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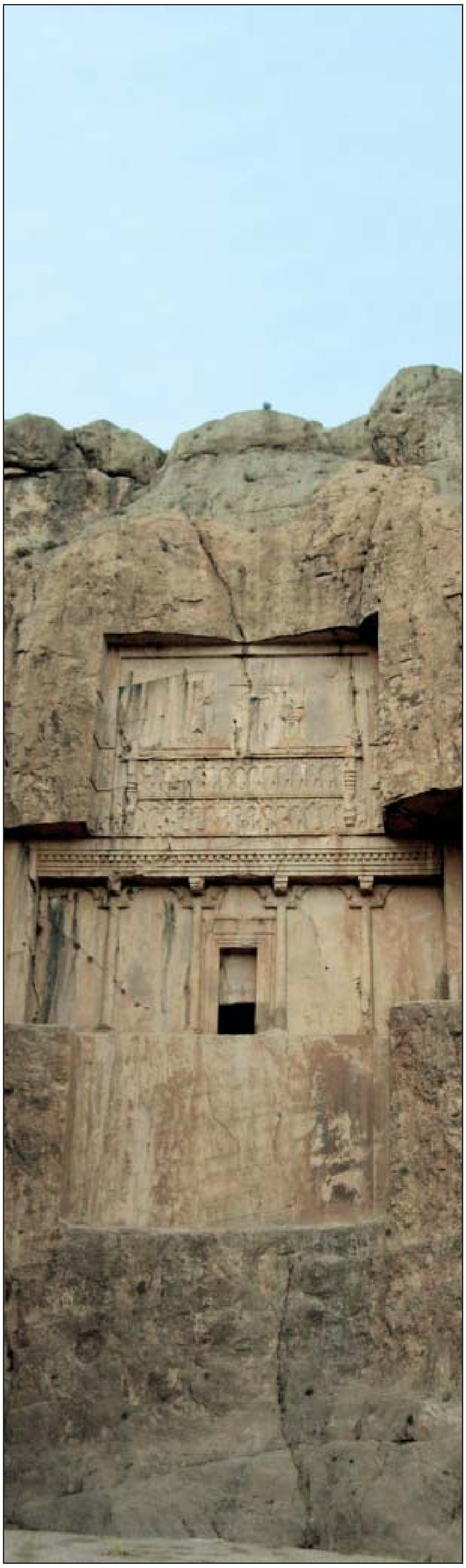
TURQUOISE PARTNERS



The Tomb of Khashayar Shah (King Xerxes), Near the City of Shiraz, Fars Province, Southern Iran

THIS MONTH

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The Tehran Stock Exchange (TSE) experienced an outstanding month in June. Major indices, trade volumes, number of traders and fresh funds saw significant growth in this month and several records were broken. A relatively calm political environment, strong commodity prices and news of several price liberalisations were among the reasons for the strong performance of the capital markets this month. The weighted average P/E ratio of the equity market, which stood at 5.5 at the start of the Iranian year, grew to 6.1 by the end of June.

Although investor confidence has grown since the start of the year, there are still a number of uncertainties surrounding the market. Towards the end of the month, the government announced its plans for the so-called "economic revolution", which was generally perceived as a positive step by analysts. However, various issues, such as the government's unclear position regarding the removal of subsidies, caused concern in several industries. Further details of the government's plans are expected in the next 2-3 months.

Some of the key sectors are analysed in more detail below:

Steel Manufacturers

This sector was once again the best performing sector in the market, causing a 21% gain in the 'Basic Metals' index. Offerings of large share blocks of Khorasan and Khouzestan Steel Companies (See Privatisation and IPO's section) resulted in total returns of around 40% and 70% respectively. In mid-June, Mobarakeh Steel, the largest listed company by market capitalisation, was closed to trading for its Annual General Meeting (AGM), after a 20% gain in share price from the start of the month and with a large buying queue. Following the liberalisation of the price of steel products earlier this year, the profitability of these companies has soared despite a 20% increase in the iron ore price.

Cement

For the past two years or so, speculation about a potential liberalisation of the cement price has periodically entered the market, causing a surge in share prices. However, these rumours were never confirmed by the government. On 30th June, the removal of sale price restrictions finally materialised. The government announced that the factory sale price of cement will increase in several stages over a period of 3-6 months, based on market conditions, and will eventually be completely liberalised. In the first stage, the price was allowed to increase by 40%, effective from mid-July. On the same day, all 35 listed cement companies were closed to trading for readjustment of their earnings forecast. Analysts expect an average increase of 50% in the earnings of this sector for the remainder of the current Iranian calendar year. It is clear that significant share price rises will be observed, once these companies re-open for trading.

