Sovereign Wealth Fund and Politically Connected Firms

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Abstract

This paper examines the investment decisions of sovereign wealth funds (SWFs) and their effect on target firms. We analyze both listed and unlisted SWFs' target. In line with previous studies, we find that SWFs prefer large and levered firms. SWFs are more likely to invest in particular business sectors: financials, logistics and real estate, thus showing a preference for infrastructure and networks. We also check for the firm accounting performance measured in terms of ROA improvement. We find that SWFs investments have a positive impact on firm performance when a politician acts as a CEO the fund. This result is in line with the literature about politically connected firms, showing that a positive impact on firms' profitability is directly related to closer ties to political power.

1. Introduction

The size of asset under management of sovereign wealth funds (SWFs) increased significantly from $500 billion in 1990 to about $4,7 trillion in 2010 and it is expected to grow (Sovereign Wealth Fund Institute's website). As Kotter and Lel (2011) pointed out, this amount of money is much more than the assets managed by hedge funds ($1.9 trillion) or private equity funds ($0.8 trillion).

The academic literature is trying to understand the behavior and the objectives of these investors. There are several difficulties, particularly due to the lack of transparency about funds' structure and governance. In this paper, we examine SWFs investments and their impact of target firms, and how both are influenced by fund characteristics and governance. Together with the data about fund's origin, legal entity and dimension, we checked also for fund's CEO characteristics, distinguishing SWFs run by a politician and SFWs run by a technical expert. Addressing this issue is very important because of several implications on target firms choice and profitability.

We can study SWFs investments impact according two dimensions: the first is related to the literature about large shareholders investments (Holderness, 2003; Lins, 2003; Classens et al., 2002); the second is related to the studies about political connections (Faccio, 2010; Faccio, Masulis and McConnell, 2006; Goldman et al., 2008).

Active monitoring of large shareholders is considered a source of wealth for target firms' shareholders, reducing agency costs (Shleifer and Vishny, 1986; Ferreira and Matos, 2008). But it is rather difficult to assess both the activism of SWFs ant the relative monitoring benefits, given the political reasons that can explain acquisitions. In fact, SWFs could expropriate wealth from minority shareholders because their goals could not necessarily be connected to returns

maximizations. Theory provides evidence of two kind of problems related to government ownership: political interference (Shleifer and Vishny, 1994) and agency conflicts (Banerjee, 1997).

A lot of empirical studies suggest that state ownership is associated with poor financial performances, inefficiency and weak managerial incentives (Dewenter and Malatesta, 2001; Djankov and Murrel, 2002; La Porta and Lopez-de-Silanes, 1999). In fact, a state owned enterprise could be managed to achieve political or social goals rather than maximizing shareholder wealth. Johnson and Mitton (2003) argued that SWFs from countries with high corruption levels could be used for private benefits extractions in favor of politicians or their supporters. On the other hand, academic studies reports evidence about benefits from political connections, such as preferential access to credit (Johnson and Mitton, 2003; Chiu and Joh, 2004; Dinc, 2004; Cull and Xu, 2005; Khwaja and Mian, 2005), government contracts (Goldman et al., 2008), regulatory protection (Krozner and Stratmann, 1998) and government aid for financially troubled firms (Faccio et al., 2006).

We focus on both listed and unlisted target. We find that SWFs target firms with higher leverage and size, located in countries with less corruption. These results are in line with previous literature (Kotter and Lel, 2011; Bortolotti, 2009). We checked also for industry sector, and find that firms from financial, real estate and logistic industries are more likely to be targeted by SWFs.

Our database is based on 552 announcements of SWFs investments in 59 countries from 2001 to 2011. We consider the performance of SWFs target firms measuring ROA changes in the year period before and after the investment. We find that ROA of target firms significantly improves when a politician runs fund. This result is in line with the literature about the net effect of political connections on the value of the firms. This evidence has largely shown that, on average, the benefits having political connections exceed the costs (Fismans, 2001; Roberts, 1990; Goldman et al. 2009). Boubakri et al. (2009) show that, for a subsample of politically connected

firms whose precise date of connection could be identified, the accounting performance significantly increases after the establishment of a connection.

