

THIS MONTH

Market Overview **2**

In December, the Tehran Stock Exchange (TSE) continued on its negative trend of the previous month. However, the market began to demonstrate signs of stability and trade volumes increased significantly, as investors gradually returned to the equity market. This month, a new trading software system on the TSE became operational. This section provides an analysis of the market and some of the main sectors.

Turquoise Iran Equity Fund **4**

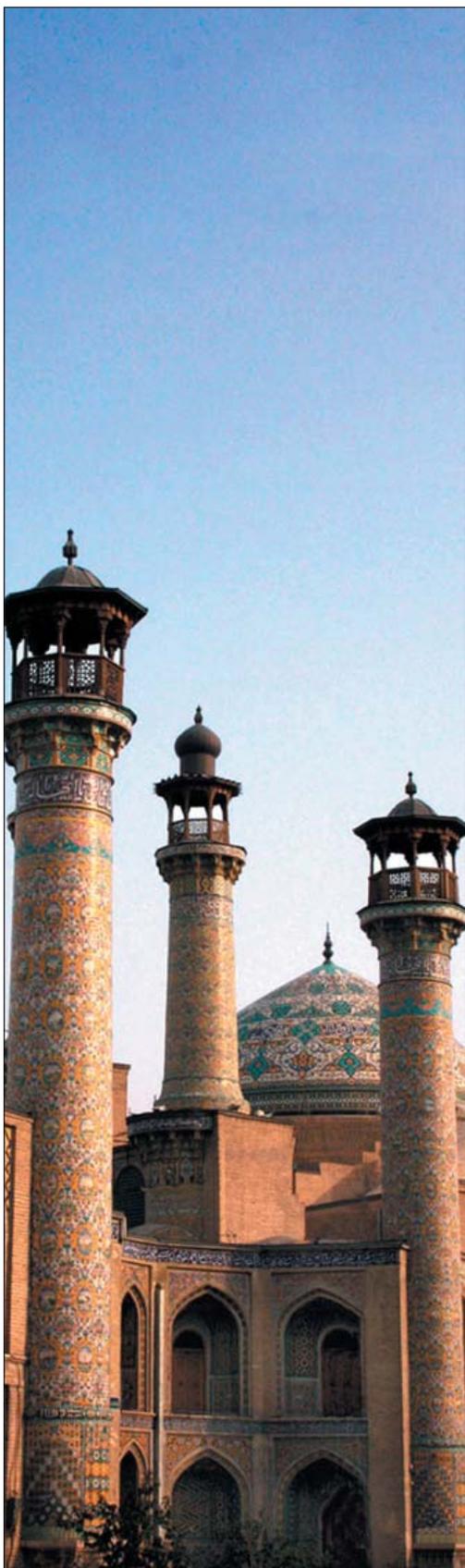
The Turquoise Fund's NAV declined in December, losing 7.5% in value. This section provides data and charts on the Fund's performance.

Country Overview **6**

Potential candidates for the Iranian presidential election in June 2009 will be discussed in this section.

Economy **8**

The inflation rate in Iran, the formation of a Gas Exporting Countries Forum, Ministry of Energy participation bonds and a new Iranian car will be covered in this section.



In December, the Tehran Stock Exchange (TSE) continued on its downward trend of the previous month. A slump in the global prices of most commodities has caused investor concern about the profitability prospects of commodity producers on the TSE. Consequently, share prices of commodity producers have lost 30-50% of their value. However, now that prices have fallen significantly, selling pressure is gradually easing on most stocks and investors are returning to the equity market. Analysts predict that the market should stabilise within a few weeks.

In early December, a new trading software system on the TSE became operational. The new software replaced the existing system which had been used for 30 years. The system was officially launched on the 8th of December during a ceremony attended by the Minister of Economic and Financial Affairs. This software was purchased from a French company and is widely used by many exchanges around the world. The new software initially resulted in a decline in trade volumes, as traders and investors adjusted to it. However, analysts believe that the new system will greatly improve the market and its operations. Improvements include faster trades and order placements, and increased access to information. The new software has improved functionalities and provides real-time data to all investors.

In the new system, the TSE main index, which was previously called the TSE Price & Dividend Index (TEDPIX), was renamed as the TSE All-Share Index (TEPIX). From now on, the TEPIX will be used as the benchmark for comparison purposes in all Turquoise Partners and Turquoise Fund reports and publications.

