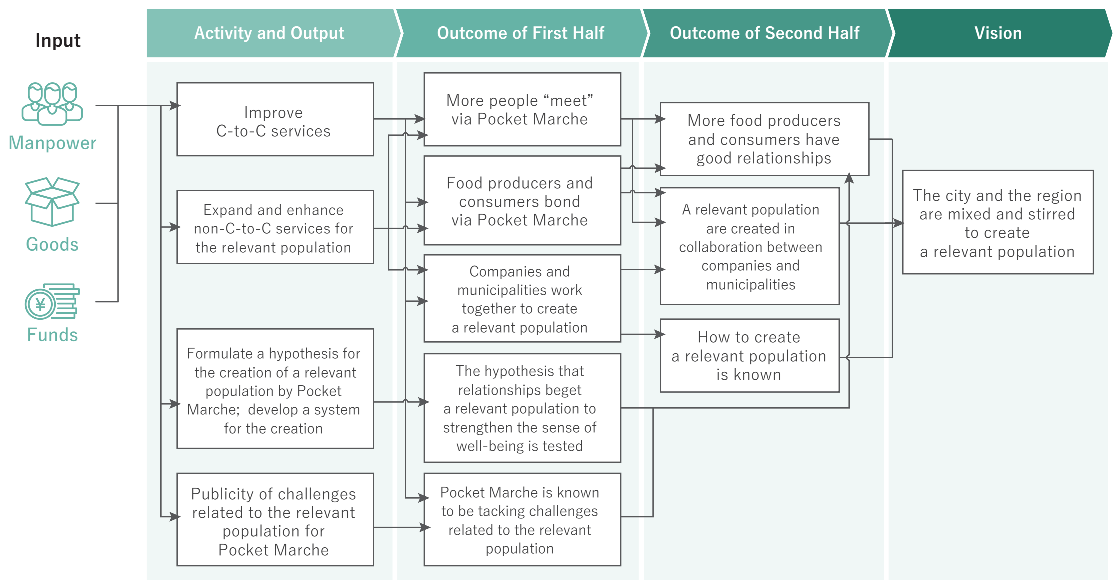
Pocket Marche has the sense that people called “Impact investors” are still limited in number in Japan, and that the company has yet to meet any committed one. That said, the investors who have provided funds for Pocket Marche have done so because the company’s vision of becoming a business that changes society appeals to them. Moreover, when receiving investments within the framework of an alliance with another operating company, the company senses that the investments are expected for social value as well as the financial value that Pocket Marche creates, that is, the funding is part impact investing. Hence, Pocket Marche does not clearly distinguish investors who are called impact investors and those who are not. Consequently, the company does not have the sense of having met any committed impact investors, as stated above. Pocket Marche believes that what ultimately matters is whether the company and investors’ teams have the sense of unity as they work toward a common goal, rather than whether the investors claim to be “impact investors.” Pocket Marche has received funds only from investors and businesses who sympathized with the company’s vision. In the coming years, given that it may go public and/or take other equally important actions, Pocket Marche plans to communicate with a wide range of investors. In this communication process, the company hopes to find out how, as an impact-driven business, it should present its efforts to create value that sets it apart from profit-making corporations in general, and how investors will evaluate the efforts.

About impact measurement and management (IMM)

It was the dormant deposit accounts utilization project mentioned above that enabled Pocket Marche to work on IMM. The company focuses on two important points as it works on IMM. The first point is how to use IMM in communication with investors. There is no standardized or generalized form of IMM to show what a so-called “impact investor” expects of an impact-driven business and what information the investor hopes to obtain from the business. Pocket Marche is trying to find out how it should leverage IMM to entice impact investors to invest in its business. The second point is how much the company should spend on IMM as costs. As it is also related to the first point, there is no standardized or generalized form of IMM used between an investor and an impact-driven business. Given the present state where there are few examples that show what returns a business can expect after spending how much on IMM, Pocket Marche finds it difficult to identify the optimum allocation of internal resources to IMM. A start-up like Pocket Marche often sees its business move fast, which makes it tricky for the company to determine when indicators should be set, how often the data for the indicators should be obtained, and when the indicators should be revisited.

On the other hand, the use of IMM prompted Pocket Marche to explore how the company can elucidate the goal “mix and stir the city and the country” and the social benefits of a larger relevant population in rural areas in a convincing way. The company used to believe that the quality and quantity of messages exchanged between food producers and consumers on the C-to-C platform were the proof of the contribution the business made to relationships between the two sides, as many of those messages tell memorable stories. Yet IMM had the company realize that, to fulfill its corporate mission “Connecting the Pieces,” it should adopt diverse approaches other than the C-to-C platform, and that various means are available to the company as a profit-making business. Now that the range of its business has expanded, Pocket Marche finds meaning in working on IMM.

Figure 70. Logic model for Pocket Marche



Source: *Dormant Deposit Project – Impact Report* (Japan Social Innovation and Investment Foundation)

The SDGs as a common language with institutional investors

Pocket Marche does not link its business to the Sustainable Development Goals (SDGs) set by the United Nations. The company is also aware that some investors examine what a business does to help achieve the SDGs as a yardstick to make an investment decision. Hence, Pocket Marche thinks it necessary to publish information about its business and approach to be measured with the yardstick from time to time.

For example, SDG 13 “Climate Action” is closely connected to Pocket Marche’s business, and the company actively publishes information about a company’s challenge towards the goal. This is because primary product producers engaging in agriculture or fishing are most vulnerable to climate change. Since producers work in nature every day to produce food, they sense abnormalities due to climate change before most others do. Pocket Marche hopes to draw on its network to serve as a PA system that communicates opinions and suggestions from people working on the ground for various occasions. The company believes SDG 11 “Sustainable Cities and Communities” is also relevant to its business. Pocket Marche intends to publish a wide range of information so that its views and ideas are communicated to so-called “impact investors” and other stakeholders in different positions.

Requests for the impact investing market

Pocket Marche hopes that so-called impact investors actively provide information as to which fields they particularly seek to invest in to make an impact, what they use as an indicator of an impact (i.e., a standard), what principles and ideas their investments are based on. Although it gathers information, Pocket Marche senses the limit to what it can learn before communicating with these investors, and the company believes that the communication will be easier if it can be clear about what the investors are looking for.

Pocket Marche also hopes that investors in Japan renew their awareness of where the country stands in the international community. This is because the company believes that this awareness should be retained on the part of investors as well as of companies that operate businesses in the years to come. As it is generally said that Japan is an advanced country in facing unprecedented issues, Pocket Marche thinks that Japan is currently fraught various issues that other countries will eventually face, including low birthdates, an aging and declining population, and decreasing demand as a result. The world is watching how Japan will achieve the inclusion of people and towns that have been left behind in society, in addition to pursuing economic growth. Efforts that end in failure will serve as bad examples, and those that succeed will make Japan an advanced country in solving unprecedented issues, that is, a role model for the world. Pocket Marche hopes that investors acknowledge this critical position in which Japan stands. Businesses like Pocket Marche in Japan, a country facing unprecedented issues ahead of any other nations, should be prepared to work toward the creation of impact business models for companies around the world. Pocket Marche believes that investors should also share this awareness.

Prospects

What impact is made on society when a relevant population of food producers and consumers grows? Pocket Marche aims to visualize and quantify what is currently unclear through IMM and other appropriate means.

The company hopes to present a detailed picture of the significance of its business in such a way that convinces various stakeholders including investors.

