

Argentina May Sell Pension Equity Stakes

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Argentina's government may sell stakes owned by the country's pension funds once it nationalizes the retirement system, said Nicholas Field, an emerging-markets fund manager at Schroders Plc

"Once the government gets hold of all the pension funds' assets, then they will sell all remaining equity and use any available cash to buy their own debt," said Field, who helps oversee about \$18 billion in London.

The benchmark Merval index posted its biggest two-day drop since 1990 as President Cristina Fernandez de Kirchner's plan heightened concern the government is headed for its second default this decade. The gauge lost 10 percent to 940.82 today, bringing its retreat since the start of trading yesterday to 20 percent.

Amado Boudou, the head of Argentina's social security administration, said yesterday the government will keep the same investment mix for the AFJPs, with 60 percent in bonds and 10 percent in stocks. Nobody at the agency was available to comment today, a public relations official said by phone. An e-mail seeking comment wasn't immediately returned.

Schroders Investment Management Ltd., a unit of Schroders Plc., owned 3.8 million American depositary receipts of Telecom Argentina SA, the second-largest telephone company, as of June 30, Bloomberg data showed. The stock fell 25 percent to 3.97 pesos today, the biggest drop in the Merval.

Field declined to comment on whether Schroders is selling Argentine stocks or plans to reduce the country's "underweight" position in its Latin American fund.

The retirement system, set up in 1994 to help bolster capital markets, owns about 27 percent of shares available for public trading in Argentina, data compiled by pension funds show.

MSCI Inc., which keeps stock indexes used by investors in 25 emerging markets, said in June it would consider dropping Argentina from emerging markets status, demoting it to a "frontier" stock market, unless the country lifts capital controls that require foreigners to deposit 30 percent of their investments with the central bank.

MSCI will probably proceed with Argentina's demotion, said Bill Rudman, who helps manage \$3 billion of emerging-market equity at WestLB Mellon Asset Management in London. WestLB Mellon will probably cut its current "neutral" allocation to Argentine stocks, Rudman said in an interview yesterday.

Market size and "accessibility" are taken into account when deciding on classifications, Dimitris Melas, executive director of MSCI, said by phone yesterday, declining to elaborate on Argentina's case.

Tenaris SA, which accounts for 69 percent of the MSCI Argentina country index, will switch to the MSCI Italian index starting next month as trading volume increases in Milan and shrinks in Buenos Aires, MSCI said in a statement last month.

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