

# Global Agribusiness

## Quarterly Review and Outlook

As at September 2014

### Key Highlights

- The First State Global Agribusiness strategy declined in value by more than 3% during the quarter.
- Soft commodity prices were mixed. Grain prices drifted lower in anticipation of bumper crops, while protein (meat) prices moved higher.
- The forestry sector was weaker. Lumber prices were flat, but the threat of rising interest rates appeared to weigh on market sentiment.
- Agribusiness and forestry stocks again outperformed underlying soft commodity prices, highlighting that commodity price movements are not the only driver of stock prices in the sector.

As a reminder, the strategy invests in companies involved in the production, processing and transportation of soft commodities, as well as those that supply products and services to the agricultural industry. The strategy only invests in the upstream and midstream portions of the agribusiness value chain. These portions of the investment universe are leveraged and benefit from volume growth, a key driver of earnings growth.



Source: First State Investments.

### Strategy Performance and Activity

The strategy struggled in absolute terms during the quarter as sentiment towards global equity markets deteriorated. Returns were well ahead of the custom benchmark over the quarter, however, due to favourable stock selection.

### Bumper crops are anticipated...

As highlighted above, increasing volumes in the sector are providing strong earnings drivers for companies exposed to agricultural volumes rather than prices. The strategy benefits from exposure to supply chain companies, where record crops support grain handling and transport volumes.

We have recently added to the strategy's holding in grain handling and logistics company **Bunge**, for example, which reported favourable results during the period. Bunge's grain handling and processing assets will benefit from a large corn and soybean crop in the US.

We have also increased the strategy's exposure to **Archer-Daniels-Midland (ADM)**, one of the world's largest dealers and processors of agricultural products. The prospect of a bumper crop should support earnings as the company provides handling and logistic services to farmers.

Overall, companies in the supply chain sub-sector provided a positive contribution to performance in the September quarter.

### ... which adversely affected grain prices and benefited livestock companies

There remains a fair amount of scrutiny on how harvest sizes could affect prices of soft commodities such as soybeans and corn. While lower crop prices disappoint farmers, they are positive for other parts of the agribusiness sector. Meat producers, for example, generally benefit from lower grain prices as feed costs are reduced. We saw livestock operators and food processing companies benefit from lower input costs in the quarter, which was reflected in stock prices.

The strategy recently established a position in **WH Group**, the world's largest pork producer, when the company completed its Initial Public Offering (IPO). The Chinese company bought US-based Smithfield Foods last year and was attractively priced in our view given the potential for earnings growth.

### Forestry stocks lacked real drivers

As well as its diversified investments in agribusiness companies, the strategy continues to invest in a number of forestry stocks. At the end of September, around 15% of the strategy was invested in forestry and wood processing stocks.

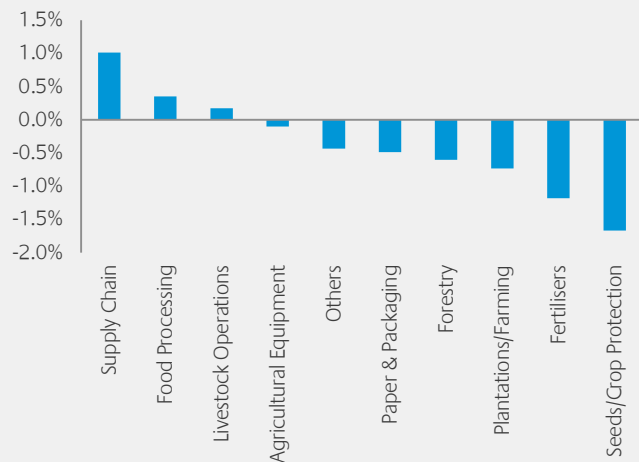
## First State Investments

Some of these companies are expected to benefit from the ongoing recovery in the US homebuilding sector. Many of these stocks remain attractively valued given the quality of the businesses and the earnings momentum we expect them to deliver.

Within the forestry sub-sector, investment in US-based forestry products company **Weyerhaeuser** has recently been increased. We are encouraged that the company is focusing on its higher margin businesses and continues to reduce its cost base.