Some of the key sectors of the market will be analysed below:

Mining and Metals

Stocks of zinc and lead producers were closed to trading in December for a downward adjustment of their earnings forecasts. The fall in global prices of zinc and lead and consequently, pressure on domestic prices has adversely impacted the profitability of these companies. Furthermore, those companies dependent on the Angouran mine for their raw materials have been forced to suspend their operations. This is due to a raw material shortage resulting from the partial structural collapse of the Angouran mine last year.

Iron ore companies were among the worst performing listed companies in December. The uncertainty surrounding domestic iron ore prices for the coming year and lower global prices have resulted in the sub-sector index losing around 40% of its value over the past two months.

Pharmaceuticals

The combination of higher raw material costs and sanctions resulted in increased production costs for most pharmaceutical companies in the first half of their financial year (ended October 2008). Prices of the majority of generic drugs are set by the government. Historically, pharmaceutical companies have enjoyed a price increase every year. However, this year the government has not yet authorised a price increase, despite the higher production costs. Therefore, the first half results of most companies in this sector were weaker than expected. In addition, delays in payments from buyers and the limited availability of short term lending facilities from banks, have put pressure on the working capital of these companies.

Over the past three months, the situation has begun to improve for a limited number of companies in this sector. Prices of most domestically manufactured chemical and petrochemical products have fallen in line with the commodity meltdown; this has resulted in lower production costs. In December, the market also responded to rumours of a potential price increase by the government late this year. This resulted in increased trading in some of the pharmaceutical stocks.

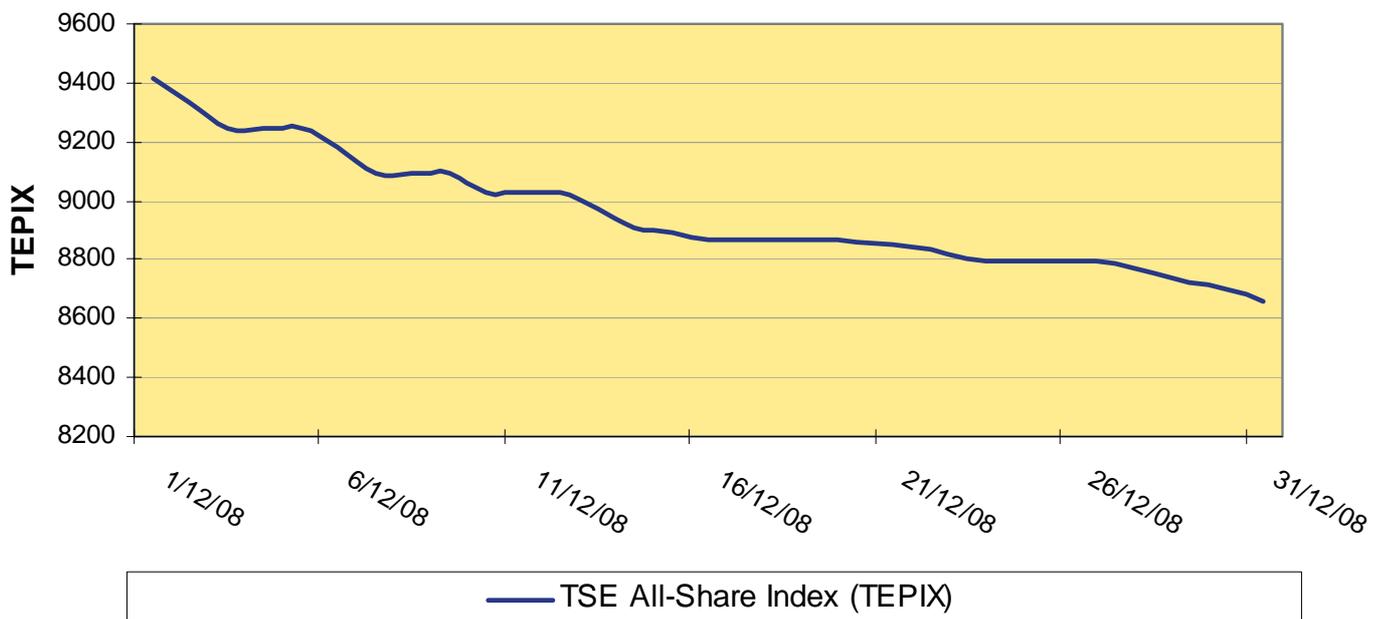
Auto Manufacturers

Stocks in this sector had been out of favour with the market for some time, but are now attracting many investors. Falls in the prices of steel and copper have resulted in potentially higher profit margins for these companies. Also, the majority of stocks in this sector have active market makers. Thus, their perceived downside risk is lower than many other stocks in the market. The highest trade volumes in December were in Saipa, the largest company by market capitalisation in this sector.

