

Amir Chakhmeq Complex, Ancient City of Yazd, Central Iran

THIS MONTH

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In September, the TSE experienced a fall in trading volumes due to the Islamic holy month of Ramadan; and also a slight decline in stock prices. Sharp falls in the prices of oil and other commodities were the key drivers behind this decline. This section provides an analysis of the market and some of the main sectors.

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Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.

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In September, the Tehran Stock Exchange (TSE) experienced a significant fall in trading volumes in comparison to the previous month. Market activity during the Islamic holy month of Ramadan falls considerably every year in almost all Islamic countries, and this year was no exception. Prices also continued to decline this month, although losses were moderate in comparison to the previous month. There were two key reasons for this.

Firstly, the financial year-end of most listed investment companies on the TSE falls in September. These companies tend to sell off some of their holdings just before their year-end, in order to realise some of their profits from capital gains. This usually creates some pressure on those stocks that have performed best throughout the year. The second reason has a global dimension. Historically, the TSE has had no correlation with major markets around the world and has only been lightly impacted by the credit crisis this past year. However, the meltdown of the global financial markets towards the end of September resulted in sharp falls in the prices of oil and most other commodities. Consequently, many investors became concerned about the profitability prospects of commodity based companies on the TSE. Steel, copper and oil based companies were the worst hit. Analysts fear further losses in the Tehran market, should the decline in commodity prices continue.

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

Metals

With the increasing concerns about the global economic outlook, prices of almost all metals have been falling over the past 2-3 months. Stock prices of metal producers on the TSE have also fallen significantly. For example, the National Iranian Copper Industries Company (NICIC) estimated its earnings based on the copper sale price of \$7,300, and is now facing the danger of under-performing its forecast. Consequently, its share price has lost approximately 25% in value in less than 2 months. The situation is even worse for lead and zinc producers. Overall, the metals sector was the worst performing sector in September and its index lost 12.7% in value.

Telecoms

The Telecommunications Company of Iran (TCI), which was initially offered on the TSE in August as part of the ongoing privatisation programme, experienced an outstanding month in September. Its share price increased by 16.7% in value, resulting in telecoms becoming the best performing sector in September. By the end of September, TCI had gained 37% in value since its IPO on 10th August, which in itself was a record for the privatisation programme. TCI is currently the largest listed company on the TSE with a market capitalisation of approximately \$10 billion.

There is currently limited historical financial information available on this company. Consequently, contradictory rumours about its earnings in the current financial year appear in the market. Therefore, this stock is expected to experience a degree of correction in the near future. Nevertheless, analysts remain very bullish about the long-term prospects of this company.

Banks

The Central Bank's new interest rate policy (see Economy section) for bank deposits became enforceable. As a result, privately-owned banks were able to increase their interest rates on term deposits and widen the gap with state-owned banks. Analysts feel that this should make the money market more attractive and increase the inflow of deposits to these banks.

During September, Mr. Mazaheri, the governor of the Central Bank, was replaced by Mr. Bahmani, who was previously the general secretary of the Bank. This news brought about fears of another stream of change in banking policies among investors and triggered a sell-off of banks' stocks. However, the new governor quickly reassured the market that he would follow Mr. Mazaheri's policies.