Following the sharp rise in the price of steel products, demand for cement in construction has rocketed, thereby putting significant pressure on supply. The increased revenue, and in turn cash flow, mean that cement companies can now complete their expansion plans. Analysts predict the total domestic production to reach 64 million tonnes by the end of the year, bringing a balance between supply and demand.

Household Cleaning Products

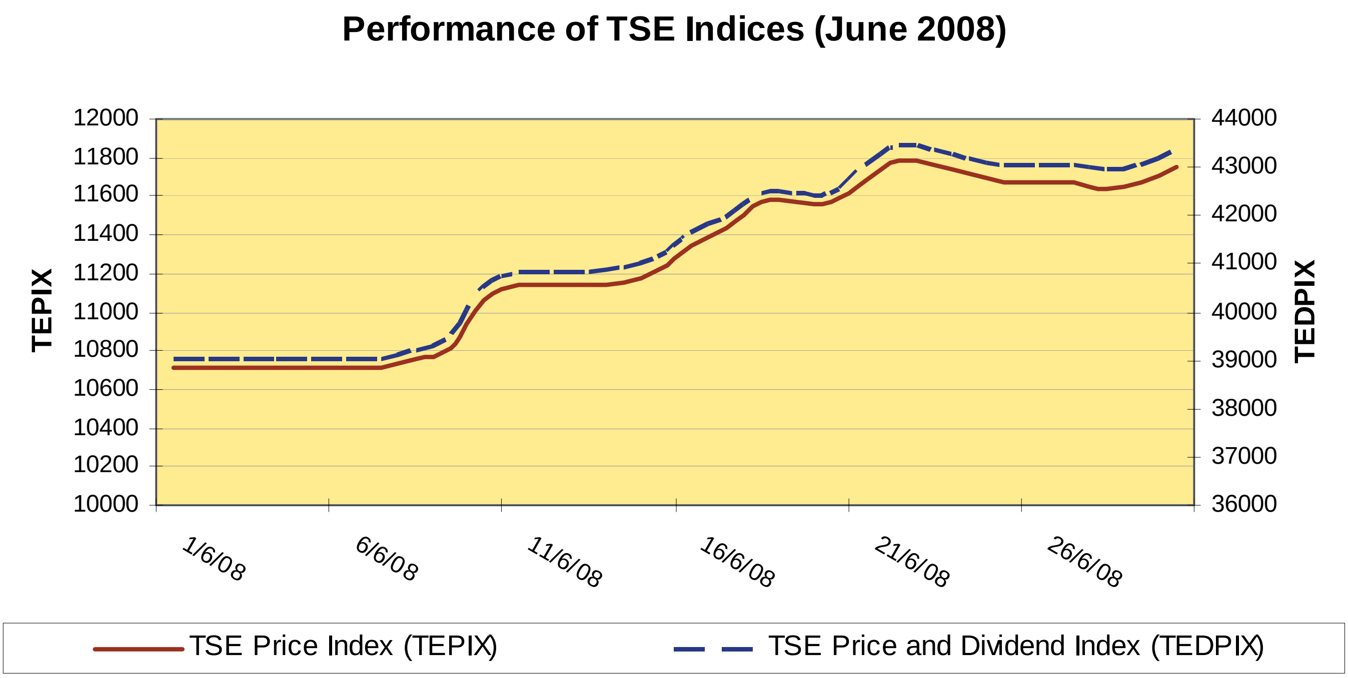
With the announcement of liberalisation of the price of washing detergent and the removal of its subsidy, investors formed large buying queues for stocks of this sector. However, share price increases were limited as little trading took place. The price of this product is expected to increase by 80-100% in the consumer market. There is now an open and competitive market for these products, indicating bright prospects for this sector.

Auto Manufacturers

The removal of fuel subsidies for luxury vehicles caused further problems for a number of auto manufacturers. In June, after a downward revision of earnings forecasts Iran Khodro, the largest automotive manufacturer in the Middle East, saw its share price drop by more than 20% and its P/E ratio decline to just over 3. This meant that its market capitalisation fell to approximately $820 million, its lowest in the past 5 years.

Large bank debts, appreciation of the Euro, sharp rises in the price of raw materials (including steel), and the establishment of a number of unprofitable production lines in the case of Iran Khodro, have been wiping out the profit margins of most companies in this sector.

