

## THIS MONTH

### Market Overview **2**

In November, the TSE continued its negative trend from the previous month and the market P/E fell to 4.5. Trade volumes also declined significantly as investors moved into fixed income products. Despite price falls over the past few months, the TSE remains the world's best performing exchange among the member exchanges of the World Federation of Exchanges. This section provides an analysis of the market and some of the main sectors.

### Turquoise Iran Equity Fund **4**

The Turquoise Fund experienced a decline in November with its NAV losing 6.6% in value. This section provides various data and charts on the performance of the Fund.

### Country Overview **6**

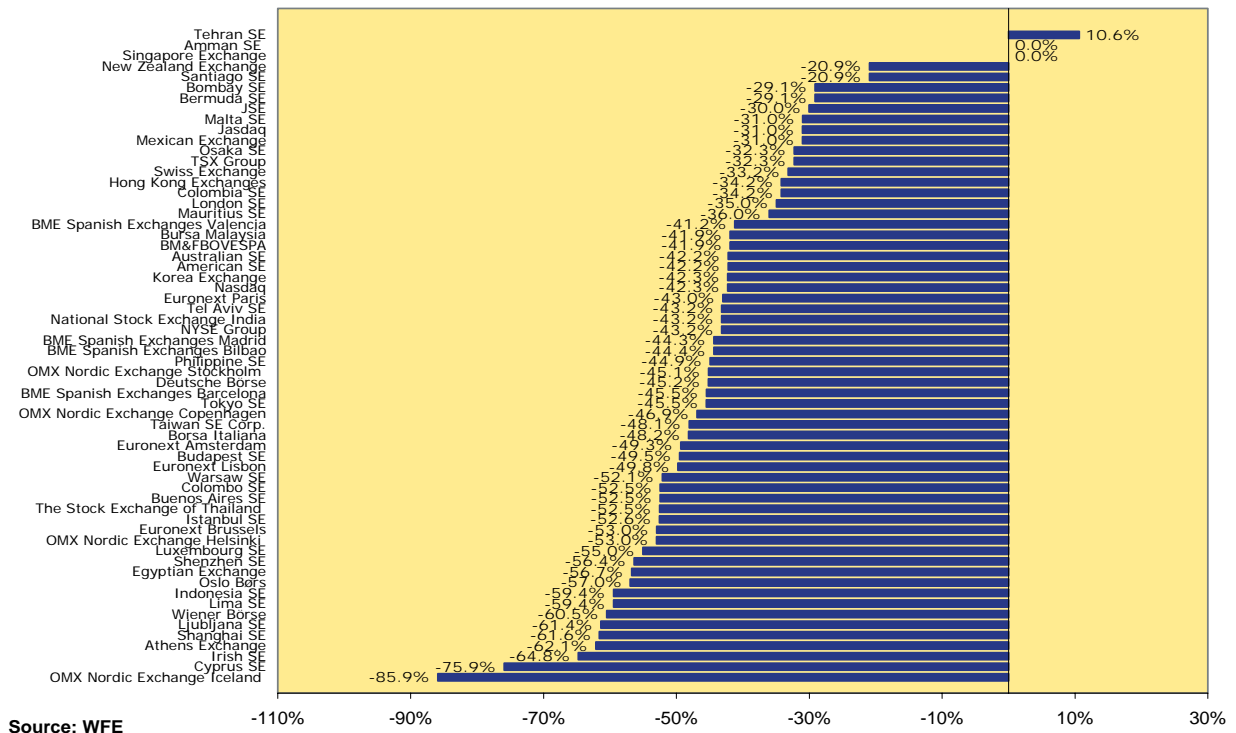
Iran's diplomatic relations with Latin America, and the latest report on the global outlook by the National Intelligence Council will be discussed in this section.

### Economy **7**

Progress in the privatisation programme, the first Iranian vehicle engine, the Tehran Metro, and the inauguration of Orumieh Flyover Bridge will be covered in this section.



