

Agribusiness Improves Portfolio Performance

One of the fundamental strategies for risk management in a portfolio of assets is diversification Between Securities, Within Securities and Between Industries.

However, the Agribusiness industry is often overlooked for portfolio diversification but as Australian Agribusiness Group has discovered, agribusiness assets can provide significant benefits for investors.

Australian Agribusiness Group has recently undertaken a study accessing the historical performance of agribusiness against ASX shares.

The study used 23 years of data provided by Standard and Poor's (historical All Ordinaries Index data) and Australian Bureau of Agricultural and Resource Economics (ABARE) (farm surveys data for the Top 25% of farms).

The study demonstrates that when agribusiness is undertaken at the top level returns are comparable to the returns from ASX shares (Figure 1).

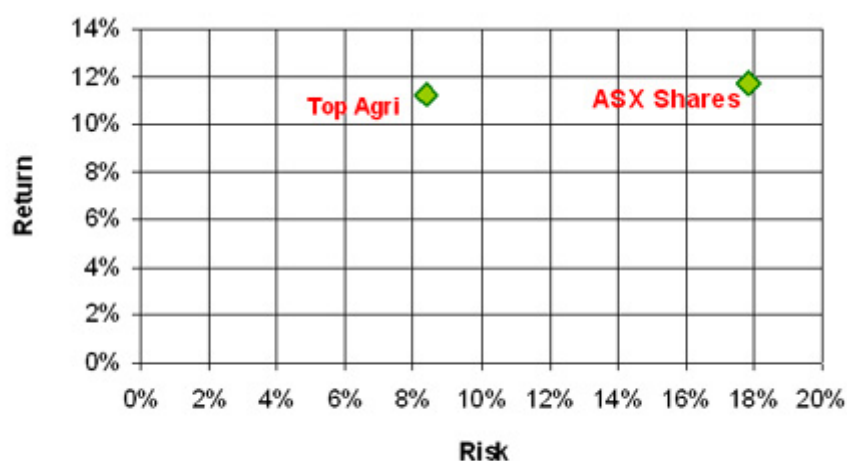


Figure 1: Chart showing the growth of \$1,000 from 1 July 1980 to 30 June 2003 if invested in the two asset classes (CAGR=Compound Annual Growth Rate)

Diversifying across asset classes may deliver improved portfolio performance as Australian Agribusiness Group discovered.

Agribusiness is negatively correlated to other asset classes. For example, returns from agribusiness do not move in the same direction as returns from ASX shares.

Top agribusiness also offers much lower volatility in returns than ASX shares. It is because of these two points and the fact that returns from top agribusiness are similar to ASX shares that the inclusion of agribusiness in a portfolio can impact positively on risks and returns of the portfolio as a whole. As Figure 1 shows, agribusiness investments were half as volatile as ASX shares over the period of the study.

Following the initial analysis on risk and return, Australian Agribusiness Group then designed a set of very basic portfolios with top agribusiness and All Ordinaries shares. We changed the proportion of agribusiness in the portfolio from 0% to 100% and assumed a rebalancing of the portfolio each year to the relevant weighting of agribusiness.

Figure 2 outlines the impact of the inclusion of agribusiness in a portfolio of ASX shares.

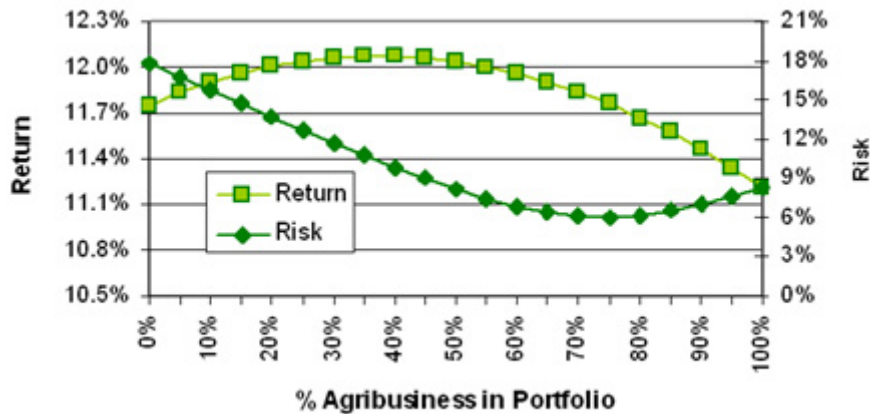


Figure 2: Chart showing the impact on return and risk through the addition of agribusiness in a portfolio of All Ordinaries shares.

Clearly, the study data showed that when top agribusiness is included in an investment portfolio risks can decrease and returns can increase.

The portfolio analysis in this paper is a very simple one for the sake of demonstration. Most well balanced portfolios would include more than just All Ordinaries Index shares and agribusiness assets.

Historically agribusiness has often been overlooked as an investment as the perception of agribusiness by the general public is that it is risky and does not produce good returns.

However, as demonstrated in the study by Australian Agribusiness Group, the facts of the matter are that well managed agribusiness can produce returns on a par with the All Ordinaries yet returns from Top Agribusinesses are substantially less volatile.

The inclusion of agribusiness in an investment portfolio can improve its performance and should be considered as part of a well managed and diversified investment strategy.

This page is a brief section of a research paper AAG has recently prepared. It can be purchased from AAG by contacting Tim Lee by phone ((03) 9654-9388) or email (tlee@ausagrigroup.com.au).