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HD **New Tyndall boss steers clear of IPOs**

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Equities Tough market conditions ahead for long-term only value managers.

Brad Potter has had his work cut out for him after taking over from Bob van Munster as head of Australian equities at Tyndall Asset Management on June 1.

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With the average price-earnings ratio for the S&P/ASX 200 poking above the long-term average, market conditions are set to get tougher for a long-only value manager.

"The market as a whole looks expensive with low levels of volatility and elevated cross-sector correlations, but there are opportunities hiding within each sector," Potter says.

Importantly, he expects the combination of artificially low borrowing costs and subdued top-line growth to continue to fuel merger and **acquisition** activity.

There are a number of stocks in the portfolio that are poised to re-rate in response to deal activity, he says.

Potter joined Tyndall AM in 2002 and has been co-managing the **firm**'s flagship Australian **equity** strategy with van Munster for the past seven years.

Established in 1989, the **firm** had more than $23 **billion** in funds under management for Australian clients as of March 31. The **firm** is owned by Nikko Asset Management, a $171 **billion** independent funds management house based in Tokyo.Swapping geology for stocks

Originally from West Australia, Potter first became interested in the sharemarket when he was at university studying geology.

He got a taste for stock-picking by investing in a series of initial public offers from small cap goldminers in the late 1980s. These days he prefers to **buy** companies that have already been trading publicly for a few reporting periods.

During four years working in the field as a geologist he completed a graduate diploma in applied finance then took a job as a **mining** analyst with Paterson Ord Minnett in Perth.

The round of quarterly production reports from **mining** companies over the past fortnight has reinforced Potter's view that Australia's three largest **iron ore** miners represent decent value.

"As we predicted, good weather has helped the biggest producers reach their higher production targets."

Some analysts were surprised the miners are taking bigger discounts on the price of their low-grade **iron ore**, but this makes perfect sense and was to be expected, he says.

Fortescue Metal indicated it is now discounting its low-grade product by 15 per cent, when most analysts had been basing their earnings estimates for the company on a 10 per cent discount. "It is economics 101. With BHP Billiton and Rio Tinto ramping up iron ore production, lower-quality product is not going to be able to fetch the sorts of prices it does in times of tight supply," Potter says. Iron ore to stay flat

But while their small cap competitors are threatened by weaker prices, larger shipping volumes will support the bottom line of the biggest producers.

He is tipping the spot price of ore, last recorded at $US94.30, to trade flat to lower over the course of 2014.

Potter thinks the China bears are misguided: "The economy is going through a major transition but a centrally controlled government is well positioned to manage big changes."

Insights gained from visiting China regularly over the past decade inform many portfolio decisions, not just when it comes to resources. "As the average incomes of people [in] China rise, food will be the next big thing in Australian exports," Potter says.

That's obviously good news for local dairy, grain and meat producers – as well as for fertiliser makers, food processors and packaging companies, he says. Potter's picks

One stock Potter likes is packaging companyAmcor, which is building a Chinese plant in association with local clients.

"Longer term there will be great opportunities in China for Australia's healthcare sector, but that is too far in the future to pick which companies will be the biggest winners," he says.

Despite Potter's bullish long-term outlook for the sector, when the biggest healthcare IPO in Australian history priced last week he did not put in a bid. At $2.10 per share the float of clinic operator Healthscope was too high, says Potter, who knows the business well. Tyndall AM owned about 10 per cent of the stock when TPG and The Carlyle Group took it private in a $2.7 billion buyout in 2010.

"I have a pathological aversion to buying off private equity," Potter says.

The last IPO Tyndall AM participated in was the December float of education and training provider Vocation Ltd.

"That was a new roll-up that passed the value test, in an industry with good underlying growth thematics," he says.

Based on preliminary meetings with management the coming $4 billion-plus float of health insurer Medibank Private looks very interesting, he says.

"It's a good business in a good sector, but at the end of the day it will all come down to the price."

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