Despite the continuing slump in world capital markets and increasing pressure from the falling prices of crude oil and commodities, the performance of the Tehran Stock Exchange (TSE) has held up well. Although the Tehran market has lost a significant portion of its gains of the summer, falls in the market index have been modest in comparison with other indices around the world. The November statistics released by the World Federation of Exchanges show that the TSE is the only exchange with year-to-date positive returns amongst the 56 member exchanges, as shown by the diagram below:



Source: WFE

The sharp fall in commodity prices has created uncertainty and concern about the profitability prospects of commodity producers, particularly those exporting a considerable amount of their products, such as the National Iranian Copper Industries Company (NICIC). Analysts estimate that at current global prices, these companies may be forced to cut their next year's earnings forecasts by up to 50%. Although stocks of companies which are consumers of commodities have enjoyed strong rallies over the past two months, the bearish sentiment towards commodity producers continues to dominate the market. Trade volumes have continued to fall, as investors move into more defensive positions such as fixed income products and bank deposits. The weighted average market P/E fell to 4.5 for the first time in five years.

In late November, unconfirmed news of a possible injection of \$300 million of funds by quasi-government investment companies entered the market. Analysts assert that there is substantial liquidity in the financial system, but that investors are still hesitant to bring their money back into the equity market. If the injection of these funds were to materialise, we may well witness a rapid recovery in confidence and the return of investors to the equity market. The government has also expressed its willingness to support domestic manufacturers. Amendments to both product pricing mechanisms, and also import and export regulations could significantly improve prospects for some manufacturers.

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

**Auto Manufacturing**

Factory prices for all domestically manufactured vehicles are determined by the government, and have been kept more or less constant for approximately the past four years. Declines in the prices of steel and copper

over the past few months mean that manufacturers could see their profit margins soar next year.

In November, Saipa Group, the largest car manufacturer by market capitalisation, had a 6.5% gain in its share price. Auto manufacturing was the leading sector in trade volumes and its index enjoyed a 5% growth in value.

### Steel Manufacturing

Since the mid-summer, this sector has been among the worst performing sectors on the TSE due to a slump in the global steel price and a reduction in domestic demand. Furthermore, domestic manufacturers are facing an increased threat from steel importers.

In November, the market reacted to rumours of the introduction of a 20% tariff for steel imports. Currently, there is no tariff for importing steel sheets and billet into Iran. These rumours resulted in a sudden turn-around in the sector and most steel stocks had buying queues. Mobarakeh Steel, the second largest listed company on the TSE, gained 6% in value this month.

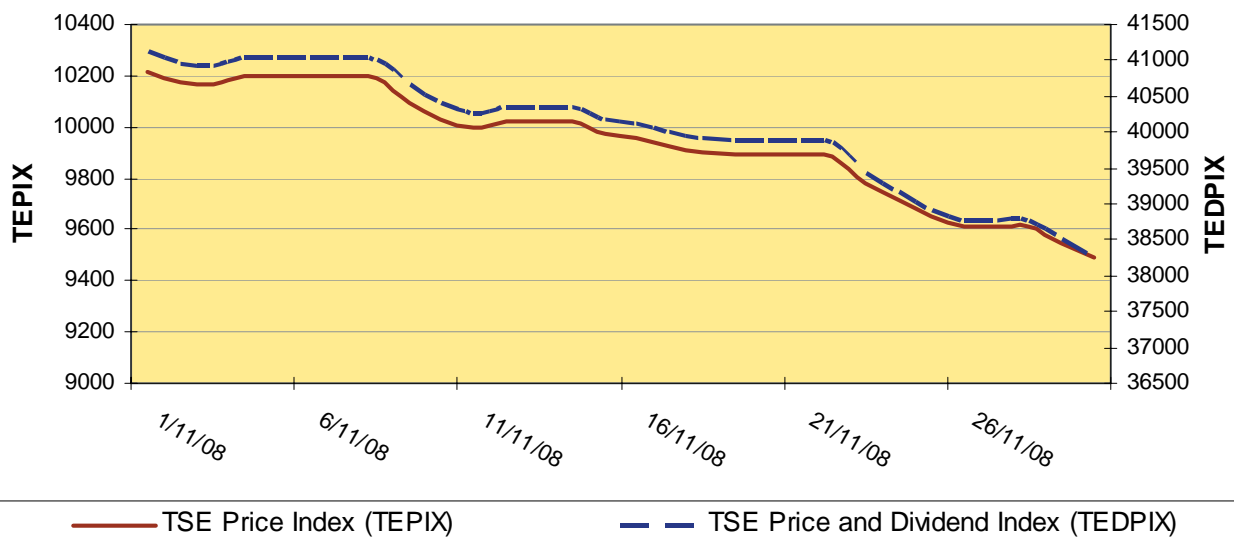
### Telecom

The Annual General Meeting (AGM) of the Telecommunications Company of Iran (TCI), the largest listed company on the TSE, took place in November. The complexity of the financial reports and the limited transparency in the information provided had caused much speculative trading in this stock prior to its AGM. However, the information provided in the AGM clarified several outstanding issues and gave investors a better picture of the company. A dividend yield of 8% was approved by shareholders during the meeting.

