GRIFFON IRAN FLAGSHIP FUND

GriffonCapital
Asset Management and Private Equity

Griffon Asset Management

Investor Quarterly Report

July 2016

Investor Quarterly Report

AGMs & First Quarter Reports

Corporate Q1 earnings are nearly complete (the majority of listed companies have fiscal year March to March) and AGMs (require prior full year audited results before dividends can be declared) are also close to finishing. On the whole, pharmaceuticals and IT companies posted strong Q1s (reasonable pricing power, high sales' volumes and more than sufficient coverage of their respective full year forecasts). Steels also outperformed in Q1, benefitting from higher import tariffs and higher prices q/q. Many of the larger banks and all the refiners postponed AGMs and Q1 releases. The affected banks have to restate their financial statements as a result of the CBI's toughening demands whereas the refiners (heavily regulated by the Ministry of Oil) await the ministry's decision as to the detailed (backward looking) formulaic pricing that dictates their 'business model'. Whilst we comb through Q1s of all our companies and their respective competitors, we do not get too carried away with extrapolating quarterly information. We are investing based on the assumption that the lifting of sanctions will have a major impact but that it will likely take years to fully work through the economy and corporate landscape..

The Portfolio

Since inception we have taken advantage of the > 20% bond yields on offer whilst the market corrected from overbought levels. During and post the ~10% pullback, we increased our equity exposure from 41.4% in June to 53.7% in July. We will likely continue to increase our equity positioning in the months ahead. Our portfolio of equities consists of 23 companies. The GIF portfolio (weighted average) summary: P/E(16-17e.) 5.5x, DY(16-17e.) 12.7%, and our modelled and expected EPS growth is 24.9% for this year.

What do we like? The majority of our highest conviction investments are in the IT, pharma, utility and leasing sectors. However to be clear, *we invest in individual businesses not sectors and try to avoid a broad brush investment approach.*

Main reasons for our core investments

Firstly we understand each company's business model and have confidence estimating their respective earning powers in the years ahead. Furthermore, the companies we have invested in, individually possess most of the following attributes: good management, improving or established pricing power (the level of inflation, regulation and competition are important checks here), high returns on invested capital, improving or already high operating cash flow, minimal or manageable level of debt and sufficient (high return) reinvestment opportunity. The companies are also at significant discounts to what we estimate their respective intrinsic values (our estimates of discounted future cash flows) to be. Furthermore, each have several supportive top down & sector level factors with (potential) catalysts such as:

→

Industry drivers & catalysts

Favourable demographic trends and skillset & education levels- either for target customer base or feeding the labour force and required skillsets.

Improving State level liquidity and finances feeding into the respective industry.

Low penetration/capita of respective service or product.

Lower interest rates- lower cost of funding and/or lower cash conversion cycles for corporates and greater affordability (purchasing power) for consumers.

Reduced or more 'friendly' State level regulation.

Tax changes and increasing financial transparency at State & corporate level.

Higher spending power and incomes of consumer and corporates.

'Spill over' benefits from growth or challenges in other affiliated industries.

Low production costs, economies of scale, capacity utilisation increases (operational leverage) and export led growth.

Sources: TSE, IFB, Codal.ir.

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What have we avoided thus far?

Investing is also a negative art; when constructing a portfolio of companies, choosing what not to invest in is as important as the investments you actually make.

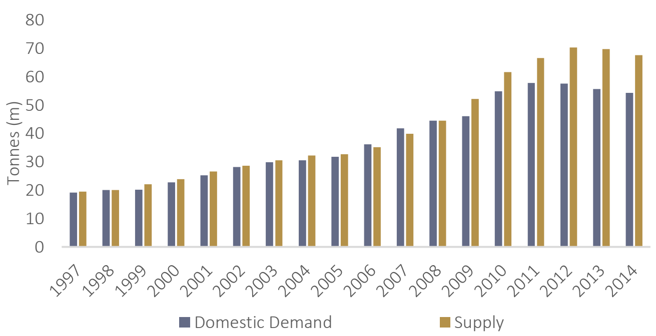
Automobiles: carry excessive debt (interest coverage ratios hovering around only 1-2x), insufficient pricing power/highly regulated, costs (e.g. labour or import dependency) are domestically sensitive and/or difficult to manage and valuations are high (average sector P/E officially 25.7x, but we think clean multiples are much higher). Thus far we have identified better fundamental investment opportunities in the commercial vehicle segment of the industry

> *What have we avoided thus far?*
> *Automobiles and cement companies.*

Can these negatives turnaround? Yes. The auto industry does have many compelling tailwinds: relatively low penetration rate + lower rates increasing affordability, pent up demand from the expected 'replacement cycle', export opportunities, operational leverage gains from increased capacity utilisation off current low bases and propensity for foreign JVs when replacement costs and barriers to entry are assessed. We will monitor them as best we can; when the circumstances change we may also change our minds. Currently we find materially better investment opportunities in the commercial vehicle segment of the industry.