At the same time, it intends to contemplate the effects that the impact has on not only rural areas but also urban areas. Pocket Marche believes that consumers conventionally picked foods based on prices and what the produce looks like because the backgrounds of the foods were not provided. Trying to get the most at the lowest cost possible is an attempt to maximize cost-effectiveness, which is a logical action. The pursuit of cost-effectiveness and the resulting mass consumption led to economic overconcentration in cities and the decline of regional communities. Then Pocket Marche offered society a new option through its C-to-C platform and other services. Producers are behind all foods. The company successfully presented to consumers the standards of value that go beyond cost-effectiveness by visualizing how people work to offer value to society through their production activities and connecting them to urban residents. Consumers began to support local producers, and even visited them to have a variety of hands-on experiences in rural areas. Pocket Marche believes that it consequently helps urban consumers acquire a sense of well-being (i.e., a state where a person feels physically, emotionally, and socially content). It is expected that more and more people will work remotely, traveling between the city and the country.

Pocket Marche has been in the solar sharing business and electricity retailing business since January 2022 in order to expand its efforts to “connect the city and the country” to the area of electricity, in addition the area of food that has been the primary focus of these efforts. It will be increasingly important for Pocket Marche to broaden the range of impacts it creates, and to present the effects of that effort visually and verbally to internal and external stakeholders.

Tips for impact investing picked up from the case study of Pocket Marche

Pocket Marche did not think it had met any “impact investors.” On the other hand, investors who had invested in Pocket Marche sympathized with the company’s mission and made their investments in the hope that the mission would be fulfilled through the business. These facts suggest that investors who plan to engage in impact investing should do something to have themselves acknowledged as entities that carry out impact investing. Pocket Marche plans its business around the theme “connecting the city and the country,” which implies the need to address diverse social issues. This means that rural food producers and urban consumers both receive the benefits of the impacts Pocket Marche aims to create. IMM respects what a business aims to achieve, and it visualizes each impact and sets indicators based on the goal. Hence, Pocket Marche feels certain that the use of IMM has helped the company acquire greater potential. Pocket Marche’s current interest is in how to take advantage of IMM in communication with investors. Pocket Marche applied of its own accord for a subsidy from the dormant deposit accounts utilization project that was on offer from SIIF, and carried out IMM, with none of its investors asking the company to do so. The company should actively inform investors about the results of IMM, as a matter of course, and investors are also expected to communicate the expectations they have of IMM by Pocket Marche.

Contributed Articles: Topics in Impact Investing

The year 2021 saw rapidly increasing interest in and attention to impact investing across Japan. The Japan Impact-driven Financing Initiative, which was announced in November, symbolizes this phenomenon. This Initiative was signed by 21 financial institutions, ranging from megabanks, regional banks, shinkin banks, venture capitals, and insurance companies, among others (as of the launch date). What is behind the interest in and attention to impact-driven businesses is the fact that specific activities based on the concept of sustainability, which include ESG investing and the SDGs, are becoming increasingly common among companies and individuals. It is likely that these activities served as the basis for advancing the understanding of impact investing that represents investors' intention to become actively involved in the creation of impact on society and the environment.

That said, the focus of impact investing is on the achievement of a goal, which is to solve a social and/or environmental issue, whereas that of ESG investing is on assessment done mainly for investors according to specific criteria that each agency has in place. Therefore, what is mainly assessed for impact investing is how a business works on and manages the planning, implementation, and enhancement of the process for measuring and managing the output and outcomes of its activities.

In the world of impact investing that has this characteristic, what kind of discussion is ongoing globally? Katsuji Imata, President of the Social Impact Management Initiative (SIMI) and Co-CEO of Blue Marble Japan, Inc., gives us a summary of moves that were observed around the world in FY2021.

Most impact investing has been directed to the field of private equity. As impact investing has become increasingly known, the approach of impact investing has also begun to be applied to investments in public equity. Yuichiro Hanyu, Chief Fund Manager, Equity Management Department, Resona Asset Management Co., Ltd., provides his view on the potential of the area that is called "impact investing fund for investments in public equity."

In addition, players of impact investing are becoming increasingly diverse. To study the potential and challenge of impact investing by new players, Katsuya Sakai, Deputy Director, Division of Financial Affairs/Division of General Planning and Development, The Ritsumeikan Trust, gives us a summary of the initiatives that have been launched at Ritsumeikan.

The opinions expressed in these articles belong to the contributors. They do not represent the official views of their affiliated organizations or the GSG National Advisory Board (NAB) Japan.

List of Contributed Articles

Katsuji Imata, a contributor to The Current State and Challenges of Impact Investing in Japan - FY2020 Survey, illustrates global trends in impact investing in 2021. After presenting various international conferences and high-level meetings that have been held, along with changes in international affairs, Mr. Imata discusses the necessity of becoming involved in the transition to global economic and social systems, and how the Copernican Revolution-like changes are happening in the trends in impact investing. He also offers his views on new trends and issues in sustainable finance in general as well as on impact investing and Impact Measurement and Management (IMM).

In March 2021, Resona Asset Management began to manage an impact investing fund for investments in public equity in Japan. Mr. Hanyu illustrated issues and important points unique to impact investing in public equity that he faced as he worked on the fund, covering also Resona's view. Mr. Hanyu also presents some of the fund's efforts, as he believes that providing specific examples and views for accumulation is essential for further growth of impact investing.

Katsuya Sakai presents the objectives and history of asset management by private universities. Then he illustrates the background to Ritsumeikan's decision to create a social impact fund as an incorporated school, using the Ritsumeikan Social Impact Fund (RSIF) as a real-life example that is part of the Ritsumeikan Impact-Makers Inter X (Cross) Platform (RIMIX). Mr. Sakai also elucidates compatibility between impact investing and the education and research business, along with challenges related to social impact measurement, as part of what is expected of impact investing by an incorporated school as well as the outlook for the initiative.

Contribution No.1

Global Trend on Impact Investment

President, Social Impact Management Initiative
CEO, Blue Marble Japan, Inc.

Katsuji Imata

Eyeing the transformation of socio-economic system

From WHY? to WHY NOT?

To summarize the global trend on impact investment in 2021, it was a year when impact investment received increased focus and expectation as a major initiative that can mediate a significant transformation of the economic and social system.[107] At least, as of the end of 2021, the stakeholders promoting impact investment clearly take pride in the transformative power of impact investment.

For example, at SOCAP 21 (an international symposium on social impact investment, SOCAP is the abbreviation of social capital market) in October 2021, one of the speakers, Monique Aiken, Managing Director of The Impact Investment Project (TIIP),[108] noted that, considering the fragility of the social system exposed by COVID-19 and the national healthcare systems even in developed countries, it is only natural that everyone, including those in financial business, to question how they could get involved in changing the current global social and economic system. She remarked that the key question is not “WHY one should be involved in system transformation?” but rather “WHY NOT?”

Here we need to remember the definition of impact investment, that it is “an investment which is intended to generate positive and measurable social and environmental impact as well as financial returns.”[109] One of the keywords is “intention.” As well known to the readers of this report, the investors’ intention (why they invest) is at the core of impact investment. As various circumstances which show the world is not sustainable, not limited to COVID-19 but those rooted in climate change or economic disparity, constantly make headline news, these words reflect a consciousness that it has become difficult to think of finance that does not question “why” system transformation is necessary. The entire world of finance needs to reverse its key question from “WHY?” to “WHY NOT?,” and this is not limited to impact finance.