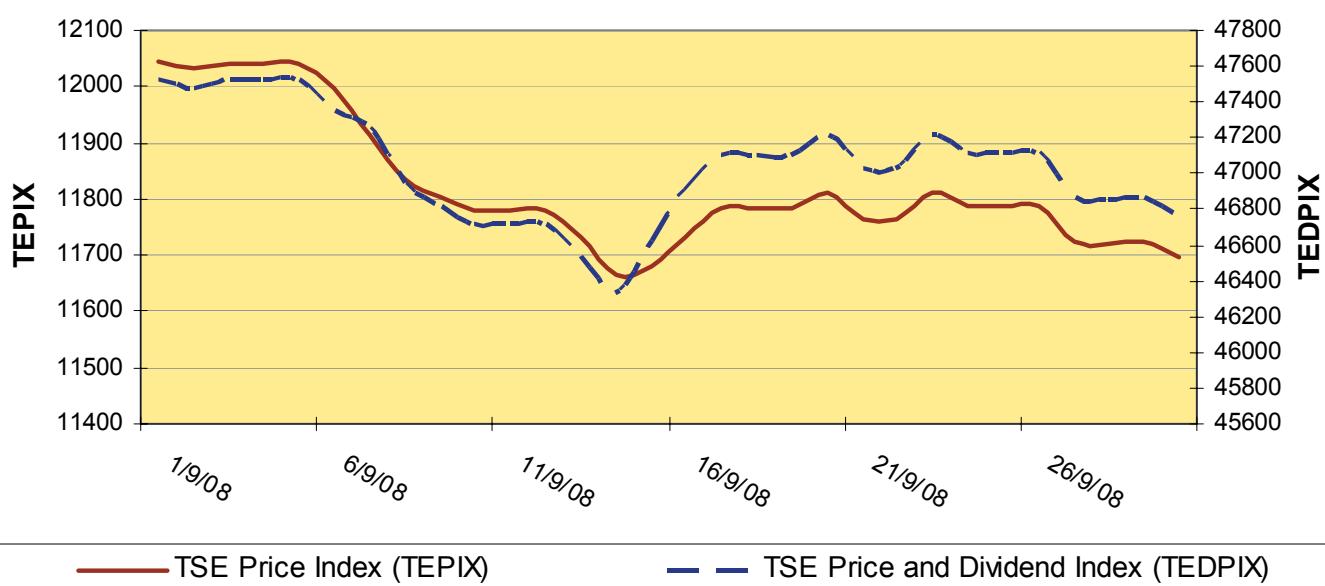
Despite major changes in interest rate policies and banking regulations over the past year or so, analysts remain bullish on the long-term outlook for this sector.

Cement

Experts report that a relative equilibrium between supply and demand in the domestic cement market has now been reached. In fact, a few provinces are now facing the possibility of having excess supply. This has encouraged cement manufacturers to look towards the markets in neighbouring countries. Many of these companies are lobbying for the removal of the government's export tariff on cement, which currently stands at around \$100 per tonne. The factory sale price of each tonne of cement in the domestic market is set by the government at \$50 per tonne. The price is as high as \$120 per tonne in some of the neighbouring countries. Therefore, if the export tariff is removed or reduced significantly, which in the view of many analysts is inevitable, there will be huge potential for growth in the Iranian cement industry.

Overall, the Tehran Stock Exchange followed a moderately negative trend in September, with the TSE Price & Dividend Index (TEDPIX) losing 1.4% in value. Trade volumes fell by approximately 40% in comparison with the previous month, reaching \$720 million in value.

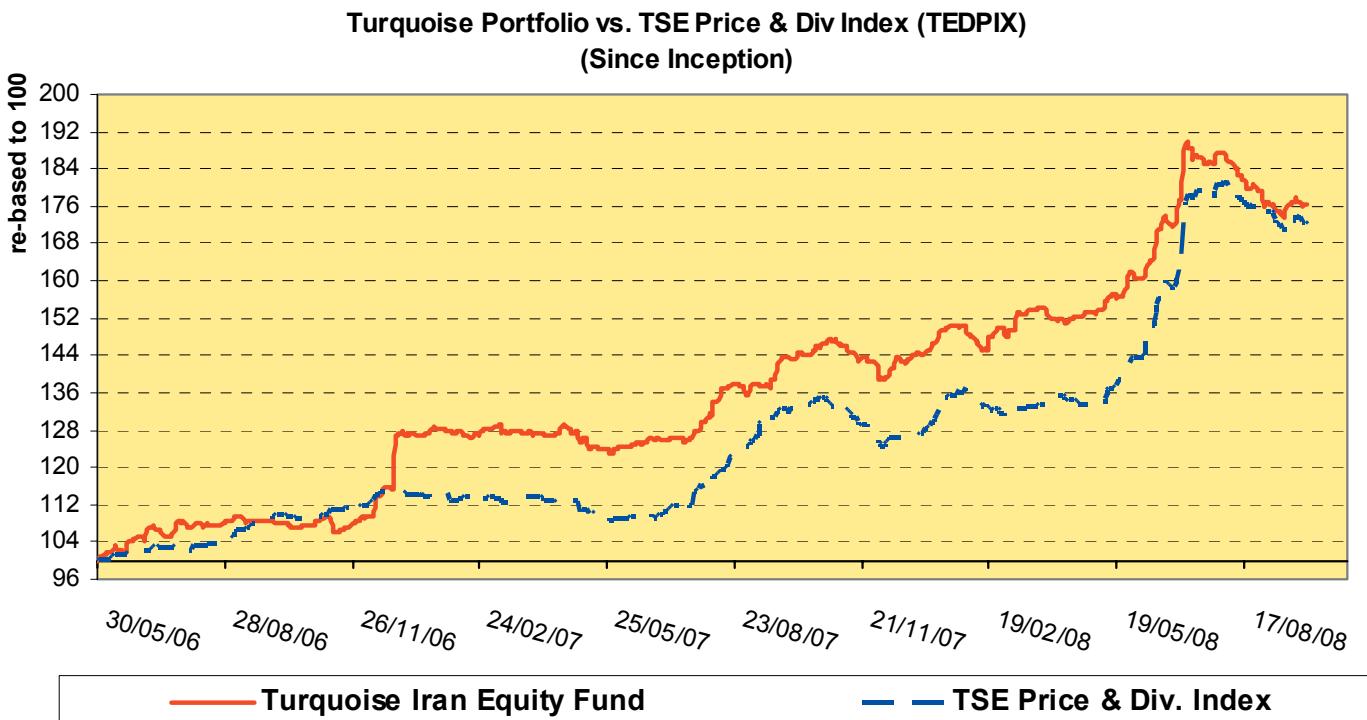
Performance of TSE Indices (September 2008)



