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World's largest pension fund backs India

By Khozem Merchant in Mumbai and Roel Landingin in Manila

India yesterday won the endorsement of the world's largest pension fund, a move that is likely to spur more foreign purchases of Indian stocks.

Just months after saying Indian assets were still too risky, the California Public Employees' Retirement System (Calpers) has added India to its list of allowable investment markets.

The US fund manager also said it would not withdraw investment from the Philippines, spurring investors there to push share prices to the country's highest in three months.

Calpers has US$166bn under management, of which only $2bn is currently invested in emerging market assets.

Calpers' decision is seen as a vote of confidence in the structural reforms that have made India one of Asia's most efficient stock markets.

Settlement of share trades in India now follows a day after a trade is initiated, quicker than transactions in Hong Kong ad New York.

India's new status comes at a time of strong capital flows into the country. This year, foreigners have bought a net $3.8bn of Indian securities, maintaining the pattern of 2003 when a record $7bn flowed into India and equity prices rose some 70 per cent.

The robustness and liquidity of the market in India has also attracted global franchises such as Fidelity of the US, which is seeking a licence to manage assets in India.

"Calpers' move is a sign of a change in the road map for global funds in terms of risk and reward," said Jon Thorn, who manages US$120m of assets for the India Capital Fund in Hong Kong.

Calpers is now likely to apply its tough standards on corporate governance in India. Alok Vajpeyi of DSP Merrill Lynch Fund Managers in Mumbai said: "Institutional activism may be young in India but it is being officially encouraged."

Calpers' decision to remain in the Philippines followed more than two months of lobbying to persuade the fund's advisors to reverse its February recommendation to drop the country from its list of permissible emerging markets.

At the time, the fund's advisors said the Philippines failed to meet criteria for market market liquidity, political stability, financial transparency and labour standards.

Although Calpers' placements in Philippines equities amount to only $65m, small compared to Philippine stock exchange's market capitalization of $54bn, Manila was desperate needed to retain the fund to "boost investor confidence" said a government official.

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