Cements: Oversupply (~20m tonnes of inventory in warehouses) and muted demand suitably describes the present-day (Figure 1). The fall in construction and broader infrastructure activity (private and State) coupled with the fall in exports (namely to Iraq- raised import tariffs significantly), has happened, towards the end of what has been a large capex cycle meaningfully swelling production capacity (currently there are 65 cement plants, with 95 production lines and 80m tonnes of capacity). Iran is the largest exporter and 4th largest producer of cement in the world).

Figure 1



Iran is one of the lowest cost producers (at \$25/tonne versus global averages of ~\$50/tonne) and benefits from surrounding countries that import cement as well as a State that will need to spend more on infrastructure.

One of the differences between autos and cements is the 'retail market' is very fond of the autos (boosted by punchy company forecasts, revaluation of inter company assets and frenzied media headlines on expected foreign deals hence the fancy valuations) and is bored of and/or negative on the cement companies. The latter is left 'in the dust' with no exciting media headlines. Iranian cement companies are trading at approx. 60% discount to replacement cost whereas across the border, listed Pakistani cement companies trade at approx. *100% premiums* to replacement cost.

Both autos and cements are cyclical industries i.e. will turn and could turnaround quickly. Where (autos or cements) is the probability of upside surprise more likely? Where is the better value unlock? These are not necessarily rhetorical questions! We are simply explaining some of our thinking, so you can better understand the 'why', 'how' and at times the 'we don't know yet' of our investment decisions.

A recap of what we think constitutes 'an Ideal business'

Business A- The company provides high returns on capital and has credible reinvestment opportunities to utilise additional capital at similar rates of return (or greater).

Business B- The company has a sustainable competitive advantage such that one can expect it to generate and maintain strong returns on its invested capital?

Which do we like? Both

Which do we prefer? Business A

Why? Business A is the 'definition' of compounding- a great business that can simply retain (most) of its earnings for fueling further high growth. Taking it one step higher on the 'ideal business' ladder- in an inflationary environment (which still describes Iran, despite the dramatic fall in inflation from > 40% to < 10%) Business A should be low on fixed assets and have tangible pricing power (net of inflation)- this means limited maintenance capex (at what would have been inflated costs) and no loss of business/market share when prices are increased.

Business B is also a very good business (almost 'bond' like) with the caveat that it does not have the compelling reinvestment opportunities of Business A; it will (assuming the managers of the business are rational/sensible capital allocators) not compound your capital and will likely feedback most of the earnings back to shareholders. A global/well-known example of Business B is Procter & Gamble- distributing >75% of its earnings out as dividends. Note that one of the dangers with Business B is the misaligned incentives and/or adverse biases (ego, pet/state projects, ill-conceived compensation schemes) that will encourage managers to retain capital (for incrementally lower return) and ultimately lower shareholders' returns.

Which is harder to find? A. That is precisely why we spend most our time searching, analysing and thinking…

Sources: Financial Tribune, Valuewalk, CBI, TSE, IFB, Donya-e-eqtasad, FKCC, BMI, Farsnews, Codal.ir.

