Panin Asset Management
Subsidiary of PT Panin Sekuritas Tbk.

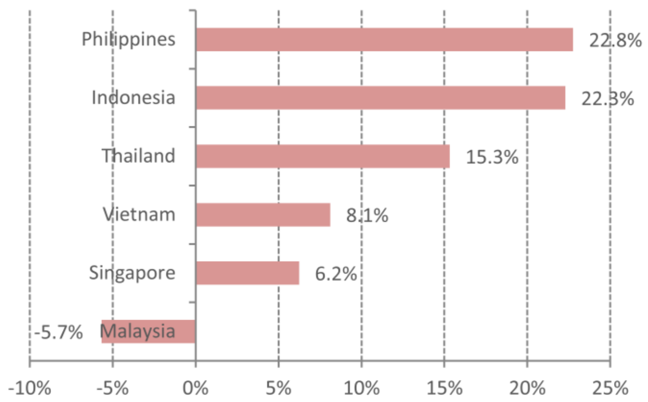
December 2014

Equity Fund Commentary

Market Environment

Indonesian stock market ended the year on a high note, surging 1.5% in December, delivering full year return of 22.3%. It was a pretty exciting year for Indonesia despite being clouded by political uncertainty and slowdown in the economy. Looking back, thinking how bearish analysts were at the start of 2014, we should be pleased with JCI's performance throughout the year, sending the index as the second best performer within the six main ASEAN nations, marginally behind the Philippines at 22.8%.

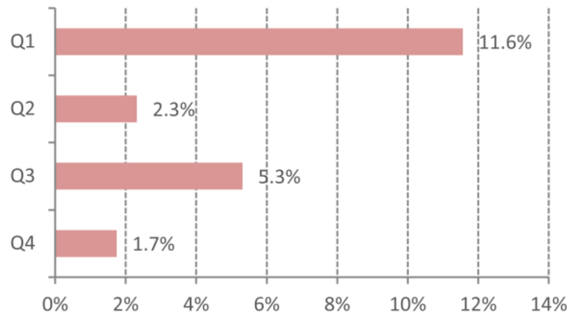
Figure 1: 2014 Return in local currency



JCI's strong performance was partly attributable to surge in confidence by foreign investors - adding USD 4 billion into Indonesian equities in the 12 months to December. Foreign inflows reached record high of USD 5 billion in early August before relinquishing some of the inflows as investors shifted its money elsewhere.

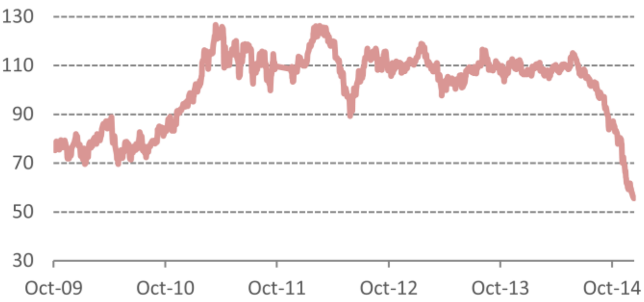
In terms of quarterly return, Q1 was by far the strongest for Indonesia, followed by Q3 - as the market responded favorably to the election outcome.

Figure 2: JCI quarterly return



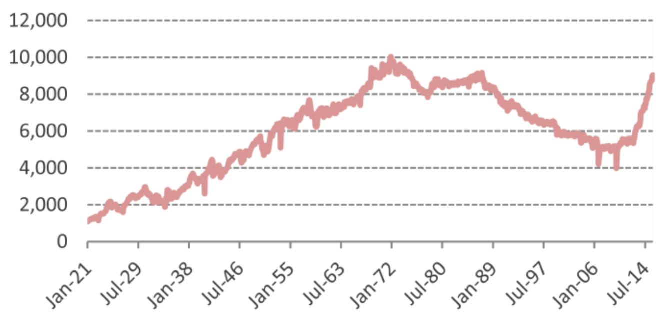
The most extraordinary development in 2014 was perhaps the collapse in oil price, plunging 50% from its peak in June to close the year at USD 57 per barrel.

Figure 3: Brent 2009-2014



The sharp decline in oil price originates from the boom in US shale oil, which added more than 4 million barrels of daily crude oil production since 2008. Further, OPEC's surprise move to maintain supply in Q4'14 triggered the sharp decline in price, causing a flash panic in global economy, particularly oil exporting nations.

