

Monthly Newsletter

January 2018

In this issue:

Iran's country risk classification improves

Stocks and Q3 corporate earnings strong

Currency weakness accelerates

An overview of Iran Mercantile Exchange

Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.



IRAN EQUITY MARKETS

INDICES

Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	2.7% ↑	5.4% ↑	5.4% ↑	9.0% ↑
Monthly Performance				
Last close	98,133	1,090	671	1,248
Past 12M	25.9%	28.1%	26.0%	37.2%
YTD	2.0%	2.9%	5.2%	7.8%
P/E (fwd.)	7.2x	8.3x	14.9x(hist.)	12.5
Div. yield	8.7%	9.6%	2.9%	2.2%

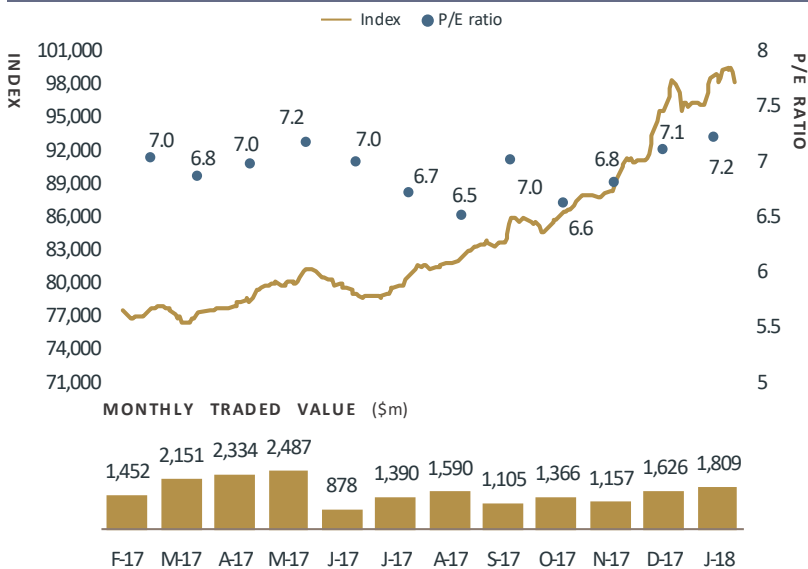
MARKETS AT A GLANCE

The stock markets continued their strong trend higher in January, again registering all-time highs. The TEDPIX and IFX closed +2.7% and +5.4% higher, respectively, at month end, and the TEDPIX's intra-month high of 99,607 was just shy of the psychological 100,000 level. On the corporate earnings front, all companies have now reported Q3 results – which, while strong, were not strong enough to prevent some profit-taking in the last week of January. Separately, the Securities & Exchange Organization (SEO), Iran's capital markets regulator, announced plans to quicken equities' trade settlement cycle from T+3 to T+2.

Despite January's equity gains (and unchanged bond yields), the biggest mover during the month was a negative one: the currency. The Iranian rial weakened significantly (7.5%) versus the U.S. dollar. However, despite the many reasons cited for this (hard-currency transfer bottlenecks, the budget deficit), the Central Bank of Iran continued to reaffirm that seasonal drivers will wane and the currency will stabilise in the months ahead.

January's ADTV was \$78.6m, the highest average in eight months. Institutional activity, at 64.4%, was also the highest in eight months. The most-actively traded sectors were base metals (20.7%), refineries (15.3%), chemicals (14.0%) and mining (10.6%), comprising 60.6% of trades.

TEDPIX INDEX & P/E (fwd.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)

TSE	Farabourse
88,505	14,659

Value traded (\$m)

TSE	Farabourse
1,457	352

\$1 : 44,234 IRR is the monthly average free-market exchange rate used for this report.

All market data represents the period January 1-31, 2018.

Sources: Tehran Stock Exchange, Bloomberg, MSCI, Royal Exchange, Griffon Asset Management, Bourseview.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE^(a)

BEST PERFORMING SECTORS

Machinery	↑	12.1%
Leasing	↑	7.5%
Chemicals	↑	6.5%
Conglomerates	↑	6.4%
Sugar & by-products	↑	6.3%

WORST PERFORMING SECTORS

Ceramics & tiles	↓	-7.5%
Metal products	↓	-6.5%
Paper & paper products	↓	-6.5%
Transportation & storage	↓	-5.2%
Insurance companies	↓	-4.6%

