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TURQUOISE PARTNERS

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In May, the Tehran Stock Exchange's (TSE) two-month long price rally, in which the market's main index moved up by 6% since the beginning of the Iranian year (20th March), finished. This was mainly due to international political developments. The outcome of the second round of nuclear negotiations between Iran and the West in Baghdad fell short of the market players' expectations and was viewed as 'unclear' at best. This led to a sudden change in investor sentiment and triggered sell-offs across several major sectors of the market. The 'positive' outcome of the first round of talks in April in Istanbul had created a sense of optimism about a potential resolution to Iran's long standing tensions with the West over its nuclear programme for many investors. This was the main reason for the price gains of March and April.

The sentiment change had an impact on the foreign exchange market also. The unofficial rate of Rial against the US Dollar fell by 5% by the end of May. The weakening of the Rial against major currencies is normally viewed as beneficial for exporting companies. However, the fall in Rial this time did not stimulate investor excitement and stock prices in sectors such as petrochemical, metals and mining ended the month lower. The petrochemical sector was, for the third consecutive month, among the most traded. However, this time the pressure was from the sellers who were concerned about the potential impact of international sanctions on the exports of these companies. Iran is a major producer and exporter of methanol and several other petrochemical products.

The latest data published by the Central Bank of Iran shows that the Consumer Price Index (CPI) grew by 2.7% in April, putting the annual inflation rate at 24%. The rise in inflation has accelerated over the past 3 months and this trend is expected to continue for the next few months. Analysts argue that the rising inflation rate could have an adverse impact on the equity market, as it increases the investors' expected return on investment. Additionally, the lackluster performance of equities against parallel investment classes such as gold, real estate and even fixed income over the past 6 months has led to a degree of outflow of funds from the equity market. The combination of these factors with the political uncertainty is expected to make the investment environment somewhat challenging for the equity market players over the summer.

Some of the key sectors and events of the market will be examined below:

Cement

The cement sector was the top performing sector of the market in May. There were two main reasons for this. Firstly, following major amendments by the parliament to the government's proposed plan for the second phase of the removal of energy subsidies, the government postponed the implementation of the plan for further review. There is speculation that the implementation of the second phase may not happen at all this year. This was viewed as a positive development for cement manufacturers, as the sector is among the most energy intensive sectors of the market. Energy, on average, constitutes 20% of the cost of production of cement in Iran. Secondly, the latest published data on construction activity across the country is particularly encouraging. Issuance of new permits and construction of new units is now at its highest level for over 3 years and this upward trend in construction is expected to continue throughout the year. Additionally, a 50% hike in the price of steel over the past year means that concrete building frames are now more economical than steel frames. This has led to an increased demand for cement.

The cement sector index gained 14.6% in value in May; this was its best monthly performance since the beginning of 2011.

Metals

Despite an increase in the unofficial US Dollar exchange rate against the Rial, stocks of steel, aluminium, zinc, lead and copper companies ended the month lower. Sharp declines in the global prices of commodities and basic metals such as copper and steel billet, the uncertain global outlook, and concerns about political tensions and sanctions have led to a decrease in demand for metal products, as evidenced by trade volumes on the Iranian Mercantile Exchange (IME). Consequently, prices of steel, copper and aluminium fell by 5%, 4% and 7%, respectively, on the IME. Analysts believe that investors are likely to remain cautious and risk averse towards this sector in the near term; but with a longer term view, the metals sector is one of the most attractive sectors of the market.

The basic metals sector index lost 3.8% of its value in May.

