

Sovereign Wealth Funds Investment Effects on Target Firms' Competitors

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Abstract

In this paper, we investigate the impact of sovereign wealth funds acquisitions on the performance of target firms' competitors. Our study shows that the impact of sovereign wealth funds acquisitions on target firms' competitors equals 1.20% on the (-1,+1) window. This impact is positive and statistically significant. Our results suggest that market participants clearly anticipate value creation in the targets competitors, due to likely expected restructuring activities. This suggests that sovereign wealth funds' acquisitions create a monitoring pressure on competitors forcing them to re-evaluate their operations. Our cross-sectional analysis shows that relatively large rivals, low leveraged rivals, rivals with highly correlated returns with those of their corresponding targets, rivals in less competitive industries show higher abnormal returns upon the acquisition announcement. Foreign SWFs investments partially explain the cross-sectional variations in the positive valuation effects of rivals, as well as investments coming from commodity financed SWFs, and SWFs with high levels of transparency. Our results have policy implications as they question the rationality, and hence the legitimacy, of protectionist measures adopted by some governments as legal barriers to sovereign wealth funds cross-border investment activities.

Key words: *sovereign wealth funds, competitors, cumulative abnormal returns, protectionist measures*