The Minister of Information and Communication Technology, who chaired the AGM, explained that a block of around 20% of the shares of TCI will be offered in the near future. A number of foreign investors have expressed interest in acquiring this block. Currently, the government is the major shareholder of TCI. Therefore, the company operates under state regulations with respect to its budget planning and tax treatment. The minister indicated that TCI will be fully privatised in 2009.

Overall, the TSE continued on its declining trend in November, with the TSE Dividend and Price Index (TEDPIX) losing 7.6% in value. Trade volumes fell by 24% in comparison with the previous month, and stood at \$238 million by the end of November.

**Performance of TSE Indices (November 2008)**

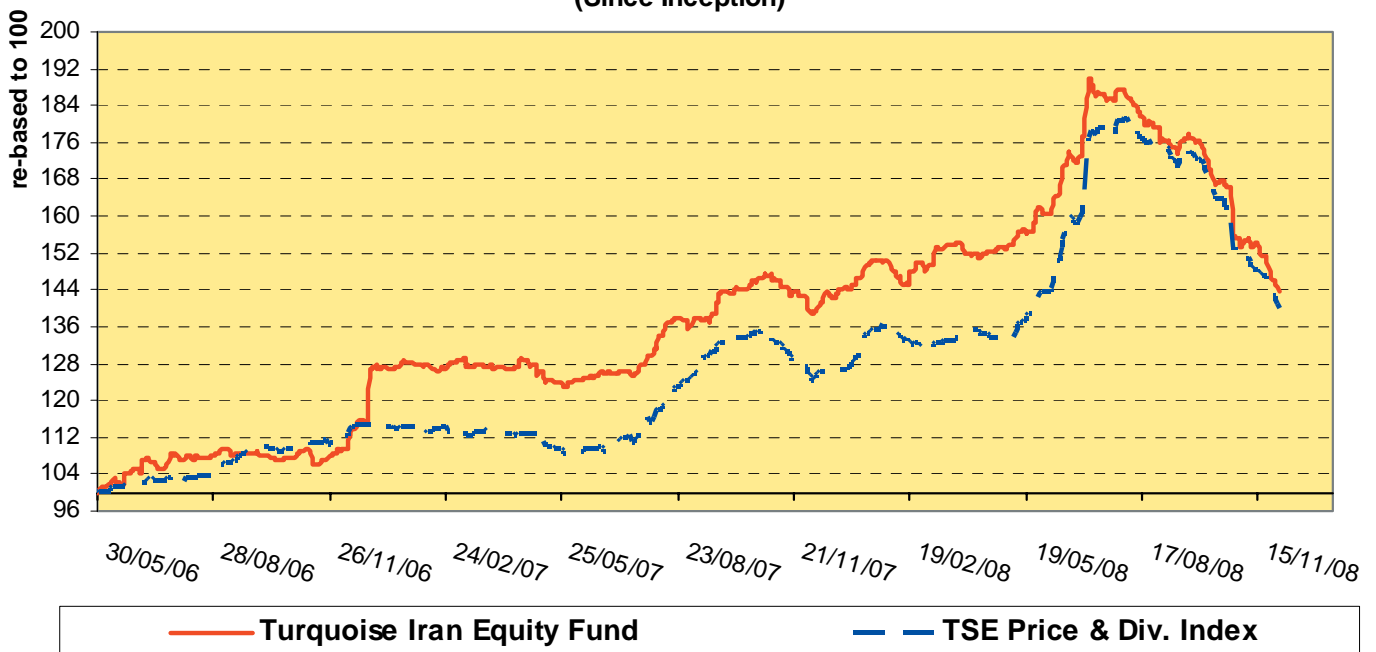


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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 6.6% in November to stand at 144.7 by the end of the month. Also, all market indices experienced further falls during the month, with the TSE Price and Dividend Index (TEDPIX) losing 7.6% in value and the TSE Price Index (TEPIX) falling by 7.7%.

The charts below provide an update up until the middle of December, 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.