In mid-December, the Securities and Exchange Organisation (SEO) granted an investment banking licence to Saipa Group. This is the fourth investment banking license that has been issued by the SEO. Saipa has been active in leasing and insurance services for a number of years, through its subsidiary Rayan Saipa. It is now planning to expand its presence in the financial services sector through its newly licensed investment banking arm.

Overall, the TSE continued to fall in December, with the TSE All-Share index (TEPIX) losing 8.5% in value. Trade volumes, however, showed an increase of 64% in comparison to the previous month and stood at \$390 million by the end of December.

Performance of TSE All-Share Index (December 2008)

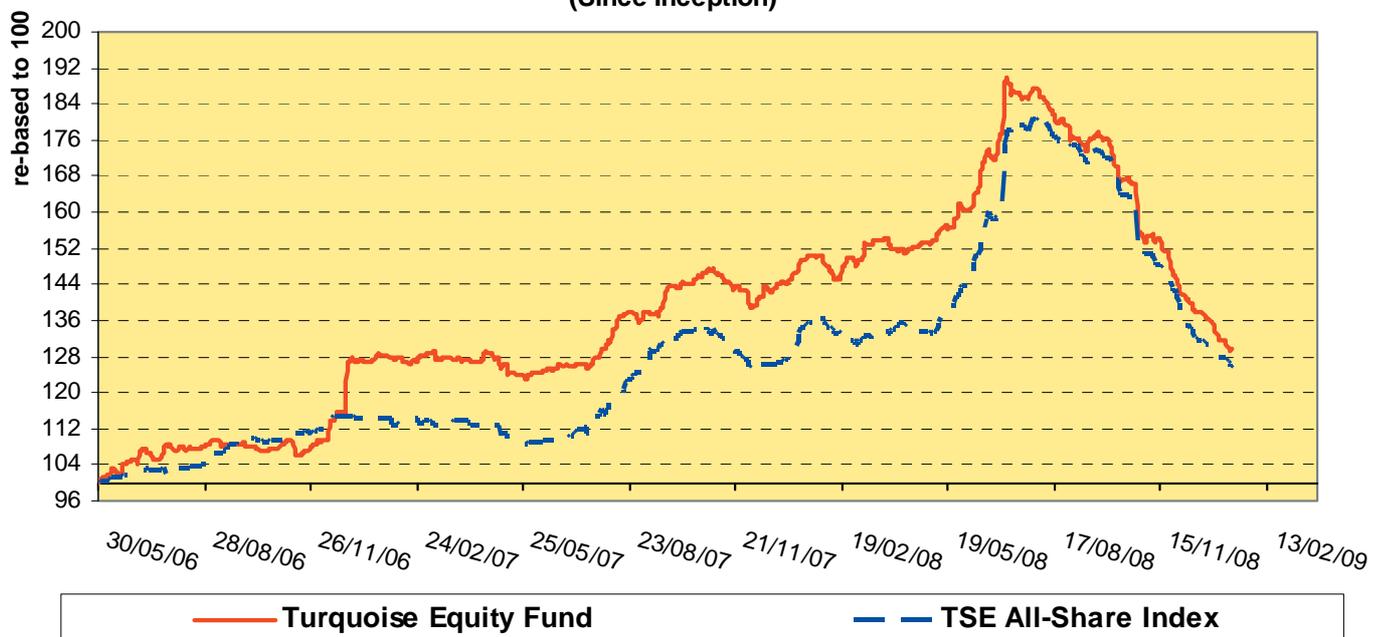


Investment Objective – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed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

Monthly Report – The Net Asset Value (NAV) of the Turquoise Fund fell by approximately 7.5% in December to stand at 133.9 by the end of the month. Also, all market indices experienced further falls during the month, with the TSE All-Share Index (TEPIX) losing 8.5% in value.

The charts below provide an update up until the middle of January, on the following: the performance of the Fund against both the TEPIX in local currency and also the Emerging Market index in USD, as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also displays the historical performance of the Fund.

