



City of Tabriz Municipality Building, North Western Iran

THIS MONTH

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After the negative trend of the winter months, the Tehran Stock Exchange began the Iranian New Year (21st March) positively and with a substantial increase in trading volumes. Gains in global commodity prices along with strong earnings results in several sectors were the main drivers for the market rally in April. This section provides an analysis of the market and some of the main sectors.

Turquoise Iran Equity Fund

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The Turquoise Fund declined in March, with its NAV losing 5.4% in value. However, the Fund performed very well in April, gaining 8.1%. This section provides data and charts on the performance of the Fund.

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Iran's economy in the Iranian calendar year 1387, Iran's 7th privately-owned bank and the Central Bank's monetary policy will be discussed in this section.

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March 2009

Every year in March, as the Iranian new year (21st March) holidays approach, the Tehran Stock Exchange (TSE) experiences a slowdown in trading activities. This trend usually continues until mid-April, when traders and investors begin to return to the market. April is a strategically important month for many investors, as it is the first month of the financial year for more than 80% of companies listed on the TSE.

The TSE began March by continuing on its downward trend of the previous month. In the second week of March, the Telecommunication Company of Iran (TCI) finally reopened for trading after four months of trade suspension. The stock reopened to trade at a price 10% lower than its closing price, causing the market index to lose over 2% of its value on that day. From mid-March, however, this negative trend began to reverse itself. This was because of moderate gains in the global prices of several commodities, especially crude oil, along with a series of better-than-expected earnings forecasts released over the course of the month. Consequently, there was an increased demand for stocks towards the end of the month and the market index recouped some of its early-March losses.

Overall, the TSE All-Share Index (TEPIX) lost 3.1% of its value in March. Trade volumes amounted to approximately \$160 million, some 23% lower than the previous month.

April 2009

The TSE gains in late-March began to gain momentum in April, as buying queues for many large stocks grew significantly. Banks and pharmaceutical companies were the best performers over the month. A continuation of gains in global markets and the announcements of strong annual earnings results in a number of sectors were among the principal reasons for the positive market. Analysts believe that the continuous fall in the inflation rate over the past few months has been beneficial to the capital market. They argue that lower inflation reduces investor expectations of high company returns, thereby allowing the stocks to have higher price to earnings (P/E) ratios.

The Central Bank's monetary policy (see Economy section), which was approved by the government in April, revealed that interest paid on bank deposits will be considerably lower this year than in the previous year. Analysts believe that the new rates will not be attractive enough for all investors and should cause an outflow of funds from the banking system. They are also hopeful that some of these funds will be attracted towards the currently bullish equity market.

In early April, the Iranian Privatization Organization announced its plans for privatisations in the new Iranian year. Among these plans, the sale of further blocks of TCI and Mellat Bank, as well as IPO's of Tejarat and Saderat banks and a number of petrochemical companies, are expected to attract huge interest from investors.

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

Banks

The banking sector was the best performing sector of the past two months. Despite the slowdown in economic growth and a sharp deceleration in the economy's liquidity growth rate, the annual earnings forecasts of most listed banks showed a notable increase from last year. In the case of Karafarin Bank, this growth was 34%. In addition, the weighted average P/E of the sector reached its all time low (4.1) in mid-March, making the sector hugely undervalued in the view of many investors.

In early April, Sina, which was previously a credit institution, officially began its operations as a bank (see Economy section). This added further excitement to the sector. Overall, the banking sector index gained 12.4% in value over the months of March and April.

Copper

Following the slump in commodity prices in the second half of 2008, National Iranian Copper Industries Company (NICIC), suffered some of the largest price falls on the TSE. In fact, its share price lost 60% of its value from August 2008 to February 2009.

Along with the recovery in the global commodities market over the past two months, the copper price in particular has enjoyed strong rallies. In line with this, NICIC has experienced significant price gains. The company has predicted earnings per share of 508 Rials, based on an average copper price of \$4,000. The copper price, which bottomed out at around \$2,800 in November, reached \$4,300 on the LME in April. Over the past two months, NICIC's share price has gained 56% in value. This rally sparked moderate gains in other related stocks within the sector.

Telecom

TCI, the largest listed company by market capitalisation, reopened weakly in March and had an adverse impact on the market index. Following this, however, the stock enjoyed a relatively strong month in April. Unconfirmed rumours about the possible sale of a 51% stake in TCI created huge interest and consequently, there was a large buying queue for the stock. Nevertheless, due to the exchange share price control mechanisms and the large market capitalisation of TCI, price gains were moderate.