**Turquoise Portfolio vs. TSE Price & Div Index (TEDPIX)  
(Since Inception)**



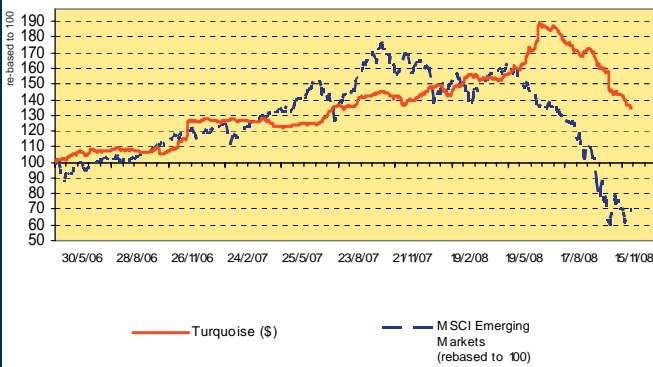
	Sep 08	Oct 08	Nov 08
<b>Turquoise Fund</b>	↑ 0.4 %	↓ 12.1 %	↓ 6.6 %
<b>TEDPIX</b>	↓ 1.4 %	↓ 11.5 %	↓ 7.6 %

## Performance

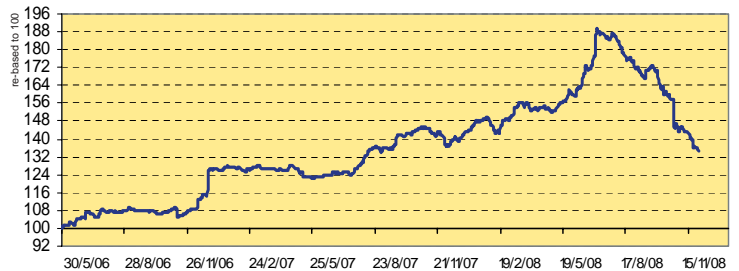
As of 15 November 2008

Period	Fund Return
Last Month	↓ 10.1 %
Last 3 Months	↓ 21.0 %
Last 6 Months	↓ 16.9 %
Last 12 Months	↓ 3.6 %
Since Inception (30 May 06)	↑ 38.1 %

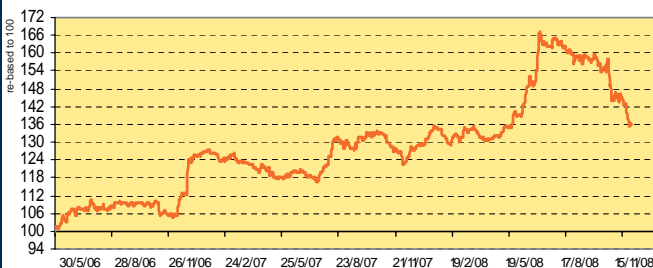
### Turquoise Performance vs. MSCI Emerging Markets



### Turquoise Performance in US Dollar (US\$)



### Turquoise Performance in Euro (€)



### Turquoise Performance in British Pound Sterling (£)



Iran's increased diplomatic relations with Latin America, and a report on the global outlook by the National Intelligence Council will be discussed in this edition of Country Overview.

One of the notable achievements of the Iranian government's foreign policy has been improved diplomatic relations with various Latin American countries. Mr Ahmadinejad, the President, has made significant efforts to boost ties with these countries, particularly with Cuba, Venezuela, Nicaragua and Bolivia. November and December witnessed the expansion of ties between Iran, and Brazil and Ecuador.

In early November, the Foreign Minister of Brazil, Celso Amorim, along with a group of senior officials, visited Tehran for the first time in 17 years. According to Brazilian officials, the objectives of this visit were to strengthen political relations with Iran as a major power in the Middle East and to expand economic ties between the two nations. Iran has been Brazil's largest trade counterparty in the Middle East for the past 5 years and the volume of trade has grown fourfold in this period to stand at \$2 billion. The two parties agreed to establish a joint commission to increase co-operation in the fields of agriculture, engineering, mining and energy.

In the first week of December, the president of Ecuador, Rafael Correa, also visited Tehran. This visit followed an agreement, which was signed in September between the two OPEC member states, to build a refinery and a petrochemical unit in Ecuador as a result of a major energy deal. The two presidents discussed ways of increasing cooperation and mutually agreed to the opening of embassies in each other's capitals.

Over the past few years, Iran has made significant investments in a number of countries in the Latin American region, for example, the establishment of a production line by Iran's largest car manufacturer, Iran Khodro, in Venezuela. Iranian officials argue that Iran and the emerging Latin American countries share many common political and economic interests. These countries have had increasingly warm relations with Iran, a matter which has been criticised by the US.

