

Agricultural Income Trust Fund 1 ARSN 093 804 276

Fund Update - May 2009

Investment Objective

The aim of the Agricultural Income Trust (AIT) is to invest in vineyards capable of producing wine grapes within the ultra premium and icon categories. The AIT owns and manages four vineyards: two in the Barossa valley and two in the Adelaide Hills. The four vineyards encompass an area of 350 hectares of vines and have offtake agreements with six different wine companies.

The AIT is closed to new investment.

Performance Update

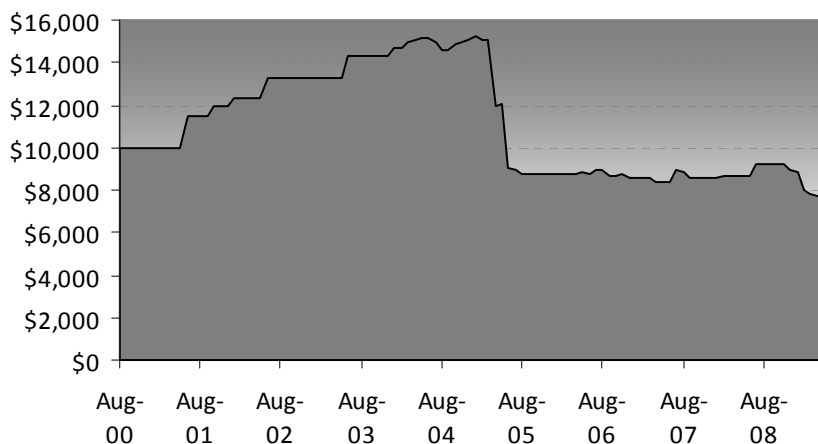
Past performance is not a reliable indicator of future performance.

Returns (as at 31 May 09)	1 mth	3 mth	6 mth	1 yr	2 yr*	3 yr*	4 yr*	5 yr*	Inception*
Distribution Returns	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Growth Returns	-2.00%	-5.34%	-17.23%	-11.88%	-4.64%	-5.03%	-10.78%	-12.89%	-3.05%
Total Returns	-2.00%	-5.34%	-17.23%	-11.88%	-4.64%	-5.03%	-10.78%	-12.89%	-3.05%
Grossed Up Distribution Returns	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Grossed Up Total Returns ¹	-2.00%	-5.34%	-17.23%	-11.88%	-4.64%	-5.03%	-10.78%	-12.89%	-3.05%

* Annualised figures.

¹ Grossed up returns are inclusive of franking credits.

Growth of \$10,000 invested since inception²



² Inception date is August 2000. Values are based on post fee performance returns, inclusive of franking credits with distributions reinvested.

Agricultural Market Commentary

As many developed nations have entered recession, commodity prices have been unable to regain the upward momentum they enjoyed in 2007 and early 2008. Through the first quarter of 2009, corn futures fell approximately 5%, wheat futures fell 13%, and soybean futures declined 3%. Although commodity prices continued to decline slightly, the dramatic drops experienced during the latter half of 2008 have ceased. Additionally, these prices remain at historically high levels, with most commodities achieving stronger prices than they did three years ago.

The Australian Dollar (AUD) remained steady against the US Dollar through the first quarter. However, the AUD has since rallied with investors moving money out of US Treasuries and other traditional havens in favour of higher-yielding assets in commodity rich countries such as Australia. There has also been an increase in risk appetite. However, the rally in the AUD may be tempered with concerns that its strength may hurt Australia's trade balance and be a drag on an economy weakened by the Global Financial Crisis. This in turn may cause the Reserve Bank to consider intervening in currency markets.



Although the volume of Australian wine exports stabilised during 2008, down only 0.7% to 725.9ML, value continues to decline, down 14.2% to \$2.41 billion (2007, 731.0ML & \$2.84b). During the same period, price per litre was also down 13.6% to \$3.32/L.

Exports to China, Japan and Hong Kong continue to grow. Hong Kong was the only country to have positive growth in all categories of volume, value and price per litre. The UK and the US remain the largest importers, however trading conditions remain difficult. Fortunately the US saw some growth in volume; however value continued to slide as the additional shipments were predominately bulk. (UK; volume down 7.8%, value down 20.9%, US; volume up 20.7%, but value down 12.0%).

Table 1 below, courtesy AWBC, details the regional trends across the globe.