Our results extend the literature about SWFs investment strategies and economic consequences of their ownership in several ways. First, differently from the previous studies we include in our sample unlisted firms. This allows us to complement Kotter and Lel (2011) findings about the likelihood to be targeted by SWFs, since their sample included only listed firms. Second, we measured changes in operating performances, while previous studies focused on stock price performances and market reaction to the announcement (Bortolotti et al. 2010; Mauck et al. 2010; Dewenter et al., 2010). Third, our paper is relevant for the literature on state-owned enterprises, as target firms become connected to a State through SWFs investment. We document that political connections have significantly positive effect on firm performance when SWFs' CEO is a politician.

The remainder of the paper proceeds as follows. Section 2 provides a definition of SWFs and describes the data. Section 3 presents results from the target selection analysis. Section 4 reports analysis of target firm performances. Section 5 concludes.

2. Data Sources and Descriptive Statistics

Our sample consists of SWF investment announcement collected form Thomson One Banker database. They provide the deals where an SWF is the bidder. They define a SWF as a government controlled investment fund that is funded from foreign reserves or commodities and participates in foreign investment activity with a long-term investment horizon. The research results in a total of 552 announcements related to deals completed in the interval 2001-2011. Table 1 reports the deal distribution by SWFs.

Table 1 – Acquiring SWFs, Country membership of Target firms and Year of Acquisition

The table reports the distribution of the announcement of SWF investments by by acquirer SWfs, country of target firms and year of acquisition. Panel A reports the distribution of the sample by identity of acquiring SWFs. *Nation* is the nationality of the SWF. *Birth* is the year of SWF foundation. *Origin* represents the source of funds. *Entity* is the legal entity of the SWF. *AuM* is the asset under management in US $ billions at the end of 2010. *#Acquisitions* is the number of acquisitions completed in the 2001-2011 period. Panel B describes the number of SWF investments by country of target firm. Panel C displays the number of acquisitions per year.

Panel A

SWF	Country	Birth	Origin	Entity	AuM	#Acquisitions
Abu Dhabi Inv. Authority (ADIA)	AE	1976	Oil	Fund	627.0	12
Abu Dhabi Inv. Council (ADIC)	AE	2007	Oil	Council		6
Alaska Permanent	US	1976	Oil	Corporation	40.3	2
Alberta Heritage Fund	CA	1976	Oil	Fund	15.8	5
Australian Gov. Future Fund	AU	2004	Non-Comm.	Fund	59.1	3
Brunei Investment Agency	BN	1983	Oil	Fund	30.0	3
Calpers	US	1932	Non-Comm.	Fund	139.2	18
Central Bank of Libya	LY	1956	Oil	Fund		1
Canada Pension Plan (CPP)	CA	1966	Non Comm.	Fund	153.2	1
China Investment Corporation (CIC)	CN	2007	Non Comm.	Corporation	288.8	22
Investment Corporation of Dubai	AE	2006	Oil	Corporation	19.6	55
Strategic Investment Fund (FSI)	FR	2008	Non Comm.	Fund	28.0	7
Gov. of Singapore Investment (GIC)	SG	1981	Non Comm.	Corporation	247.5	82
Gov. Investment Unit of Indonesia	ID	2006	Non Comm.	Fund	0.34	1
Intl. Petroleum Invest. Council (IPIC)	AE	1984	Oil	Corporation	14.0	16
Kazakhstan National Fund	KZ	2000	Oil, Gas	Fund	38.0	34
Khazanah Nasional	MY	1993	Non Comm.	Fund	36.8	48
Kuwait Investment Authority (KIA)	KW	1953	Oil	Fund	202.8	7
Korea Investment Corporation (KIC)	KR	2005	Non Comm.	Corporation	30.3	3
Libyan Investment Authority (LIA)	LY	2006	Oil	Fund	70.0	7
Mineral Resources Papua N. Guinea	PNG	2011	Commodity	Fund		1
Mubadala	AE	2002	Oil	Corporation	13.3	19
National Security Fund (China)	CN	2000	Non Comm.	Fund	146.5	3
New Zealand Superannuation Fund	NZ	2003	Non Comm.	Fund	12.1	2
Norway Government Pension Fund	NO	1990	Oil	Fund	443.0	1
National Pension Reserve Fund	IE	2001	Non Comm.	Fund	33.0	1
Oman Investment Fund	OM	2006	Oil, Gas	Fund		7
Qatar Investment Authority (QIA)	QA	2005	Oil	Fund	65.0	38
RAK Investment Authority	AE	2004	Oil		1.2	2
SAMA Foreign Holdings	SA	1952	Oil	Fund	415.0	1
Temasek Holdings	SG	1974	Non Comm.	Corporation	122.0	154
TOTAL						**552**