In November, the National Intelligence Council (NIC) of the US released an analysis of the world's long-term political and economic developments in a report titled "Global Trends 2025". This report predicts an increase in the role and influence of Iran regionally and globally by 2025.

The NIC explained that Iran, Turkey and Indonesia are the three countries with the highest potential for increasing their power. Political reform in Iran could potentially alter the general global perception of the country. Iran has substantial natural resources and an educated workforce. Fundamental structural and economic changes in Iran would pave the way to taking advantage of these resources and attracting foreign investment, thereby achieving strong economic growth and becoming an increasingly influential global power.

According to the NIC, global wealth is seen to be shifting from the West to the energy-rich Middle Eastern countries, Russia and Central Asia. The emergence of China and India as superpowers could weaken the US's position as the sole superpower. While the US is expected to remain the largest economic and military power in the world, it will face stiff competition from the new powers. In addition, the report predicts the deterioration of the US Dollar's position as the world's major currency, and suggests that it will become a first among equals. The report also states that in a multi-polar world, there is a heightened risk of global instability and conflict.

### **Privatisation Reaches \$40 billion**

According to the Minister of Economy and Finance, the total value of privatisations carried out by the Iranian government reached \$40 billion in the first half of the current Iranian calendar year (March – September 2008). The privatisation process in Iran first began in 1996, but at a slow pace. However, a new privatisation programme, which was introduced in 2005, accelerated the process significantly.

According to this ministry, the volume of governmental assets sold by the current government has been 14 times higher than all previous governments collectively since the beginning of the privatisation process in 1996. Of the \$37 billion of assets sold, the majority of which was through offerings on the stock exchange, \$8 billion has been sold to the private sector, \$7 billion transferred as governmental liabilities and the remaining \$22 billion was offered to poor families as ‘Justice Shares’. The privatisation programme is expected to be completed by 2015, reducing the government’s share of the economy from the current 75% to less than 25%.

### **First Iranian Vehicle Engine**

In November, Iran Khodro, the largest car manufacturer in the Middle East, revealed the first engine designed and built in Iran, with the assistance of a German company. The EF7, a 1.7 litre engine, is a bi-fuel engine capable of running on petrol or Compressed Natural Gas (CNG). According to Iran Khodro, this engine meets the Euro 4 standards in terms of emission and fuel consumption efficiency.

The new engine will initially be offered on Samand, Iran Khodro’s registered brand, as an alternative to the existing 1.8 litre petrol engine designed by PSA Group of France. The target market for Samand comprises 30 countries in the Middle East, Central and South Asia, Eastern Europe and Africa. Iran Khodro has established production lines for Samand in 5 other countries, including Belarus and Venezuela.

### **Tehran Metro**

On the 10<sup>th</sup> anniversary of the Tehran underground transport system (Metro), the Tehran Urban and Suburban Railway Company (TUSRC) announced that the number of journeys on the Metro had exceeded 2 billion since it became operational. Currently, the Tehran Metro has 91.6 kilometres of railway in 4 lines and 53 stations.

The comprehensive plan for the Tehran Metro includes 250.5 kilometres of urban railway in 8 lines and with the capacity to transport 6.6 million passengers per day, and 4 suburban express lines with a capacity of 1.3 million passengers per day. According to officials, based on the current rate of progress, the plan is expected to be completed in 6 years time, costing approximately \$1 billion each year. Revenues of Tehran Metro in the Iranian calendar year 1386 (ended 20<sup>th</sup> March 2008) amounted to \$90 million, 3.5% of which came from sources other than ticket sales, such as advertising on the trains. The development cost of the Tehran Metro is partly reflected in the Tehran Municipality’s budget. However, TUSRC is also exploring additional financing options.

### **Inauguration of Orumieh Flyover Bridge**

In November, the inauguration ceremony of the Orumieh bridge took place. This flyover bridge, which is 1.7 kilometres long, is the longest bridge in Iran. This bridge is a part of the newly built Shahid Kalantari freeway, which runs across the Orumieh Lake, the largest lake in Iran, and connects the two cities of Orumieh and Tabriz in the north-west of Iran.

According to official figures, this bridge has taken 5 years to complete, at a total cost of \$120 million. It has reduced the distance of a journey by car between Tabriz and Orumieh, previously 260 kilometres, by more than half. Experts estimate that the new freeway could result in cost savings of around \$60 million annually for drivers.

## 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](mailto:ramin.rabii@turquoisepartners.com)

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