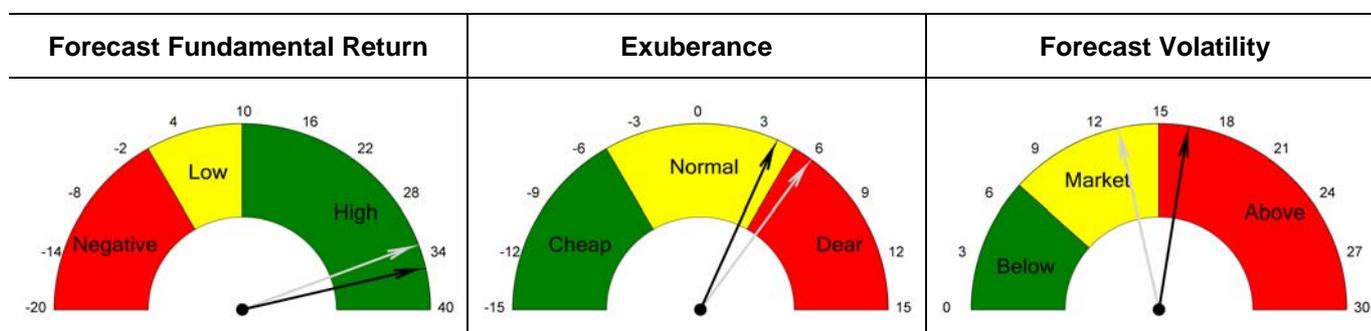


Commonwealth Bank Agri indicators

17 January 2008

- It seems as though the Agribusiness sector has been largely immune to the woes of the broader market in recent times. The Agribusiness sector has managed to out-perform the S&P/ASX 200 index by 13.5 percentage points over the last month delivering a total return (including dividends) of 3.2% to investors. Over this period the broader market has been heavily weighed down by concerns stemming from the US sub-prime loan crisis and has shed 10.3%.
- The strength of the Agribusiness sector in recent times extends the stellar run of the sector over the last 12 months. The sector has rewarded investors with a total return (including dividends) of 42.8% since this time last year. This return compares to a much more modest 6.3% for the S&P/ASX 200 accumulation index over the same period.
- The good news for investors with exposure to the Agribusiness sector is that the consensus outlook remains strong for 2008. The consensus forecast return for the sector is tipped to be around 35% – more than double that of the broader market. However, investors should never forget that volatility should always be expected and that future returns are never certain. Forecast volatility for the sector is slightly higher than the broader market at 16% – suggesting a return in the vicinity of 20 – 50% could potentially be expected with a probability of two thirds.
- Exuberance in the Agribusiness sector is slightly elevated at around 4% indicating that the sector is running slightly ahead of its consensus fundamentals. Such behaviour usually suggests that a retreat to fundamentals in the not too distant future may be likely. This positive level of exuberance in the Agribusiness sector contrasts to the significant under-pricing currently being played out in most other major sectors of the market.

Table 1: Current indicators Commonwealth Bank Agribusiness sector



Source: CommSec Quantitative Research & Investment Strategy, 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

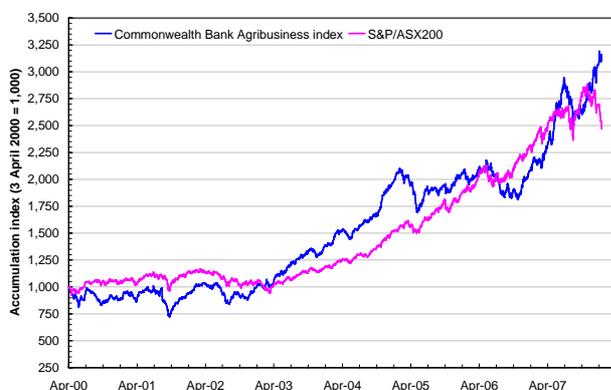


Table 2: Total Shareholder Return (%) (including dividends)

