VOX POPS

What sectors hold the most promise in 2016?

James Frost asked five leading fund managers where they expect to reap outsized returns.

Tim Carleton

AUSCAP ASSET MANAGEMENT, PORTFOLIO MANAGER

■ Companies exposed to the construction of government-sponsored infrastructure and commercial property development should keep doing well. The larger states on the east coast are continuing to spend money on projects that improve productivity and transport efficiency. Domestic tourism should benefit from positive trends in overseas arrivals – largely because of the lower Australian dollar. This includes companies that provide short-term accommodation and visitor attractions, as well as retailers that are able to target the foreign shopper. A lower currency should also improve the ability of domestic education providers to attract foreign students.

Katie Hudson

GOLDMAN SACHS ASSET MANAGEMENT, P'FOLIO MGR

■ Consumer discretionary small caps are benefiting from low interest rates, stable employment, a weaker currency and lower energy prices. These are driving valuations that appear more attractive than in the broader industrial market. Acceleration in technological change is also creating opportunities in that sector but investors need to be discerning about business models and market positions. Within the challenged media sector, we see room for further growth for the outdoor advertising sector as the digital rollout drives new customers to the category. And strategic assets with strong market positions are always attractive.

Graham Hay

ANTIPODES PARTNERS, PORTFOLIO MANAGER

■ Surprises, by their nature, come from that which is least expected. For that reason, we would nominate South Korea as the most likely market to regain its mojo. With the average stock trading at just 1.1 times book value and governance improvements under way, neglect will turn to respect in the year ahead. Close behind, Chinese consumer franchises – beer, spirits and internet – are emerging from an investment-centric economy. Third is software in the form of Microsoft and Cisco. Cisco is under new management and is unlikely to be dethroned as the king of networking. Finally, gold equities will surprise on cash flows and margins.

Simon Mawhinney

ALLAN GRAY, CHIEF INVESTMENT OFFICER

■ Macro obsessions and the distractions of negative press on emerging-market prospects often result in missing the next big cycle. We focus on the fundamentals of companies, especially those battling cyclical headwinds. Energy, particularly oil, gold and aluminium are our picks, while we continue to avoid iron ore and copper. Even large, diversified miners are beginning to look appealing. Service companies with strong balance sheets exposed to resources sectors may also do well. Financials, utilities, REITs, infrastructure and healthcare stocks have performed very strongly over the past five years. We firmly believe a continuation of this trend is mathematically impossible.

Don Hamson

PLATO INVESTMENT MANAGEMENT, MD

■ Contrarians might want to back beaten-up resource stocks in the energy and materials sectors, but we think the supply-demand dynamics are unlikely to come back to equilibrium within the next year. We pick stocks using bottom-up fundamentals rather than picking sectors but, having said that, we see quite a few attractive stocks in the media sector and within non-mining-related material stocks. Media stocks rate well on our process and may also benefit from potential industry consolidation should the government amend media cross-ownership rules. Building-related materials stocks also rate well and are beneficiaries of the current building cycle.