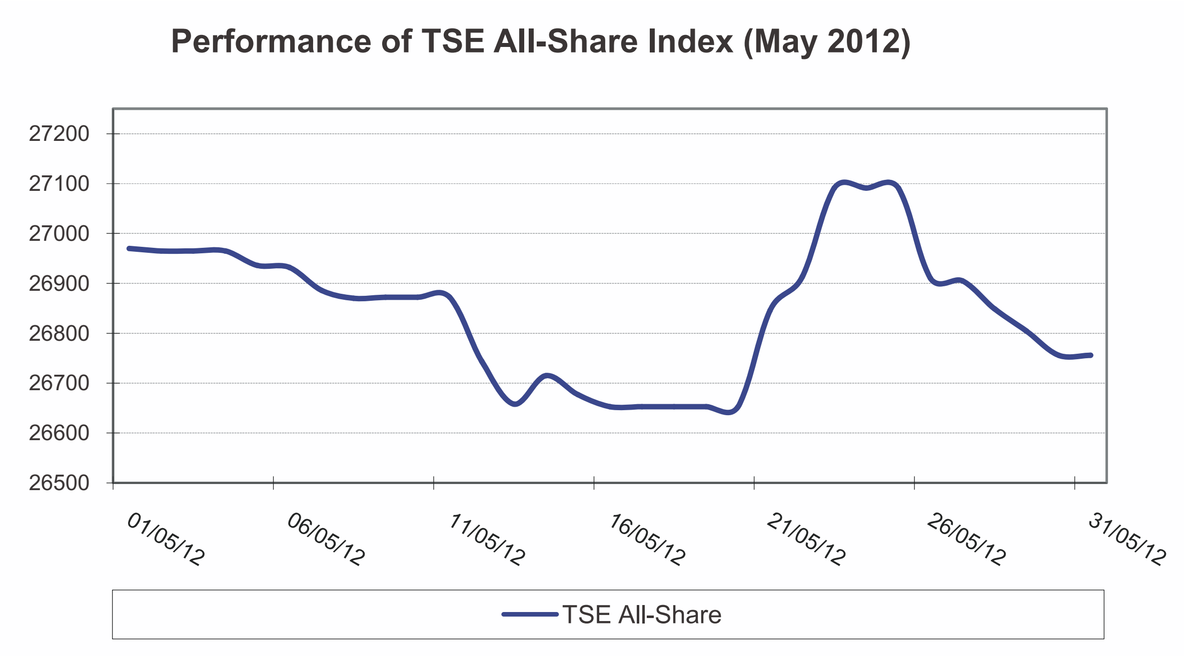
Iron Ore

The mining sector was the main laggard of the market this past month, mainly driven by declines in share prices of iron ore producers. In early May, the government introduced a 70% tariff on the export of graded iron ore. The news was unexpected, as Iran has an excess production capacity in graded iron ore. The country's total annual production adds up to 11 million tonnes, while domestic consumption is 5 million tonnes and the remainder is exported to China. Unsurprisingly, the news took its toll on the entire mining sector and the sector index lost 5.5% of its value in May.

New Fixed Income Listing

On 28th May, $115 million worth of participation papers (an Islamic form of a bond) were listed on the TSE. This was the first fixed income instrument to be listed on the TSE for over 8 years, as all other fixed income listings have taken place on the Iranian OTC (Farabourse) market. These papers were issued by the City of Shiraz Municipality with an annual coupon of 20% to be paid quarterly, and with a tenure of 4 years. The primary offering of these papers took place in March and through the branches of a bank, and the listing on the TSE took place in order to facilitate the secondary trades of these papers. These papers were in strong demand and were traded with a premium on the face value of up to 50 basis points.

Overall, the TSE All-Share Index lost 0.8% of its value in May. Trade volumes stood at $1.08 billion, a slight decline of 4% in comparison to the previous month.



Market Statistics	
Average P/E	5.8
Trade Volume ($ Billion)	1.1
Trade Value Monthly Change (%)	- 3.5
Market Cap ($ Billion)	109

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($Million)	% of Total Turnover
1	Ansar Bank	103	9
2	Pasargad Bank	69	6
3	Parsian Oil and Gas Development Co.	59	5
4	Pardis Petrochemical Co.	59	5
5	Iran Kish Credit Card Corporation	38	3

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap ($Million)	% of Total MC
1	Telecommunications Co. of Iran	9,702	9
2	National Iranian Copper Industries Co.	6,572	6
3	Isfahan Mobarakeh Steel Co.	6,164	6
4	Ghadir Investment Co.	3,943	4
5	Pasargad Bank	3,573	3

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 12260, as at 31 May 2012

Latest Rounds of Nuclear Talks

In April and May, Iran and the so-called 5+1 Group held two rounds of negotiations over Iran's disputed nuclear programme. The meeting in Istanbul was the first official meeting of the two sides for almost 18 months.