Data about SFWs are provided by Sovereign Wealth Fund Institute website. As it it possibile to see in the table, the larger fund is Abu Dhabi Investment Authority, with an estimated asset under management of 627 US $ billion, while the most active fund is Temasek, with 154 deals.

Panels B and C show the distribution by country and year.

Country	Acquisitions	%	Country	Acquisitions	%
Arab Emirates	9	1.6%			
Armenia	2	0.4%	Oman	1	0.2%
Argentina	1	0.2%	Papua New Guinea	1	0.2%
Austria	5	0.9%	Philippines	1	0.2%
Australia	25	4.5%	Pakistan	4	0.7%
Bermuda	2	0.4%	Poland	1	0.2%
Brunei	1	0.2%	Qatar	6	1.1%
Brazil	1	0.2%	Romania	1	0.2%
Bahamas	1	0.2%	Saudi Arabia	1	0.2%
Canada	22	4.0%	Sweden	5	0.9%
Switzerland	4	0.7%	Singapore	45	8.2%
China	31	5.6%	Thailand	7	1.3%
Cyprus	2	0.4%	Tunisia	1	0.2%
Germany	13	2.4%	Turkey	4	0.7%
Denmark	1	0.2%	Taiwan	2	0.4%
Egypt	2	0.4%	United States	64	11.6%
Spain	5	0.9%	Viet Nam	5	0.9%
Finland	2	0.4%			
France	16	2.9%	**TOTAL**	**552**	**100%**
United Kingdom	54	9.8%			
Georgia	1	0.2%			
Hong Kong	8	1.4%			
Indonesia	21	3.8%			
Ireland	4	0.7%			
India	36	6.5%			
Iran	1	0.2%			
Iceland	2	0.4%			
Italy	14	2.5%			
Jordan	3	0.5%			
Japan	11	2.0%			
Korea	10	1.8%			
Kuwait	4	0.7%			
Cayman Islands	5	0.9%			
Kazakhstan	15	2.7%			
Marshall Islands	1	0.2%			
Mongolia	1	0.2%			
Malta	3	0.5%			
Mauritius	3	0.5%			
Maldives	1	0.2%			
Malaysia	48	8.7%			
Netherlands	6	1.1%			
Norway	5	0.9%			
New Zealand	1	0.2%			

Panel C

Year	Acquisitions	%
2001	24	4.3%
2002	30	5.4%
2003	24	4.3%
2004	44	8.0%
2005	66	12.0%
2006	55	10.0%
2007	82	14.9%
2008	84	15.2%
2009	58	10.5%
2010	61	11.1%
2011	24	4.3%
TOTAL	**552**	**100%**

Cross border investments represents close to 70% of the sample (374). USA and UK attract these investors more than other OECD countries, while Malaysia, India and Singapore are

attracting investments in Asia. The distribution by year shows that investments concentrate after 2004, with a peak in 2008.

To understand if SWF target firms characteristics significantly differ from other firms, we use the entire Orbis database as a proxy of the universe in which SWFs could invest. Orbis contains about 80 million firms both listed and unlisted. We use a cut off of minimum 50 US $ millions of total asset. Our dataset consists of about 330,000 firm-year observations and makes up our main sample for target selection analysis.

