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Investment Review

EQUITY MARKET REVIEW

The Malaysian equity market went through a volatile period during the period under review (1 April 2005 to 31 March 2006). Whilst the euphoria over the currency liberalisation lifted the market out from its initial doldrums, subsequent foreign funds outflows, as well as concerns of rising interest rates and corporate earnings disappointments resulted in the market ending 2005 on a flat note.

Small cap stocks on the other hand faced an even more challenging year in 2005 with share prices recording double digit losses for the year. Poor stock liquidity and the general lack of investor confidence caused the Second Board Index to collapse from 97.18 points at the beginning of May 2005 to a low of 81.75 points on 2 June 2005, a drop of 15.9%. It was very close to the Second Board Index's all-time low of 74.77 points recorded back in 1 September 1998 during the Asian Financial Crisis. The collapse of small caps stocks prices was due to financial institutions pulling-back margin financing lines for small to mid cap stocks.

However, for the period under review, the Kuala Lumpur Composite Index (KLCI) and Kuala Lumpur Emas Index (KLEmas) managed to close at 31 March 2006 with an increase of 5.79% and 3.7% respectively, mainly due to the traditional festive season rally in first quarter 2006 as well as the anticipation of fiscal pump priming measures in the 9th Malaysia Plan which was tabled at the end of March 2006.

In the first quarter 2006, the KLEmas Index rose 4.67%, outperforming the KLCI which appreciated 3.0%. There was a noticeable pick up in interests among the lower liners with the Second Board Index and Mesdaq Index rising 13.3% and 27.66% respectively over the same period. The unveiling of the 9th Malaysian Plan was the dominant theme in the first quarter 2006 driving the healthy performance of equity prices, with construction stocks being the key beneficiaries. The KL Construction Index spiked 16.03% in the first quarter 2006 versus a decline of –2.77% in the first quarter 2005.

EQUITY MARKET OUTLOOK AND STRATEGY

After a robust 7.1% expansion in 2004, Gross Domestic Product (GDP) growth slowed to 5.3% in 2005 with export growth decelerating and the government cutting back on its development expenditure. It was only in the second half of 2005 that export growth picked up after bottoming out in the second quarter 2005.

2005 will be best remembered as the year Malaysia de-pegged the Ringgit from the US dollar and allowed locals to invest abroad again. Since the de-pegging of the Ringgit in July 2005 until end March 2006, the local currency has appreciated by +3.1% to RM3.6831/US$. 2005 also saw the interest rate rise, the first increase since the Asian Financial Crisis in 1997/98. Following a 30 basis points increase in over night policy rate (OPR) in November 2005, rates were raised again in February 2006 by another 25 basis points to 3.25%.

Investment Review (continued)

We expect GDP to grow at 5.5%-6.0% in 2006, driven by a combination of regional export recovery, pick up in government spending as well as continued firm commodity prices. The 9th Malaysia Plan revealed a higher development budget of RM220bn versus RM170bn in the 8th Malaysia Plan. This should be a boon for the infrastructure related, agriculture, education, healthcare, tourism and information technology sectors.

With domestic interest rates expected to rise by another 50 to 75bps over the remaining part of 2006 and waning consumer confidence, there are risks that domestic demand growth may fall short of expectations. Rising commodity prices and utility rates for both water and power rates are expected to increase this year, will also exert upward pressure on prices.

We are cautiously optimistic on the outlook for the Malaysian stock market in 2006 due to concerns of the impact of rising interest rates and potential earnings disappointments from higher production cost due to increase in commodity prices and higher utility rates. The market's non-compelling valuations relative to the region does not help either.

We believed that the themes for 2006 would focus on mergers and acquisitions for example a second round of consolidation of the financial institutions, government linked corporation restructuring, export plays in line with the regional export recovery and infrastructure related companies which are involve in the execution of government projects under the 9th Malaysia Plan.

Against this backdrop, for **Uni Strategic Fund**, we would adopt a more defensive strategy, focusing on companies with strong growth prospects, high earnings visibility and generous dividend yields. Sector wise, we like the plantation, gaming and power sectors for their defensive qualities and attractive yields. We also like the infrastructure related sectors as beneficiaries of the 9th Malaysia Plan.

As for **Uni Aggressive Fund**, consistent with the fund's investment objective of achieving steady capital appreciation over the medium to long-term, the fund is invested in sectors like consumer sector, industrial products and technology.

