Asset Management and Private Equity

Monthly Newsletter

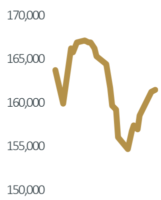
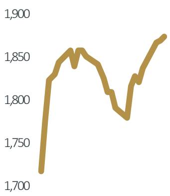
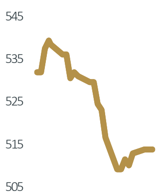
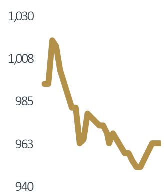
December 2018

In this issue:

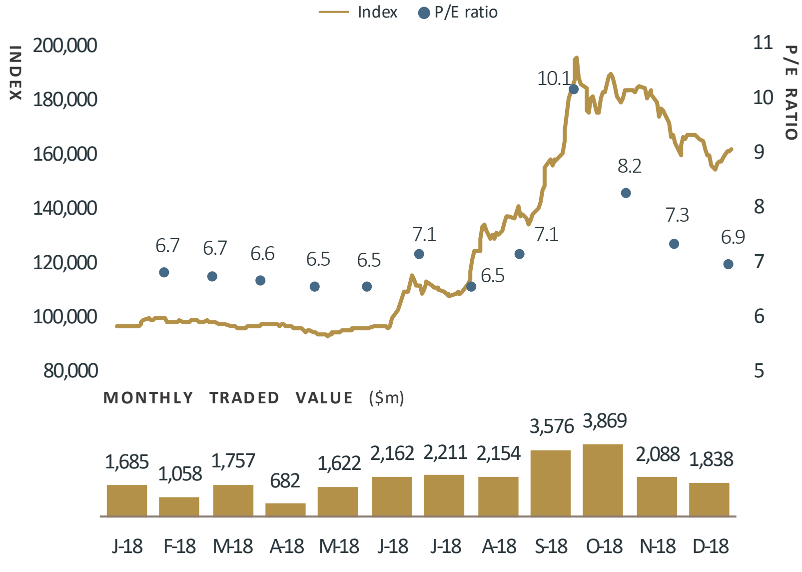
Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.

IRAN EQUITY MARKETS

INDICES

Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	-1.4% 	5.4% 	-2.3% 	-1.8% 
Last close	161,405	1,873	514	963
Past 12M	68.9%	81.3%	-19.3%	-15.9%
YTD	67.8%	77.0%	-19.4%	-16.8%
P/E (hist.)	7.0x	7.4x	13.1x	12.5x
Div. yield	7.6%	7.6%	4.0%	2.9%

TEDPIX INDEX & P/E (hist.) RATIO



MARKET CAPITALISATION

Market Cap ($m)		**Value traded** ($m)	
TSE	Farabourse	TSE	Farabourse
74,659	13,526	1,270	568

$1 : 82,121 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period December 1-31, 2018.
Sources: TSE, IFB, Bloomberg, MSCI, Griffon Asset Management, Bourseview, Cbi.ir.

MARKETS AT A GLANCE

In December, the market was partly volatile, with gains during the 1st week, followed by losses and then a recovery towards the end of the month. TEDPIX and IFX closed at 161,405 and 1,873, moving -1.4% and 5.4% respectively. Due to sharp moves in some large-cap companies, including Marun Petrochemical and Isfahan Steel, IFX index finished off with an overall gain. Nine-month corporate results are due shortly and are expected to be a key factor in determining the direction of the market in the short-term.

IRR/USD (free market rate) volatility picked up towards month end, trading between 100,000 and 120,000 and closing around 110,000. On December 16th index future contracts started trading on the TSE for the first time; these include 6 industry indices and a top 30 index. Risk hedging and tax exemption are two key benefits of these new financial instruments.