The G7 Impact Taskforce

As an event that reflected such recognition most clearly during 2021, the G7 Impact Taskforce was established in July under the leadership of the UK’s 2021 presidency of the G7. Stakeholders from relevant countries including Japan participated in the steering committee and two working groups to discuss

107 Note: In writing this section, discussions in various international meetings (shown in Table 1) have been referenced, as well as the works noted in the footnote. Links to the websites in the footnote were all accessed on January 10, 2022.
108 The Investment Integration Project (https://www.tiiproject.com)
109 Definition by Global Impact Investment Network (GIIN). https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

and write reports at full speed that delivered the reports in December.[110]

The awareness of the taskforce on this issue is stated in the foreword of the summary report "Time to deliver: Mobilising private capital at scale for people and planet."[111]

— How can we accelerate the volume and effectiveness of private capital seeking to have a positive social and environmental impact?

— How do we make sure this mobilisation has a real impact and does not leave people and places behind?

The report is aimed mainly at policy decision makers and regulators in G7 member states; however, the report also refers to the lack of flexibility of the economic and social system. In order to overcome the current stalemate and to realize a sustainable society, the report points out that; 1)The urgent need to narrow the gap between rhetoric and delivery, 2) Maximum mobilisation of private capital, enterprise, innovation, 3) Both private and public must make concerted effort to deliver systemic change, are needed. And, 4) There are two powerful tailwinds of change that create a window of opportunity today; the first is the shift in social values of consumers, talent and investors, which is already influencing corporate behavior, and, the second is the huge leaps in digital technology which are creating opportunities to deliver and measure social and environmental impact.[112]

In addition, the two working groups each published reports detailing the action plans for "Impact transparency, integrity and harmonisation," and "Mobilising institutional capital towards the SDGs and a Just Transition." [113] Behind the reason why these reports were published in such a hurry was that the G7 presidency changed at the end of 2021 before which the works of the taskforce had to be completed, of course, however, the size of the ambition displayed in such a short timespan tells of the sense of crisis among those involved.

Mainstreaming of Impact

Copernican revolution of impact investment

In addition to the above, an overview of the various moves related to impact investment in 2021 tells us of the qualitative change in how to understand impact investment. Earlier, impact investment was an investment style that only applied to a tiny portion of private capital, and the focus of discussion used to be its placement in the entire global investment practice. However, that stage is way past today. As the field of impact investment grew over the past ten years or so, stakeholders in impact investing have

110 https://www.impact-taskforce.com/reports The members who participated in the taskforce from Japan and other countries are listed in the following list. https://gsgii.org/2021/08/g7-impact-taskforce-announces-membership
111 https://www.impact-taskforce.com/media/brzkvcvx/time-to-deliver-1.pdf
112 Footnote 5 Report, pp.5-6.
113 https://www.impact-taskforce.com/media/io5ntb41/workstream-a-report.pdf
https://www.impact-taskforce.com/media/xe5dsend/workstream-b-full-report.pdf

organized the definition of impact and impact investment and built up the actual investment examples. As introduced in my contributed article in "The Current State and Challenges of Impact Investing in Japan - FY2020 Survey," impact measurement and management (IMM) has become widely shared, and is the importance of asking "WHY?" and "WHAT?" before asking "HOW (to measure impact)?"

Looking at the moves in the wider world beyond private investment, concerns for the sluggish pace of improvement in climate change and SDGs are ever-increasing. In addition, the widening domestic and international disparities caused by the novel coronavirus pandemic and the deterioration of the living conditions of the already fragile communities are at an intolerable level. To achieve the SDGs, it used to be said that investments in developing countries were short by 2.5 trillion dollars per year, but COVID-19 further widened the gap.[114]

In such world, the thinking on impact investment is undergoing a Copernican revolution where the key question on impact investment is changing from the traditional "How can impact investment contribute to building a sustainable and fair society?" focusing on itself to that from a wider viewpoint "How best to use impact investment as a booster to building a sustainable and fair society."

Heightened concern for "washing"

This transformation of thinking is not unrelated to the acceleration of the trend where impact is given high priority in sustainable finance, for example, in ESG investment. The ratio of sustainable investment in total global investment depends on the definition of sustainable investment, however, according to the 2020 report of Global Sustainable Investment Alliance (GSIA) published in 2021, the total amount of sustainable investment grew 15% in two years and reached 35.3 trillion dollars.[115] Some estimate that this represents more than one-third of the global asset under management, and it is expected to grow further. Therefore, the ratio will grow to more than half the total in a not-so-far future.

However, the publishing of such investigative report makes the issue of "the gap between rhetoric and delivery" as pointed in the G7 Impact Task Force Report more critical. If such huge amount of funds has been invested to build a sustainable and fair world, why does it seem that the world is not going in the direction where those problems have been solved? The huge gap between delivery and result called "green-washing" or "SDGs washing" has become the focus of attention. In 2021, there are more than 4,000 signatories of Principles for Responsible Finance (PRI) partnership supported by UN, and the total asset under management of those institutions is said to be over 121 trillion dollars.[116] A speaker at the Global Steering Committee (GSG) Global Summit in October 2021 commented, "If such amount of funds has really been invested according to principles, global issues would have been solved many times over already."

114 https://www.oecd.org/newsroom/covid-19-crisis-threatens-sustainable-development-goals-financing.htm
115 http://www.gsi-alliance.org
116 https://www.unpri.org/pri-blog/ceo-quarterly-update-celebrating-4000-signatories-and-supporting-the-evolution-of-ri/8033.article

At the end of 2021, SSIR online, the online version of Stanford Social Innovation Review (SSIR), announced the ten most popular articles of the year.[117] Among the articles, one questioned ESG rating, and another criticized the actual sustainability activities of corporations. Both not only warn against "washing" but also show the limit of the current economic and social system that cannot accurately evaluate the outcomes of sustainable activities. Thus, realizing "Impact transparency, integrity and harmonisation," the theme of one of the workstream at the G7 Impact Taskforce, becomes critically important.

Move to establish new sustainability standards

Reflecting such trend, there is a move in the field of sustainable disclosure to link impact measurement with disclosure reports as the measurement gets more sophisticated. At the same time, the existence of multiple standards created a situation which was derided as "alphabet soup." Although it is true that such situation ensued, in the fall of 2020, with the mediation of Impact Management Project (IMP), five organizations that set these standards—Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB)—announced a joint statement and a move to organize and integrate standards has started.[118] In 2021, IIRC and SASB integrated to establish Value Reporting Foundation (VRF). The flow to incorporate these sustainable standards to the framework of international accounting standards has also accelerated, creating a move to consolidate those standards with the International Financial Reporting Standards (IFRS) under IFRS foundation.

This led to the establishment of International Sustainable Standards Board (ISSB) which was announced during the 26th UN Climate Change Conference of the Parties (COP26) held in Glasgow in November 2021.[119] In 2022, ISSB embarked on developing the comprehensive global baseline for sustainability disclosure standards. The integration of VRF and CDSB is also being scheduled, which will further promote the establishment of uniform standards. Meanwhile, national regulatory authorities will be developing their respective domestic regulation based on the global baseline developed by ISSB.