Going forward, we believed that the performance of the local Bursa can be divided between big capitalised and mid or small capitalised stocks. Mainstream big capitalised stocks as reflected by the KLCI is expected to be range bound at between 900-980. Mid or small capitalised stocks on the other hand are likely to continue to re-rate from their current oversold position. While some small capitalised stocks have already started to move, many have not.

Investment Review (continued)

With sentiments on mid and small capitalised stocks improving, we would look to increase the alpha of the fund by increasing its equity exposure and by adjusting the portfolio mix. We will also look into rebalancing the portfolio with a combination of companies that provide high dividends and stable earnings, and those with scalable business models, highly visible growth prospects and with proven management track record.

REGIONAL EQUITY MARKET REVIEW

Asian markets outperformed global markets for the period 4 Aug 2005 to 31 March 2006, with the MSCI Far East Free ex-Japan index (In RM) rising by 10.9% compared to MSCI World's (In RM) 9.3%.

In terms of sectors, the key out-performers were Energy due to strong oil prices and rebounding refining margins, Materials as a result of strong commodity prices and Healthcare (stock specific), while Technology was the key underperformer after a strong 4th quarter 2005. The region's tech inventory-shipment ratio is now at cycle lows and could rise ahead of slowing seasonal demand. Product pricing also appears weak. Given these concerns and rising fears of a slowing United States (US) economy, investors continue to pare down their positions in the cyclical sectors, namely in Semiconductors and broader Information Technology.

Indonesia topped the Asian regional performance table in the first quarter 2006. The country was the recipient of over USD5bn worth of foreign direct investment (Bumi's coal assets and Cepu oilfield). Liquidity remains buoyant there and the next move in benchmark interest rates could be down. The China market rose in the first quarter 2006, supported by solid, broad-based growth in the overall economy as well further improvement in corporate profits. Positive economic indicators also drove market performance in the Philippines during the first quarter 2006 as political tension ease. After posting a strong performance in January 2006, the Thai market retreated from February 2006 as both foreign and local institutional investors were sidelined by rising political concerns. Attractive valuations in South Korea drove equities higher in the first quarter 2006 as macro data supported a stronger than expected economy.

The region's worst country performances in the first quarter 2006 came from the cyclical indices of Taiwan. Market sentiment in Taiwan was weighed down by concerns over rising unsecured consumer lending problems. The correction in the information technology sector has also pulled down the market index. Hong Kong real estate stayed firm supporting the market performance during the first quarter 2006 despite increases in the interest rate. The Singapore market gained, driven by positive economic news flow and an electorate-friendly budget 2006 ahead of the general election.

Investment Review (continued)

Economic activity in Asia has stayed quite robust despite weakening of the US economy toward the end of last year. New sources of demand in China, Japan, Europe, and intraregional trade are emerging to fill the gap left by the US. Japan has completed its post-bubble adjustment, China has opened up and deregulated her economy, and Europe, although still hindered by a structurally rigid labor market, is increasing her demand for Asian goods in response to the currency appreciation since early 2002. We expect Asian growth to remain fairly robust in 2006.

Leading indicators and the global inventory cycle continue to signal an upturn in Asian exports. Tech exports are likely to peak, but non-tech exports and service exports are expected to remain strong. Strong export growth will reinforce the rotation in the region's growth drivers from net exports to domestic demand during first half 2006. Rising export income should underpin spending by consumers and firms. For example, in Korea and Singapore, rising exports of goods and services respectively are powering an upturn in job creation. Meanwhile, the region's core inflation eased recently even as economic performance improved and oil prices remained volatile. There are, however, a few exceptions where inflation probably remains a challenge in Indonesia, the Philippines and Thailand. The mild inflationary pressure has been partly due to tightening monetary conditions, through rate hikes and or currency appreciation. This is also likely to be the case going forward.

REGIONAL EQUITY MARKET OUTLOOK AND STRATEGY

Given that the US interest rates are peaking and the crude oil price is averaging USD60/bbl (1 October 05 to 31 March 06), Asia's earnings outlook this year is more positive. Consensus is expecting Asia Pacific ex-Japan's earnings per share growth to rise from 4.5% in 2005 to 11.2% in 2006 (Source: IBES Consensus). Earnings upgrades in Asia have lagged other emerging and developed markets over the past 12 months. However, going forward, earnings momentum in the region will likely begin to catch up with global peers.