December's average daily trade volume dropped to $79.9 m – the lowest level in the past 6 months (average volume for the period was $132.9 m). Retail trades made up the majority of market activity with 63.4% of total trades, with remaining 36.6% going to institutional trades. Most actively traded sectors were: Base Metals (15.8%), Chemicals (12.2%), Banks (11.9%), Auto (9.2%) and Refineries (5.2%), which together accounted for 54.3% of total trade value.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE[a]

BEST PERFORMING SECTORS

Banking	↑	12.6%
Non-metallic ore	↑	11.2%
Foods excl. sugar	↑	8.4%
Motor vehicles	↑	7.9%
Machinery	↑	7.5%

WORST PERFORMING SECTORS

Insurance companies	↓	-10.1%
Metallic ore	↓	-4.6%
Electric machines	↓	-4.4%
Base metals	↓	-3.9%
Chemicals	↓	-3.7%

TOP GAINERS AND LOSERS

GAINERS

Isfahan Kesht Agr[a]	*Farm Products*	↑	86.9%
Iran Carton	*Paper & paper products*	↑	80.9%
Damavand Power Generation	*Electric Utilities*	↑	51.6%
Derakhshan Tehran	*Rubber & tyre*	↑	48.4%
Tuka Refractories Co	*Non-metallic ore*	↑	40.8%

LOSERS

Motorsazan Diesel & Gas Engines	*Motor vehicles*	↓	-28.1%
Neyriz White Cement	*Cements, limes & plasters*	↓	-27.7%
Pars Animal Feed	*Food stuff excl. sugar*	↓	-23.2%
Damavand Mineral	*Metallic ore*	↓	-23.0%
Abadan Petrochemical	*Chemicals*	↓	-20.8%

(a) Isfahan Kesht Agr. was IPO in December 2018, respectively.
$1 : 82,121 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period December 1-31, 2018.
Sources: SEO, TSE, IFB, Financial Tribune, Farsnews, CBI, Griffon Asset Management, Cbi.ir.

SECTOR NEWS

Tyre
Following a price hike of 9% in June, a further hike of 30% was announced by tyre companies this month. This was in response to higher cost of production, which forced manufacturers to seek clearance from the Consumer and Producer Protection Organization (CPPO) to raise their prices.

Auto
The number of cars produced by Iran's two main manufacturers has plummeted from 1,160,689 units last year to 884,276 units this year – a 24% fall YoY. This is due to sanctions, liquidity issues and higher costs. To counteract the problem, the CPPO has allowed for car manufacturers to raise their prices by at least 50%.

Pharma
According to Iran Health Insurance Organization, approximately 500 million Euros will be allocated from the National Development Fund to this organization to compensate for liquidly issues in the health sector. Of this amount, 40% will be used for medicines, 40% for medical equipment and the remaining 20% will be used for other expenses.

Macro and Banking
Rouhani's administration proposed its 1398 (2019-2020) budget to the parliament. The budget is based on an IRR/USD exchange rate of 57,000 and oil price of USD 54/bbl (according to the Governor of CBI and the Minister of Oil and Gas respectively).

IRAN EQUITY MARKETS

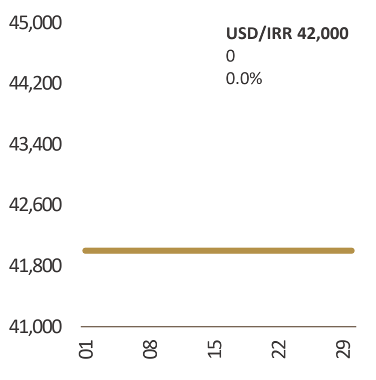
TOP 10 COMPANIES BY MARKET CAPITALISATION

Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals *Chemicals*	5,297 *5.4%*	4,581	↓	-6.8%	55.0%	5,478	2,543
Mobarakeh Steel *Base metals*	4,634 *4.7%*	4,889	↓	-3.1%	77.9%	6,532	2,541
Golgohar Mining & Industrial *Metallic ore*	3,051 *3.1%*	6,707	↓	-2.9%	158.3%	8,518	2,562
NICICO *Base metals*	2,849 *2.9%*	2,890	↓	-0.1%	59.2%	3,675	1,808
Marun Petrochemicals *Chemicals*	2,710 *2.7%*	53,618	↑	6.5%	62.5%	69,045	32,997
Pars Petrochemical *Chemicals*	2,456 *2.5%*	32,390	↓	-2.7%	60.3% (a)	44,911	20,201
MCI *Telecommunication*	2,305 *2.3%*	18,997	↑	0.1%	36.2%	19,759	13,790
Tapico *Chemicals*	2,149 *2.2%*	2,087	↑	2.8%	57.3%	2,771	1,268
Parsian Oil & Gas *Chemicals*	2,135 *2.2%*	4,172	↓	-3.2%	93.2%	5,236	2,051
Chadormalu Mining & Industrial *Metallic ore*	2,076 *2.1%*	4,903	↓	-6.0%	185.4%	6,207	1,717