At the same time, a move to formulate new disclosure standards is accelerating in the EU as well. European Financial Regulatory Advisory Group (EFRAG) which is in a position to comment directly on EU sustainable standards through Corporate Sustainability Reporting Directive (CSRD) for corporations and businesses and Sustainable Financial Disclosure Regulation (SFDR) for financial institutions signed Statement of Cooperation with GRI.[120] Therefore, ISSB and the collaboration of the EU and GRI have formed two broad trends.

117 https://ssir.org/articles/entry/the_10_most_popular_ssir_articles_of_2021?utm_source=Enews&utm_medium=Email&utm_campaign=SSIR_Now#
118 https://home.kpmg/jp/ja/home/insights/2020/09/sustainability-reporting-20200923.html
119 https://www.asb.or.jp/jp/ifrs/press_release/y2021/2021-1103.html
120 https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520GRI%2520COOPERATION%2520PR.pdf&AspxAutoDetectCookieSupport=1

How disclosure requirements related to impact will be formulated in these new disclosure standards are largely undecided as of today, however, as described above, concerns for “impact washing” are growing and the requirements for sophisticated impact measurement are expected to be expanded. Discussions conducted around the keyword “materiality” in ESG investments so far are being summarized already. It has become mainstream to use the framework of double materiality to treat the positive/negative impact corporations cause to the society and environment as said impact exist in the outer perimeter of the information directly reflected in the company’s financial value. However, attempts to sort the concepts of the relationship between impact and company value is still fluid, and some opine that being trapped into the single vs double materiality framework is not wise.[121] The five standards-setting bodies that published the joint statement above and IMP suggest the concept of dynamic materiality made up of three layers.[122]

Structural transformation of capitalism

The awareness that global economy and society need urgent structural change has led to actions that aim to transform the current structure based on capitalism. Calls to stakeholder capitalism and corporations have been widely raised from fields outside of finance and investment in the past few years. Today, we have also started to hear similar requests asking for the development of such mechanism from those involved in impact investment and related fields. For example, the Global Impact Investment Network (GIIN) is involved in New Capitalism Project [123] and Re-imagining Capitalism.[124] GIIN has started a podcast “NEXT NORMAL: RE-IMAGINING CAPITALISM FOR OUR FUTURE” hosted by GIIN founder and CEO Amit Bouri.[125]

In the GSG Global Impact Summit held in October 2021, Sir Ronald Cohen moderated a townhall meeting titled “Transition to impact capitalism,” where participants from both the public and private sectors introduced initiatives for transition from their respective viewpoints.[126]

GIIN explains that the new capitalism it envisions as “We envision a future when impact is integrated into investment decisions as the ‘normal’ way of doing things.”[127] A discussion on new capitalism has started also in Japan, and it will be required to join such global discussions in future.

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121 Comment by Ms. Veronika Poole (Deloitte UK), speaker, The Future of Performance Measurement session at the Oxford Economics of Mutuality Forum.
122 https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf
123 https://thegiin.org/new-capitalism , https://www.nationalcivicleague.org/ncr-article/aligning-action-to-reimagine-capitalism
124 https://omidyar.com/reimagining-capitalism-4
125 https://thegiin.org/nextnormalpodcast
126 From Japan, Ryohei Yanagi, CFO of Eisai Co., Ltd. gave an overview of how Eisai Co. Ltd. participated in the Impact Weighted Accounts Initiative (IWAI).
127 https://thegiin.org/new-capitalism

Expansion of the field of impact investment

Impact investment has become more influential in sustainable investment and overall investment as described above. At the same time, the field is also continuing its efforts to develop and spread relevant rules, framework, and tools.

Further establishment of IMM

My article in the FY2020 Survey explained the history of how IMM became widely adopted. Since then, the use of IMM has become even more popular. In the article, I wrote that in a briefing on SDG Impact Standards for Japanese companies held in December 2020, it was reminded that said standards "is practical standards, rather than performance standards and reporting standards." This is an important point. The objective of IMM is not just the result of impact management and reporting but to utilize impact information to management. Fabienne Michaux, Director of SDG Impact, said in her presentation at the GSG Global Summit, "Measurement and reporting are important, however, more essential is to integrate the thinking of impact on management's decision making."

- Signatories of "Operating Principles for Impact Management," developed mainly by people with ties to the International Finance Corporation (IFC), started from 58 institutions at the time of its announcement in April 2019 but grew to 109 by December 2020 and 150 as of the end of 2021.[128] These three Japanese institutions have become signatories.[129]
- UNDP has been developing SDG Impact Standards,[130] and the Japanese translation for the standards for enterprises and organizations, SDG Compass, has been published in December 2021.[131] In 2022, activities aimed at certification are likely to accelerate. Thus, wide acceptance of the standards as a model of IMM implementation for both investors and enterprises/organizations are anticipated.
- IRIS+ is a basic tool for IMM developed by GIIN in 2019. GIIN added employment, water (water and hygiene: WASH), climate change (mitigation) to the impact categories of IRIS+ to increase the themes of the impact addressed by IMM.

Impact performance

In IMM, impact measurement is one element that supports the management and their decision making. As described earlier, especially as prevention of "washing" has become an important viewpoint, the measurement of impact results draws high expectations.

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128 https://www.impactprinciples.org , https://www.impactprinciples.org/signatories-reporting
129 Japan International Cooperation Agency (signed on August 26, 2019), MUFG Bank, Ltd. (signed on March 4, 2021), Nippon Sangyo Suishin Kiko Ltd. (NSSK) (signed on April 12, 2021).
130 https://sdgimpact.undp.org/practice-standards.html
131 https://www.jp.undp.org/content/tokyo/ja/home/library/sdgimpact_standard_enterprises.html

GIIN has announced a new methodology to measure impact, COMPASS.[132] And GIIN continues to review the method to evaluate impact performance. In addition to clean energy, housing development, inclusive finance, and agricultural investment, in 2021, it published "COMPASS: The Methodology for Comparing and Assessing Impact," a survey report on mitigating climate change and quality job using COMPASS.[133]

In order to satisfy the "independent verification" required in Principle 9 of the Impact Management Principles, Tideline Advisors, LLC., a firm that offers consulting on impact investment, founded its group company BlueMark as an independent third-party organization to assess and verify impact practice and developed a unique framework for certification. Tideline published a report that compared and reviewed its "independent verification" activities.[134]

This is just one example, and the trend of sophistication of impact measurement and impact information will surely accelerate even further in future. At the same time, initiatives such as the Impact Weighted Accounts,[135] aiming to convert impact information into financial value and report in financial reporting framework, has started. Therefore, we can't take eyes off from the new activities in this theme in 2022.

In closing

Last but not least, it is necessary to confirm that "Just transition," which is stressed in the G7 Impact Taskforce Report is crucially important in aiming for a transformation of economic and social system centered on impact. The concept was originally stated in the Paris Agreement in 2015 for climate change (COP21). Any system change will create demand for new industry and profession, although it will cause shrinking of existing industry such as fossil fuel industry, affecting workers and local society that rely on such industry. Therefore, not leaving these people and communities behind becomes a large challenge for transition. Stakeholders in impact investment and related initiatives take this point in their views in thinking about system change.

At the beginning of this article, I wrote that stakeholders promoting impact investment show clear awareness that it will jumpstart the transformation of global economic and social system. This is closely related to the fact that people who have promoted impact investment in the last decade have considered it as a movement to transform the economic system and the wider economic and social system. Whether such awareness of the movement may spread widely in the world of finance is still in question today, however, treating impact investment as just a small initiative in a specific investment style has become outdated today.