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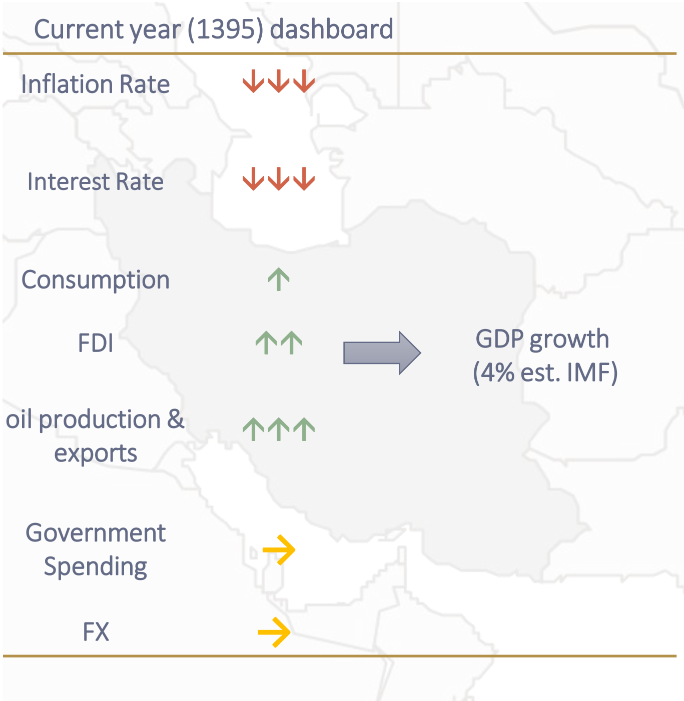
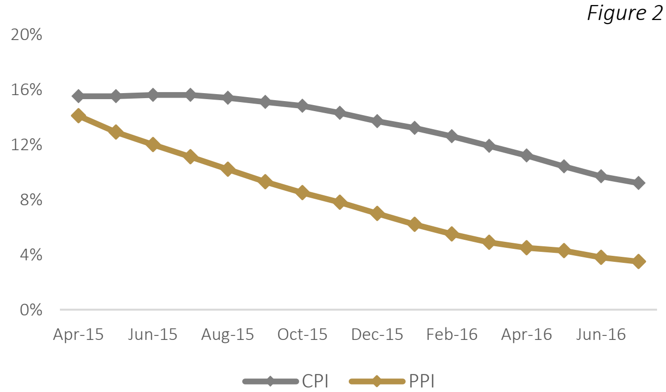
Iran's top down update : Macro dashboard



- Iran's oil production and exports have exceeded expectations (2.4mbd exports now versus only ~1mbd exports and sanctions restricting access to large amounts of the sale proceeds in 2015).
- In the first four months of this year, non-oil exports +21.1% y/y with imports 7.1% lower y/y (though, note we expect imports to also pick up with economic growth in medium term) i.e. Q1 non-oil trade surplus is as high as it has been in recent years (hence the trade balance for the year including oil, may post a surprisingly large surplus).
- Interest rates continue to fall with 1 year deposit rates now at 15% versus the 22% official peak a year ago. Lending rates are officially 18%. However credit is still limited at 18%. We expect this (cheaper) credit to surface slowly as it will be directly influenced by the expected gradual reduction in State's payables to the banks.
- A reported Increase in y/y industrial electricity use- good (leading) indicator of growth for industrial production (and GDP).
- A reported uptick in y/y employment.
- Signs of increased activity surfacing in real estate. There has been an increase in transaction volumes (27.6% y/y for last month) in Tehran especially in the low to middle income price and size brackets.
- Unification of CBI and free market FX rates expected to occur within 6 months (please refer to page 6).
- We believe the local currency (the current free market rate) will do relatively well (inflation adjusted) for the remainder of the year i.e. not depreciate notably or may even be unchanged/strengthen. FX unification, CBI monetary policy + independence + (disciplined control of monetary base + lower inflation), CBI led bank reforms (as a result of increased supervisory authority), FDI hard currency inflow into the capital account, productivity growth (non-existant in previous years) trade balance surplus and nuances around presidential year elections will likely be supportive influences. *The Rial (free market exchange rate) is 4.7% and 2.0% stronger versus the USD and Euro respectively, as of January 1 2016.*
- This is an election year. The State 'put' on the market- like many other places in the world, the stock market may have a 'put' i.e. a floor and/or a tailwind.
- Large international deals in the making from the aerospace giants, international car manufacturers and to the oil majors: the tangible is the FDI inflow (approx. $4bn estimated ytd.) and the intangible is the psychological & sentiment ('risk on') boost when the 'herd' mind-set kicks in post first big mover and all the tag along service providers follow the money (banks, insurance, support services etc.).
- Last month's CPI (y/y annual moving average comparison) reading by the Central Bank of Iran was 9.2% (Figure 2). We expect this could still tick lower, though we see mild/healthy inflationary forces slowly kicking back in.

Figure 2



Sources: The Economist, CBI, IRICA, World Bank, IMF, Donya-e-eqtasad.

