Dear Investors,

The NAV rose to $1055.454 in the 2nd quarter. During the last quarter, we took the opportunity to trim down positions that had reached intrinsic value. We added one new position, reduced 3 positions and sold out of 1 position. The portfolio has a trailing P/E of 10.1x, P/B of 1.4x and dividend yield of 4.3%. The ROE is 16.1%. The portfolio is now 60% invested and 40% cash. Valuations did not fall to levels that we found tempting and we chose to stay on the sidelines.

One of our major positions which we have since reduced is **Armstrong Industrial** , a manufacturer of foam and rubber components specializing in noise, heat and vibration dampening. Its products are used in the HDD sector as well as in the automotive sector. Growth prospects for the hard drive industry remain bright despite the introduction of SSD drives. Armstrong's automotive sector continues to do very well. While the company was affected by the downturn, they did not suffer a loss. The company has come out of the crisis even stronger with higher margins and is on track to record profits. The company has many characteristics that we are partial to – good growth prospects, strong and honest management, predictable margins and good dividend payouts. The valuation was also attractive and it was purchased around 6x estimated P/E. The company is now in talks about a potential buy out but is also trading near our estimate of intrinsic value of about 10x estimated earnings; hence the prudent decision is to reduce our position.

As we enter the 2nd half of the year, the year on year comparables will be tougher to surpass as 2H09 numbers were much stronger than the preceding half. Growth projections continue to be tepid with the US and Europe remaining weak. With weaker numbers going forward, the mood will certainly be gloomier. The push towards fiscal austerity in the US and Europe will have an effect on market liquidity. Current market valuations do not seem to reflect the mood however.

Market observers will also note the increased volatility and correlations between different geographic regions. I think this will continue to be the norm. Companies, small and large are all exposed to the global economy and it makes sense that stock prices should move likewise. In addition, I think there are also other factors at play: the increased liquidity (due to the depressed interest rates) and jittery market players. While such volatility may be unsettling, value investors should not lose sight of the higher picture which is to buy good companies at cheap prices. I would actually argue that the volatility will allow true patient value investors to pick up good companies at suitable prices, particularly in the smaller and mid cap space; albeit with a very bumpy ride.

An article titled "How To Make An American Job Before it's Too Late"[1] by the former Chairman and CEO of Intel, Andy Grove, is definitely worth a read. Asia has been a major beneficiary of the outsourcing trend. The results have been mixed for the outsourcers though. In the short term and middle term, profit margins have improved dramatically for most. Longer term, the conclusion is not as clear. Andy Grove makes a compelling case that the lost manufacturing base has resulted in an eventual loss of expertise and is not good for America. The suggestions he makes are draconian, bordering on protectionism. I'm not quite sure if the politicians will have the gumption to pass through such laws. However, I suspect he will not be the last of prominent business leaders calling for more protectionism. From the perspective of the home country i.e. USA, protectionism may

[1] http://www.bloomberg.com/news/2010-07-01/how-to-make-an-american-job-before-it-s-too-late-andy-grove.html

make sense but from the perspective of an investor, particularly an Asian investor, those are chilling words and we will certainly take note of such rumblings.

Goh Yew Liang
27 July 2010