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132 https://thegiin.org/research/publication/compass-the-methodology-for-comparing-and-assessing-impact
In September 2021, Global Impact Investing Network (GIIN), GSG-NAB Japan, Social Innovation, and Investment Foundation (SIIF) and Social Impact Management Initiative (SIMI) co-sponsored an explanatory session of COMPASS for stakeholders in Japan.

133 https://thegiin.org/research/publication/understanding-impact-performance-climate-change-mitigation-investments-and-quality-jobs-investments

134 https://bluemarktideline.com/making-the-mark-2021

135 https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx

Figure 71. Examples of 2021 online international conferences and meetings that discussed changes and impact of socio-economic systems and the role of impact investing

Date	Name of Conference and Meetings
9/17	ImpactAlpha - Capitalisim Reimagined Call No. 30: Universal owners aim to turn shareholder power into real-world impact https://impactalpha.com/the-call-no-30-universal-owners-aim-to-turn-shareholder-power-into-real-world-impact/
10/6 - 8	GSG Global Impact Summit https://web.cvent.com/event/1a85b365-bdff-4753-bb64-93e1dc9b97b1/summary
10/18 - 20	SOCAP21 https://socapglobal.com/events/socap21-virtual/
11/18	GRI Summit https://ecovadis.com/events-webinars/gri-summit-2021/
11/30 - 12/2	Oxford Economics of Mutuality Forum https://www.eomforum.org
12/3	ImpactAlpha - Capitalisim Reimagined Call No. 35: Building a multi-movement engine to hold corporations accountable and reimagine capitalism https://impactalpha.com/call-no-35-building-a-multi-movement-engine-to-hold-corporations-accountable-and-reimagine-capitalism-video/
12/13	G7 Impact Taskforce Reporting Event https://gsgii.org/2021/08/g7-impact-taskforce-announces-membership/ (A website announcing the establishment of taskforce)

*Note: The above include websites and meetings those that require paid registration or do not allow viewing subsequent to the event, therefore, not all of them can be viewed directly from the links.

Contribution No.2

Practicing Impact Investing in Public Equity

Chief Fund Manager, Equity Investment Division
Resona Asset Management Co., Ltd.

Yuichiro Hanyu

1. Introduction

In March 2021, Resona Asset Management began to manage an impact investing fund which invests in public equity in Japan. In this article, I would like to illustrate issues and important points unique to impact investing in public equity that Resona faced, including the company's opinion. In the latter half, I would introduce the fund's investments as an example.

2. Significance of impact investing in public equity

In considering impact investing in public equity, what is considered most important is to clarify the reason why public equity have been chosen as the subject of impact investment. The starting point of impact investment with intention is to answer to questions such as what kind of additionality is there by investing in public equity for the investors and the asset management company or what is the unique benefit of public equity, in other words, to respond to "Why."

Investment in public equity is subject to various conditions and limitations specific to the publicly traded stocks in an exchange. That is why the framework for impact investment developed for private equity or bonds/loans often cannot be directly applied. To implement impact investment in public equity, a new product design is needed that incorporates the characteristics of public equity and maximize their strengths.

Expanding impact investing

Public equity has superiority in transparency in the information disclosure and liquidity in trading stocks, therefore, they are considered an asset class suited to a wide range of investors. When structured as an investment product, it may be designed as an open-ended fund where investors can start from a small amount and can always purchase or redeem their shares. Impact investing has developed among limited institutional investors and charity organizations; however, such characteristic of publicly traded stocks is considered beneficial for impact investment to spread to a wider range of institutional investors and individual investors.

At the same time, approximately 3,900 listed companies exist in Japan, and investors can trade the stocks of these companies in the stock market. The existence of such an expansive investment universe is beneficial because of aspects such as scalability of the social issues that investors can engage through investment and diversification of the impact that may be generated from the investment.

By extending impact investment to public equity, it is expected that both the investors and investee companies engaging in solving social issues can increase their bases, thereby promoting the mainstreaming of impact-driven investments. Asset management companies act as an intermediary to play a role of creating the flow of funds and information with a solid intention and create additionality.

2) The raison d'etre of shareholders as long-term supporter

Many social issues that we struggle to find solution for today are not easily soluble with short-term results achieved by investments. Rather, they are deep and complex structural issues. In order to contribute to solving these issues through impact investment, both the investors and the investee companies need to be engaged continuously over a long period.

For impact-oriented companies that work on solving the issues with strong resolve, it becomes important to find understanding investors who provide capital seamlessly. Specifically, companies that list their stocks in the stock exchange cannot select stockholders. They must face many and unspecified stockholders through the market. For these companies to contribute to social issues, the management is expected to hold on to the original strong intention and overcome the pressure from investors who prioritize relatively short-term results and continue to manage the company without losing focus.

At the same time, impact investors need to look for long-term return. By focusing on long-term return, these investors may appear as intentionally giving up some of the benefit of investing in public equity, that is, high degree of liquidity. However, by being recognized from the companies as having a different investment attitude from general stockholders, their commitment to long-term investment enables them to build good and trusting relationship and meaningful dialogue. Product design based on such long-term position becomes the basis of the investor and the management company to show additionality in impact investment in public equity. Through the development of impact investment in public equity, if the base of impact-oriented stockholders as long-term supporters expand, this will be a strong tailwind for the activities of impact-oriented companies.

3) Additionality of the investors (the fund manager) and engagement

When investing in public equity, an opportunity to provide funds directly to the investee is limited. In most cases, investing means a transaction with a third party to buy/sell the company's stocks in the market. Given such nature, considering the additionality to an investor by impact investment in public equity, engagement activities naturally become more important.

Engagement activities become the foundation of impact measurement and management (IMM) for impact investment in public equity. In listed companies, there are not many cases where analysis and information disclosure necessary for IMM are sufficiently provided to stockholders. In such case, impact investors can explain the investee companies the concept of impact monitoring and methods as well as its significance to gain understanding and encourage increasing information disclosure of specific details, or in some cases, improve the company's business strategy.

From the viewpoint of a listed company, an investor is just one of the many and unspecific. Investors need to avoid being one of the many and unspecific investors in order to enhance effective engagement and be recognized by the company as someone worth having a dialogue with. In realizing such relationship, the framework of IMM which creates impact strategically and aim for business development will be an effective approach.