	Commonwealth Bank Agribusiness index	S&P/ASX 200 index
Last month	3.2	-10.3
3 months	16.6	-12.5
6 months	8.2	-7.2
12 months	42.8	6.3
Since April 00*	209.5	146.9

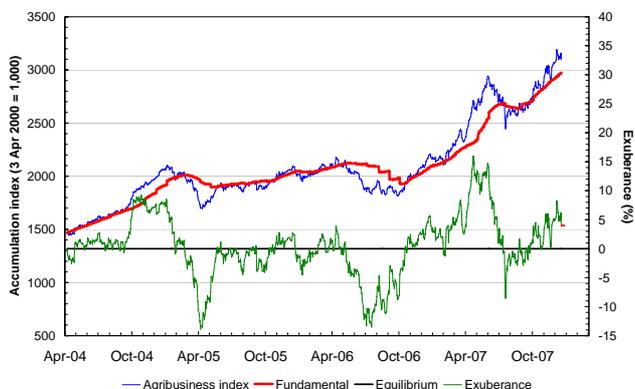
* Start of the Commonwealth Bank Agribusiness index

Source: CommSec Quantitative Research & Investment Strategy

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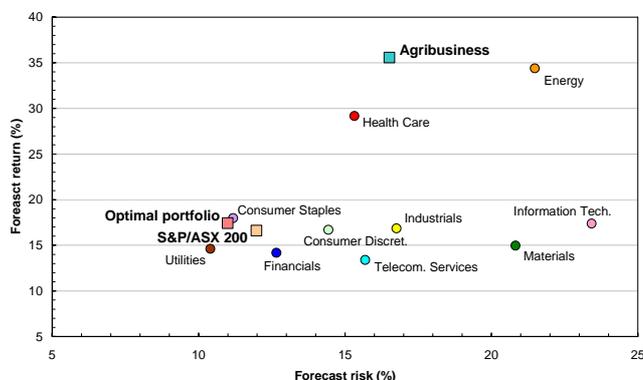
Figure 2: Commonwealth Bank Agribusiness index, fundamental and exuberance



Source: CommSec Quantitative Research & Investment Strategy

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. The fundamental is a real-time process which shows the estimated fair value of the Commonwealth Bank Agribusiness sector over time. 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 15 rural-dependent companies: Australian Agricultural Company Limited (AAC), ABB Grain Limited (ABB), AWB Limited (AWB), Futuris Corporation Limited (FCL), Forest Enterprises Australia Limited (FEA), GrainCorp Limited (GNC), Gunns Limited (GNS), Great Southern Limited (GTP), Incitec Pivot Limited (IPL), Nufarm Limited (NUF), Ruralco Holdings Limited (RHL), Ridley Corporation Limited (RIC), Select Harvests Limited (SHV), Tassal Group Limited (TGR), Timbercorp Limited (TIM). Companies previously included in the sector but since removed due to delisting or exiting the All Ordinaries index include Queensland Cotton Holdings Limited (QCH) and Auspine Limited (ANE).

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 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 15.

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	\$855	4.8
ABB	Consumer Staples	Food Distributors	\$1,297	7.3
AWB	Consumer Staples	Food Distributors	\$941	5.3
FCL	Consumer Staples	Agricultural Products	\$1,618	9.2
FEA	Materials	Forest Products	\$239	1.4
GNC	Consumer Staples	Agricultural Products	\$635	3.6
GNS	Consumer Staples	Forest Products	\$1,396	7.9
GTP	Materials	Forest Products	\$535	3.0
IPL	Materials	Fertilizers & Agricultural Chemicals	\$6,025	34.1
NUF	Materials	Fertilizers & Agricultural Chemicals	\$2,516	14.2
RHL	Industrials	Div Commercial & Professional Services	\$179	1.0
RIC	Consumer Staples	Agricultural Products	\$330	1.9
SHV	Consumer Staples	Agricultural Products	\$298	1.7
TGR	Consumer Staples	Packaged Foods & Meats	\$454	2.6
TIM	Materials	Forest Products	\$351	2.0

Source: CommSec Quantitative Research & Investment Strategy

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