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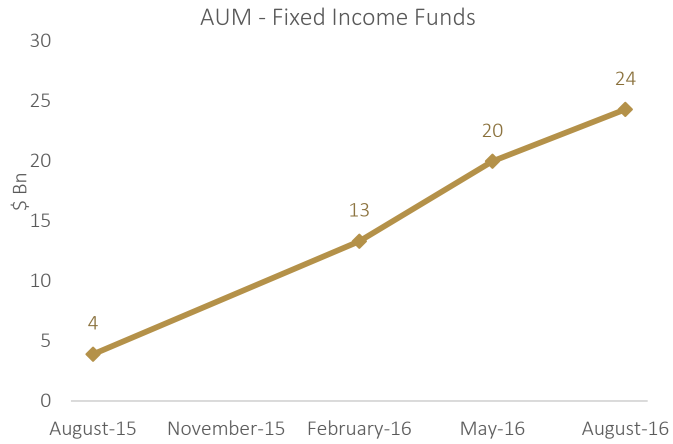
Iran's top down update: Domestic money flow

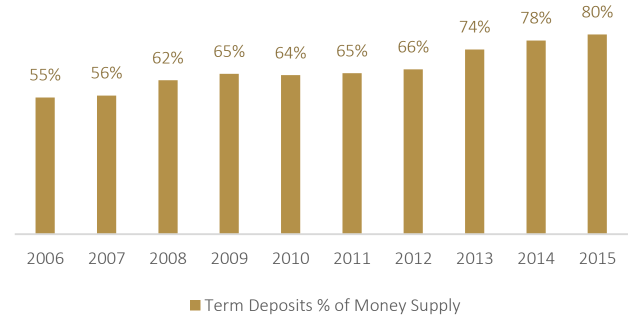
- Domestic money flow: money supply (M1 + M2) is approx. $297bn with term deposits (interest bearing) at banks forming about $243bn (82% of money supply), with another $20-24bn parked in fixed income funds.

Figure 3



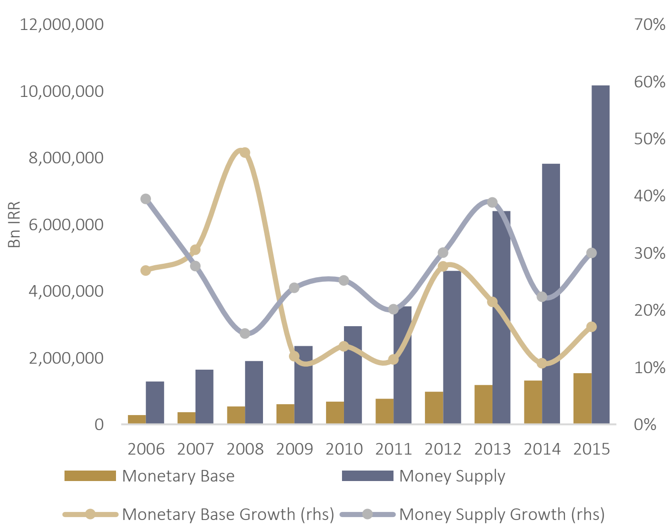
What reactions could the current falling interest rate environment spark? We have already seen a *six-fold* spike in fixed income funds' AUM, from approx. $5bn 12 months ago to $24bn today (Figure 3). Why? Largely driven by the newly set (lower) interest rates in bank accounts (term deposits) whilst the fixed income funds have continued to offer higher interest rates (>20% versus 1 year bank term deposit at 15%). Are these higher fixed income returns sustainable? In our view- no. Our thinking thus far suggests the money out flow from term deposit at banks will continue (not rapidly) and will seek new homes. Historical data (Figure 4) suggests term deposits may find equilibrium at 65-75% versus the >80% today (regression to the mean..). This would equate to $30-50bn of outflow. Fixed income funds will probably continue to benefit (albeit at a slower pace). However they cannot provide 10%+ real returns for too much longer (when the rate of the fall in inflation has most likely peaked, and interest rates now are normalising and liquidity improving). Therefore even if a small portion of this vast stock of money looks for other destinations, it will have significant and broad implications; including jolting 'riskier' assets such as the equity market.