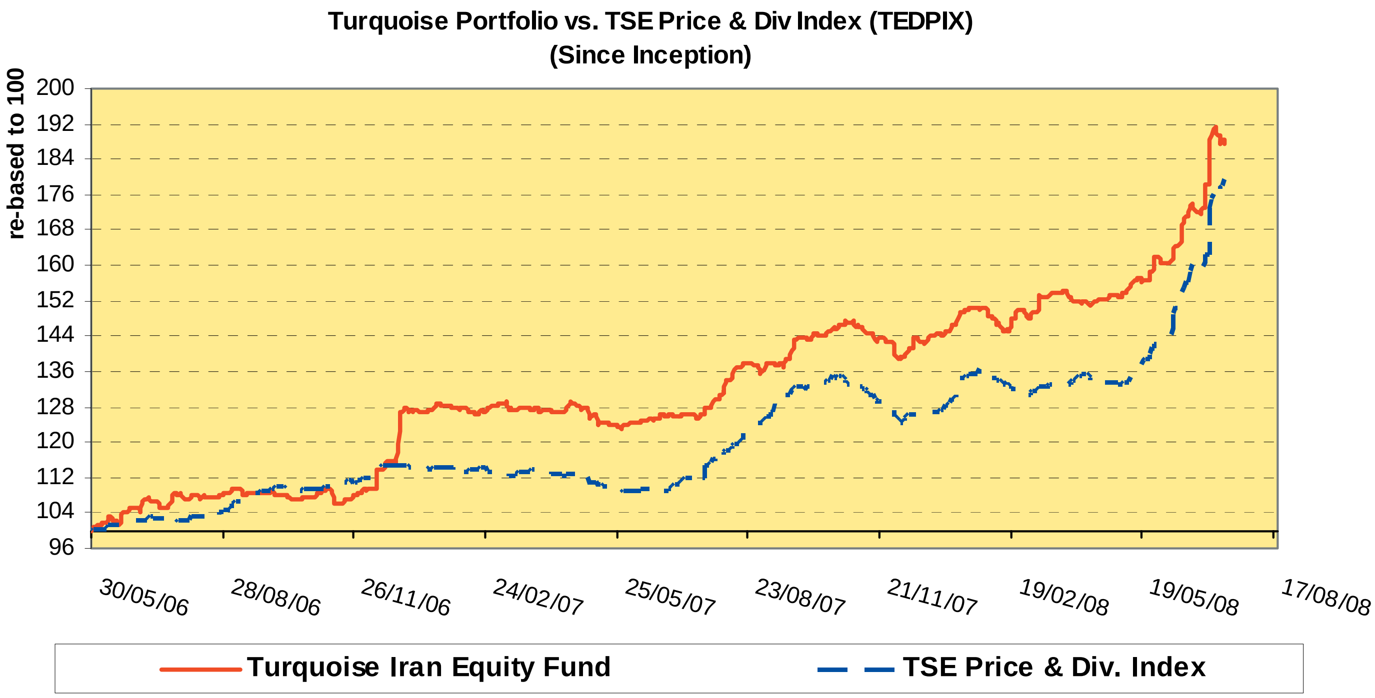
Overall, the TSE witnessed an outstanding performance in June, with the Dividend and Price Index (TEDPIX) gaining 11.1% in value. Also, total market capitalisation of the TSE broke the $60 billion mark.



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 under-valued emerging markets in the world. Combining internati onal experience with local expertise allows Turquoise to provide superior returns, with greater diversification and lower volatility, by investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The base currency of the Fund is Iranian Rial.

Monthly Report – The Net Asset Value (NAV) of the Turquoise Fund grew sharply by approximately 7.3% in June to stand at 173.2 by the end of the month. Most market indices also experienced large gains during this month, with the TSE Price and Dividend Index (TEDPIX) gaining 11.1% in value while the TSE Price Index (TEPIX) grew by 9.4%.

The charts below provide an update up until the middle of June, on the following: the performance of the Fund against both the TEDPIX 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.

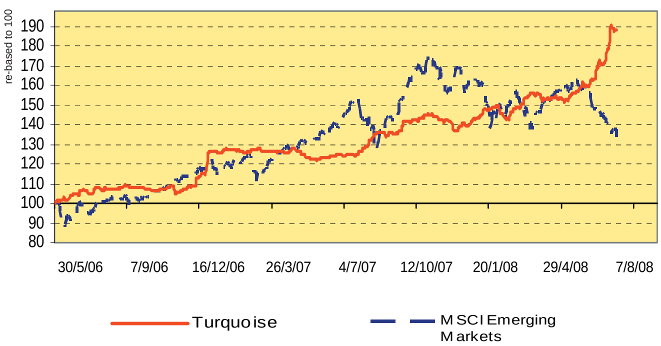


	Apr 08	May 08	June 08
Turquoise Fund	⬆ 0.3%	⬆ 5.1%	⬆ 7.3%
TEDPIX	⬆ 0.2%	⬆ 7.2%	⬆ 11.1%