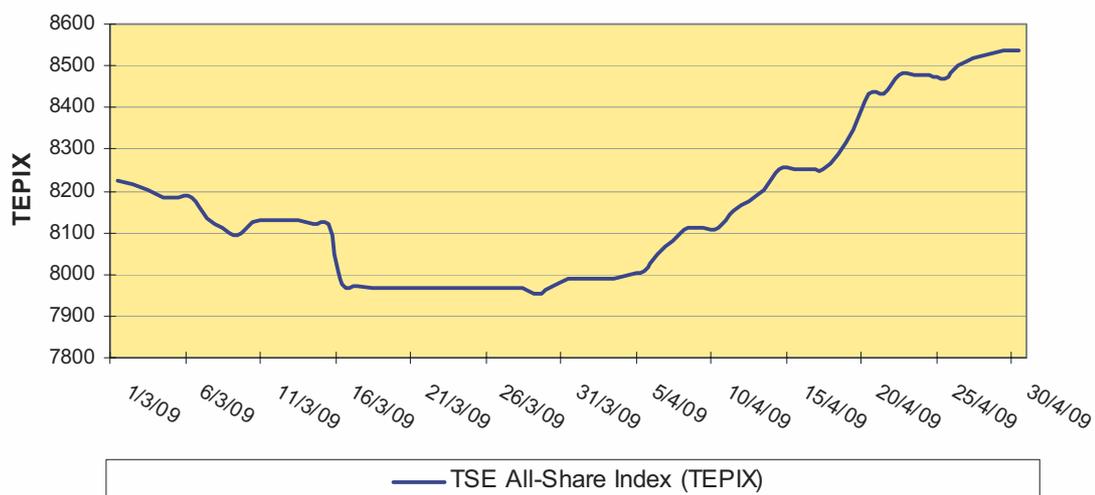
Since its IPO, TCI has been the subject of much controversy. Currently, the government remains the major shareholder of TCI. Therefore, the company continues to operate under state regulations regarding its budget planning and tax treatment, much to the dissatisfaction of its private shareholders. Analysts remain bullish about the long-term prospects of TCI.

Real Estate and Construction

A study of the listed real estate investment companies shows that the average share prices of these companies are substantially lower than their Net Asset Values (NAV). The astronomical growth in property prices over the past 3 years resulted in a slowdown in demand and trading activities in the real estate sector in the second half of last year. As a result, these companies have not been able to sell their properties and in some cases have postponed their existing development projects. Consequently, despite the rise in asset values, it is significantly harder to realise profits and some companies are experiencing strains in their working capital.

Overall, the TSE performed well in April, with the TSE All-Share Index (TEPIX) gaining 6.8% in value. Trade volumes stood at \$256 million, showing a 60% increase from March.

Performance of TSE All-Share Index (March - April 2009)

