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Feature Articles

This month's focus: **Investment in Intangible Assets**

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‘Ito Report 2.0’ published by the Ministry of Economy, Trade, and Industry considers intangibles to be a critical component for the improvement of firm performance. In this article, we categorize two types of intangibles: those that appear in the System of National Accounts and those which do not but are examined in research papers on the subject. Although the amount in the former category is high in advanced countries, the investment in human resources is very low compared to other countries. Firms should increase investment in intangibles using capital markets to improve performance because intangibles are not suitable as collateral.

Effects of Intangible Assets and ESG Scores on Implied Expected Growth	<i>Kazuaki Harigae, CMA</i>	17
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This paper examined how corporate intangible assets (patents) and ESG scores impact the Japanese stock market, both being noted in ‘Ito Report 2.0’. The study was based on a cost of capital calculation through implied expected growth. As a result of research into the effect of patents, it is assumed that the strategy both outstanding specialization and wide range of schemes included can affect stock price. As for ESG scores, an ‘S score’ related to labor management which Japanese society has recently been trying to pay attention to might be included in the stock market. It is important to persistently pursue active engagement for sustainable growth of intangible asset value and effects of ESG scores.

Corporate Governance and Intangibles	<i>Takafumi Sasaki, CMA</i>	28
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This paper discusses the impact of corporate governance reform in Japan on investment in intangibles. Because of high uncertainty of returns and requirement for long-term investment, investment in intangibles is likely to face under-investment. Introduction of long-term incentives is necessary to mitigate this under-investment problem associated with intangibles. It should be noted that corporate governance reform should consider the interaction between board characteristics and corporate culture that has a large impact on investment in intangibles.

Online Reputation and Firm Value	<i>Fumiko Takeda, CMA</i>	37
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This article reviews literature on the relationship between online reputation and firm value. Research that examines how sales and stock prices are correlated with internet search intensity, user reviews, and social media are first selected. Then, studies on the association between online flaming and firm value are introduced.

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Analysis of Relationship between Corporate Organizational Culture and Financial Performance Using Company Employee Reviews	<i>Hironori Nishiie, CMA · CIIA/Hiroshi Tsuda, CMA</i>	69
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We analyze the relationship between ‘corporate organizational culture score’, which is quantified by text mining and machine learning for online employee reviews on Japanese listed companies, and their financial or equity performance. We find (1) sales decrease with a low score, (2) the debt ratio increases with a worsening score, and (3) the long-short portfolio, constructed by improvement group and aggravation group defined by score change, has statistically significant positive alpha(α), in particular, the aggravation group portfolio has a negative alpha(α) measured by the Fama-French three or five factor model.

Our research suggests that online company reviews contain useful information for corporate valuation.

Currency Hedged Global Fixed Income Portfolio Strategies using Factor Models	<i>Katsunori Takahashi, CMA</i>	79
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Nowadays, fixed income portfolio strategies without cap-weighted index are attracting attention. As one of the examples of these strategies, in this paper we discuss currency hedged global fixed income portfolio strategies using factor models. We confirmed the superiority of the Sharpe ratio for a portfolio which was constructed by allocating countries and maturities of government bonds so as to maximize Yield-RollDown corresponding to expected return. Also, we analyzed the return of active funds, which suggested that funds with the above mentioned strategies may be few.

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