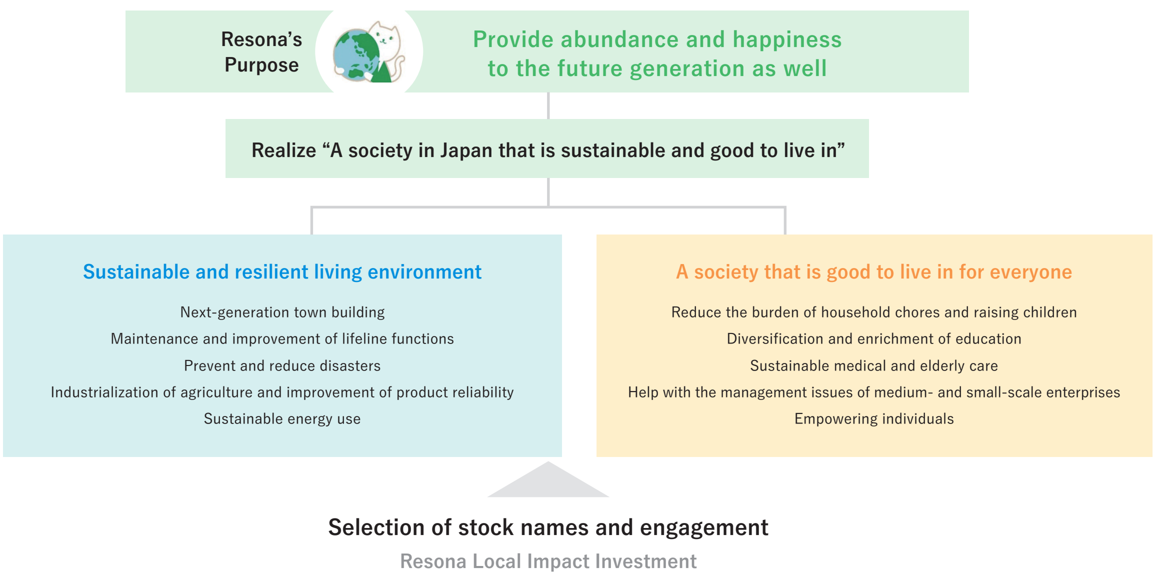
3. Case Study: Resona Local Impact Investment

Resona structured its first impact investment fund of listed Japanese equity, "Resona Local Impact Investment," targeting the solution of social issues in Japan and started investing in March 2021. Hereafter, I would like to introduce some of the accomplishments of the fund as a real-life example, while referring to the points raised earlier. (The specifics of selecting the issues and impact assessment are scheduled to be published in Resona's impact report to be regularly published after the spring of 2022.)

1) Impact investment with "purpose" as the starting point

The starting point of Resona's impact investment is the company's purpose introduced in its stewardship report, "An asset manager that can provide abundance and happiness to future generations as well as our own." From the operation side, this purpose means that Resona aims to contribute to the customers' asset building as well as cause positive effect on the sustainability of the society and the environment through the businesses of the investee companies, and the double goals will allow the company to promote to abundance and happiness of future generations. Impact investment means realizing both impact and investment, thus it is an endeavor that concentrates Resona's ideal described in the purpose.

Figure 72. Resona Local Impact Investment



Resona Local Impact Investment Fund states its specific goal as "Realizing a Japanese society that is sustainable and good to live in." It outlined ten items as compelling issues/areas that are detrimental to sustainability (Figure 72). The fund will find companies that contribute to the solution of issues in each of the ten areas and make a long-term and continuous investment, as well as encourage their activities through engagement. This is the whole picture of the fund's "Theory of change."

2) Social issues in Japan

Behind the reason why the fund decided to address the social issues in Japan as its target is the awareness of crisis about the social issues inherent to Japan that cannot be solved only by a global framework such as SDGs. For Japan to meet the SDGs, it is considered necessary to seek effective solutions that are based on the actual situation in Japan's society. These reasonings became the basis of the intention of the fund or the fund manager.

In addition, in impact investing, Resona considers it desirable that the company shares the same goals with the customers who invest their asset and the investee companies who actually work on solving the issues, and the fund should be managed based on mutual understanding. Based on this background, Resona aims to provide opportunities for all people living in Japan to engage and participate in solving the issues in everyday life that anyone could face.

Another feature of the fund is the selection of ten items, which shows the extensive scope of the social issues it addresses. Social issues in Japan are complicated with many issues tangled up, mutually connected by a chain of causality. Worsening of a certain issue will drive the deterioration in another issue due to a structure that creates a negative spiral effect. To change such structure for the better, it is naturally important to focus on solving such certain issue, but it is also required to stop the negative chain reaction caused by the structure by simultaneously resolving multiple issues and areas.

Investing in public equity has advantages described earlier such as the expanse of investment universe, the ease of access and the scale of the companies' activities that enable an approach working on multiple issues and areas simultaneously.

3) Engagement and IMM

The fund states engagement activities as a source of its value additionality together with the selection of stock names. It is because, as explained earlier, Resona believes that promoting a creation of impact by the investee companies through engagement is a major part of impact investors' additionality.

As the basic stance of engagement, the fund works on realizing the three following points (Figure 73) and claims it will be "'a long-term partner' for companies that have intentions to solve social issues and implement actions to that goal." Based on such stance, the fund works on making its customers understand that impact investors are not those who confront companies but are partners running the same race with the same goal and it aims to develop a constructive dialogue between them.

Figure 73. Engagement activities

Companies with intention to challenge issues **LONG-TERM PARTNERSHIP**	**❶ Sharing intentions** ・Explain the Resona Local Impact Investment's issue awareness and its future goals, and obtain understanding ・Specify social issues that companies could contribute to the solution and discuss the awareness of current situation ・Build consensus on the vision of the future and the future goals to be realized through the companies' business activities **❷ Continuous and long-term holding** ・In support of the management's stance to have an intention to act on solving social issues, continuously hold the companies' stocks ・Clarify an investment stance not to be swayed by short-term results and focus on long-term corporate value creation **❸ Constructive and specific dialogue** ・To "visualize" the roadmap for solving social issues, and regularly check the progress of achievements ・Share managerial issues to realize the companies' goals and hold inquiry-based learning sessions that promote continuous improvement and sophistication

❶ Sharing intensions

The starting point to grow out of being just one of many and unspecified investors and to effectively engage with the investee companies is sharing intentions. To be recognized by the investee companies as an investor worth holding a dialogue with, Resona not only works to gain a deep understanding of the investee, but it also provides thorough explanation on the concept and the issue recognition of the fund in order to gain understanding from the company's side as well. In addition, Resona holds discussion on the current state of the social issue the company is targeting as well as the future vision it is seeking in order to share awareness. If mutual understanding cannot be formulated at the starting point, it is expected to be difficult to cooperate on IMM over the long run, thus Resona views sharing intentions as high priority for its investment decision as well.

❷ Continuous and long-term holding

By clearly stating the fund's investment stance not to be swayed by short-term results and continuously hold stocks over the long-term, it aims to implement IMM focused on long-term value creation. In case of a change in the management's direction during the investment or a loss of capacity to keep creating impact and achieve growth, the possibility to sell stocks of the company is not totally denied. However, as long as the shared goals exist, the fund's principle is to first engage with the investee company and work together on improvement.

❸ Constructive and specific dialogue

In holding a dialogue with the investee, Resona sends the logic model as the discussion model which is the framework for impact measurement prior to the meeting. By visualizing the pathway to impact creation and using the model as the material for discussion, Resona aims to prevent the dialogue to “share intention” turning into an exchange of abstract opinions and induce discussion of specific points so as to achieve meaningful results.

4. Final words

For impact investment to be spread even further, it is said that development of industry-standard framework and measurement method are crucial. In order to build a consensus in the investment industry, accumulating specific undertakings and fact-based opinions are considered necessary. Although Resona’s initiative has just started, I wrote this article hoping it would help further development of impact investment. I appreciate receiving feedback from the readers as they would be helpful for Resona to enhance its contribution and increase additionality.

Contribution No.3

Taking up the Challenge of Impact Investing at the Ritsumeikan Trust

Deputy Director, Division of Financial Affairs, Division of General Planning and Development
The Ritsumeikan Trust

Katsuya Sakai

1. Purpose and History of Asset Management in Private Universities

The role of universities has been expanding and diversifying while the population of 18-year-old is decreasing and government subsidies and research funding are being reduced. When considering future university management from a long-term perspective, universities are required to obtain more diverse external funding in the future, shifting their current income structure in which student fees account for approximately 80% of their income. Asset management is one of the ways to obtain funds.