Following a series of unprecedentedly tough new sanctions imposed by the US, EU and several other states in January, dialogue between Iran and the West resumed in February. Although the initial talks between Iran and the International Atomic Energy Agency (IAEA) and the IAEA's officials' visits to Iran were fruitless, Iran and the 5+1 Group eventually agreed to hold an official meeting in April in Istanbul. Ahead of the talks, the two sides softened their tones and a sense of cautious optimism developed surrounding the prospect of making progress on the long-standing nuclear dispute.

Iran and the 5+1 met on 14th April in Istanbul and behind closed doors. The discussions reportedly took place in a serious and positive environment. Discussions were mainly of a general nature and no specifics of any disputed issues or any proposals were discussed. The parties agreed on a step-by-step and reciprocal process for all subsequent negotiations. The talks were described as constructive and generally positive by both sides. An important outcome of the meeting was the agreement of the parties to meet again in Baghdad in May.

On 23rd May, the two parties met in Baghdad for a two-day session of negotiations. The atmosphere of the talks, unlike the Istanbul talks, was quite tense as the two sides engaged in more detailed discussions. During the first day of the talks, the 5+1 Group presented to Iran an incentive package that was aimed to be a basis for the continuation of the discussions. In this package, the West requested that Iran suspends its enrichment of uranium to 20% purity and gives up its stockpile of uranium that was already 20% enriched, in exchange for the supply of the required fuel for its reactors. Additionally, it demanded that Iran shut down its nuclear facilities site at Fordo. The existence of this site was recently discovered by the West and is suspected by the West to be used for testing and developing capabilities that might be used in manufacturing nuclear weapons. As incentives, the West offered to supply aircraft spare parts to Iran and to assist Iran with safety aspects of its peaceful nuclear facilities. This package was not welcomed by the Iranian negotiation team. Experts argue that the package failed to offer any substantial incentives for Iran to take the important step of suspending parts of its nuclear programme. The package was described by the Iranian media as 'vague' and 'incomprehensive'. It was reported that Saeed Jalili, Iran's chief nuclear negotiator, threatened to leave the talks, because the 5+1 offers failed to address Iran's main demand of easing the international sanctions, particularly the oil embargo by the EU, which will commence of 1st July.

In parallel with the 5+1 package, Iranian negotiators also came to Baghdad with their own proposals, referred to as the 5-point plan. The key aspects of the Iranian proposal included the recognition by the West of Iran's right to enrich uranium, co-operation on development and safety aspects of nuclear technology, and also co-operation between Iran and the West on resolving some of the regional issues. The 5+1 Group did not immediately react to Iran's proposal and indicated that it will need some time to examine and understand all aspects of Iran's proposal. Despite major differences between the two sides, at the end of the two-day talks they agreed to meet again in Moscow on 18th June.

The negotiations in Moscow were also described as intense and tough. The two sides reportedly spent over 2 days discussing in detail each side's proposal package. They expressed their concerns and complaints and tried to build on the little common grounds between the two sides in order to avoid the collapse of the talks. The exact outcome of the talks was unclear. After the talks, the 5+1 stated that no other high-level talks of similar nature have been scheduled, but instead, working groups will be formed and will meet to discuss the technicalities of the proposals.

The general consensus seems to be that by the end of the talks in Moscow, Iran accepted the West's demand for the suspension of its 20% enrichment programme. However, in return, Iran expects a significant concession from the West – namely – recognition of its right to enrich uranium, and, more importantly, some relief from the sanctions, particularly those imposed on its oil and gas industry. The latter is something that the West, particularly the US, has firmly refused to offer Iran at this stage and this seems to be a key driver in the two sides reaching any form of resolution in the almost decade-long nuclear stand-off.