Figure 4: U.S. Field Production of Crude Oil



Many economists predict that the decline in oil price is positive for global economy, potentially adding as much as 0.5% to global GDP if oil stays below USD 70 per barrel. For Indonesia, although lower oil price may not translate directly into higher GDP, we see substantial benefits elsewhere given our nation's reliance on imported oil. The biggest contribution will be on Indonesia's fiscal position i.e. state budget. A combination of lower oil price and removal of fuel subsidy for RON 88 will significantly enhance the allocation of government spending, and hence upside to economic growth.

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Fund Performance

In terms of fund performance, 2014 was particularly an interesting year for Panin Asset Management against a backdrop of challenging domestic and global economy. After posting pretty impressive returns at the beginning 2014, our funds gave up some of the gains in the weeks building up to the presidential election as Indonesia's equity risk premium rose. Despite this slight setback, we maintained our view for a strong year for the JCI and fortunately this was the right call as investors responded positively on the election outcome and the index closed the year with its strongest performance in the past 3 years.

Panin Dana Maksima, Panin Dana Prima, and Panin Dana Syariah Saham reported full year returns of 26.5%, 22.6%, and 25.8% respectively. In addition, our new fund, Panin Dana Ultima booked positive performance of 10.6% since it was launched in June 2014.

Outlook

With oil prices continuing its downward slide in the first few weeks of the year, we expect 2015 will be another year full of surprises, both positive and negative. The recent move by Switzerland's central bank to let go the currency is just one element, not to mention the default in China's securities brokerage firm that sent Chinese stock index plunging by more than 7% on Jan 19. Having said that, not everything is doom and gloom, and there are enough reasons to believe that selected asset prices will continue to shine in the year to come

To start with, let's not undermine the ongoing recovery of the largest economy, the US. Lower oil price may be giving a hard time for the US marginal oil producers, as well as downside risk to inflation. Nevertheless, US consumers will benefit greatly and this will give massive boost to the economy, hence upside to GDP growth.

Next, we are possibly seeing more momentum coming from the QE programs launched by the European and Japanese central banks to prevent deflation and drive the economy. While we are less convinced whether these monetary stimulus experiments will resolve the long-term key fundamental problems, it is clear that the short-term impacts to the economy and assets price movements are likely to be favorable. As highlighted by OECD, it is estimated that monetary stimulus may add as much as 3.2% to US GDP growth in 2014.

In EM, we are witnessing two diverging stories. It is evident that investors are losing faith on Russia, whereas India is moving into higher gear, led by lower inflation and improvement in current account. As with China, no one really knows where the economy is heading, but it is quite clear that the government will not let the economy goes bust. As a consequence, we think that equity risk premium will vary greatly in EM.

For Indonesia, we continue to buy into the fundamental story of the economy; however we believe 2015 will be a year of policy adjustments in anticipation of rising US rate environment. Thus, some patience will be needed.

In terms of Indonesian equities, we have witnessed over the past year that equity prices often moved in tandem with market momentum - the so called 'news driven market'. This was clearly evident during the second quarter of 2014 - as investors paid less attention to valuation and focused more on themes. In 2015, we suspect that Indonesian equities will continue its rally, however winners and losers will be determined more by the strength of the fundamentals and less so on momentum. The main winners in our view will be those that can deliver not only superior earnings, but those that can adapt to changes in government policies.

EQUITY FUNDS	MORNINGSTAR	INCEPTION	AuM (IDR bn)	1 month	YTD	1 Year	3 Years
Panin Dana Maksima	★★★★★	Apr-97	6.604	0.5%	26.5%	26.5%	36.9%
Panin Dana Prima	★★★★	Dec-07	1.732	0.7%	22.6%	22.6%	40.1%
Panin Dana Ultima	NA	Jun- 13	770	1.0%	-	-	-
Panin Dana Syariah Saham	NA	Jul-12	370	1.7%	25.8%	25.8%	-
BALANCED FUNDS							
Panin Dana Bersama	★★★★	Feb-09	415	1.6%	14.4%	14.4%	25.6%
Panin Dana Bersama Plus	NA	Dec-11	927	0.6%	23.6%	23.6%	38.3%
Panin Dana Unggulan	★★★★	Jun-05	333	0.1%	17.8%	17.8%	29.0%
Panin Dana US Dollar	★★★	Dec-07	59	-0.7%	19.4%	19.4%	6.8%
Panin Dana Syariah Berimbang	NA	Sep-12	67	1.2%	21.9%	21.9%	-
Jakarta Composite Index (IHSG)				1.5%	22.3%	22.3%	36.8%
LQ45				1.4%	26.4%	26.4%	33.4%
Indonesia Syariah Equity Index (ISSI)				1.5%	17.3%	17.3%	34.5%

As of Nov 30th, 2014

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