USD/IRR EXCHANGE RATE, DECEMBER 2018 (b)

SECONDARY MARKET RATE

CBI OFFICIAL RATE



a) Since IPO on 11 July 2018.
b) The secondary market USD/IRR rate is calculated from the EUR/IRR exchange rate on cbi.ir (NIMA) which is translated into USD/IRR, based on spot EUR/USD rate.
All market data represents the period December 1-31, 2018.
Sources: SEO, CBI, minew.ir, TSE, IFB, Madan24.ir, Bloomberg, ISNA, Griffon Asset Management.

SECTOR NEWS (CONT'D)

Inferring from the budget, Iran would be exporting 1~1.5m barrels of oil per day – a significant reduction from the 2.4m barrels per day that were exported earlier this year.

As part of its new AML policies, CBI declared that bank cheques are no longer transferrable and may only be cleared by the beneficiary whose name appears on the cheque. The new regulation is meant to limit speculative investments, increase financial transparency and tighten up AML security measures.

CBI has also issued a new directive to all banks and credit institutions stipulating that interest rates must be calculated on a monthly rather than overnight basis. The new regulation will go into effect starting on January 21st. Banks and credit institutions have been requested to notify their customers accordingly.

CBI has allowed for exchange bureaus to buy foreign reserves held in CBI's overseas accounts and sell them to Iranian importers. Exchange bureaus can now buy FX either from non-oil exporters or from CBI.

Switzerland is working on establishing a special payment channel for the export of food, medicine and medical devices to Iran. This is a separate mechanism to the proposed European SPV to facilitate financial transactions between EU and Iran.

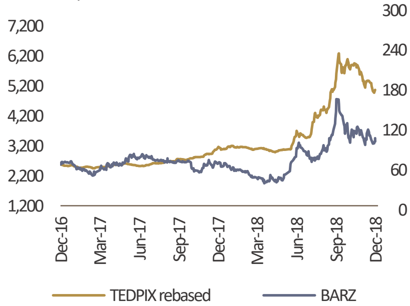
COMPANY OVERVIEW: KERMAN TYRE (BAREZ)

KERMAN TYRE (BAREZ) COMPANY

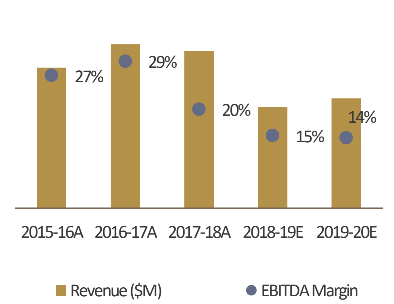
Symbol: BARZ	Market cap.: $108.9m	P/E (18-19E)[b]: 8.3x	12-month return: ↑31.0%
Exchange: TSE	Enterprise value[a]: $130.9m	5-yr (avg.) dividend payout ratio: 90%	EV/revenue (18-19E)[b]: 0.9x
Listed since: 1997	% of market : 0.1%	Dividend yield (18-19E)[b]: 9.0%	EV/EBITDA (18-19E)[b]: 5.9x
Last close: IRR 3,447	Free float: 16%	Avg. daily trade value: $87.7K	ROCE (hist.): 32.8%
90-day change: ↓-22.4%	Shares outstanding: 2.5Bn	52-wk high/low (IRR): 4,999/2,281	ROE (hist.): 22.6%

BARZ AND TEDPIX

Last 2 years

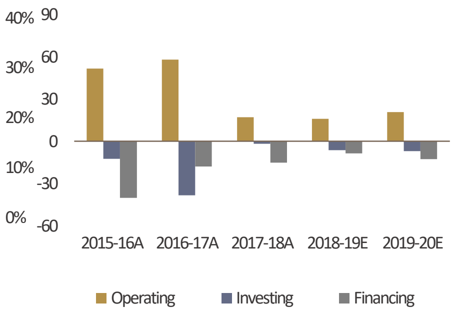


REVENUE & EBITDA MARGIN



CASH FLOW

($m)



