FINANCIAL REVIEW smartinvestor

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HD **Big call from a small cap expert**

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MASTERS OF THE MARKET

PROFILE

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Name: Ben Griffiths

Title: Co-founder and portfolio manager

Flagship Fund: Eley Griffiths **Group** Small Companies Fund

Performance: 16.44 per cent a year, after fees, over five years

Ben Griffiths has seen every market phase in his 23-year career as a fund manager. He's confident we've seen the worst of the cycle for resources stocks, writes Matthew Smith.

There's a certain confidence you bring to a situation when you've dealt with it in some way, shape or form before. Ben Griffiths speaks with the kind of authority that only comes with decades of experience.

The Eley Griffiths **Group** Small Companies Fund has now notched up more than 10 years of performance and is beating the Australian Small Ordinaries Accumulation Index by almost 13 per cent after fees in the year to the end of January.

Started in partnership with his former colleague from BT, Brian Eley, the fund specialises at the small end of the market but they won't let that restrict them from playing broader themes. The funds' bets on retailers, international equities and the nascent housing recovery have all paid off, but Griffiths's bullish view of small-cap resources stocks remains contentious.

What are you investing in at the moment?

We have a few themes we are playing; our biggest bets are in companies benefiting from low interest rates as the Reserve Bank of Australia tries to refloat the non-**mining** economy. This cycle plays out the same way almost every time: low rates usher in the rise of what the market describes as "early cyclicals" such as retail and consumer discretionary names. We've had a pretty big bet in some of those names, including JB Hi-Fi, Super Retail **Group** and The Reject Shop.

As the cycle continues, it starts to rate the "deeper cyclical" stocks, including building material and chemical companies. True to form, retail stocks have had a great run in the past 12 months and we've started to trim our bets in some of those early cyclical names, although we still hold significant portfolio positions.

What are some other themes – I see you have a big allocation to international funds manager Platinum?

That's a separate theme. In late 2012, we took quite a bullish view on **equity** markets, in particular international **equity** markets, fuelled by the fact interest rates were low and the central banks of the world were charged with pumping the economies again. We figured a world full of liquidity is good for asset prices, particularly good for equities. The markets globally are a bit ahead of Australia, which is why some of the markets in Europe and the United States are lapping at all-time highs.

The only way we could play it [through the fund] was to **buy** international money managers here, so we backed BT Financial, Henderson [Global Investors], Platinum and, to a smaller extent, Perpetual. We shaved some exposure in January, but as long as we think markets are going up, we'll keep them there.

Have you started building positions in “deeper cyclicals”?

The theory is that easing rates will bring a resurgence in **property** valuations, which will **lead** to a breakout in activity in home renovations and decorations.

We've been buying companies exposed to the uptick in **residential** building, including GWA **Group**, Fletcher Building, DuluxGroup, and Adelaide Brighton to a lesser extent.

We're keeping a watching brief on some of the deeper cyclical names, such as [labour hire **company**] Skilled and [transportation **company**] K&S, but the earnings estimates in those names are still a little constrained for us.

Where else are you investing?

We've been buying those construction and home improvement names I mentioned, but in the past month we've started buying resources. We're still well underweight resources but we've actually increased our portfolio allocation from around 8 per cent to 12 per cent in February. Our index weight for resources is 21 per cent.

Have small capminers bottomed?

I think the ability of the small resources companies to continue with the level of underperformance [they've] had since late 2010 is constrained. The bet now is you'll see a better performance from resources stocks. They've been shunned since 2010.

Why now?

The most recent earnings data shows their cost of production has been substantially reduced. Production volumes have been increasing.And they are selling into a market where the $A is US90¢ and not $US1.02. Add to that commodity prices have bottomed. **Park iron ore** for a minute … and overall, commodity prices have stabilised. Combined with lower currency and lower operating costs, it means earnings momentum.

What have you been buying?

We've been adding to Independence **Group**, Sirius **Mining** and Saracen. I'**m** looking mainly at miners or advanced exploration **mining** companies.

But isn’t the opportunity for miners shrinking as **Chinese** demand slows?

The rate of growth in **China**'s consumption may be tapering but it's not going backwards. You've also got Europe, which is a big consumer of base metal. Demand out of Japan for **coal** is still strong and demand out of the US as well.

You’re still underweight resources.

We're addressing it. I'**m** not sure if we'll have enough stocks that meet our criteria to get back to market weight but we're looking.

Our biggest bets are in companies benefiting from low interest rates as the RBA tries to refloat the non-**mining** economy.

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