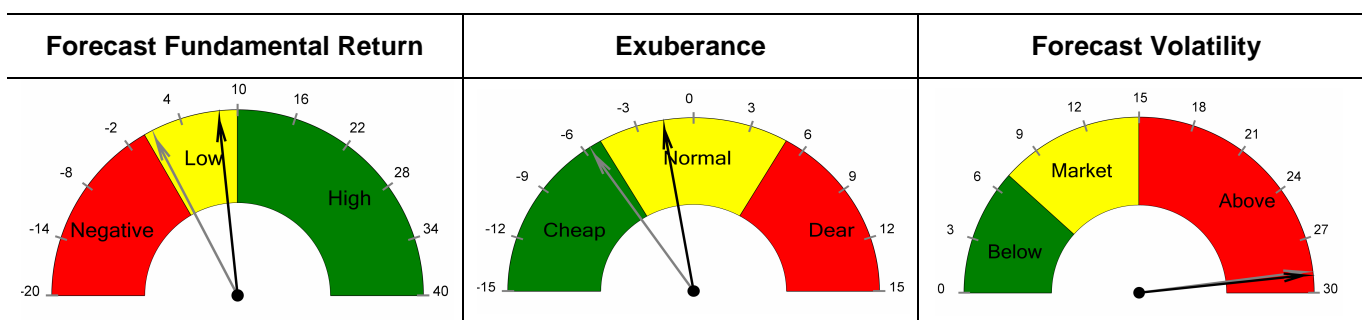


Commonwealth Bank Agri indicators

18 May 2009

- After last month's strong result, the Agribusiness sector has had another positive month despite some stocks in the sector suffering severe financial woes. The index delivered a solid total return of 3.7% in the month to 15 May 2009 compared to an almost flat result of 0.8% for the broader S&P/ASX 200 accumulation index. Over the last three months the Agribusiness index has returned nearly double what has been returned by the S&P/ASX 200.
- The voluntary administration of both Great Southern Limited (GTP) and Timbercorp Limited (TIM) since the last update has meant that the number of stocks in the Agribusiness index has fallen from 16 to 14 (note: the performance of these two companies is reflected in the index result until their suspension from trading). However, despite these difficulties, especially strong performances by ABB Grain Limited (ABB), Tassal Group Limited (TGR) and GrainCorp Limited (GNC) has meant that the index has still managed a solid result over the last month.
- The good news for the sector is that the consensus forecast return is significantly higher than last month and is now sitting at 8% for the year to May 2010. This increase is on the back of stronger earnings expectations for some stocks in the sector.
- Forecast volatility for the sector remains elevated at just under 30% for the next 12 months. On a risk-adjusted basis the outlook for the sector is moderate – but significantly better than that for the broader market – and broadly in line with what's expected for the Consumer Staples, Consumer Discretionary, IT and Industrials sectors.

Table 1: Current indicators Commonwealth Bank Agribusiness sector



Source: Investment Research, Reuters Knowledge

Note: The grey marker represents the previous month's dial value.

Forecast Fundamental Return: Forecast return (ignoring exuberance) for the sector over the next 12 months. Derived using our proprietary forecasting technique based on consensus forecasts of earnings and dividends for the individual stocks in the sector (sourced from Reuters Knowledge). Pricing bounds (eg negative, low and high) are relative to the S&P/ASX 200 and are the same across sectors to allow for comparison between sectors.

Exuberance: Proprietary measure of market mis-pricing. Defined as the ratio of the sector accumulation index to our estimate of fair value. Exuberance should be subtracted from the forecast fundamental return to derive an actual forecast from today's price. Experience shows that exuberance changes far more rapidly than our forecasts of fundamental returns. Pricing bounds (eg cheap, normal and dear) are sector specific and are based on the sector exuberance mean and standard deviation.

Forecast Volatility: Forecast volatility for the sector over the next 12 months. Derived using our proprietary methods of modelling realised volatilities, detecting changes in long-run levels (including at the end of the sample) and correcting for switchbacks and other correlation patterns in the data. Pricing bounds (eg low, normal and high) are relative to the S&P/ASX 200 and are the same across sectors to allow for comparison between sectors.

Figure 1: Commonwealth Bank Agribusiness index vs. S&P/ASX 200 index^

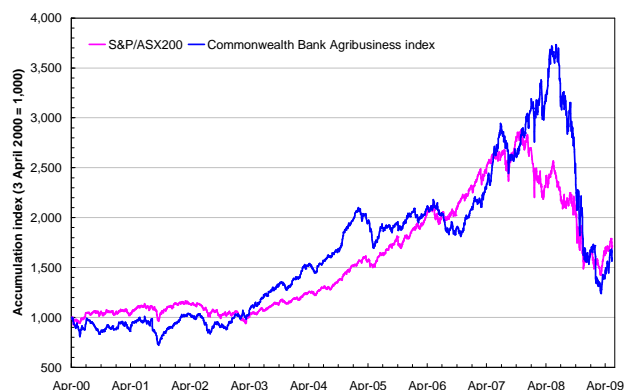


Table 2: Total Shareholder Return (%) (including dividends)^

	Commonwealth Bank Agribusiness index	S&P/ASX 200 index
Last month	3.7	0.8
3 months	15.2	8.0
6 months	-13.7	3.1
12 months	-55.8	-32.5
Since April 00*	59.8	71.5

