

## Feature Articles

### This month's focus: **Intellectual Property and Intangible Assets Strategy**

#### **The Guidelines for Disclosure and Governance of Intellectual Property & Intangible Assets Investment and Utilization Strategies, Ver. 2.0**

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To further accelerate the activities described in Ver. 1.0, the new Guidelines present "Five Principles" to be followed by companies, investors, and financial institutions; "Seven Actions" required of companies; and "Communication Frameworks" for value creation between companies and investors/financial institutions. The Guidelines aim to bridge the gap in thinking between companies and investors/financial institutions regarding the investment and utilization of IP/intangible assets and to speed up the virtuous cycle in which companies gain support from capital and financial markets, increase their corporate value, and then leverage the power of capital and financial markets to obtain funds for further investment in IP/intangible assets.

#### **The Potential for Using Intellectual Property Information in Investment Decision-Making**

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In this paper, we provide foundational insights into the intellectual property (IP) system and IP information, exploring the potential for IP data to be utilized for investment decisions based on relevant prior research. Additionally, by examining the so-called "mid-cap stocks" on the Tokyo Stock Exchange in relation to IP information and various financial data, we note that although the influence of selection bias cannot be completely ruled out, the results reveal a tendency for companies with a higher number of registered patents to exhibit stronger growth stock characteristics seven to ten years later.

#### **"IP Strategy" Evaluation and Engagement by Institutional Investors**

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Assuming that intellectual property will be incorporated into corporate valuation and investment decisions in the same way as have the environment and human resources, institutional investors will assume the important role of conducting comprehensive and appropriate corporate valuation. Based on our own practical examples, we have therefore organized and considered the significance of evaluating "intellectual property strategy" for institutional investors in terms of evaluation perspectives and desirable engagement.

## Feature Articles

### Future of Corporate Management Will Be Determined by IP and Intangible Asset Strategies

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From the period following World War II up to the 1980s, Japanese companies achieved "30 glorious years," thanks in part to an intellectual property strategy that leveraged the world's largest volume of patent applications. Even before the counterattack by their U.S. and Asian counterparts, however, Japanese companies, especially those in the electronics and semiconductor industries, had fallen into defeat, and "three lost decades" through to the 2020s ensued. A major cause of this was the "failure of corporate IP strategies." The strategy of alliance with Chinese and Taiwanese companies, which was the premise of the U.S. revival, has now undergone a dramatic shift in line with economic security concerns. In this changing environment, the time has come for Japanese companies to boldly apply the IP and intangible asset management strategies described in this paper.

## Articles

### Potential of Alternative Data for Financial Business

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This report highlights the four characteristics of alternative data and offers specific examples of its application within the Bank of Japan. The primary focus is on monitoring the real economy and financial markets, utilizing a mix of data and analytical techniques. The latter section delves into (i) the development of new financial services by integrating generative AI technology with alternative data, and (ii) the challenges related to human resource development and organizational structure for effective data utilization.

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### Re-examining Value Effects in Japan: Value Stocks Are Still Alive

*Shingo Ide, CMA / Tadaaki Komatsubara, CMA / Hitoshi Takehara*

We re-examine the value effects in Japan after controlling for technological competitiveness and default risk. The empirical results show that the relationship between the book-to-market ratio and stock returns depends on the level of technological competitiveness of Japanese manufacturing firms, and that value effects are not observed for firms with extremely low default risk. Our findings are consistent with equity valuation models that explicitly incorporate the default risk of the firm.

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## Articles

### The Function of Sustainable Investing and an Application to Portfolio Selection

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Sustainable investing can be regarded as an economic function aimed at solving environmental and social issues by influencing firms' cost of capital through investors' nonpecuniary preferences. On the other hand, pecuniary return and risk are also important. We derive an optimal portfolio under a simple setup and show its application to equity and fixed-income investments. Furthermore, we discuss the expected return on sustainable investing using a two-factor model incorporating both market and ESG factors.

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