We first consider *leverage*, defined as total debt over equity. It is a proxy of firm's ability to access capital and a measure of the probability of financial distress. We consider *cash* as the ratio of cash assets to total assets and *intangibles* as the ratio of intangible assets to total assets. Both are considered a measure of financial constraints. *Intangibles* are also a proxy for the intensity of know-how and uniqueness of target firm. Table 2 resumes the statistics for the whole dataset and for the SWFs target firms at year previous the deal announcement.

Table 2 – Descriptive statistics

The table reports means and medians of financial variables for the whole sample, and for subsamples based on whether the firm is targeted by an SWF (Panel B). *Total assets* are the firm's total assets in million US $. *Intangible Assets* are all the firm's intangible assets scaled by total assets. *Leverage* is the ratio between total debt and equity. *Cash Reserves* is defined as the amount of cash in the bank and in the hands of the company scaled by total assets. *ROA* is the firm's return on assets computed as EBIT over the firm's total assets. All variables are winsorized at the 1% level and measured at the end of the year. We provide statistical significance of the tests for difference in means and medians between year -1 and year 1, and between year -1 and year 3 of a given sample/subsample. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

	Whole Sample			SWF Target			Others		
	Obs.	**Mean**	**Median**	**Obs.**	**Mean**	**Median**	**Obs.**	**Mean**	**Median**
Total Assets	330527	5339.81	320.78	301	96600.00***	2054.20***	330226	5316.71	320.55
Intangibles	213165	0.0455	0.0028	220	0.0718***	0.0109***	212945	0.0454	0.0028
Leverage	197939	114.52	55.30	208	131.23*	64.77	197731	114.50	55.28
Cash Reserves	202663	0.1068	0.0607	214	0.1373***	0.0876***	202449	0.1068	0.0606
ROA	324974	0.0237	0.0129	285	0.0214	0.0219**	324689	0.0237	0.0129

Results show that SWFs target firms are significantly larger than the others and this result is statistically significant both in mean and in median. Also *Intangibles* and *Cash* are higher for target firms, and this result is significant both in mean and in median. *Leverage* is higher, but the result is not so strong and it is not significant in median. ROA is not statistically different with respect to other firms.

These results show that target firms are larger and levered with respect the other firms, and these results are in line with previous studies (Kotter and Lel, 2011). Target firms show larger cash ratios, meaning that SWFs target firms are not necessarily financially constrained. The higher level of *intangibles* shows that SWFs target firms with higher know-how and uniqueness, meaning also that SWFs investments are riskier. The profitability of the firm, measured through ROA, is not a variable that discriminates SWFs investments.

3. Target Selection Analysis

We perform our target selection analysis by conducting a multivariate logit regression of the probability of being targeted by an SWF.

The dependent variable is a target *dummy* that taker value 1 for firms that receive an SWF investment from the year of investment and zero otherwise. Together with firms' characteristics, we use dummies for industry and country characteristics, as pro capita gross national products and World Bank anticorruption index. We add two interaction variables checking the effect of financial investments in USA and Europe.

Table 3 – Determinants of the likelihood of being targeted by SWFs.

This table presents the logit estimation of the likelihood of being targeted by SWFs. Dependent variable is the target dummy that takes value 1 for firms that receive a SWF investment from the year of investment and zero otherwise. *Size* is the natural logarithm of the firm's total assets. *Intangibles* are all the firm's intangible assets scaled by total assets. *Leverage* is the ratio between total debt and total assets. *Cash Reserves* is defined as the amount of cash in the bank and in the hands of the company scaled by total assets. *ROA* is the firm's return on assets computed as EBIT over the firm's total assets. All financial variables are winsorized at the 1% level and measured at the end of the year. *Financials* is a dummy that takes value 1 for the target firms of financial industry sector. *Real Estate* is a dummy for the target firms of real estate industry sector. *Logistics* is a dummy for the target firms of logistic industry sector. *Energy* is a dummy for the target firms of energy industry sector. *Telecommunication* is a dummy for the target firms of telecommunication industry sector. *Listed* is a dummy for listed target firms. *GDP* is the natural logarithm of pro capita gross national product. *Usa* is a dummy for target firms from Usa. *Europe* is a dummy for target firms from Europe. *Anticorruption* is the World Bank anticorruption index, ranging from -2.5 to +2.5. *USA*Financials* and *Europe*Financials* are interaction variables for financial target firms from USA or Europe.