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 under-valued emerging markets in the world. Combining international 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 by approximately 0.4% in September to stand at 176.4 by the end of the month. However, most market indices experienced falls during this month, with the TSE Price and Dividend Index (TEDPIX) losing 1.4% in value while the TSE Price Index (TEPIX) fell by 3.6%.

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.



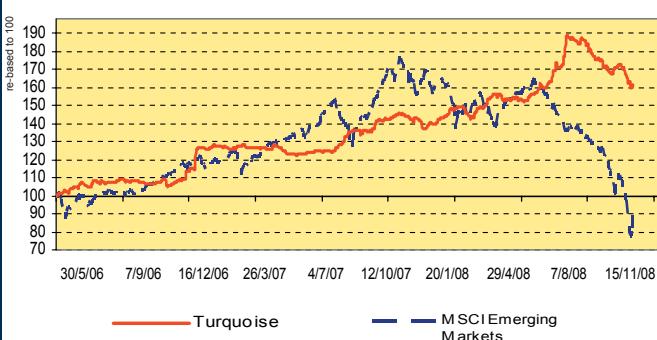
	Jun 08	Aug 08	Sep 08
Turquoise Fund	↑ 8.5 %	↓ 6.3 %	↑ 0.4 %
TEDPIX	↑ 13.1 %	↓ 3.3 %	↓ 1.4 %

Performance

As of 15 October 2008

Period	Fund Return
Last Month	↓ 4.4 %
Last 3 Months	↓ 10.2 %
Last 6 Months	↑ 10.5 %
Last 12 Months	↑ 16.2 %
Since Inception (30 May 06)	↑ 67.3 %

Turquoise Performance vs.
MSCI Emerging Markets



Turquoise Performance in
US Dollar (US\$)



Turquoise Performance in
Euro (€)



Turquoise Performance in
British Pound Sterling (£)



The fourth round of sanctions by the UN Security Council against Iran and President Ahmadinejad's visit to New York in September will be the topics of discussion in this edition of County Overview.

On 27th September, the UN Security Council approved the fourth round of sanctions against Iran. This round, however, was very different to the previous three. The approved resolution did not contain any new measures. It only reiterated the terms of the previous resolutions and demanded that Iran suspend its uranium enrichment programme. International support for further sanctions, especially from China and Russia (both members of the 5+1 Group), has been fading away increasingly with each round of sanctions. This was particularly evident on this occasion. The members of the 5+1 Group were supposed to meet a week earlier to approve the resolution. However, Russia called off the meeting and expressed its opposition to any new measures against Iran. Following the tensions between Russia and the US over Georgia, many experts anticipated a lack of co-operation from the Russian side. The Russian officials stressed the need for continuing efforts to hold constructive talks with Tehran. Eventually, the group members agreed upon a new resolution, the text of which was no more than ten lines and did not contain any additional sanctions.

Last year, the National Intelligence Estimate (NIE) on Iran's nuclear programme concluded that Iran had not been pursuing the development of nuclear weapons since 2003. This significantly reduced the likelihood of any military action against Iran. Analysts believe that recent developments also mean that new sanctions against Iran are becoming less likely. Iranian officials insist that their nuclear programme has always been for power generation purposes. They also believe that the sanctions have not had the impact that the US and its Western allies had hoped for.

