



## August 2011 Market Commentary

	NAV	August	YTD	Volat.
MSCI RUSSIA INDEX	889.14	-13.46%	-4.60%	32.01%
PHAROS RUSSIA FUND	225.57	-15.83%	-19.77%	22.08%
PHAROS GAS INVESTMENT FUND	3236.52	-11.58%	-21.96%	18.64%
PHAROS SMALL CAP FUND	133.74	-14.32%	-21.21%	24.34%

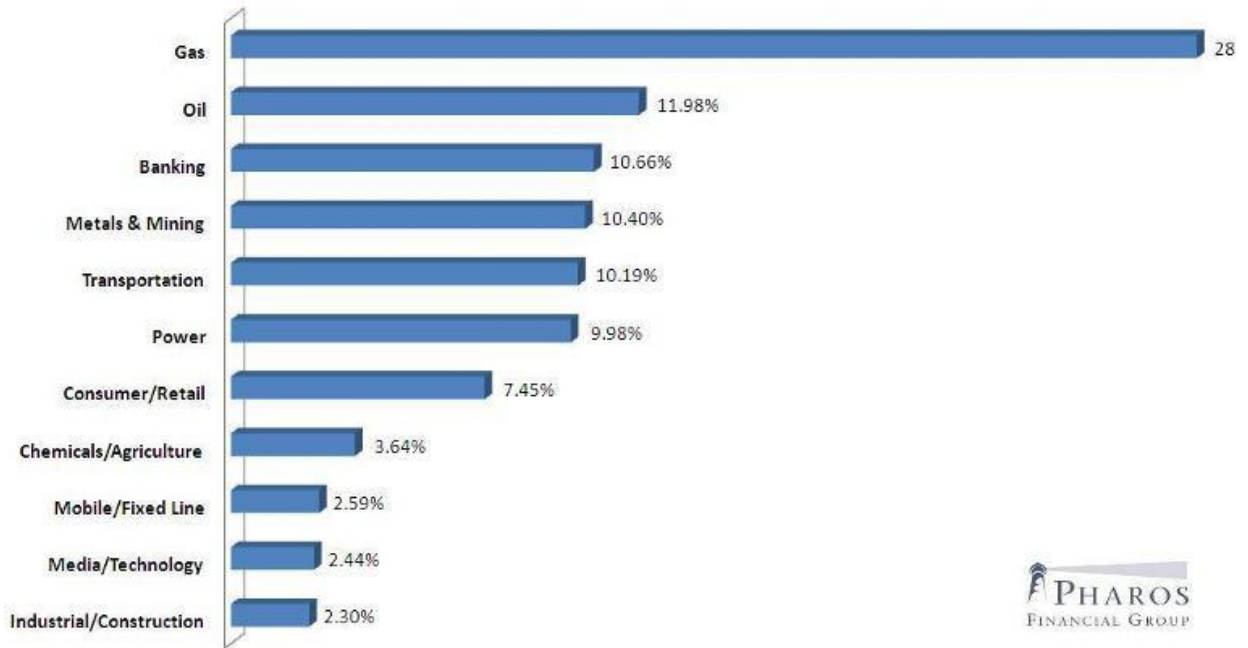
Dear Friends and Investors,

The Russian market continued lower in August along with most other markets around the world. The prospects of slowing global growth compounded with fears of constraints on European liquidity caused another bout of re-risking across most asset classes globally.

The Russian market continued to demonstrate high beta qualities arising from the dominance of export commodities on its fiscal budget and its lack of dedicated domestic institutional investment funds. Without dedicated domestic pension money and other such long-term local buyers, the Russian markets remain vulnerable to overshooting to the downside. The reversal of fund flows was quite pronounced among foreign investors with a reported outflow of \$2.1 billion during the month.

The Central Bank of Russia pursued a policy of non-intervention in the ruble exchange rate despite the pressure on the currency. At this stage, the CBR has chosen to let the ruble float within a wide band-- a policy that stands in stark contrast to its initial policy of intervention and ruble stability during 2008. The RUBBASK closed down 4.5% on the month at 34.5. Meanwhile inflation moderated somewhat in July as it continues to trend lower. We see less systemic danger now than in 2008 from ruble weakness as FX debt exposures have been greatly reduced over the past two years.

Pharos Investments Ltd Sector Weightings  
as of 31 August 2011



For performance information and daily market comments please visit our website [www.pharosfund.com](http://www.pharosfund.com).

Please feel free to contact us at any time.

Best regards,

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