* Start of the Commonwealth Bank Agribusiness index

^ Data to 15 May 2009

Source: Investment Research, PCS

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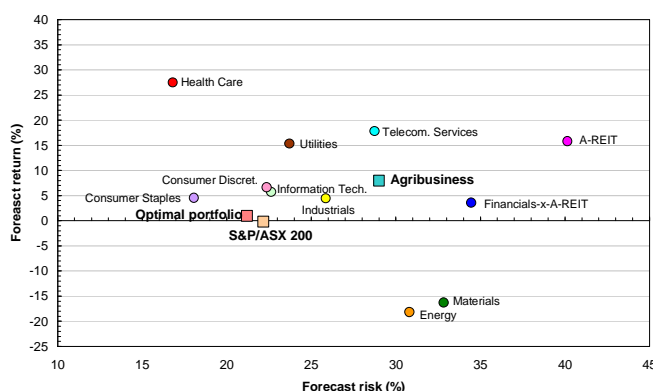
Figure 2: Exuberance



Source: Investment Research, PCS

Note Figure 2: We show the relative pricing of the Commonwealth Bank Agribusiness index to 'fair value' in Figure 2. The fundamental of the Commonwealth Bank Agribusiness index is constructed using a proprietary method based on consensus forecasts of earnings and dividends (sourced from Reuters Knowledge) for the companies in the Commonwealth Bank Agribusiness sector. Exuberance is a proprietary measure of market mis-pricing, defined as the ratio of the index to the fundamental. Positive exuberance indicates over-pricing, while negative exuberance indicates under-pricing. We do not advocate using exuberance as a trading signal but as part of a 'scientifically' based market entry strategy.

Figure 3: Forecast risk-return profile of Commonwealth Bank Agribusiness sector vs. S&P/ASX 200 sectors



Note Figure 3: We compare the forecast risk-return profile of the Commonwealth Bank Agribusiness sector to the S&P/ASX 200 index and its sectors in Figure 3. The 'Optimal Portfolio' is the Maximum Sharpe Ratio portfolio in the efficient frontier optimisation of the S&P/ASX 200 sectors. This portfolio represents the best risk-adjusted return of all efficient portfolios. In the Optimal Portfolio we restrict sectoral weight to be between 0.5 and 2.0 times index weight. Allocation to the Commonwealth Bank Agribusiness sector is not included in the Optimal Portfolio. To be consistent with our other publications, forecasts of returns are quoted in simple terms while forecasts of risk are quoted in $\ln(1+r)$ terms. Forecasts are for the next 12 months.

Commonwealth Bank Agribusiness index details

The Commonwealth Bank Agribusiness index measures the performance of the Commonwealth Bank defined 'Agribusiness' sector over time. The Commonwealth Bank Agribusiness sector currently consists of 14 rural-dependent companies: Australian Agricultural Company Limited (AAC), ABB Grain Limited (ABB), AWB Limited (AWB), Elders Limited (ELD), Forest Enterprises Australia Limited (FEA), GrainCorp Limited (GNC), Gunns Limited (GNS), Incitec Pivot Limited (IPL), Nufarm Limited (NUF), Primeag Australia Limited (PAG), Ruralco Holdings Limited (RHL), Ridley Corporation Limited (RIC), Select Harvests Limited (SHV), Tassal Group Limited (TGR). Companies previously included in the sector but since removed due to delisting or exiting the All Ordinaries index include Queensland Cotton Holdings Limited (QCH), Auspine Limited (ANE), Great Southern Limited (GTP) and Timbercorp Limited (TIM).

The Commonwealth Bank Agribusiness index is a non-float adjusted, market-cap weighted index constructed using the same methodology as the S&P index series. To be considered for inclusion in the index, each stock must be a in the All Ordinaries index. The Commonwealth Bank Agribusiness index begins on 3 April 2000 which is the same date as the launch of the S&P/ASX index series in Australia. At inception there were 8 stocks included in the index. This number is currently 14.

Table 3: Current Commonwealth Bank Agribusiness index membership and weights

Code	GICS Tier 1	GICS Tier 2	Current Market Cap (\$mil)	Current index weight (%)
AAC	Consumer Staples	Packaged Foods & Meats	\$407	3.8
ABB	Consumer Staples	Food Distributors	\$1,445	13.5
AWB	Consumer Staples	Food Distributors	\$390	3.6
ELD	Consumer Staples	Agricultural Products	\$328	3.1
FEA	Materials	Forest Products	\$81	0.8
GNC	Consumer Staples	Agricultural Products	\$476	4.4
GNS	Consumer Staples	Forest Products	\$670	6.2
IPL	Materials	Fertilizers & Agricultural Chemicals	\$3,756	35.0
NUF	Materials	Fertilizers & Agricultural Chemicals	\$2,261	21.1
PAG	Consumer Staples	Agricultural Products	\$170	1.6
RHL	Industrials	Div Commercial & Professional Services	\$102	1.0
RIC	Consumer Staples	Agricultural Products	\$236	2.2
SHV	Consumer Staples	Agricultural Products	\$130	1.2
TGR	Consumer Staples	Packaged Foods & Meats	\$280	2.6

Source: Investment Research, IRESS

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