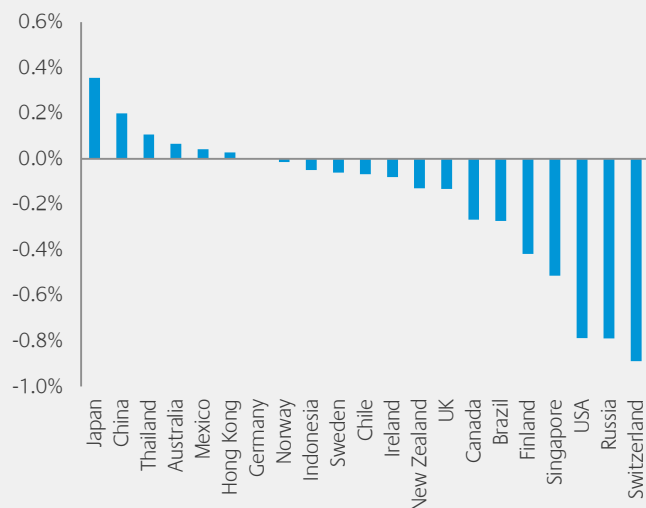
The forestry sector as a whole declined in value modestly over the quarter, in line with global equity markets.

### Sector contributions



Source: First State Investments, as at 30 September 2014.

### Country contributions



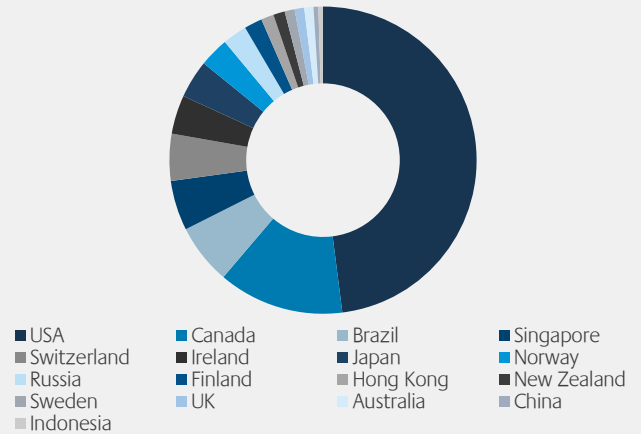
Source: First State Investments, as at 30 September 2014.

The strategy's investments in Japanese stocks made a notable contribution to performance, while subdued investor sentiment and deteriorating economic indicators affected some of the strategy's investments in Europe.

Elsewhere, October's presidential elections in Brazil had a short-term impact on stock market sentiment in that market. This affected various listed Brazilian agribusiness stocks, although we believe that potential changes to energy policy

will provide longer-term support to these companies. Producers of ethanol and sugar, for example, could benefit from any increased focus on renewable energy. Brazilian stocks currently account for around 6% of the strategy's investments.

At all times, the strategy remains well-diversified geographically. As at the end of September, the strategy was invested as follows:



Source: First State Investments, as at September 2014.

### Global Agribusiness Outlook

The long-term drivers of the global agribusiness sector remain unchanged. A vast amount of investment is required to improve crop yields and production in order to feed the world's growing population and satisfy demand for higher protein foods.

Owning shares of listed agribusiness companies provides exposure to higher volumes across the agricultural value chain.

Agribusiness is a highly specialised part of the global equity universe. As a result, the Global Agribusiness team is made up of specialists whose professional careers and personal lives have been immersed in agriculture. The skillset and background of team members means we are able to assess the merits of global agribusiness businesses, as well as the risks involved in potential investments.

The focus is on investing in quality companies at sensible prices, rather than mediocre companies at perceived bargain prices. As we saw in the September quarter, soft commodity prices could be volatile. We want to own companies that can withstand commodity price volatility and prosper throughout the cycle.

Like the broader Global Resources team, we complete a high level of due diligence on companies by visiting their operations first hand. Completing this work is a critical component of our investment philosophy and research process. This on-the-ground research gives us valuable knowledge and understanding of the key assets and the risks and opportunities associated with them. Over 200 agricultural site visits to more than 20 countries have been made since the inception of the First State Global Agribusiness strategy.

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