

The objective of this paper is to identify what characteristics of a firm attract the large sovereign wealth fund investing in Japanese shares and to examine the possible impact on the target share performance. The focus of this paper is on the sovereign wealth fund ranked as the fifth largest shareholder in the Tokyo stock market whereas the published literature on this subject usually uses the aggregated data of various sovereign wealth funds investing in many host countries. Using sample firms from the top 500 companies in the Tokyo market from 2008 to 2013, the panel data analysis shows that the SWF prefers relatively small value shares with high ROE from the large cap market index. The analysis also provides little evidence of superior returns of the target firms, suggesting no impact on these target firms. All in all, the investment strategy and subsequent impact of the SWF in Japan should not cause concerns about political interference.

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