SATURNA
SATURNA SDN BHD (342171-V)

MARKET REVIEW MALAYSIA

OVERVIEW

December 2011

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President

The Malaysian stock market turned in a strong performance for December to end the year on a positive note despite the volatility of the second half of the year. FBM EMAS Shariah rose 452 points (4.92% monthly total return) to end 2011 at RM10,300. FBM KLCI climbed 59 points (4.14% monthly total return) to end the month and year at RM1,531, while FMB EMAS Shariah calendar year total return was 5.89%. KLCI posted a total return of 4.45% in 2011, as the relatively weaker performance by financials capped results compared to the Shariah index.

Global equities turned in mixed performances for the year. The out-performance of the Malaysian stock market in 2011 stands in contrast to MSCI Emerging Markets Index, which declined 18.4% for the year. The FTSE All World Index also declined, losing 6.92% in 2011, dragged lower by European and Japanese stocks. In the U.S., Dow gained 1.58% for the month to end at US$12,218, with full year total return of 8.46%. S&P 500— a broader measure of U.S. stocks — was less impressive, with full year total return of 2.09%.

Globally, central banks look for the results of quantitative easing policies.

Malaysia's Foreign Exchange Reserves declined slightly to US$133.6 billion. Inflation eased to 3.3% year-over-year in November, from 3.4% in October. Bank Negara maintained its Overnight Policy Rate at 3.0%.

The ringgit strengthened slightly to 3.17/US$ from 3.18 at end of November. Crude palm oil rose for the third straight month to RM 3,175 per tonne, from RM3,000 at end of November. Crude oil eased to US$98.83 at year-end from $100.36 in November.

The U.S. unemployment rate fell to 8.5% (November 8.6%) as the pace of hiring picked up with 200K new jobs. Industrial output declined by 0.2% month-over-month in November, while retail sales increased 0.2% month-over-month. The Consumer Price Index was essentially flat in November.

Globally, central banks paused during December in anticipation that the prior months' flurry of easing activity would help shore up world economies. Yields on Italian 10-year notes ended the year above 7%; with 20% of Italy's outstanding government debt due to mature in 2012, the government likely will have a difficult time convincing the bond market to refinance its borrowing at rates that will allow it to stabilize its finances. The size of Italy's net indebtedness (world's 3rd largest behind Japan and USA), however, threatens to pose a very high cost for alternatives such as a bailout or restructuring.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah	RM 10,300	4.92% ▲	5.89% ▲	5.89% ▲
FBM KLCI	RM 1,531	4.14% ▲	4.45% ▲	4.45% ▲
S&P 500	US$1,258	1.02% ▲	2.09% ▲	2.09% ▲
Dow Jones Industrial Average	US$12,218	1.58% ▲	8.46% ▲	8.46% ▲
FTSE All World	US$197	-0.24% ▼	-6.92% ▼	-6.92% ▼
MSCI Emerging Markets	US$916	-1.20% ▼	-18.14% ▼	-18.14% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit	3.17 / US$	3.18 / US$	3.06 / US$
Crude oil	US$98.83	US$100.36	US$91.38
Crude palm oil	RM 3,175	RM 3,000	RM 3,814

MARKET REVIEW

December was a quiet month for earnings reports. Top Glove reported 1st quarter results of 5.1 sen, a decline of 12.1% from the prior year. Nonetheless, a 35% decline in latex prices in 2011 should help lead to a recovery of its margins in coming quarters. Gamuda reported earnings of 6.4 sen per share, an increase of 45% over the prior year period; the company

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should keep busy with projects in Klang Valley and Kaohsiung, Taiwan. Tenaga's future brightened in December after it reported an agreement for a temporary three-way split of higher fuel costs with Petronas and the federal government.

PORTFOLIO TACTICS

Our cautious outlook carries over to the new calendar year, and our recent outlook remains unchanged:

Barring inflation, high levels of consumer and government debt will serve to constrain demand and force ongoing deleveraging and political reform for the next several years. While we recognize that inflation could occur, past indexing of state-provided benefits to price/wage levels suggests that political reform is still a necessary complement to either deleveraging or inflation. In any case, we favor the same types of businesses: those with strong balance sheets and competitive advantages that can improve amid weak economic conditions, as well as raise prices and maintain margins during inflationary environments (i.e. good business franchise).

The economies of the U.S., Europe, and Japan, which together comprise about half of global economic output, have all but exhausted conventional monetary policy tools to support economic growth. With very limited room to adjust conventional policy in the face of adverse economic or political shocks, policy makers must rely on unconventional tools, and these carry heightened risks and uncertainty.

Sector/stock preferences remain Plantations (e.g. Sime, IOI, and United Plantations), Oil & Gas (e.g. Dialog), Consumer Staples (e.g. UMW), Medical (e.g. KPJ, Top Glove), Property (e.g. UEM Land) and Telecommunications (e.g. Maxis).

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