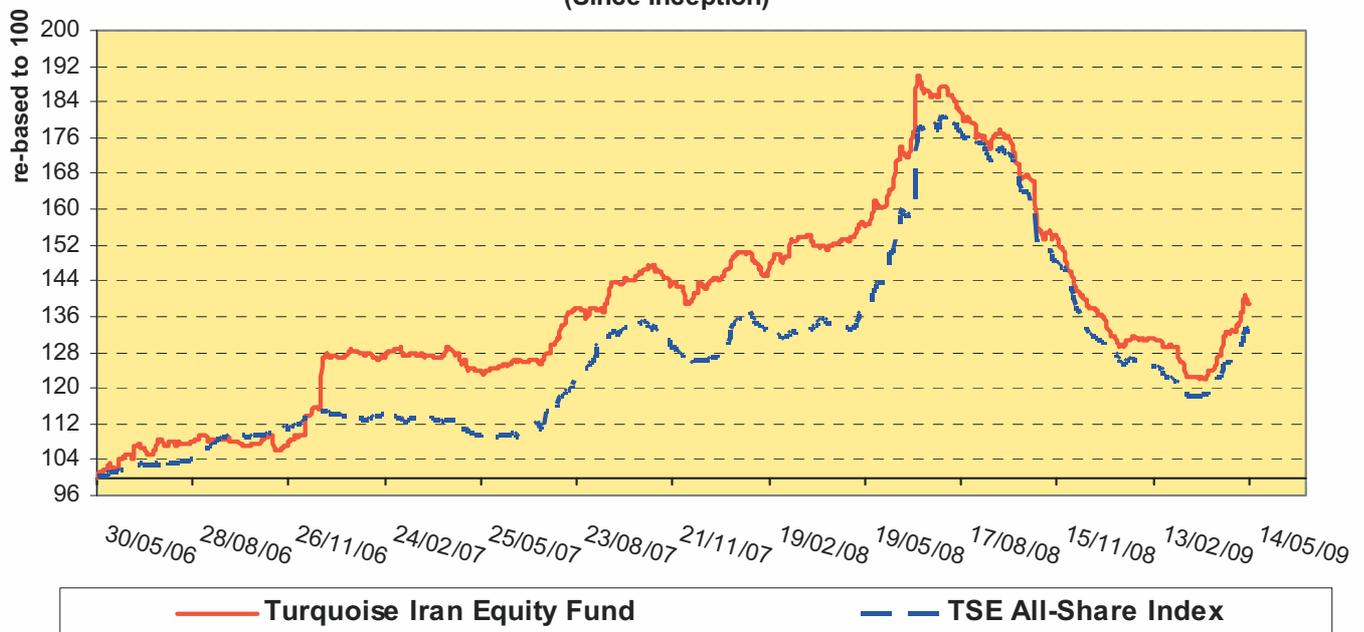


Investment Objective – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is 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 5.4% in March to stand at 122.7 by the end of the month. Also, most market indices continued to fall over the course of the month, with the TSE All-Share Index (TEPIX) losing 3.1% in value. In April, however, Turquoise Fund performed well, gaining 8.1% in value. Meanwhile, the TEPIX gained 6.8% in value. By the end of April, the Turquoise Fund’s unit price stood at 132.6.

The charts below provide an update up until the middle of May, on the following: the performance of the Fund against both the TEPIX in local currency and also the MSCI 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)**

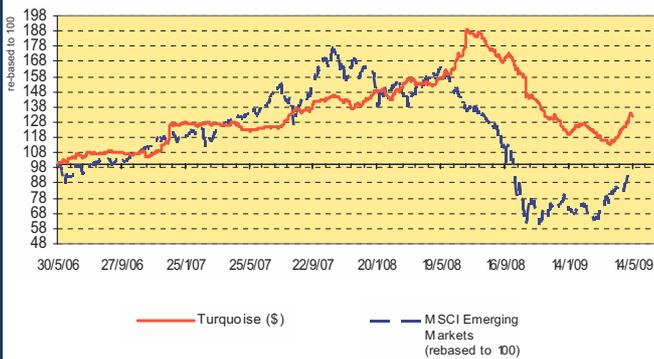


	Feb 09	Mar 09	Apr 09
Turquoise Fund	↓ 0.8 %	↓ 5.4 %	↑ 8.1 %
TEPIX	↓ 3.1 %	↓ 3.1 %	↑ 6.8 %

Performance

As of 15 May 2009	
Period	Fund Return
Last Month	↑ 9.1 %
Last 3 Months	↑ 6.3 %
Last 6 Months	↓ 9.6 %
Last 12 Months	↓ 11.4%
Since Inception (30 May 06)	↑ 39.0%

Turquoise Performance vs. MSCI Emerging Markets



Turquoise Performance in US Dollar (US\$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



Iran's state budget for the Iranian calendar year 1388 and President Obama's Norouz message for the Iranian nation are the topics of discussion in this edition of Country Overview.

Iran's state budget for the Iranian calendar year 1388 (2009-2010) was approved by the parliament in March, a month later than the previous year. This year's budget was one of the most controversial state budgets in years, and sparked much debate between the government and the parliament prior to its approval. There were two main reasons for this. Firstly, the slump in the crude oil price due to the global economic crisis means that Iran's foreign revenues will be considerably lower this year than in the previous year. Consequently, the government was forced to try and reduce its spending in the budget. Secondly, the government's proposed bill for the removal of energy subsidies, which was reviewed by the parliament in tandem with the budget, had significant budgetary implications. The government had predicted that approximately \$9 billion would be made available as a result of removing energy subsidies. Nevertheless, the bill was rejected by the parliament and the budget was amended accordingly before being approved.

