

Pharos sheds light on Russia's recovery

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By Guy Norton

"It's been a long and sometimes painful process but the transition to a market from a centrally planned economy has finally taken hold," says Peter Halloran, founder and chief executive of Russian asset manager Pharos Financial Group. Resident in Moscow since 1995, Halloran has first-hand experience of the highs and lows of Russia's experiment with capitalism, but for all the trials and tribulations he remains confident that the country has a bright future. Pharos, which was founded in 1997 with seed capital from former employers CS First Boston and Soros Fund Management, is looking to expand rapidly in the course of the next 12 to 18 months, with the aim of raising funds under management from about \$150 million at present to \$1 billion. Halloran believes that after a year in which the Russian equity markets have underperformed, they are set for a re-rating in 2008. "Top line GDP growth of over 7% is filtering down into corporate profits and political risk is diminishing, which means the markets is getting cheaper all the time."

Not that marketing investment opportunities in Russia is a no-brainer. Far from it, says Halloran. "The further you move away from Russia the more the misunderstandings about the country increase," he says, adding that while Russia is well understood in Europe, that's still not the case in the US. "In Europe there a much broader universe of investors that look at Russia compared with 10 years ago. In the US in the 1990s the main investors in Russia were the big hedge funds and that's still the case today."

For Halloran, the biggest difference between 1998 and the present day has been the vast improvement in the competence of the Russian authorities. "In the late 1990s the fiscal story was one of complete mismanagement, with no tax base whatsoever." Halloran says that under president Vladimir Putin the picture couldn't be more different. "There's been great fiscal management which Putin deserves more credit for than he gets." Halloran cites the revamping of the tax code in 2003 as a prime example of the reforms instituted under Putin. "It was a major improvement and has helped to maximize the government's tax take and take advantage of the increasing revenues of commodities companies in particular. Although Putin is the bête noire of the chattering classes in the west because of his increasingly authoritarian stance on social and foreign policy issues, Halloran says that from an economic perspective he has been an undoubted boon. "Centralizing power has worked well – Russia has always worked that way." He adds that by creating companies in strategically important sectors, such as oil company Rosneft, he has established companies with a truly national imprint that benefit from economies of scale.