OVERVIEW

February 2012

Bryce Fegley, *CFA*
President

World stock markets continued their strong opening run into February. The FTSE All World Index added another 5.10% to bring the year-to-date gain to 11.40%. The MSCI Emerging Markets Index rose 5.94% to bring its year-to-date gain to 17.90%. In the U.S., the S&P 500 rose 4.32% and the Dow Jones Industrial Average rose 4.89%, bringing year-to-date returns to 9.00% and 6.55%, respectively. Malaysia's stock market continued to underperform, with the FBM KLCI up 3.54% in February and the FBM EMAS Shariah rising 3.22% for the month. Year-to-date gains trail global peers as well, with returns of 2.93% for the FBM KLCI and 5.30% for the FBM EMAS Shariah.

Malaysia's foreign exchange reserves rose slightly to US$129.4 billion. Inflation eased further to 2.7% year-over-year in January, from 3.0% in November. Bank Negara continued to hold the overnight policy rate at 3.0%.

Investors' "risk-on" attitude continued through February.

The ringgit strengthened to 2.99/US$ from 3.04 at the end of January. Crude palm oil rallied to RM 3,270 per tonne, from RM 3,075 at the end of December, on concerns that South American oilseed harvest yields will be poor. Heightened tensions with Iran sent crude oil prices above US$100, ending at US$107.07.

In the U.S., industrial output was unchanged month-over-month in January, despite economists' forecast for a rise of 0.7%, while retail sales also disappointed expectations, rising just 0.4% month-over-month in January compared to forecasts of 0.8%. The CPI increased 0.2% month-over-month and 2.3% year-over-year.

Globally, central banks maintained a neutral interest rate environment through February. The European Central Bank recently completed another round of long term refinancing operations (LTRO), with the region's banks borrowing another €500 billion for three year terms of 1%. The Japanese central bank signaled its intention to ease monetary policy through increased "quantitative easing" operations and a new inflation target of 1%. In response, the yen weakened sharply against the US$ during the month, falling to 81.15 per US$ from 76.27 in January. The weakening of the yen, if it continues, should begin to help the profitability of the country's export sector, which was battered after the yen's sharp rise in 2011.

Warren Buffett released his latest chairman's letter with Berkshire Hathaway's annual report, and warned investors about the dangers of low interest rates, which he described as "return-free risk." He also extolled the productive capacity of investments in stocks, real estate, and farmland, which he compared favorably against the non-productive and inert quality of investment in gold.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah	RM 10,814	3.22% ▲	5.30% ▲	11.78% ▲
FBM KLCI	RM 1,570	3.54% ▲	2.93% ▲	9.05% ▲
S&P 500	US$1,366	4.32% ▲	9.00% ▲	5.12% ▲
Dow Jones Industrial Average	US$12,952	4.89% ▲	6.55% ▲	8.83% ▲
FTSE All World	US$218	5.10% ▲	11.40% ▲	-1.03% ▼
MSCI Emerging Markets	US$1,079	5.94% ▲	17.90% ▲	0.04% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit	2.99/US$	3.04 /US$	3.05/US$
Crude oil	US$107.07	US$98.48	US$96.97
Crude palm oil	RM 3,270	RM 3,075	RM 3,275

COMPANY REVIEW

February was a busy month for Malaysian company earnings reports, with most of our portfolio companies reporting earnings including United Plantations, MMHE, KLK, Hartalega, Axiata, IOI, Maxis, UMW, KPJ Healthcare, UEM Land, and Sime Darby. Notable

Continued on next page.

among these were: United Plantations, which surpassed estimates to earn RM1.80 for the fiscal year; MMHE which showed disappointing results with fiscal year earnings of RM0.13 versus expectations for RM0.27; Hartalega, whose quarterly earnings were RM0.14, while the company's stock price has surged 42.98% year to date; and finally, Sime, which had another good quarter, earning RM0.18 versus expectation for RM0.16.

PORTFOLIO TACTICS

Investors' "risk-on" attitude continued through February. Much of the improvement in sentiment seems to have been driven by the resolution — at least temporarily — of Europe's government debt crisis. In particular, the ECB's LTRO maneuver helped relieve short-term funding uncertainties for the banking sector. That, combined with the ongoing accommodation by the world's central banks, is providing ample liquidity to fuel a market rally.

Sector/stock preferences are Plantations (e.g. Sime & IOI), Oil & Gas (e.g. Dialog), Consumers (e.g. UMW) Medical (e.g. KPJ, Top Glove), Property (e.g. UEM Land) and Telcos (e.g. Maxis).

Saturna Sdn Bhd (342171-V) Unit B10-1, Block B, Level 10, Megan Avenue II 12 Jalan Yap Kwan Seng 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***