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18A	18-19E[b]	19-20E[b]
Production (tonnes)	69,691	79,575	82,454	82,711	85,280
Revenue	210.8	246.2	235.7	151.9	164.7
Growth %	-24.6%	16.8%	-4.3%	-35.6%	8.4%
EBITDA	56.0	72.5	46.7	22.1	23.2
Growth %	-34.0%	29.4%	-35.6%	-52.7%	5.0%
EBITDA margin	26.6%	29.4%	19.8%	14.5%	14.1%
Investment Income (Kordestan tyre)	0	0	0	3.0	11.1
Net Income	35.7	45.7	25.9	13.1	23.1
Growth %	-45.5%	28.1%	-43.3%	-49.4%	76.5%
Net Profit Margin	16.9%	18.6%	11.0%	8.6%	14.0%
Net Debt	32.1	19.9	44.8	24.1	13.3
Capex	12.9	16.4	10.9	6.1	6.6
Dividend	34.9	34.8	19.4	9.8	17.3

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 2018-19 audited semi-annual reports.
b) 2019 and 2020 numbers are based on Griffon Asset Management's expectations.
Sources: Annual company accounts (Codal),company website, Griffon Asset Management.

COMPANY OVERVIEW

Established in 1980, Barez Industrial Group manufactures tyres, tubes and flaps for cars, trucks and agricultural vehicles. The company utilises natural and synthetic rubber as raw material and has the capacity to produce more than 85,000 tonnes of tyre per year, of which circa 63% are radial tyres and 30% bias tyres. Raw material accounts for 75~80% of the company's total COGS. Iran's total capacity for tyre production is around 250,000 tonnes per year, as produced by 10 manufacturers. Domestic demand is around 350,000 tonnes per year and the deficit is met through imports. With a market share of around 37%, Barez is considered to be the market leader in a moderately competitive marketplace. The company recently invested capital to establish a new manufacturing plant for radial tyres in the Kurdistan province of Iran, bordering Iraq. Production started in Q1 of 2017. With an increased production capacity of 127,000 tonnes per year, this move is expected to boost the company's market share to 45% within the next couple of years. Car manufacturers comprise 26% of Barez's total sales, with 63% going to a large network of retail outlets around the country. While current sales are solely to the domestic market, establishment of the Kordestan plant is expected to create viable opportunities for exports to Iraq. In 2006, Barez signed a ten-year contract with Germany's Continental AG for importing their manufacturing technology for radial tyres. The contract has since expired and there are no immediate plans for renewal.

In the past few years there has been a surge in the smuggling of tyres into the country through illegal cross-border trades. To clampdown on contraband trades, the government has increased its border supervision measures. To discourage the flow of foreign tyres into the country and enhance the prospects of growth and profitability for domestic manufacturers, import tariffs on car tyres have been raised from 26% to 32%. Meanwhile, tariffs on truck and bus tyres have been reduced from 26% to 5% in order to counterbalance the dampening effect of IRR's sharp devaluation in recent months on the transportation and distribution industries. A recent surge in vehicle production, coupled together with the government's anti-smuggling initiatives is expected to have a positive effect on the tyre industry. Following a sharp drop in the value of IRR in recent months, FX allocation for the import of tyres has been limited by the CBI and the volume of smuggled goods has since decreased. As a result, the price of imported tyres has increased by two to threefold, which is a positive development for domestic manufactures.

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.

*On 8 May 2018, US President Donald Trump announced that the US will completely withdraw from the Joint Comprehensive Plan of Action (JCPOA). The President's announcement states that all pre-JCPOA nuclear-related sanctions will be re-imposed (both primary and secondary) and indicates that the US may impose new and additional sanctions in the future. Soon after this announcement by President Trump, the leaders of France, Germany, the United Kingdom and the European Commission released a joint statement emphasizing their continued commitment to the JCPOA. Next steps seem unclear at this stage. The Fund and the Investment Manager are closely monitoring the situation post the US withdrawal from the JCPOA.

Griffon Capital

T: +98 21 26231278
F: +98 21 26231275
E: info@griffoncapital.com

Unit 101
No. 38, Golfam Street
Africa Boulevard
Tehran
Iran

www.griffoncapital.com