**Turquoise Portfolio vs. TSE All-Share Index (TEPIX)
(Since Inception)**



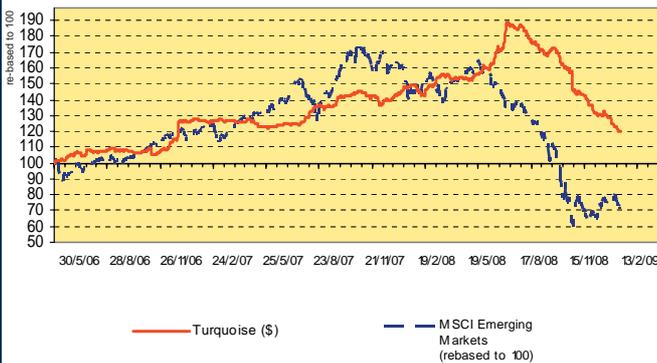
	Oct 08	Nov 08	Dec 08
Turquoise Fund	↓ 12.1 %	↓ 6.6 %	↓ 7.5 %
TEPIX	↓ 11.5 %	↓ 7.6 %	↓ 8.5 %

Performance

As of 15 January 2009

Period	Fund Return
Last Month	↓ 6.2 %
Last 3 Months	↓ 22.5 %
Last 6 Months	↓ 30.4 %
Last 12 Months	↓ 13.0 %
Since Inception (30 May 06)	↑ 29.6 %

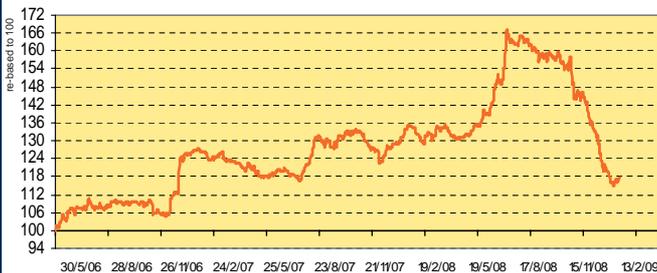
Turquoise Performance vs. MSCI Emerging Markets



Turquoise Performance in US Dollar (US\$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



Potential candidates for the Iranian presidential election in June 2009 will be the focus in this edition of Country Overview.

Speculation about the Iranian presidential election next June has become the main topic of discussion among political and economic analysts. Although there is less than six months remaining until the presidential election, the majority of the potential candidates have not formally confirmed that they will run. The consensus of most experts is that there will be fierce competition between the two political camps, namely the Conservatives and the Reformists. They assert that the outcome of this election is one of the most unpredictable since the Islamic Revolution in 1979. Based on the developments over the past few weeks, the following seem the most likely candidates for the election.

Ø **Mahmoud Ahmadinejad:** Mr. Ahmadinejad, the current president, is seen as the most likely candidate from the Conservative party. Prior to his presidency, he was the mayor of Tehran. His time as president has been highly eventful, both on the domestic and also on the international level. His presidential campaign and domestic policies have been based upon promoting justice. Internationally, although he expanded diplomatic and economic ties with some emerging countries, relations with the US and its Western allies plunged to new lows. There has been a mixed reaction to Mr. Ahmadinejad's populist policies. He has been able to win support among many ordinary people, especially in the rural areas. However, his economic policies have been criticised by the opposition groups and many experts.

Ø **Mohammad Khatami:** Mr. Khatami became the first Reformist president with a landslide victory in the 1997 election. He was then re-elected in 2001. He is viewed by many analysts as the strongest Reformist candidate. Prior to his presidency, he held several important positions; for example, he was the Minister of Culture and Islamic Guidance and a member of the parliament. During his presidency, his principal goals were political development and economic reform. Internationally, he is best known for the establishment of the International Institute for Dialogue Among Cultures and Civilizations. Mr. Khatami has indicated on several occasions that he is yet to make a final decision on his potential candidacy. Recently, he announced that either he or Mr. Mousavi would join the presidential race.

Ø **Mir Hossein Mousavi:** Mr. Mousavi is supported by the Reformist party as a potential presidential candidate. He was Iran's Prime Minister during the eight years of the Iran- Iraq war, at a time when Iran was facing immense political and economic pressure (after this, the Constitution was revised and the position of Prime Minister was diminished and all its powers were passed on to the President). He managed the government's tight budget by rationing consumer goods and commodities such as rice, sugar and fuel. Prior to this, he was Foreign Minister. Since 1989, he has not held an official position in the government. However, he has been a member of the Expediency Council (a supervisory body). Experts feel that a possible scenario, should Mr. Mousavi decide not to run for the election, is for Khatami to run for the presidency with Mousavi as his vice-president.