TOP GAINERS AND LOSERS

GAINERS

Zangan Zinc Ind.	Base metals	↑	86.2%
Zagros Meat & Milk	Farm Products	↑	66.5%
Butane Industrial Co.	Machinery	↑	61.9%
Navard & Steel	Base metals	↑	53.5%
Calcimin	Base metals	↑	38.5%

LOSERS

Tolidaru	Pharmaceuticals	↓	-33.0%
Pars Darou	Pharmaceuticals	↓	-27.4%
Isfahan Cement	Cements, limes & plasters	↓	-26.7%
Eastern Azarbaijan Pegah Milk	Food stuff excl. Sugar	↓	-25.3%
Lia co.	Chemicals	↓	-24.9%

SECTOR NEWS

Housing

Tehran's housing market has been strengthening recently, and in the past three months both prices and the number of transactions have risen notably. In January the number of transactions and prices rose by 13.5% and 16.7% year on year, respectively, and strong upward moves also occurred in November and December 2017.

Pharma

The government has allocated ~\$440m to the State's Health Insurance Organisation (which is managed by the Ministry of Health & Medical Education) to settle outstanding payables for March–June 2017. The payment will go to medical universities, to pay for medical supplies and equipment; and to pharmacies, to pay distributors and manufacturers.

Auto

1,103,631 vehicles were built in the first nine months of the current Iranian fiscal year (March 2017 to March 2018) – a 16.1% increase year on year. In November, 146,276 vehicles were produced, up 13.4% year on year.

Steel

Esfahan Steel Company (ESCO) has made its first exports – of round bar – to the UK. The Social Security Organization and Iranian Steel Pension Fund have 52% and 17% stakes in ESCO, respectively.

\$1 : 44,234 IRR is the monthly average free-market exchange rate used for this report.

(a) Smaller sectors (i.e. those comprising less than three companies) have been excluded.

All market data represents the period January 1-31, 2018.

Sources: SEO, Financial Tribune, Iran Health Insurance Org., Iran Vehicle Manufacturers Association, cbi.ir, Griffon Asset Management.

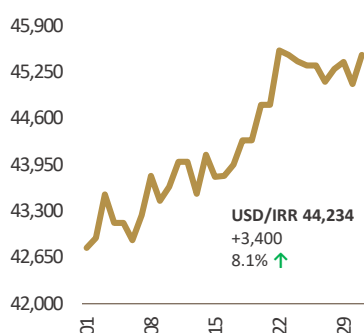
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

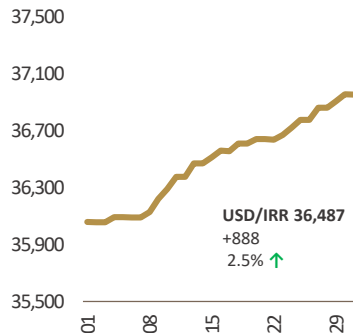
Price values in IRR	Market cap (\$m)	Close price	1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals <i>Chemicals</i>	6,393	5,634	↓ -0.6%	-0.6%	5,798	3,790
5.7%						
Mobarakeh Steel <i>Base metals</i>	4,841	2,849	↓ -5.1%	-5.1%	3,119	1,232
4.3%						
MCI <i>Telecommunication</i>	3,855	17,750	↑ 4.5%	4.5%	17,753	11,663
3.5%						
Maroon Petrochemicals <i>Chemicals</i>	3,701	40,501	↑ 10.7%	10.7%	41,600	26,057
3.3%						
NICICO <i>Base metals</i>	3,657	2,699	↑ 6.9%	6.9%	2,737	1,367
3.3%						
TCI <i>Telecommunication</i>	3,056	2,215	↓ -1.3%	-1.3%	2,299	1,879
2.7%						
Tapico <i>Chemicals</i>	2,893	1,570	↑ 7.9%	7.9%	2,270	1,210
2.6%						
Golgozar Mining & Industrial <i>Metallic ore</i>	2,317	3,410	↑ 0.9%	0.9%	3,635	1,817
2.1%						
Ghadir Investment <i>Conglomerates</i>	2,293	1,420	↑ 5.6%	5.6%	1,450	1,032
2.1%						
Jam Petrochemical <i>Chemicals</i>	2,251	10,373	↑ 13.4%	13.4%	10,373	7,660
2.0%						

USD/IRR EXCHANGE RATE, JANUARY 2018

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

The market is expecting that Mobarakeh Steel Company (MSC) – which, with a 50% market share, is Iran’s dominant domestic steel player – will buy both stakes, thus gaining control of ESCO. Iran is already one of the largest exporters of steel products to Europe.