According to "Results of asset management by the incorporated educational institutions for FY2020 (FY2019 results)" by the Promotion and Mutual Aid Corporation for Private Schools of Japan, the amount of assets of private universities to be invested in FY2019 reached 8.8998 trillion yen, increasing every year since FY2016 when the survey was initiated. The reason why private universities have a large amount of assets to be invested is largely attributable to the fact that they need to retain funds in the long term for the replacement and renewal of their large campuses and many facilities, and to their characteristics such as scholarship funds (No. 3 basic funds) in which interest and dividends are used for scholarship projects.

Currently, many private universities have established regulations on asset management and manage their assets in accordance with investment policies, etc. decided by the board of directors after deliberations by internal committees, and other bodies. Their assets are invested mainly in stable assets of deposits and savings, and bonds, with deposits and savings accounting for 44.8% of total assets to be invested, bonds for 43.5%, stocks for 2.2%, and investment trust for 5.4%. This is presumably due to the fact that several universities suffered significant losses from derivatives trading as a result of the global financial crisis in 2008, and to the issuance of "Notice on Asset Management by Incorporated Educational Institutions" (Notice) by the Ministry of Education, Culture, Sports, Science and Technology on January 6, 2009.

The Ritsumeikan Academy began asset management in FY2005 as so-called measures for payoffs (assets available for investment were 154.3 billion yen as at the end of FY2020). Initially, assets were invested only in Japanese government bonds and deposits and savings. Its asset management has been expanded to include investing in foreign bonds and alternative investments to this day. 17 years have passed since the start of asset management, and the Academy has taken into account the economic situation and other conditions from time to time; however, our basic stance on asset management has remained unchanged and we have always managed our portfolio with two principles of "preserving asset values" and "diversify risks" in mind.

2. Background of The Ritsumeikan Trust's Social Impact Fund

2.1 Background

We have managed our assets as described earlier. While the primary mission of private universities is to send graduates who will contribute to society, supporting these graduates will also further enhance the value of the universities. As such, we have also considered possibility of investing in or providing financing to entrepreneurial and business activities related to alumni, faculty and staff, students, etc. within certain limits, separately from regular asset management that aims at preserving assets over the short or medium term, with the expectation that they would provide feedback to the Academy over the very long term. Our model is based on the fact that advanced universities in Europe and the U.S. have formed scholarship funds and other assets through donations from alumni who have started their own businesses and through gain on the sale of stocks in initial public offering, etc.

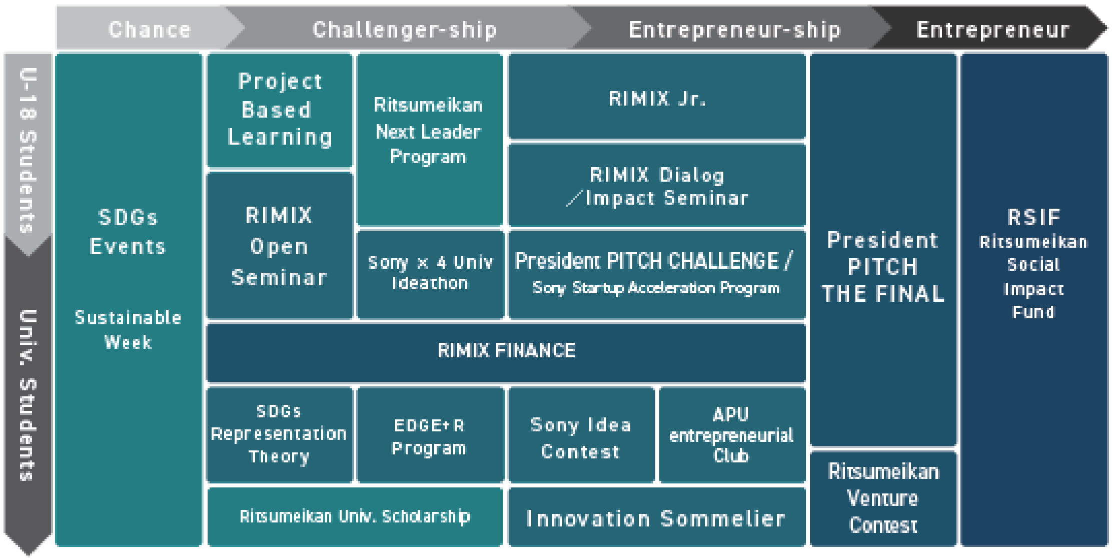
Traditionally, these initiatives have been conducted as activities in the field of university research within the framework of joint research, with the keyword "industry-academia collaboration." Recently, in addition to the traditional industry-academia collaboration such as joint research and funded research, commercialization of research seeds and collaboration with start-ups, etc. have also been actively conducted. Against the backdrop of national policies, funds have been established, mainly at the University of Tokyo and other national universities, to invest in university-launched ventures, etc. Many of them seek only economic returns on exit, and funds that have an impact investing perspective in addition to economic returns have yet to emerge.

2.2 Ritsumeikan Impact-Makers Inter X (Cross) Platform (RIMIX)

Against the backdrop described above, we had interviewed alumni, financial institutions and others to find out what value Ritsumeikan can offer to society in this area by demonstrating our strengths in comparison to other universities. As a result, we decided to focus our attention on the characteristics that there are many graduates who have started their own businesses to solve social issues and are working as so-called "social entrepreneurs." We had fostered understanding and interest in social issues and had provided a great deal of assistance to students for solving social issues through establishment of the EDGE-NEXT Program by the Ministry of Education, Culture, Sports, Science and Technology and APU Startup Program, scholarships that support students' independent activities, at universities, and inquiry-based classes at affiliated junior high and high schools of the Academy. Based on these initiatives of the Academy and success of alumni, we established Ritsumeikan Impact-Makers Inter X (Cross) Platform (RIMIX) in 2019 to support Impact Makers, people and social entrepreneurs who make an impact on society.

RIMIX visualizes and supports the Ritsumeikan Academy's programs for students from elementary school to graduate school, from mindset training to providing entrepreneurial support, as a single platform. We offer the "President's PITCH CHALLENGE" as an acceleration program, to support students from skill set to actually starting up a business. As part of our support, we have established Ritsumeikan Social Impact Fund (RSIF), as a scheme to support alumni, students, and faculty and staff who solve social issues through business.

Figure 74. 2021 RIMIX program structure



https://r-rimix.com/about/

2.3 Ritsumeikan Social Impact Fund (RSIF)

Based on the purpose of RIMIX, we inevitably considered a scheme that aims to achieve both economic returns and social impact as a social impact fund for Ritsumeikan Social Impact Fund (RSIF). We considered various forms of fund, and decided to utilize a limited partnership scheme to support startups that generate social impact over the long term, with Plus Social Investment Co., Ltd., which endorsed our purpose, acting as GP and a sole investor, thereby avoiding being required by LP investors to generate returns in a short period of time.

As it is assumed that companies working to solve social issues include so-called NPOs and other non-profit corporations, the fund has been set up as a scheme that can not only make investments but also support various types of fundraising activities such as bond underwriting.