The approved total budget was \$295 billion, an increase of approximately 2% in Rial terms from the previous year and a reduction of approximately 3% in US Dollar terms. This figure comprises \$94 billion for the government's general budget and \$8 billion for the ministries and governmental organisations' budget (in total, \$102 billion). There will also be \$193 billion for state-owned companies, banks and other governmental institutions. Of the \$102 billion earmarked for government spending, 53% will be funded through revenues from the sale of crude oil and gas, 28% will come from taxes and the remaining 19% from other sources such as the privatisation programme. Oil revenues are calculated based on the average price of \$37.50 per barrel at the US Dollar conversion rate of 9,500 Rials. Any surplus revenues from the sale of crude oil and gas are to be paid into the Oil Stabilisation Fund (OSF).

One of the revenue sources that shows a substantial increase from last year is tax revenues. Last year, the government implemented a series of revisions and improvements to the current tax regime, as part of the so-called "economic reform plan". The government would receive higher revenues through more effective tax collection from businesses. It would also receive new sources of tax, such as capital gains tax from real estate transactions. However, some experts argue that the government has been over-optimistic in calculating these revenues and the anticipated earnings may not materialise. In addition, these experts feel that several other aspects of the budget are not realistic. Consequently, they assert that the government will be faced with a budget deficit in the region of \$15 – 35 billion.

One of the important features of this year's budget is a noticeable reduction in urban and infrastructure development projects. Priority has been given to those projects that are near completion. Investment in new projects, except for high priority projects, is prohibited. There is also much emphasis on the continuation of the privatisation programme.

Since Barack Obama took office as the US President in January, there has been much speculation about a possible breakthrough in the US-Iranian relations. On 21st March, the first day of the Iranian New Year (Norouz), there was the release of a recorded video of Obama containing a message for the Iranian nation and its leaders. In this message, Obama called for a new beginning in relations between the two countries. He also expressed hope that the two nations would settle their differences after 30 years of hostility. He stressed that the conflict could not be resolved by threats, and that dialogue and honest engagement are the only ways forward. He made references to the ancient Iranian culture and stated that the US wanted Iran to find its rightful place in the international community. He also expressed his commitment to diplomacy. He ended his message with a few words in Farsi and quoted the medieval Iranian Poet Saadi: "the children of Adam are limbs to each other, having been created of one essence".

Reactions around the world to this message were generally positive and it was viewed as a major development by many experts. Iranian officials also cautiously welcomed Obama's message. They called it a positive step forward, but stressed that changes must take place in US actions towards Iran and not just in dialogue.

Iran's Economy in 1387

Below is a summary of some key statistics and economic indicators for the Iranian calendar year 1387 (ending on 20th March 2009).

Imports and Exports

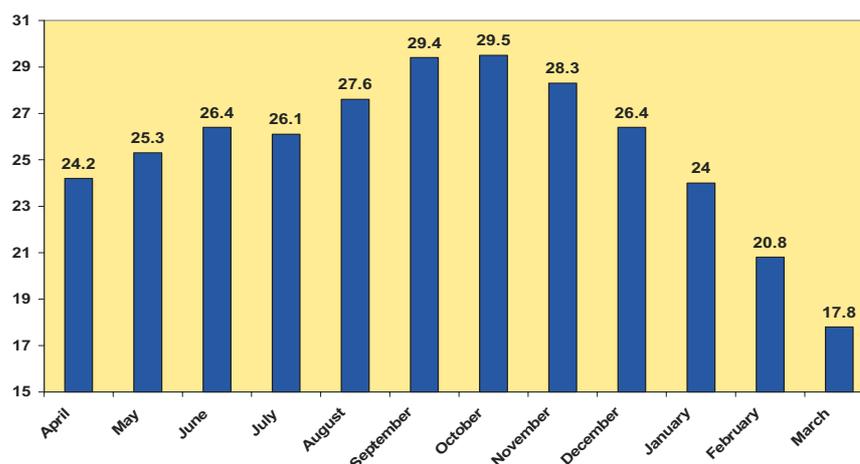
According to official statistics, Iran's total imports in the year 1387 amounted to \$55.8 billion. This was an increase of 15.5% in comparison to the previous year. Of this amount, \$46.5 billion was related to capital and intermediary goods, and \$7.1 billion to consumable goods. The top 5 exporters to Iran were the UAE, Germany, China, Switzerland and South Korea, who together produced around 54% of Iran's imports.