IPO

January saw an IPO in the farm products sector: Zagros Milk and Meat (\$10.5m market cap.). The stock started trading on 17 January and closed 58.6% higher as of 31 January.

Macro and Banking

According to the latest OECD report, Iran’s country risk classification has improved from 6 to 5. (It was as low as 7 – the lowest ranking – in 2014.) The likelihood of further improvement is high given the ongoing economic and banking reforms; this will improve Iran’s credit rating while reducing the country’s cost of capital.

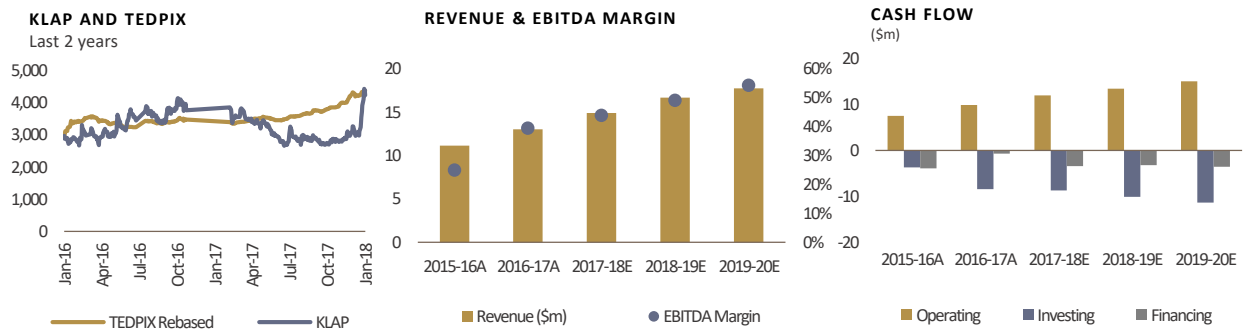
Iran’s banks continue to successfully open new foreign banking credit lines – the most recent being €5bn from Invitalia Global Investment, an Italian group, for domestic infrastructure and production projects. The Iranian counterparts are the Industry & Mining Bank and Middle East Bank; for State-designated projects, applications for credit are to be made via the Industry & Mining Bank, whereas the private sector should register through the Middle East Bank.

All market data represents the period January 1-31, 2018.

Sources: SEO, CBI, Financial Tribune, IFB, Codal.ir, Tehran Stock Exchange, Royal Exchange, Griffon Asset Management.

COMPANY OVERVIEW: IRAN MERCANTILE EXCHANGE

IRAN MERCANTILE EXCHANGE			
Symbol: KLAP	Market cap.: \$86.1m	P/E (17-18E) ^(b) : 7.4x	12-month return: ↑15.5%
Exchange: IFB	Enterprise value ^(a) : \$61.3m	5-yr (avg.) dividend payout ratio: 34%	EV/revenue (17-18E) ^(b) : 4.1x
Listed since: 2011	% of market : 0.08%	Dividend yield (17-18E) ^(b) : 4.1%	EV/EBITDA (17-18E) ^(b) : 8.4x
Last close: IRR 4,340	Free float: 32%	Avg. daily trade value: \$27.6K	ROCE (hist.): 44.3%
90-day change: ↑61.0%	Shares outstanding: 9 Bn.	52-wk high/low (IRR): 4,418/2,650	ROE (hist.): 27.2%



FINANCIAL STATEMENTS (\$M)					
	15-16A	16-17A	17-18E	18-19E ^(b)	19-20E ^(b)
Spot transactions	8,861	9,645	11,016	11,733	11,996
Derivative transactions	5,514	11,022	16,555	22,680	27,134
Revenue	11.1	13.0	14.9	16.6	17.7
Growth %	-33.8% ^(c)	16.9%	14.4%	11.9%	6.5%
EBITDA	2.8	5.1	7.3	8.9	10.3
Growth %	-67.6%	85.0%	43.7%	21.7%	16.0%
EBITDA margin	24.8%	39.2%	49.3%	53.6%	58.4%
Net Income	7.6	8.7	11.7	13.1	13.9
Growth %	-34.5%	14.6%	34.0%	11.7%	6.7%
Net Profit Margin	68.5%	67.2%	78.7%	78.5%	78.7%
Net Cash	20.6	29.7	34.6	40.8	46.7
Dividend	0.8	3.8	3.6	4.0	4.2

COMPANY OVERVIEW

Iran Mercantile Exchange (IME) was established in 2007 and listed on the Iran Fara Bourse in 2011. As per the SEO directive, the company has a rather complex shareholder policy in that its shares are divided into four distinct ownership groups: brokers, financial institutions, producers and “others”. Each class trades under a different ticker symbol, and each can be traded and owned only by the designated group pertaining to that class.