Figure 4



- We believe money velocity will increase. The State's income AND cash flow is improving and with the sum of 'dormant' domestic payables at an estimated $194bn (at 45-50% GDP, albeit a fraction of developed countries' debt stock, it has nevertheless created notable money flow 'blockages') slowly decreasing, coupled with other liabilities becoming publicly tradeable (~$10bn of Treasury bills to be issued this fiscal year) and more affordable (lower rates), prospects are brighter. We expect an increase in money velocity (money supply x money velocity = Nominal GDP). Furthermore with money supply (Figure 5) growth at approx. 30% (however monetary base, the powerful money multiplier (Figure 5), which previously led to hyperinflation- is held in much tighter check by the CBI), you understand why and how the liquidity unlock and consequent upside surprises in GDP could come in the 2-5 years ahead.

Figure 5



Sources: Economist, FT, CBI, Fipiran.com, World Bank, IMF, TSE, Codal.ir.

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The challenges

We expect the re-emergence of Iran to be a measured process. We do not expect rapid positive 'fixes'. There are several challenges (and yes- if & when challenges are tackled they will subsequently be termed 'catalysts'):

- Ongoing noise from US elections and the wider inertia created by US primary sanctions
- The gradual unlocking of Iran's offshore frozen assets
- Domestic presidential elections (May 2017)
- Deleveraging of corporate balance sheets e.g. banks and autos: The CBI just declared that Iran Khodro, the largest vehicle manufacturer, must sell its 27.4% stake (market value $224m) in Parsian Bank, within 6 months.
- Low and/or volatile oil price (don't ask us to predict the oil price- 'we don't know'- but we do know oil production is actually/only 10-15% of Iran's GDP).

...apologies we digress but to illustrate the discernibly contrasting dynamics; kindly note the following: whilst Iran's fiscal balance improves and its domestic debts reduce, the GCC is experiencing the reverse. According to the World Bank in its Quarterly Economic MENA Brief titled "Whither Oil Prices", oil revenues have been falling for the third consecutive year and fiscal deficits and debts rising (a surplus of $128bn became a deficit of $264bn). GCC countries lost $157 billion in oil revenues last year and are expected to lose a further $100bn this year.

- Reconnection of Iranian banks to the larger European banks (a big transaction will help e.g. aeroplanes or oil)
- The State's domestic (overdue) payables
- Banks/domestic liquidity- NPLs, State payables to banks, historically weak regulation, AML standards, Basel 1 (not Basel 2 or 3),negative NIMs, noncore asset exposure, high leverage (low equity/asset ratio), high costs of funding and lack of credit are all well cited problems. The CBI is diligently targeting each with a view to steadily rectify them (we plan to discuss banks in our next quarterly).

A thought: 'investors' typically are much more comfortable when they are certain but end up paying a significant 'levy' for this luxury. Why? Because by then most investors agree and prices/valuations are higher. Some uncertainty is a prerequisite for high returns.

Unification of the two FX rates

The CBI has announced plans to unify the exchange rates before the end of this fiscal year 1395 (March 2017).

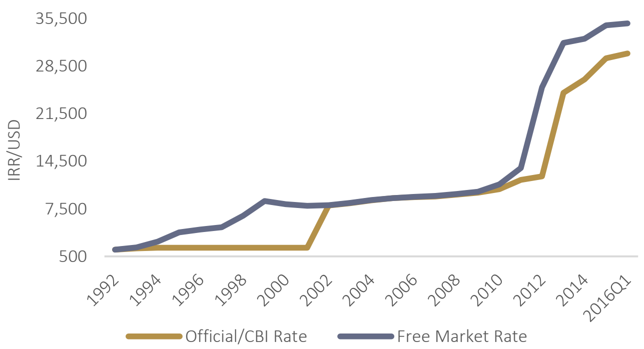
N.B. Griffon Flagship Fund operates with the 'free market rate' i.e. we expect no direct impact from our expected CBI rate 'devaluation'. It may even provide the Fund's EUR denominated NAV a small positive boost.

Currently there exists two exchange rates- the official/CBI exchange rate and the free market exchange rate. The majority of the economy operates at the free market exchange rate (the weaker rate and the same exchange rate that we use to convert the Fund's Euros into Rials). The official (and stronger) rate has officially been utilised for imports to benefit strategic industries and core staples. The detailed origins (dates back decades) and causes for the dual rate structure are beyond the span of this report; in brief, hyperinflation, sanctions and preservation of hard currency were all important and interconnected variables of the more recent (since 2011- see Figure 6) reappearance of the dislocation in the currency market (from 2001-2010, the economy was functioning with one exchange rate) . By way of a 'crude' (pardon the pun) comparison, consider Nigeria's predicament today as it embarks stubbornly in a poorly managed (and well overdue) devaluation, with two rates- one real and one 'wishful'. If Nigeria is in reverse gear, Iran shall we say is now in first or second gear.