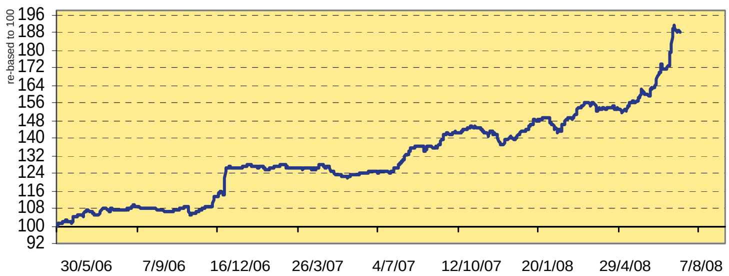
Performance

As of 15 July 2008	
Period	**Fund Return**
Last Month	⬆ **12.9 %**
Last 3 Months	⬆ **23.9 %**
Last 6 Months	⬆ **25.9 %**
Last 12 Months	⬆ **48.3 %**
Since Inception (30 May 06)	⬆ **87.6 %**

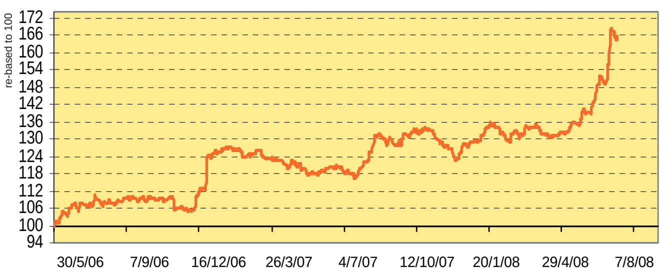
Turquoise Performance vs. MSCI Emerging Markets



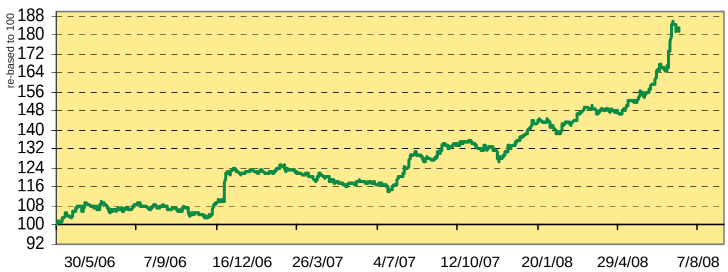
Turquoise Performance in US Dollar (US$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



Khouzestan Steel and Khorasan Steel

In June, the TSE witnessed one of the most extraordinary offerings as part of the ongoing privatisation programme. On 16th June, a 30.5% block of Khouzestan Steel Company was offered to the market at a base value of $790 million. This block had a strategic importance for buyers. Khouzestan is a leading producer in a niche segment of the steel industry. A 30% ownership would result in having two members on the Board of Directors and effectively gaining significant influence over this segment of the market. This sparked a fierce competition between several buyers that continued for 9 days. In the end, the block was bought by an individual investor for a value of $1.5 billion. This was the largest transaction by a non-governmental investor in the history of privatisation in Iran and broke the record of the largest single trade on the TSE. The buyer will pay 20% in cash and the rest in instalments over a period of 5 years. The floating shares of Khouzestan gained around 37% in value in June.

On 15th June, a 40% block of Khorasan Steel Company was also offered to the market, at a base value of $145 million. Several buyers competed for this block and after 3 days it was bought by a quasi-governmental pension fund for a total amount of $360 million. The payment terms for this block are similar to that for Khouzestan.

Isfahan Oil Refinery

On 29th June, 5% of the shares of Isfahan Oil Refinery Company were offered to the market for the first time, at a total value of $130 million. This put the market capitalisation at $2.6 billion and placed the company among the top 10 in the TSE. The majority of the shares offered were bought on the first day, and the rest were taken up on subsequent days. The share price immediately began to climb as retail and institutional investors queued up to buy the stock, resulting in a 10% gain in value.

This IPO was of significant importance, as it was the first oil refinery to begin its privatisation process. A further 15% of the shares of Isfahan Oil Refinery are expected to be offered in the near future. In addition, a number of other oil refineries, including Tabriz Oil Refinery, are in the privatisation pipeline.

The new incentives package offered to Iran by the 5+1 group and the new sanctions adopted by the European Union (EU) against Iran's Bank Melli will be discussed in this edition of Country Overview.

