

## Pharos Russia Funds Resilient, but Drop With Russian Market

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West Palm Beach (HedgeCo.net) - Conservatively positioned given the high level of stress that existed on the global financial system, the 3 Pharos Russia Funds' current strategy uses alpha generation which comes from a combination of stock selection and active use of hedging tools available in the marketplace.

The three funds are showing the most resilience among funds in the Russia & CIS universe year-to-date. However, during the month of August, the Pharos Russia Fund was down 7.8%, the Pharos Small Cap Fund was down 8.8% and the Pharos Gas Investment Fund was down 2.3%. Meanwhile the MSCI Russia Index was down 14.7% over the same period.

August saw a continuation in the decline in markets globally, with Russian markets succumbing to the sell-off in global credit markets, continued pressure on commodities and dollar strength.

The Russian authorities have shown a willingness to intervene to protect against domestic dislocations caused by distressed selling. The Russian state has announced a liquidity package of more than \$150bn.

It has increased its deposits held at the largest banks and offered them repo lending that references inflated asset valuations. The state-owned Vneshekonombank will also provide up to \$50bn to Russian companies and banks to help redeem the \$65bn of external debt coming due through 1Q'09. Meanwhile the interbank lending market is being supported by a government guarantee against defaults.

"Given the relative size of the economy," Pharos says, "Russia is better positioned than most to withstand a downturn in credit markets with its \$581bn of reserves and over \$200bn Stabilization Fund."

"Valuations are compelling and we expect to take advantage of these opportunities. We look for catalysts to the market to guide our entry points, such as stability in the industrial commodities markets, a reversal in measures of global risk aversion and global monetary easing."

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