Introduction of Exchange Traded Funds

In May, the Securities and Exchange Organisation (SEO), the regulator of Iran's capital market, announced the launch of Exchange Traded Funds (ETF's) in the near future. A working group within the SEO is currently in the process of finalising the regulatory framework for ETF's. All investment funds licensed by the SEO may apply to become ETF's and to be listed on either the Tehran Stock Exchange (TSE) or the OTC market (Farabourse), depending on their size.

Fund management is a very young industry in Iran. The first retail investment fund received its permission from the SEO around 4 years ago. Since then, 80 fund licenses have been issued, comprising 60 mutual funds, 17 fixed income funds and 3 mixed asset class funds. The industry's total funds under management amounted to approximately $1.9 billion as at the end of April.

The regulatory framework for investment funds has come under widespread criticism by fund managers and other industry players. Regulations have been described as being too rigid, restricting variation and innovation in products. There are strict stock and industry exposure limits and pre-defined structures and formulae for fees in place, which makes it difficult for funds to differentiate themselves, based on their investment strategies and risk levels.

A particularly challenging regulation for the industry is the requirement for all retail funds to provide daily redemption to all investors. Fund managers are obliged to hire a financial institution with sufficient capital adequacy to guarantee the daily liquidity of the funds. This could create considerable problems when redemptions become large and frequent, particularly for larger funds. Additionally, the liquidity guarantee function has, on average, added 2% per annum to the costs of funds and at the expense of unit holders of funds. The introduction of ETF's is expected to assist in the removal of this regulation, as the secondary trading market will essentially provide a replacement for the daily redemption provision.

New Natural Gas Reserves Discoveries

According to the National Iranian Oil Company (NIOC), the latest exploration operations have led to the discovery of 26 trillion cubic feet of natural gas in the Persian Gulf and another large gas deposit in deep waters in the Caspian Sea.

New natural gas reserves have been discovered in the Kish gas field, located in the Persian Gulf. The new discovery increases total reserves at this field to 66 trillion cubic feet of natural gas. Exploration is ongoing in the region in order to find new gas deposits. The National Drilling Company of Iran, reportedly, has plans for another 60,000 meters of drilling in the Kish gas field.

Additionally, a new gas reserve has been discovered in the Sardar Jangal gas field in the Caspian Sea, which is estimated to contain 50 trillion cubic feet of natural gas. According to the NIOC, the gas field, which is 700 meters below the water surface, falls within Iran's maritime borders and is not shared with neighboring countries.

Iran has the second largest proven gas reserves in the world after Russia. Iran's natural gas production capacity stands at around 554 million cubic meters per day. Taking the gas imported from Turkmenistan into account, around 600 million cubic meters of natural gas is supplied across the country every day. Iran exported over 7.6 billion cubic meters of natural gas last Iranian calendar year, up 10.5% compared to the previous year.

Iran's rank in Global Competitiveness and its share of ECO trade

According to the Global Competitiveness Report 2011-2012, published by the World Economic Forum, Iran extended its increase in competitiveness by climbing 7 places in the ranking of member states, reaching 62nd place among 142 countries compared to its 69th position amongst 139 countries in the previous year. Also, Iran was ranked 10th amongst Middle Eastern countries.

According to this report, Iran's competitiveness score rose from 4.1 in the previous year to 4.3 this past year. A survey by the Iran Chamber of

Commerce indicates that the three key challenges for doing business in Iran are limited access to financing, policy instability and inflation. Figure below illustrates Iran's position in the Global Competitiveness Index.

