Dear Investors:

The portfolio was up 3.1% for the quarter and up 10.5% for the year. We are now 73% invested. The invested portfolio's has a P/E of 12.3x, price to book of 1.6x , a dividend yield of 3.7% and ROE of 17.2%. We entered 3 new names, added to 3 positions while we exited 2 positions- **Armstrong Industrial and SIA Engineering**.

The performance of the invested portion was satisfactory in my opinion with most of our picks having done well. Our cautious stance however, hindered the portfolio's overall results. We were 50+% invested for a good part of the year which impacted total performance. Unfortunately, the conservatism did not pay off. Market timing is an issue we will need review in the coming year.

The portfolio valuation has risen slightly from last quarter. Generally, I feel that valuations are rich but not egregious. I believe the challenges for this year are twofold. Firstly, the recovery effect from the economic crisis is more or less over. Growth was strong due to the low bar set by 2009's results. Going forward, growth for most companies will be challenging in light of the weak economic situation in USA and Europe. China remains a big question mark in my view. Conventional wisdom maintains that it should replicate last year's results, although I am not entirely convinced if it can take up all the slack from the western nations or if it can sustain its current level of growth.

Secondly, commodity prices are rising and this will have an impact on the bottom line of many companies. Needless to say, companies which lack pricing power will be most affected. Even those who have some form of pricing power may face a lag effect in passing through their prices. Not all of the price increase is speculative. It is becoming evident to me that the world is facing limits to its supply of natural resources. Such challenges are particularly evident in the energy sector. Even, the International Energy Agency (IEA), long an oil optimist, recently noted that crude from conventional means was hitting a peak. It is interesting to note that conventional crude oil supply is plateauing just when the Chinese middle class is about to take off in prosperity.

The Chinese middle class is entering a new phase in which it is becoming more prosperous and consumptive. For China, this is a major milestone and has been much researched by many analysts. What has not been highlighted is the enormous amount of natural resources needed to fuel this growth. The estimated 600 million people projected to reach middle class status is greater than the entire population of USA. What are the implications of such growth? Can the Earth actually support such growth? What will happen to natural resource prices? Are there any alternatives? In addition, we haven't even included India (and the other BRICs) into the equation yet. Many of these questions have been side stepped, yet I think these are some of the most important themes we need to think about going forward.

From the value investor's perspective, the hunting ground has become certainly become more limited in light of such challenges. Nonetheless, we still find interesting companies to research. There are areas of opportunity, we feel, that would be beneficiaries of dwindling cheap crude. We are currently researching a few companies and hopefully one or two of them will turn out to be actual investments. In addition, we will be screening through our usual hunting grounds of established companies with low P/Es, good growth characteristics and preferably with favorable dividend yields.

Goh Yew Liang
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