The market is fixated more on the 'when' (we think it will happen within the next 6 months, precisely 'when' we don't know) without sufficient consideration on the second and third order consequences of this action.

The difference between the two rates today is approx. 14% (and had been >100% in 2012, post severe tightening of sanctions as per Figure 6) i.e. the CBI is already 'managing' the unification and may continue this way such that the unification will not be an 'overnight' event. We believe that given the State's hard currency reserves are again (sustainably) growing they will implement the unification soon and will do it at a level close to the free market rate i.e. the official rate will take the brunt of the 'devaluation' (i.e. the 14% gap) and the free market rate will remain steady or may even appreciate slightly.

Figure 6



Sources: Economist, FT, Financial Tribune, CBI, TSE, IFB, World Bank, Donya-e-eqtasad, Farsnews, Codal.ir

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Inflationary impact

Back of the envelope calculation: 10-20% of the economy operates (benefits from subsidised imports or State set pricing mechanism) at the 'official' rate, so a 10-15% 'devaluation' of the CBI rate, would theoretically push CPI inflation up by 1%-3%. With inflation now <10% and likely to tick lower, this should be manageable. However our initial thoughts are that the biggest driver on inflation will likely be the increase in money velocity in the years ahead (as discussed in the section of domestic money flow on page 5).

Examples of industry level impact

At first glance, autos, food (e.g. edible oil), pharma and petrochemical companies all look like the casualties, as much of their COGS benefit from the 'subsidised' imports (or other beneficially predefined cost pricing methodology e.g. the feedstock price for petrochemicals). Autos and food (e.g. shorter term some food companies will go into loss given low existing margins and delayed/less ability to pass on costs) will likely face difficulty. Probing further reveals some counter intuitive results for pharmaceuticals and petrochemicals. Pharmaceuticals will likely actually benefit as they work on a cost + margin model, and margins are high; we expect they can pass through (to customers) the consequential cost increases (history is on our side). Petrochemicals (on average 60% of COGS is comprised of the feedstock, priced in USD at the official rate) will be casualties (especially those that export more such that revenues already benefit from the free rate) though the market has discounted much of this negative impact (petrochemicals are close to 20% cheaper than the average market multiple). However, please note that even within this (huge) sector there are significant fundamental differences, whether for example you are analysing methanol producers or further downstream e.g. polyethylene manufacturers.

N.B. All our models (e.g. DCFs) for the companies we have researched and check-listed have incorporated the unification of the two FX rates by fiscal year end 1395 (March 2017).

Balance Sheets and a quick note on banks

Whether it's the balance sheet of the State or corporates, one must consider FX denominated assets AND liabilities. There will be accounting gains and losses. The State will benefit (large holder of foreign assets and minimal foreign debt) and there is a possibility that some of these gains will be directed to reducing the State's payables to the banks i.e. the banks can be the primary beneficiaries (liquidity increase, lower effective cost of funding, increase lending capacity etc.) and industry thereafter (as can borrow cheaper and more readily). Additionally, unification of the FX rates will be one crucial step (of a few), which will enable the reintegration of Iranian banks with the larger international clearing banks. Another sign of the CBI's incrementally constructive steps, is the new authorisation it granted to commercial banks to begin using the free market exchange rate.

Sources: Economist, FT, CBI, TSE, IFB, World Bank, Donya-e-eqtasad, Codal.ir.

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BREXIT!?

The peculiarity of the situation of the topic of BREXIT is that it continues to dominate the news and so very little is known thus far.

The most immediate (and verifiable) effect is the rise of uncertainty, both political and economic. This could likely mean a slowdown in investment in the EU and UK. It may also mean rather than just relying on the expected central banks to stimulate growth, some of the heavy lifting may be required to come from the respective fiscal authorities- whether they have the will or capacity is another question.

Read across to Iran?..

Investing (or not investing) on the basis of predicting the next international disaster is emotional, *not rational*.