We remain positive on the domestic demand sectors as we expect the Asian reflation story to remain intact. As the upturn proceeds, rising asset prices, tightening labor markets, and low real interest rates are expected to boost domestic spending. We have, however, downgraded our **Uni AsiaEquity** overweight stance in the technology sector to neutral as guidance from the Information Technology companies for first quarter 2006 has been somewhat cautious and we are also entering into a seasonally slower second quarter. We also like the small and mid capitalised sectors as we believe that some modest out performance from these sectors is possible as the economic cycle continues and investor appetite grows. In conclusion, we remain positive on **Asia ex-Japan equity** markets as economic and profit growth continues to be strong. The continued strong fund flows to Asia should add to that optimism. We also expect the switch of domestic savings into equities to continue to drive a re-rating of markets.

Investment Review (continued)

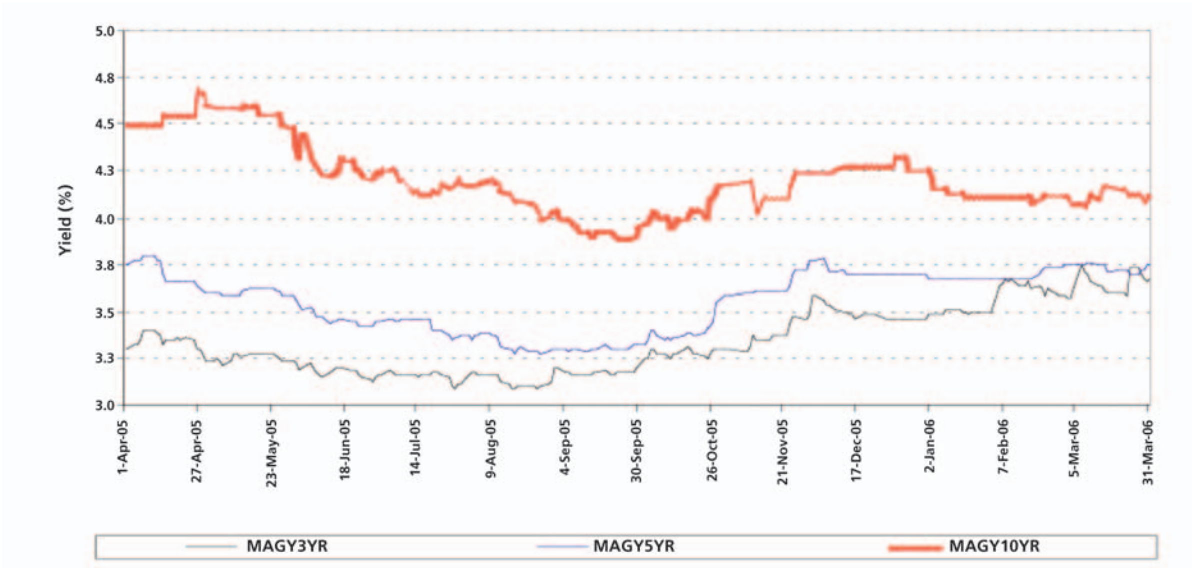
BOND MARKET REVIEW

As expected by the market, Bank Negara Malaysia (BNM) finally increased its Overnight Policy Rate (OPR) by 30 basis points (bps) to 3.00% from 2.70% for the first time in seven years. The move taken by BNM was seen by the market as an effort to stave off the domestic inflation which was threatened by the pass-through effect of the fuel price hike. As it turned out, BNM raised the OPR by another 25 bps to 3.25% in February 2006. The OPR ended the first quarter 2006 at 3.25%. In comparison, the US Federal Reserve had raised its interest rate by 250 bps from 2.25% as at 31 Dec 2004 to 4.75% at the end of first quarter 2006. Even though investors were cautious on the interest rate movement, the demand in the sovereign bond as well as in the corporate bond market especially for the shorter dated maturity was strong. It was supported by the appreciation of Ringgit against the US Dollar which rose 3.08% to RM3.6831 as end of March 2006 from RM3.80 before the de-pegging. Investor, especially foreigners, was looking for opportunity to lock in capital gains on Malaysian assets due to the strong Ringgit.