Table 1: Exports by region

	Volume		Value		Value/Litre	
	MAT April 2009 Litres	Change %	MAT April 2009 AS	Change %	MAT April 2009 AS/L	Change %
Europe - Eu	365 161 205	-10.3%	1 036 025 233	-19.7%	\$2.84	-10.5%
North America	272 028 271	14.3%	934 058 728	-15.0%	\$3.43	-25.6%
North East Asia	39 906 023	30.8%	198 078 755	19.5%	\$4.96	-8.6%
Oceania	21 423 396	-16.1%	89 318 433	-3.5%	\$4.17	15.0%
South East Asia	11 831 292	-5.2%	85 337 182	-4.4%	\$7.21	0.8%
Europe-Other	8 442 468	-5.8%	35 810 585	-0.6%	\$4.24	5.5%
Rest of World	7 181 869	-13.8%	34 484 644	-10.3%	\$4.80	4.1%
World	725 974 524	-0.7%	2 413 113 560	-14.2%	\$3.32	-13.6%

The wine grape outlook is characterised by an oversupply of wine grapes, an excessive number of winemakers and an increasing Australian dollar. All wineries are reporting difficult trading conditions and on the back of the large 2008 vintage, grape prices have come under immense downward pressure. The medium sized wine brands are expanding into the premium segment being the same segment to which the AIT sells its grapes which may provide market opportunities for the AIT vineyards.

Farm and Fund Commentary

AIT experienced another difficult vintage this year. The extreme heat wave at the time of the Victorian bushfires reduced the crop yield and diminished the quality of grapes produced. The impact of this climatic event was compounded by low grape prices which are symptomatic of the current conditions being experienced by the wine grape industry. An oversupply of wine grapes due to excessive production and a strengthening Australian dollar put downward pressure on grape prices. The continuation of current economic conditions and wine grape oversupply provide poor prospects for the value of AIT investments. It is important to note that oversupply to the wine grape market is cyclical but the present depressed phase of the cycle could endure for some years.

The combination of low prices and very low crop yields have caused the AIT to make a forecast operating loss of \$2.85m in the year to 30 June 2009. This has significantly impaired the AIT's ability to operate within its existing finance facilities and will force the fund to raise at least \$2m of new equity.

Should low grape prices and volatile crop yields continue the AIT will struggle to make profits and will need to continually raise new equity. This is clearly unsustainable. For this reason the Manager has investigated the alternative of selling assets and winding up the Fund and an alternative path of initiatives that improve the operating performance of the Fund.

Investigations into the sale of assets has revealed that the poor industry conditions has resulted in little turnover in premium vineyards at present. In relation to large vineyards, the Manager has been advised that they are unsaleable at any value that would provide a reasonable return to equity holders. For this reason, it appears that a wind up of the Fund is not practical at this stage in the cycle.

To remain a going concern the AIT must make several advances in both the growing and marketing of its production. Firstly, annual grape yields need to become more reliable and resistant to the effects of heatwaves. This can be achieved by mulching of vine rows, increasing soil organic matter and possibly through finer manipulation of plant nutrients. Next, there must be some changes to the mix of grape varieties that is produced on the Fund's vineyards. For example much of the Riesling plantings will need to be grafted over to red grape varieties for which the Barossa is recognised and for which the fund will be paid more per tonne.



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Finally, the AIT needs to pursue better market opportunities for its fruit, through nurturing relationships with those wine companies that have established or growing markets for the style of fruit that the Fund can produce. In the retail wine market at present, it is apparent that a number of medium sized privately owned wine producers are succeeding in growing their sales. For this reason the AIT is attempting to align itself with some of these producers so as to improve the value of its annual crop. In addition, the Fund continues to build on existing relationships where quality production is achieving appropriate rewards.

Table 2 below sets out the harvest results for the AIT. The yields were significantly below forecast as a result of the climatic conditions described above. There is expected to be some upward price movement when final gradings are released.

Table 2: AIT Harvest Table 2009 Vintage

Property Name	Budget 2009 Tonnes/Ha	Budget 2009 Tonnes	Budget 2009 \$/Tonne	Budget 2009 Income	Actual 2009 Tonnes/Ha	Actual 2009 Tonnes	Actual 2009 \$/Tonne	Actual 2009 Income
Adelaide Hills	9.1	509.1	\$1,499	\$762,787	10.3	576.9	\$1,147.1	\$661,736
Geier	9.1	2,219.8	\$1,265.4	\$2,808,941	5.0	1,225.9	\$998.8	\$1,224,495
Hahn	9.1	458.3	\$1,144	\$524,218	6.9	346.6	\$1,031.2	\$357,450
	9.1	3,187	\$1,285	\$4,095,946	6.2	2,149.44	\$1,044	\$2,243,681

Climatic conditions post the heatwave were ideal for the completion of harvest, with good rains recorded thereafter. The Murray Darling system continues to experience record low inflows, a worrying trend for next year. Above average winter rainfall must now be received if water allocations of any significance are to be forthcoming.

Fund Facts as at 31 May 2009

Fund Size	\$16.1m
Inception	August 2000
Unit Price	\$0.7605 ³
Number of Investors	368

³ 31 May 2009 Net Asset Value (NAV) Unit Price

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