	I	II	III
Constant	-6.7671***	-0.489	-0.4818
	[0.4974]	[0.8395]	[0.8367]
Cash	1.1861***	1.4871***	1.4822***
	[0.3235]	[0.3096]	[0.3138]
Intangibles	1.4483***	1.6126***	1.5606***
	[0.3428]	[0.3423]	[0.3446]
Size	0.4039***	0.4365***	0.4383***
	[0.0256]	[0.0261]	[0.0261]
ROA	-0.2547	-0.6443	-0.6622
	[0.6671]	[0.6340]	[0.6409]
Leverage	0.0007***	0.0005**	0.0005*
	[0.0003]	[0.0003]	[0.0003]
Financials	0.5595***	0.6042***	0.8814***
	[0.1460]	[0.1498]	[0.2255]
Real Estate	0.9711***	0.8829***	0.8721***
	[0.1263]	[0.1295]	[0.1294]
Logistics	0.4605***	0.4310***	0.4321***
	[0.1596]	[0.1669]	[0.1667]
Telecommunication	0.1324	0.0376	0.0405
	[0.2156]	[0.2223]	[0.2224]
Listed	0.5159***	0.1913	0.1586
	[0.1094]	[0.1244]	[0.1232]
GDP	-0.5033***	-1.2666***	-1.2674***
	[0.0420]	[0.0839]	[0.0838]
Usa	-0.7895***	-0.7533***	-0.8603***
	[0.1981]	[0.1893]	[0.2051]
Europe	0.064	-0.3657***	-0.2908**
	[0.1192]	[0.1360]	[0.1373]
Anticorruption		1.1439***	1.1382***
		[0.1213]	[0.1212]
Usa*Financials			0.8743*
			[0.4627]
Eu*Financials			-0.6880**
			[0.3113]
Pseudo R-squared	0.0878	0.1141	0.1156
Observations	177975	160165	160165

We find that SWF prefers larger firms, as the Size coefficient is positive and statistically significant in all models. This result is in line with previous findings about SWF (Kotter and Lel, 2011) and in general about institutional investors worldwide (Ferreira and Matos, 2008). SWF prefer cash-rich firms, as the coefficient of *cash* variable is positive and statistically significant in all models. Also *intangibles* show always significant positive coefficient, showing that SWF prefer well known unique firms. Firms from financial, real estate and logistic industries are more likely to be targeted by SWFs. This shows a propensity to invest in infrastructure and network. Listed firms are preferred, as it is expected because of the size of the firms. We control for the countries characteristics and find that SWFs prefer firms from less developed countries. The effect is due to the deals of some SWFs that invest in unlisted domestic companies (i.e. China Investment Corporation or Kazakhstan National Fund). USA and Europe dummies take a negative coefficient, meaning that SWFs invest in regions where economy is growing faster. The interaction variable in model III takes value 1 for USA companies in financial sector. We use a World Bank anticorruption index, that "reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests" (Kaufmann et al., 2010). This index takes values into a range from -2.5 to 2.5. We can see that SWFs prefer firms from countries with less perceived corruption.

Overall, SWFs prefer larger and levered firms, which are listed and belong to specific industry sectors, such as financials, real estate and logistics. Looking at the countries, they target firms that operate in less perceived corruption countries. Our results are partially different from those obtained in previous studies (Kotter and Lel, 2011; Bortolotti et al., 2010) because we consider also unlisted firms in our sample.