We have read of and heard several viewpoints about possibility of the ensuing diverted political capacity (less EU attention and coordination for Iran issues), corporate capital/resource reallocation and delays (less propensity for foreign companies to devote time to new opportunities such as Iran), the ability of a more 'flexible' UK to better deal and negotiate with Iran as well as the impacts on developed market interest rates (lower for longer), the oil price and/or the USD.

Our view: This is a complex matter (with many variables, some interdependent, leading to random & countless interactions and hence an exponentially large range of possible outcomes i.e. unpredictable).

Bottom-line: We don't know- knowing the boundaries of one's competence, knowledge and abilities is in our view a vital skillset for any investor; it also requires humility so we apologise in advance if we say 'we don't know' to some topics other 'experts' step forward with confident and absolute answers. Generally as per our investment approach, *we strive to be roughly right than precisely wrong.*

Frontier, Emerging and Developed markets

It is well documented that most of the developed economies are facing demographic burdens, low growth and/or deflation (the increasing negative yields are symptoms), zero or minimal productivity growth, unfunded pensions etc.

Picking up on one of those items, according to a new report by Berenberg (the German bank) on demographics, the future is indeed discouraging. The dependency ratio is the number of children and elderly relative to the number of people who can work (15-64); the greater the ratio, the greater the liability on the workers. Within the next 50 years, the largest developed economies (with the exception of the US) could witness their respective labour force dwindle (e.g. EU >20%, Japan >40%). If debt levels do not or cannot increase materially (debt/GDP in developed economies are already too high), growth would need to originate from a big jump in productivity and/or an increase in labour force participation. That is a tough ask.

The capital markets' price action in the last decade implies a different or more hopeful outcome in the 'mature' world.

Over the last 7-8 years (since the global financial crisis), the (USD) return to August 2016 of the S&P500 has been ~120% and the Eurstoxx 50 returned ~20% (despite the ~30% devaluation of the Euro versus the USD in the same period). The MSCI Emerging and Frontier Markets returned (in USD) approx. 0% and -10% respectively, over the same period. From a fund's flow standpoint the *outflows* from Emerging Markets versus Developed Markets (as % AUM) have been 0.9% and 1.9% ytd. and 0.2% and 1.0% in the last 3 months. However in the last month there has been a reversal with investors putting money to work in EM (*inflows* of 0.7% of AUM) whilst outflows continued in developed markets.

In our opinion, as a long term investor, it is after such long periods of 'painful' underperformance that one can significantly improve the odds of high returns (when coupled with fundamental analysis and understanding). The time to increase exposure to emerging and frontier markets should be when they are 'unloved' (i.e. expectations are very low and positioning is not crowded) and trading at 5-10 year historic and relative fundamental discounts. This is indeed, the present day situation.

Our logic (or lack of..!):

a) This extent of variance last occurred about 15-20 years ago i.e. mean reversion odds are in the investor's favour.

b) A large part of investor returns are determined by the price you pay i.e. entry point valuation- again the odds are in your favour, by paying a very low price .

c) Diversified real returns

Iran in the context of EM and FM peers

Region	P/E (fwd.)	Div. Yld.
Iran	7.4x	10.2%
Emerging Markets	12.1x	2.8%
Frontier Markets	11.4x	4.4%

We believe a forward earnings discount of 39% and 35% versus EM and FM respectively is too large; Iran's stock market has limited downside and the discount will narrow.

Yes there is uncertainty (*we stress the important distinction between risk and uncertainty- happy to discuss further*), though the risk/reward is compelling.

The margin of safety in owning Iranian equities is large and the catalysts (we don't know exactly when, we may not even know precisely which) will take care of the upside.

Sources: The Economist, FT, Goldman Sachs, Morgan Stanley, EPFR Global, HSBC, Berenberg Bank, MSCI.

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ABOUT GRIFFON CAPITAL

Griffon Capital is an Iran-focused asset management and private equity group established to unlock value from the country's public and private equity markets. Among Griffon's primary objectives is to allow local and international institutional investors the ability to seamlessly access and maximise opportunities in Iran through purpose-built vehicles and investment products spanning traditional and alternative assets.

The Group's strength is rooted in a robust operating platform developed by leading international advisors and are supported by internationally recognised administrators and auditors. Our platform consists of a high calibre team with deep local market expertise and international financial pedigree blended at the board, management and execution levels. This includes a management team steeped in investment banking, wealth and asset management and corporate finance experience. Griffon is also distinguished by on the ground local research and primary thinking and a governance culture defined by global best practices in risk management, compliance and reporting.