Javier Solana, the Secretary General of the Council of the European Union and the High Representative for the Common Foreign and Security Policy, went to Tehran in mid-June to present the new incentives package devised by the 5+1 group (permanent members of the UN Security Council plus Germany) to Iran. The aim of this package was to encourage Iran to halt its nuclear enrichment programme. Incentives in the package include the lifting of a number of sanctions imposed on Iran, an expansion of political and economic relations, technical assistance on developing peaceful nuclear technology and increased international trade. A similar package was offered to Iran in 2006, but was rejected by Iranian officials.

Experts hold differing views about this package. Some argue that, while the new package does not offer much beyond the 2006 package, there is economic justification for Iran accepting the conditions due to the three rounds of sanctions passed by the UN Security Council. This group explain that from a cost-benefit analysis, it will be in Iran's interest to give up enrichment in exchange for the expansion of its international economic ties. However, others assert that Iran has the right to develop peaceful nuclear technology and that this right is not tradable.

Prior to this, Iran had also submitted its own package to the 5+1 group, offering co-operation on several key international issues including the Middle East peace process. The Iranian officials reviewed the incentives package, and subsequently announced that there were numerous similarities between Iran's package and that of the 5+1 group. Consequently, they requested that negotiations commence with these common grounds as a basis. This was welcomed by Javier Solana and the international perception was of a major positive step. However, at the same time, the European Union endorsed sanctions against Bank Melli, Iran's largest bank. According to the wording of the sanctions, all of Bank Melli's assets in Europe are to be frozen and its European operations to be halted. The EU has accused Bank Melli of financing Iran's nuclear programme, and the bank had already been sanctioned by the US last year. Analysts believe that the West is implementing a "carrot and stick" policy, trying to put further pressure on Iran to accept the terms of the 5+1 package.

While the UN Security Council and the US sanctions have created a number of difficulties for Iranian banks and businesses, these problems have not brought about any notable impact on the Iranian economy. Nor do they appear to have brought about any significant shift in the policies of the Iranian government. Analysts believe that the economic challenges that Iran currently faces, the most important of which is the high inflation rate, are not because of the sanctions. Rather, they have resulted from a number of domestic and global factors, such as the government's excessive spending.

Foreign Investment in Iran

According to the Organization for Investment, Economic & Technical Assistance of Iran (OIETAI), permits for almost $12 billion of foreign investment in Iran have been issued in the Iranian calendar year 1386 (which ended on 20th March 2008). Statistics from this organisation show that, during this period, 120 projects involving foreign investment were endorsed. This figure stood at $10 billion for 1385.

Over the past 15 years, over $33 billion of foreign investment in Iran has been endorsed. Of this total, $11 billion comes from Asia, $11 billion from Europe, $8 billion from Africa and $1 billion from the Americas. $20 billion of this amount relates to industry, $5 billion to utilities, $3 billion to services, $2 billion to mining, $2 billion to logistics and communications and $1 billion to real estate.

Inflation in Iran

The Central Bank of Iran announced that the rate of inflation in the 12 months ending May 2008 reached 19.8%. This figure stood at 19.1% in April. Statistics from the Bank show that in this month, the Consumer Price Index (CPI) grew by 1.7% in comparison to the previous month and by 25.8% compared to the same month of the previous year. According to the Central Bank's analysts, 80% of the inflation is a direct result of excess liquidity in the economy, 17% a result of hikes in global prices of food and other commodities and the remaining 3% from other domestic and international factors.

The inflation rate has been increasing for some time and has become one of the main challenges for the government and the Central Bank of Iran. The Bank's monetary and credit policies aimed at reducing excess liquidity and inflation are becoming effective, and the growth rate of excess liquidity is now falling.

Iran Air Prepares for Privatisation

The Ministry of Road and Transportation of Iran announced that the privatisation of Iran Air has been approved by the government, as part of the Privatisation Scheme. According to the regulations, Iran Air has one year from the date of this announcement to prepare itself for privatisation, either through an offering on the stock exchange or a private sale through an auction.

Analysts are divided in their opinion as to whether or not Iran Air is profitable. Iran Air's earnings are relatively low compared to airlines of a similar size, and its ageing fleet of aircraft are costly to operate. This airline and a number of other Iranian airlines have faced difficulties in purchasing new aircraft. This is due to the sanctions imposed on Iran by the US. Also, they often have to obtain replacement parts from the black market at significantly higher prices.

Analysts believe that if Iran Air shows prospects of being a profitable company, it may attract foreign investors too. It is worth mentioning that Iran Air and some other Iranian airlines have been allocated a sizable budget from the government in order to renew their fleet of aircraft.

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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