IME’s revenues derive mainly from spot and derivative transactions. The commissions generated from spot transactions are the larger of the two, set at 0.1% of transaction value. The commissions from derivatives are small fees, fixed to the number of contracts for futures and the number of underlying assets for options.

IME has been dynamic in introducing listed derivatives. For example, gold futures were launched in 2010 and saffron and pistachio futures (alongside gold options) were initiated just last year. Commodity certificates of depositary receipts and funds have also been launched recently. However, despite the growth of the more modern financial instruments, the securitisation of the commodity market remains relatively untapped. With regard to spot-settled commodities, whilst the exchange’s coverage is comprehensive for mineral and oil products, it has significant scope to increase in segments such as agricultural commodities. One important asset class under intense assessment by the IME is foreign exchange; the introduction of much-demanded FX derivatives is expected (though the timing remains unclear and is subject to the Central Bank of Iran’s authorisation). It is guesstimated that introduction of currency derivatives would more than double the value of derivative transactions.

On a more strategic level, partnerships with other mercantile exchanges are already under consideration – IME’s modern infrastructure and strong management will facilitate its integration with foreign exchanges and brokers. On the matter of capital allocation, IME has been reluctant to pay larger dividends in order to keep its regulatory mandated capital adequacy in check. The company has a strong balance sheet, with net cash of \$25m as of its 2017-2018 audited semi-annual financial report.

This is not a stock recommendation. The above is an introductory information overview.
 The reference currency rates are based on the yearly average of the free market exchange rates.
 a) The enterprise value calculation is based on net debt from 2017-18 audited semi-annual reports.
 b) 2018, 2019 and 2020 numbers are based on Griffon Asset Management’s expectations.
 c) The significant fall in revenue in 2015-2016 is due to the impact of the economic recession at that time.
 Sources: Annual company accounts (Codal), company website, Griffon Asset Management.

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 an 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.

Modaberan Homa is fully licensed and regulated by the Securities and Exchange Organization (SEO) of Iran.

DISCLAIMER

Please read this disclaimer carefully as it contains important information about the Griffon Iran Flagship Fund SP ("Fund"), a segregated portfolio of GIF SPC, its proposed investments in Iran and the current international sanctions and restrictive measures in relation to Iran.

This newsletter is strictly private and confidential, has been prepared by Griffon Asset Management ("Investment Manager") and is being provided to investors in the Fund on a confidential basis. This newsletter is for information purposes only and should not be construed as investment advice. All information provided herein is as of the date set forth on the cover page (unless otherwise specified) and is subject to modification, change or supplement in the sole discretion of the Investment Manager. This information is neither complete nor exact and is provided solely as reference material with respect to the Fund.

This material does not constitute an offering of any security, product, service or fund, including the Fund, for which an offer can be made only by the Fund's Confidential Private Placement Memorandum (the "Confidential Memorandum"). The terms and risk factors of the Fund are set out in its Confidential Memorandum which is available to qualified prospective investors upon request. The contents hereof are qualified in their entirety by the Confidential Memorandum and subscription agreements of the Fund.

The purchase of shares in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund's investment program. The Class A Shares of the Fund are subject to restrictions on redemption, transferability and resale as provided in the Confidential Memorandum and the Fund's constitutive documents. There is no secondary market for an investor's shares in the Fund and none is expected to develop. There is no obligation on the part of any person to register the shares under any statute.

The performance results of certain economic indices and certain information concerning economic trends contained herein are based on or derived from information provided by independent third party sources. The Investment Manager believes that such information is accurate and that the sources from which it has been obtained are reliable. The Investment Manager cannot guarantee the accuracy of such information, however, and has not independently verified the assumptions on which such information is based.

No reliance may be placed for any purposes whatsoever on the information contained in this newsletter or on its accuracy, completeness or fairness. No representation or warranty, express or implied, is given by or on behalf of the Fund, the Investment

Manager or any of their respective affiliates or partners with respect to the accuracy or completeness of the information contained in this newsletter. The aforementioned persons disclaim any and all responsibility and liability whatsoever, whether arising in tort, contract or otherwise, for any errors, omissions or inaccuracies in such information or 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 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.

Griffon Capital

T: +98 21 26231278

F: +98 21 26231275

E: info@griffoncapital.com

Unit 101

No. 38, Golfam Street

Africa Boulevard

Tehran

Iran