In the third week of September, President Ahmadinejad, along with a group of Iranian senior officials, went to New York in order to attend the General Assembly at the United Nation's headquarters. During his talk at the UN and a number of press interviews, he indicated his willingness to hold direct talks with the US. He explained that he would welcome any improvement in relations between the two countries and stressed that Iran would be able to co-operate with the US on a number of issues, including security measures in Iraq. He added that he was prepared to meet the US presidential candidates during his visit.

Ahmadinejad also referred to the financial crisis that began in the US and is now spreading around the world. He blamed past actions of the US government for the current crisis, including the costly military actions against Afghanistan and Iraq. He said that the Iranian economy had also suffered from the war and the instability of the region. He identified high inflation, shortage of fuel and capital flight as the main challenges confronting the Iranian government. Overall, Ahmadinejad's visit sparked mixed reactions in the US, but clearly gained much attention from media and politicians around the world.

Monetary Policy of the Central Bank of Iran

From the beginning of the Iranian calendar year 1387 (21st March 2008), there has been a great deal of debate between the government and the Central Bank over setting the bank lending interest rate. The government wanted to reduce the rate in order to boost economic growth and increase employment. However, the Central Bank strongly opposed this, arguing that lowering lending rates will further increase an already high inflation rate. In July, the rate was finally set at 12%, unchanged from last year.

In September, the Central Bank announced the limits on interest rates that banks can pay on term deposits. The rates vary from 9% per annum for overnight deposits through to 19% per annum for five year deposits. This year's policy has two key differences with the policies of previous years. Firstly, the same rates will be applied to state-owned and privately-owned banks, in order to create a level playing field. Previously, privately-owned banks paid higher rates of interest. Secondly, these rates are not defined as absolute maximum limits. Banks with stronger balance sheets and the ability to utilise deposits in a more profitable fashion, can, subject to the endorsement of the Central Bank, pay higher rates. It is clear that banks offering higher interest rates will be better positioned to attract deposits, which are vital sources of funds for banks.

The new monetary policy, combined with the reforms in the banking regulations, are, in the view of many analysts, significant milestones in the Iranian banking industry. While there is a level playing field for all banks, those with robust strategies, and comprehensive risk and liquidity management frameworks will prosper.

First Listed Retail Chain

In September, the Tehran Stock Exchange Corporation announced the first authorisation for the listing of a chain of retail stores. Refah Stores, which is one of the largest supermarket chains in Iran, will have six months from the date of authorisation to complete all steps necessary for its IPO. Refah is currently owned by a group of state-owned banks, insurance companies and the Tehran municipality.

According to the semi-annual report for the half year ending April 2008, Refah has a total of 126 stores nationwide. Its total assets stood at \$160 million and revenues in this 6 month period amounted to \$85 million. Refah has paid in excess of \$4.5 million in dividends to its shareholders over the past two years.

Analysts believe that there is huge potential in the Iranian FMCG sector and the listing of Refah Stores should pave the way for other major stores, including international brands to enter the market.

Inflation rate in Iran

According to the latest report by the Central Bank of Iran, the inflation rate grew by 29.4% in the 12 months to September. The Consumer Price Index (CPI) showed an increase of 3.6% in comparison to the previous month.

According to the Bank, around 80% of the inflation is a direct result of excess liquidity into the economy. The government's expansionary policies and excessive injection of funds into the economy are the main reasons behind the excess liquidity, and in turn, the high inflation rate. However, the Central Bank has been implementing a series of strong measures in order to reduce excess liquidity, which have proven effective. The rate of growth in liquidity fell to 18.1% in July. This figure stood at 27.7% at the end of Iranian calendar year 1386 (which ended 20th March 2008) and 39.4% at the end of 1385.

Power Station for Damavand Petrochemical

In September, an agreement for the construction of a power station for the Damavand Petrochemical plant was signed. This contract, which is worth approximately \$1.6 billion, was jointly awarded to the Iran Power Projects Management Company (MAPNA) (80%) and the National Iranian Petrochemical Industries Company (20%). The Damavand plant is currently in its construction phase in the Assalouyeh area in the south of Iran. This is the largest power station development project in Iran and is expected to be completed within five years. The new power station will be capable of producing 1900 Mega Watts of electricity, which will fully meet the requirements of the Damavand plant. The excess generated electricity will be injected into the national electricity network.

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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