4. Analysis of the Changes in Operating Performance

To measure post-deal performance, we must rely exclusively on financial statement data. Following Guo *et al.* (2011), we compute two measures of changes in firm operating performance. The first measure is *ΔROA,* defined as the difference between the ROA in the first year after the SWFs' deal (+1) and the firm's ROA for the previous year (-1). However, this measure does not control for the expected performance the firm could have had if SWFs deal had not happened. As Guo *et al.* (2011) observe, the evaluation of the economic and statistical significance of pre- to post-deal changes in operating performance requires that the measure be adjusted according to some benchmark. Put differently, *ΔROA* does not distinguish between expected and unexpected changes in performance. To address this issue, we compute an additional measure of adjusted changes in operating performance. In our second measure, *Adj. ΔROA,* we subtract the change in the median ROA of the firms in the target firm's industry, year and country *to ΔROA* (Kaplan, 1989)*.*

We run an OLS regression of ROA changes as independent variables. We use a set of variables for SWFs characteristics. *Swf Ceo Politic* is a dummy that takes value 1 for those SWFs whose CEO is a politic. *Direct* is a dummy that takes value 1 for direct investment. *Oil* is a dummy for the origin of SWFs funds. *Fund* is a dummy for those SWFs whose legal entity is a fund. *Transparency* is the Linaburg-Maduell transparency index. *Swf Birth* is the year of SWFs foundation. From previous studies, (Bortolotti et al., 2010; Kotter and Lel, 2011; Dewenter and Malatesta, 2010) we know that there is a difference in firms' performance according to the age of the SWF (the older, the better), the entity (fund is worse than a vehicle), the origin (oil funds are not good performers), the kind of investment (direct is worse rather than through a vehicle) and the funds' transparency (the more transparent, the better for the market). But all these studies reflect market reaction at the moment of SWFs' deal announcement for listed companies. Little is

known about their impact on operating performances of target companies. Moreover, we add a new variable that is *Swf Ceo Politic*. We expect a positive effect of this variable on firms' operating performance, according to previous findings (Fismans', 2001; Roberts, 1990; Goldman et al. 2009; Boubakri et al. 2009).

We use some firms' related variables. *Total Asset/Aum* represents the total asset of target firm over the SWFs asset under management. We expect that SWFs monitor large investments much carefully, so we predict a positive impact of the coefficient of this variable.

Industry Index represents the number of acquisitions made by a SWF in a sector over the total acquisitions made by that SWF. We use this measure as a proxy for specialization of the fund, and we expect a positive impact of this index on firms' performance. *Country Index* represents the number of acquisitions made by a SWF in a country over the total acquisitions made by that SWF. This index represents the political attraction of a country over a specified SWF. We expect that country index has a positive impact on target firms performance.

Finally, we include GDP is the natural logarithm of pro capita gross national product and *Anticorruption*, the World Bank index, ranging from -2.5 to +2.5.

Table 4 summarizes the results of the OLS regressions.

Table 4 – Changes in Operating Performances

This table reports estimates of OLS regressions in which the dependent variables are *ΔROA* and *Adj. ΔROA*. *ΔROA* is computed as: $ROA_{t+1} - ROA_{t-1}$, where (t+1) represents the year after SWFs deal and (t-1) represents the year before SWFs deal. ROA is computed as EBIT over total assets at the beginning of the year. *Adj. ΔROA* is computed as *ΔROA* minus the median change in yearly ROA in the firm's industry and country. *Swf Ceo Politic* is a dummy that takes value 1 for those SWFs whose CEO is a politic. *Direct* is a dummy that takes value 1 for direct investment. *Oil* is a dummy for the origin of SWFs funds. *Fund* is a dummy for those SWFs whose legal entity is a fund. *Transparency* is the Linaburg-Maduell transparency index. *Swf Birth* is the year of SWFs foundation. *Total Asset/Aum* represents the total asset of target firm over the SWFs asset under management. *Foreign* is a dummy for foreign investments. *Listed* is a dummy for listed targets. *Industry Index* represents the number of acquisitions made by a SWF in a sector over the total acquisitions made by that SWF. *Country Index* represents the number of acquisitions made by a SWF in a country over the total acquisitions made by that SWF. *GDP* is the natural logarithm of pro capita gross national product. *Anticorruption* is the World Bank anticorruption index, ranging from -2.5 to +2.5.