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Certain statements in this newsletter constitute forward-looking statements. All statements that address expectations or projections about the future, including statements about operating performance, market position, industry trends, general economic conditions, expected expenditures and financial results, are forward-looking statements. Any statements contained herein that are not statements of historical fact are forward-looking statements. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Accordingly, actual results or the performance of the Fund, the Investment Manager or their respective subsidiaries or affiliates may differ significantly, positively or negatively, from forward-looking statements made herein. Due to various risks and uncertainties, actual events or results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making any investment decision. No representation or warranty is made as to the achievement or reasonableness of, and no reliance should be placed on, such forward-looking statements. Nothing in this newsletter should be relied upon as a promise or representation as to the future.

Certain figures contained in this newsletter have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this newsletter may not conform exactly to the total figure given.

This newsletter may include track record information regarding certain investments made and/or managed by the Investment Manager or its affiliates and/or certain other persons. Such information is not necessarily comprehensive and potential investors should not consider such information to be indicative of the possible future performance of the Fund or any investment opportunity to which this document relates. The past performance of the Investment Manager or its affiliates is not a reliable indicator of, and cannot be relied upon as a guide to, the future performance of the Fund.

The Fund will not accept investments from any US Persons (as defined in applicable legislation) or persons whose conduct is subject to US economic sanctions (unless and until such investments are authorised by the relevant US authorities).

This newsletter is only addressed to and directed at: (a) persons in member states of the European Economic Area ("Member States") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC, as amended (including amendments by Directive 2010/73/EU to the extent implemented in the relevant Member State)) provided that the giving or disclosing of this newsletter to such person is lawful under the applicable securities laws (including any laws implementing Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (the "AIFM Directive")) in the relevant Member State ("Qualified Investors"); (b) within the United Kingdom, to persons who (i) have professional experience in matters relating to investments and who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order"), or (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and/or (iii) persons to whom it may otherwise be lawfully

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communicated and (iv) are "qualified investors" as defined in section 86 of the Financial Services and Markets Act 2000, as amended; and (c) other persons to whom it may otherwise lawfully be communicated (all such persons referred to in (a) to (c) above together being referred to as "Relevant Persons"). This newsletter must not be made available to persons who are not Relevant Persons. No person should act or rely on this newsletter and persons distributing this newsletter must satisfy themselves that it is lawful to do so. No steps have been taken by any person in respect of any Member State to allow the Shares to be marketed (as such term is defined in the relevant legislation implementing the AIFM Directive) lawfully in that Member State. By accepting this newsletter you represent, warrant and agree that you are a Relevant Person.

The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Class A Shares in Switzerland must exclusively be made to qualified investors. The place of performance for Class A Shares in the Fund distributed in Switzerland is at the registered office of the Hugo Fund Services SA.

On July 14, 2015, the P5+1, the European Union, and Iran reached a Joint Comprehensive Plan of Action ("JCPOA"). Subsequently, following confirmation that relevant JCPOA commitments had been delivered, certain of the international sanctions and restrictive measures relating to Iran were eased or lifted on 'Implementation Day', 16 January 2016, including the majority of previous EU and UN sanctions on Iran. While this represented a significant relaxation of the sanctions in place against Iran, a number of important restrictions remain in force (including certain sanctions which may affect financial and investment activity).

In particular, notwithstanding the relaxation of sanctions on 'Implementation Day', certain categories of persons may be prohibited from investing in the Fund. The Fund and Investment Manager's policy is to comply with all applicable sanctions, and not to engage in activity that would be sanctionable under the sanctions applicable to non-US persons. Before making or managing any investments in Iranian securities, the Fund and the Investment Manager will put in place a robust compliance framework based on professional advice with a view to ensuring that its activities and investments are compliant with EU and applicable US sanctions and restrictive measures in force from time to time regarding Iran.

It is the responsibility of the recipient of this newsletter to satisfy itself as to its compliance with the legislation of any relevant jurisdiction or territory, including in particular regarding international sanctions and restrictive measures, and to assess the risk of the imposition of additional sanctions (including under the JCPOA 'snapback' mechanism) that might affect any investment in the Fund or its valuation or liquidity. It is the responsibility of the reader to satisfy themselves that any business activities will not expose them to liability under the laws of any state to which they are subject.

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