

## You wouldn't have the blues over ATI

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### Peter Wells

Simon Burge takes his blues guitar playing seriously. Footage floating around the internet may allow any self-proclaimed music critic an opportunity to cast judgment on his wares, but the chief investment officer of Above The Index Asset Management would at least be able to meet any "Don't quit your day job" heckling with a wry smile.

In the 12 months to the end of February, the ATI Australian Equity Portfolio's return of 58 per cent has ranked it 12th of 104 long-only fund managers, according to Mercer data. The median return in the past year was 46.9 per cent.

Now that the market rebound from the financial crisis is by and large complete, Burge thinks the next leg for the market will come when companies start delivering top-line sales growth – something that certainly wasn't evident in the just-finished reporting season.

Improvements in earnings were mostly delivered by cost-cutting, Burge says, a measure that clearly cannot continue indefinitely.

"The next leg will come from top-line growth," he says. "That will only be reflected when the economy is fully recovered and at this stage, it's fair to say it hasn't. The stocks are priced for it, but if you look at top-line sales, it's not there."

One exception to that might be the resources sector, which will benefit if commodity price upgrades continue. "Resource stocks will get a leg-up there, but that won't straight away drag the industrials higher."

When he's not belting out the sounds of the Deep South at haunts in Sydney's inner west, Burge helps oversee ATI's \$500 million in funds under management according to a relative value methodology, with a strong focus on bottom-up stock picking. Having run the numbers, ATI believes that large-cap stocks are now quite fully priced and that the market is therefore "fully valued historically". "We see a lot of the large-cap stocks as being fully priced, and we've reduced our overweight positions in them," Burge says.

With a more neutral stance towards large caps like BHP Billiton and the banks, ATI is garnering outperformance through exposure to smaller stocks in the S&P/ASX 300.

The fund currently holds positions in 38 companies, which is near the top of its range of between 25 and 40 stocks.

"I've filled nearly my entire suite with more smaller names, meaning the market is more fully priced."

Some of those include Pacific Brands, Transfield Services, Flight Centre, Emeco Holdings and, within the resources sector, PanAust and Equinox for copper exposure.

"Copper is something we think is an undervalued commodity. We're not commodity forecasters, but from our work stocks exposed to copper look relatively cheap given what we think will happen there."

On sectors generally, Burge says energy is one that is "too expensive for us", while healthcare is one "that definitely looks like it's in for headwinds".

For the broader market, and because of the view on fully priced large caps, Burge says he'd be surprised if the market could achieve double-digit returns for the calendar year.

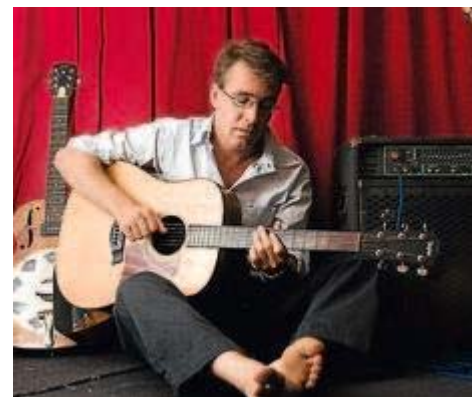
"Real growth is not forecast to start until 2011," he adds.

ATI had a 4.9 per cent portfolio weighting towards Telstra at the end of February, compared with its 3.0 per cent weight in the S&P/ASX 300.

Despite the tumult surrounding the telco, Burge takes a simple view.

"Within the three years which we're looking at, and the cash flow it generates, we still believe, compared to the rest of our universe, the company will still make good money.

"That doesn't mean it's the sexiest company in the world or it doesn't have strife coming its way, but the business still makes money and for us, over the next three years, that's the basis for how we will be valuing it."



Simon Burge: energy and healthcare are not his theme right now, but copper certainly is. **Photo: Louie Douvis**

Established in September 2004 by Burge and Tim Phillips (both former Tyndall employees), and David Liu, ATI has returned 7.5 per cent (gross of fees) since inception in December 2005 compared with a 3.8 per cent return for its benchmark, the S&P/ASX 300 Accumulation Index over the same period.

The Australian Financial Review

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