Iran's total non-oil exports (including natural gas) stood at \$23.3 billion, an increase of 9.4% year-on-year. Iran's exports (excluding crude oil and natural gas) amounted to \$18.1 billion. The exports had the equivalent volume of 32.9 million tonnes. This means that Iran's non-oil exports have grown by 18.1% in monetary terms and by 2.3% in volume terms. The top five importers of non-oil Iranian goods were Iraq, the UAE, China, India and South Korea respectively.

Economic Growth, Inflation and Unemployment

The latest analysts' estimates indicate that Iran's economic growth fell from 6.9% in 1386 to 5.1% at the end of 1387. Experts believe that the main reason for the slowdown was the global economic crisis, although they assert that its impact on Iran's economy has been very limited.

In 1387, the annual inflation rate went on a roller-coaster ride, fluctuating between 29.5% and 17.8%. In the first half of the year, inflation continued to increase from the previous year and peaked at 29.5% at the end of the summer. However, a slump in crude oil and commodity prices, combined with the Central Bank's tough measures to reduce excess liquidity and curb inflation, resulted in a sharp fall in the inflation rate in the second half of the year. The result was that at the end of 1387, the inflation rate stood at 17.8%. The figure below shows the 12-month inflation rate for each month of 1387:



According to the Statistical Centre of Iran, the unemployment rate at the end of 1387 stood at 10.4%, showing little change from the previous year.

Revenues from Crude Oil

Statistics from the National Iranian Oil Company (NIOC) reveal that Iran's total revenues from the sale of oil amounted to approximately \$77 billion in 1387. This represented a 10% increase from the previous year and put this figure at its all time high. The average sale price of Iran's crude oil during that year was \$100

per barrel. According to the NIOC, Iran's average daily production of crude oil stood at 4 million barrels per day, slightly lower than last year's average. Of this amount, approximately 55% was exported and the remainder was consumed domestically.

Foreign Investment, Foreign Reserves and Foreign Debt

Official statistics indicate that in the first 10 months of 1387, approximately \$322 million of foreign investment came into the Iranian economy. According to the Economic Commission of the parliament, Iran's total reserves in the Oil Surplus Fund (OSF) amounted to \$25 billion at the end of 1387. The Central Bank's statistics show that at the end of the third quarter of 1387, Iran's foreign debt stood at \$22.7 billion, a decline of 20% from the end of 1386.

Iran's 7th Privately-Owned Bank

Sina, which was previously a non-banking finance and credit institution, officially began its operations as a bank in early April. Consequently, it became Iran's 7th privately-owned bank. Sina had been granted a banking license by the Central Bank in March 2009. Prior to this and just before the end of the Iranian calendar year (20th March), Sina had increased its share capital to meet the Central Bank's threshold requirement of \$200 million. This put its market capitalisation at \$250 million at the end of April.

Sina was founded in 1985 under the name Bonyad Credit & Finance Institute. In November 2007, it changed its name to Sina, prior to being listed on the Tehran Stock Exchange. Sina Bank has 260 branches, some 2,000 staff and over 2 million depositors.

The Central Bank's Monetary Policy

In April, the Central Bank's monetary policies for the Iranian year 1388 (which began on 21st March) were finalised and endorsed by the government. The draft version was published by the Central Bank in February, and was submitted to the government for review and approval.

For the third consecutive year, the interest rate for conventional bank loans (known as Mobadala) has been set at 12% for state-owned banks and 13% for privately-owned banks. For participation loans (known as Musharakat, and similar to project finance), the interest rate charged by the banks will be dependent on the profitability of the project for which financing is required. For the first time in annual policies, the interest payable on bank deposits is similar for both state-owned and also privately-owned banks. This means that the deposit rates paid by privately-owned banks have been reduced significantly. For example, overnight deposits' interest has been reduced from 12.5% last year to 9% this year. Similarly, 5-year term deposits will now earn 17.5% (per annum) interest, as opposed to 19% last year. Allocation of bank's resources for lending to different sectors is 35% to the industry and mining sector, 25% to agriculture, 20% to real-estate construction and the remaining 20% to the services sector.

One of the notable features of this year's policy is that the Central Bank has required that all state-owned banks prepare and submit their plans for offering their shares through an exchange listing or otherwise to non-government sectors as part of the ongoing privatisation programme (except for those exempt from privatisation). Earlier this year, a 5% stake in Mellat Bank was offered on the Tehran Stock Exchange. IPO's of Tejarat and Saderat banks are also expected within the next 2-3 months.

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.

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