	ΔROA	Adj. ΔROA
Constant	3.0451***	2.6690***
	[1.1262]	[1.0124]
Swf Ceo Politics	0.0773***	0.0596***
	[0.0251]	[0.0219]
Direct	-0.0043	-0.0118
	[0.0244]	[0.0234]
Oil	-0.0112	-0.0001
	[0.0246]	[0.0217]
Fund	-0.0325	-0.0309
	[0.0228]	[0.0215]
Transparency	0.0031	0.0024
	[0.0036]	[0.0032]
Swf Birth	-0.0016***	-0.0014***
	[0.0006]	[0.0005]
Ta/AuM	0.0004**	0.0003*
	[0.0002]	[0.0002]
Foreign	0.0083	0.0156
	[0.0266]	[0.0222]
Listed	-0.0298	-0.0212
	[0.0239]	[0.0202]
Industry Index	0.0224	0.012
	[0.0588]	[0.0577]
Country Index	0.0921**	0.0949**
	[0.0441]	[0.0401]
GDP	0.0011	0.0092
	[0.0125]	[0.0116]
Anticorruption	0.005	-0.0068
	[0.0209]	[0.0196]
Adjusted R-squ~d	0.0344	0.0297
Observations	206	206

These results confirm theoretical predictions about the role of political connections. Benefits are related those firms targeted by SWFs with a politician as CEO. Our finding adds to the previous studies that being an SWF target could be not enough to claim for a political connection. Only when a politician acts as CEO, funds' target enjoys these benefits. This result holds even when we consider adjusted changes in operating performance. The other SWFs variables have the expected sign but are never statistically significant, with the exception of fund's age. Older funds seem to have a positive impact on target firms' performance.

Country Index has the expected positive impact, showing that target benefits from the good relationships of the SWFs with the country.

5. Conclusions

SWFs manage $4.7 trillion in 2010 and their asset under management is expected to grow (Sovereign Wealth Fund Institute's website). They are larger than other institutional investors, such as hedge funds (1.7 trillion) or private equity funds (0.7 trillion).

This paper investigates the SWFs target selection and the impact of their investments on firms operating performance. Differently from the previous studies, we included unlisted firms in our sample.

We show that SWFs prefer larger levered firms, in line with prior findings (Kotter and Lel, 2011). SWF target are cash-rich firms, and higher intangible asset ratio than the others, meaning that SWFs prefer firms with higher know-how. Controlling for the industries, we find that SWFs prefer investments in financial, real estate and logistic sectors. This shows a propensity to invest in infrastructure and network. Listed firms are preferred, as it is expected because of the size of the firms. We control for the countries characteristics and find that SWFs prefer firms from less

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developed countries. The effect is due to the deals of some SWFs that invest in unlisted domestic companies (i.e. China Investment Corporation or Kazakhstan National Fund). USA and Europe dummies take a negative coefficient, meaning that SWFs invest in regions where economy is growing faster.

To measure post-deal performance, we must rely exclusively on financial statement data. We compute *ΔROA,* defined as the difference between the ROA in the first year after the SWFs' deal (+1) and the firm's ROA for the previous year (-1). We also compute an additional measure of adjusted changes in operating performance *Adj. ΔROA,* subtracting the change in the median ROA of the firms in the target firm's industry, year and country *to ΔROA* (Kaplan, 1989)*.*

Our findings support political connection benefit hypothesis, since the impact of SWFs investments improve target firms' performance when a politician runs the fund. We find that this results hold even adjusting ROA. We use a *Country Index* that is the number of acquisitions made by a SWF in a country over the total acquisitions made by that SWF. This index is a *proxy* of the attraction of SWFs investment in a specified country. Operating performances are positively influenced by this index, showing that good relationships help SWFs target firms to get benefits.

Overall, we find that SWFs investors prefer network and infrastructure firms, and the impact of their investments on target firms' performance is positive when a politician runs the fund or when there is a closer relationship within a SWFs and a specified country that attract its investments.

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