RSIF had invested approximately 500 million yen in 9 companies managed by alumni from 2020 through the end of December 2021. In October 2021, it prepared a report “Social Impact Report 2020-2021,” jointly with ADDress Inc. and The Social Innovation and Investment Foundation, which visualized how “ADDress,” a subscription-based multi-location service for living and housing provided by ADDress Inc., had been involved in social issues and how much it had contributed to improving and solving such issues. Going forward, it aims to realize investments in startups launched by students who have been supported by RIMIX.

< Outline of the Fund > https://r-rimix.com/fund

Name of the Fund	Ritsumeikan Social Impact Fund Limited Partnership

Outline	RSIF pursues both financial returns and social returns (social impact) by making investments and loans to companies for which students, alumni, and others of the Ritsumeikan Academy have management responsibility.
Investment targets	all corporations, including non-profit corporations
Fund size	1.0 billion yen
Fund operator	Plus Social Investment Co., Ltd.

3. Expectation and Prospect for Impact Investing by Incorporated Educational Institutions

3.1 Affinity between Impact Investing and Education and Research Project in Incorporated Educational Institutions

As the areas of investment have become more diverse in the course of making investments through RSIF, we have increasingly felt that both the Academy and portfolio companies will benefit from the value creation to society through collaboration with various educational and research institutions, etc. in the Academy, which will ultimately contribute to generating social impact for the portfolio companies. Creating opportunities for managers of the portfolio companies, who are alumni of the Academy, to share their knowledge with students will offer students an experience they would not normally have. Students can have such an experience as an extension of their schoolwork. We have confirmed some cases in which this has led to opportunities for students to influence their career choices, and for managers of the portfolio companies to acquire human resources, including internships. RIMIX originally aims to form a community of social entrepreneurs that will be useful after graduation through collaboration with external institutions and alumni professionals who share our philosophy, and setting up interactions that transcend schools and generations by taking advantage of our strengths as an Academy with educational institutions from elementary schools to graduate schools. RSIF, as part of RIMIX, is also increasingly taking on not only the investment function, but also the function of creating an ecosystem among alumni, partner companies, and students. This will lead to the achievement of "creation of social symbiosis value" in R2030, mid-term plan of the Academy, and we will actively proceed with such collaboration in the future.

With the spread of online classes and educational contents on the Internet amid the COVID-19 pandemic, the need for community functions provided by schools will continue to increase. In this respect, RSIF is considered to possess value as a community function as well that connects people who share similar values.

RSIF is a mechanism, in the form of a fund, to watch how graduates and current students of the Academy go out into society, how they succeed, and what kind of value they create. As an incorporated educational institution responsible for the development of people, we see great value in this. Due to the unique financial characteristics of the incorporated educational institutions, we are allowed to take an investment stance of looking at long-term growth of the portfolio companies while ensuring a minimum financial returns as an investor but not placing the highest priority thereon. We believe that we need to make full use of this privileged environment for the benefit of society.

Our educational and research activities as an incorporated educational institution to nurture people and create innovation are themselves activities to generate social impact, and we are constantly reviewing our own activities through impact investing. In this sense, impact investing may offer various possible development besides economic returns in incorporated educational institutions.

3.2 How we communicate social impact

As described earlier, social impact is of great significance in incorporated educational institutions; however, how to measure social impact is a very difficult theme even though various attempts have been made by organizations including The Social Innovation and Investment Foundation (SIIF). In the education sector as well, we have similar challenges in the measurement of educational effects. How to measure "social symbiosis value," the theme of the Ritsumeikan Academy's mid-term plan, mentioned earlier, is also a major challenge.

On the other hand, since the capital for activities of the incorporated educational institutions is people who gather there, how to make these people feel empathy and attraction for the education and research environment, philosophy, and contents of such institutions is important for them to become an attractive community. The impact indicators as a result of their activities are an important factor when reflecting on their own activities as evidence; however, when looking at impact from the perspective of communicating to others, a different approach may also be effective. We are examining what means would be effective for RSIF in terms of qualitatively "communicate" its social impact.

3.3 Establishment of the Division of Startup and Business Development Promotion

With the initiatives described above as a foundation, the Academy established the Entrepreneurship and Commercialization Promotion Office in June 2021. This is an organization to promote both integrated entrepreneurial education, implemented through RIMIX and RSIF, and the creation of research seeds-style university-launched ventures. The theme of generating "social symbiosis value" has remained unchanged.

We intend to continue to develop entrepreneurship and commercialization by creating a place that embodies "Challenge your mind, Change our future" with our emphasis on social impact while making the full use of the power of "stories" to generate human empathy that impact investing possesses.

References

"Results of asset management by the incorporated educational institutions for FY2020," the Promotion and Mutual Aid Corporation for Private Schools of Japan (2020), Private School Information Office, Private School Management Information Center
Reference: https://www.shigaku.go.jp/files/sisanunyoujoukyou-r2.pdf

Ritsumeikan University Public Relations Office (November 29, 2021). Ritsumeikan University Shiruto.
Reference: https://shiruto.jp/sp/3297/

Afterword: Editors' Postscript

Secretariat, GSG-NAB Japan / Japan Social Innovation and Investment Foundation (SIIF)
Report Production Team for "The Current State and Challenges of Impact Investing in Japan – FY2021 Survey –"

Michiru Toda Project Leader, SIIF Impact Officer

Continuing from last year, as the writing and research team leader, my primary responsibilities were managing production for the overall project, organizing concepts, developing estimation methods, designing the questionnaire form, conducting fieldwork, compiling and analyzing, and writing the text (mainly the summary and Chapter 2). First, I would like to once again express my appreciation to the organizations and people responsible for supporting our Questionnaire Survey. From here on, impact investing in Japan is expected to move on to the "how" phase which looks at developing methods and human resources. I hope this report will be used to once again reflect on the "why" and serve as the basis for discussions and implementation to advance the quality of impact investing.

Kyoji Sasaki Project Sub-Leader, SIIF

I became involved with this project from this year. I was mainly involved with conducting fieldwork, compiling and analyzing, and writing the text for "Column 1: Introduction of the Impact Investment Forum." I would like to take this opportunity to thank everyone for their cooperation with the Questionnaire Survey. This year again, I feel we were able to gather leads for some useful insights. I hope this report will be of some use towards the spread and development of impact investing.

Satoshi Oda Advisor, SIIF Knowledge Development Officer

Continuing on from the previous fiscal year, I participated in the overall project as advisor and also wrote the text for "Column 2: Introduction of Consumer Surveys related to Impact Investing." The essence of impact investing is to solve social challenges through capital markets, and therefore, funds are not philanthropic money but rather risk money. 2021 saw great progress towards mainstreaming impact investments in the public administration and the financial industry, and in order for this not merely to be a fad from its novelty but to be sustainable, it is necessary to demonstrate its appeal to continue attracting risk money. Together with IMM and being purpose-driven, to what extent can straightforward profit management, i.e., how much one can secure earnings, be rooted in the companies that are receiving the investments? This management perspective and action is what I believe will become increasingly important for the sustainable growth of impact investing in the future.

Takatsugu Konno partial commission of work, CEO of Token Express Co., Ltd.

I was responsible for the first chapter "What is Impact Investing," "Case Studies of Impact Investments/Impact Companies," and "Contribution: Topics regarding Impact Investing." I would like to express my profound appreciation to the organizations and people who supported the case studies section and the contribution section. The prosperity of impact investing is remarkable. I feel that the era where financial services and corporations become the bearer of social impact is near.

Misa Kanegae partial commission of work, Business Development, Token Express Co., Ltd.

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