Global Competitiveness Index

	Rank (out of 142)	Score (1-7)
GCI 2011 - 2012	**62**	**4.3**
GCI 2010 - 2011 (out of 139)	69	4.1
GCI 2009 - 2010 (out of 133)	n/a	n/a
Basic requirements (50.6 %)	51	4.8
Institutions	72	3.8
Infrastructure	67	4.0
Macroeconomic environment	27	5.6
Health and primary education	50	5.9
Efficiency enhancers (42.0 %)	88	3.8
Higher education and training	89	3.9
Goods market efficiency	103	3.9
Labor market efficiency	139	3.3
Financial market development	123	3.3
Technological readiness	104	3.1
Market size	21	5.1
Innovation and sophistication factors (7.3 %)	83	3.4
Business sophistication	92	3.6
Innovation	70	3.1

According to the Trade Promotion Organisation of Iran, Iran's share of the annual trade turnover among the Economic Cooperation Organization (ECO) is around $10 billion. The report indicates that $6 billion of this amount is the share of Iran's exports to ECO member states. The 10 members' overall share in the global trade is approximately $684 billion annually.

ECO is an inter-governmental regional organisation established in 1985 by Iran, Pakistan and Turkey. In 1992, seven new members joined the organisation. The organisation provides a platform to promote economic, technical and cultural cooperation among member states.

Automotive Sales in Iran in 1390

The latest published statistics reveal that in the Iranian calendar year 1390 (which ended on 19th March), the total sales of the automotive industry, including both domestically produced and also imported vehicles (excluding commercial vehicles), amounted to $18.8 billion. Last year, approximately 1.4 million vehicles were manufactured in Iran, which shows a rise of 3.5% in comparison to the previous year. However, this is the slowest annual growth in production for almost a decade. The automotive industry as a whole has been hard hit by the devaluation of the unofficial exchange rate of the Rial against major currencies, as well as international trade embargoes on Iran.

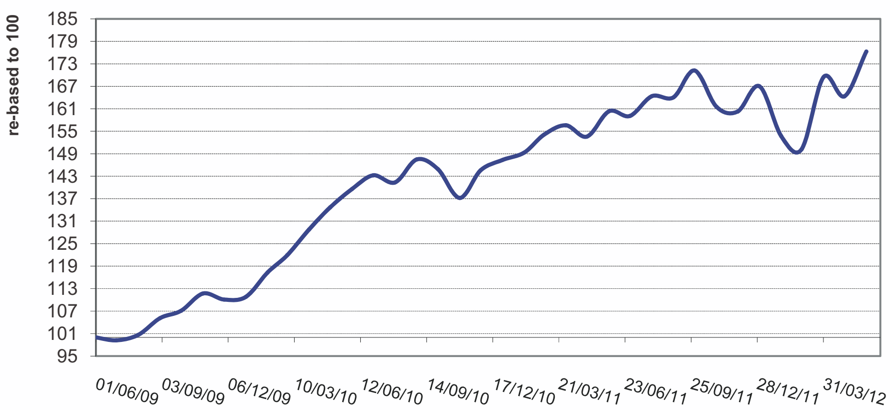
The statistics also show that 40,000 vehicles were imported into Iran last year and were sold for the sum of approximately $2 billion. A report published by the Trade Development Organisation of Iran estimates that importers of vehicles into Iran made total profits in excess of $460 million last year. Additionally, the government's revenues from import taxes and fees amounted to $875 million. Among the imported cars, Kia, Hyundai, Toyota and Mercedes-Benz had the biggest shares.

Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is to provide superior returns, with greater diversification and lower volatility.

Class A — *NAV = 176.3*

Vehicle Domicile British Virgin Islands	**Management Fee** 2.0% p.a	**Currency** Euro (€)
Launch Date 01 June 2009	**Carried Interest** 20% (High Water Mark Applies)	**Minimum Investment** €100,000

Class A Performance (Euro) - As at 31st May 2012



Period	Portfolio Return
Last Month	7.3 %
Last 3 Months	17.3 %
Last 6 Months	10.0 %
Last 12 Months	9.9 %
Since Inception (01 June 09)	76.3 %

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About Turquoise

Turquoise is a boutique investment firm based in Iran. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: *info@turquoisepartners.com*

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