

Indonesia Update

Monthly Commentary

February 2012

Market Overview

- The benchmark Jakarta Composite Index rebounded in January, as sentiment was lifted by the European Central Bank's long-term refinancing operation for lenders and US Federal Reserve's pledge to keep interest rates at a low until 2014.
- The central bank held interest rates steady at 6%, as inflation slowed for the fifth consecutive month in January, down to 3.65% year-on-year.
- Foreign direct investment spiked 20% last year to a record US\$20 billion, while consumer confidence in December climbed to a six-month high.
- Following Fitch, Moody's returned Indonesia to investment grade status, a reflection of its improving macro-economic fundamentals.

Model Portfolio News

We pared Telkom Indonesia and used the proceeds to introduce Indonesia's third largest telecommunications operator, XL Axiata. The company has been improving margins, cash flow and balance sheet strength while gaining market share.

Note:

Any changes refer to those of our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the comments may not apply to all portfolios.

Corporate News

In corporate news, Moody's upgraded the foreign currency-denominated debt ratings of nine local banks including our holding **Bank Permata. Astra International's** listed unit, Astra Otoparts will partner a Japanese company to build a motor disc brake factory.

Perusahaan Gas Negara temporarily suspended a director, for unspecified reasons. However, we do not anticipate a significant impact on the company.

We hold the companies highlighted above.

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