Ø **Mohammad Bagher Ghalibaf:** Mr. Ghalibaf has been the mayor of Tehran since 2005. He is viewed as a moderate Conservative and was a candidate in the 2005 presidential election. Previously, he was the Chief of Police for six years. During this time, he introduced significant reforms to the Police Force. The most important of these was the introduction of the Police 110 (emergency police), which is equipped with modern vehicles and tools, and aims to make the police more accessible to

the general public. Last year, he was selected as the world's 8th best mayor by the World Mayor; this was principally because of the modernisation of Tehran's infrastructure and public transport. Mr. Ghalibaf has stated his support for dialogue between Iran and the US.

Ø **Mehdi Karroubi:** Amongst the presidential candidates, Mr. Karroubi has been one of the most active political figures since the Islamic Revolution. He is the head of the "Etemad Melli" political party, a sub-group of the Reformists' alliance. He was also a candidate in the 2005 presidential election, along with Mr. Ghalibaf and Mr. Ahmadinejad. His promise for monthly cash payments to the general public proved popular and won him many votes. He was elected as the Speaker of the Parliament (Majlis) in 1998. He was also a member of parliament in several parliaments prior to this. Mr. Karroubi is the only potential candidate who has expressed his intention to run for the election, although this has not been formalised yet.

There are rumours about candidacies of several other political figures. All candidates will have until April to formally register their candidacy. It is expected that potential candidates will announce their decision to run in the next two to three months. Consequently, there is the possibility that the list of candidates may change.

Inflation Rate in Iran

Statistics released by the Central Bank of Iran show that the inflation rate for the 12 months up to December declined for the first time since the end of 2005. According to the Bank, the annual inflation rate fell to 26.4% from the October peak of 29.5% and monthly inflation stood at 1.3%.

Analysts believe that the government's injection of oil revenues into the economy over the past few years had caused significant excess liquidity and was the main reason for the high inflation rate. However, the Central Bank's measures to curb inflation over the past year, a slow-down in the real estate market and the meltdown in the prices of most commodities, are the reasons for the fall in the inflation rate. Experts predict inflation to continue to fall, reaching 22% by the end of the Iranian year (20th March).

Formation of Gas Exporting Countries Forum

In December, the Gas Exporting Countries Forum (GECF) was officially formed. This organisation was first established in Tehran in 2001 without a formal structure and fixed membership. In the seventh ministerial meeting, which was held in Moscow on 23rd December, the organisation adopted a formal structure. The objectives of this forum include regulating the world natural gas markets, promoting cooperation and dialogue between gas producing countries, and representing their mutual interests. This forum has 14 members who collectively control approximately 70% of the world's natural gas reserves. Russia, Iran and Qatar are the key members of this forum and hold more than 60% of world reserves. Other members include Algeria, the United Arab Emirates, Nigeria, Venezuela and Malaysia.

The decision to formalise GECF was criticised by a number of the EU member states, most of which are dependent on Russia's gas supplies. They expressed fears that the world's largest producers are intending to create a gas cartel similar to the Organisation of Petroleum Exporting Countries (OPEC), in order to set production quotas and prices. The idea of the formation of such an organisation was first introduced by Iran.

Ministry of Energy Participation Bonds

In early December, the Ministry of Energy issued \$500 million of participation bonds. A participation bond is an Islamic form of a bond, comparable with commercial paper. It is widely used in Iran and a number of Islamic countries as a debt instrument. These papers have a tenure of 5 years and a fixed coupon rate of 18%, and will be used to finance the construction of at least 6 new power stations.

According to officials, the papers were offered through the branches of 3 banks. They attracted huge public interest and were all sold within 3 days. The papers are underwritten by these 3 banks and can be sold back to the banks at any time prior to maturity.

According to this ministry, following the success of the first issuance, it plans to issue a further \$500 million of participation bonds to finance the expansion of the national electricity network. The ministry is currently awaiting authorisation by the Central Bank.

New Iranian Car

In a ceremony in December that was attended by the President Ahmadinejad, Saipa Group, Iran's second largest car manufacturer by production volume, unveiled its first domestically designed and manufactured car. According to Saipa, "Miniator", which is expected to be mass produced by the end of 2009, is aimed at the lower end of the market and will be sold for a price of below \$10,000. The new car will eventually replace the Korean designed Pride.

Miniator has a 1.5 liter engine that meets the Euro 3 standards of emission and fuel efficiency. Production is expected to reach 200,000 vehicles per annum in the next three years, approximately 20% of Saipa Group's total production. Miniator is Iran's second national car. The first national car, Samand of Iran Khodro, entered mass production in 2001.

About Turquoise

Turquoise is a boutique investment bank based in Iran with offices in Tehran and London. 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 based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

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: ramin.rabii@turquoisepartners.com

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