For the period under review 22 September 2005 to 31 March 2006, the 3-year Malaysian Government Securities (MGS) and 5-year MGS rose by 50 bps and 45 bps respectively. The 3-year and 5-year MGS rose to 3.67% and 3.745% at the end of March 2006 from 3.17% and 3.30% at the beginning of the period respectively. The 10-year MGS also rose 22 bps to 4.12% from 3.90%. As a result of the appreciated MGS prices, corporate bonds were also affected.

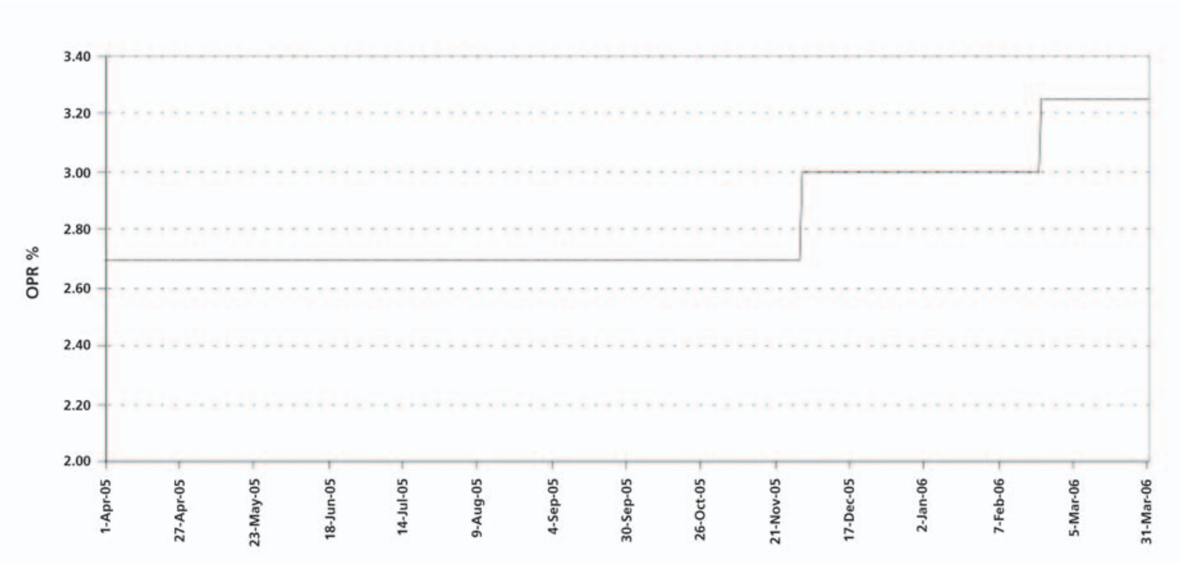
Investment Review (continued)

Chart 1: Movement of MGS 3,5 and 10 years



Source : Bloomberg

Chart 2: Movement of the Malaysian Overnight Policy Rate



Source : Bloomberg

Investment Review (continued)

BOND MARKET OUTLOOK AND STRATEGY

The current inflationary pressure mainly due to higher fuel prices may result in the domestic interest rate to continue rising till the end of 2006. The consumer prices are expected to increase in the near term, caused by February's increase in fuel prices. In addition, BNM will continue to manage the interest rate spread with US Federal Fund Rate within a reasonable range. The current interest rate differential (as at May 2006) is 250 bps.

However, BNM may slow down the increase in the interest rate in the near term because the government had tightened its fiscal policy recently. A tight fiscal policy will not be suitable with overly restrictive monetary policy as it would be harmful for economic growth. On the other hand, if the oil prices continue to appreciate, government may loosen its fiscal policy by reducing the fuel subsidies. This will put pressure on the government to raise the fuel prices.

The Ringgit is expected to be stronger in the near term and we believe that this will continue to stimulate demand in the domestic debt instruments especially among foreign investors which can be seen by the inflow of funds since the removal of the Ringgit peg in July 2005.

Meanwhile, we also believed that the US interest rate raising campaign will come to the end supported by recent inflation data that showed a deceleration and the US Gross Domestic Product (GDP) growth in the 4Q2005 had slowed down. This may influence the Federal Reserve to temporarily cease its interest rate hike.

Overall, even though the domestic bond market seems uncertain, our long-term view is still positive. We believed that the Ringgit will continue to strengthen against the US Dollar, and US interest rate hike campaign will end by the third quarter of 2006. In the mean time, we will closely monitor the interest rate movement as well as the domestic and the international yield curve.