

Four of the Skandia Global Best Ideas managers offer their 2007 outlook for the key equity markets of the UK, US, Japan and Asia.

all the very best for 2007

January 2007



UK equities

BLACKROCK
MERRILL LYNCH
INVESTMENT MANAGERS

'looking forward with confidence'

Richard Plackett

The UK stock market rebounded strongly into the second half of 2006 from the lows of May and June. The positive trend in US third-quarter earnings figures and generally favourable economic data appear to have given investors a degree of confidence. Within this environment, the majority of our holdings have signalled that they are trading strongly. We will continue to invest selectively on a bottom-up basis, and look forward to 2007 with confidence.

In a ten stock portfolio individual stock selection will always dominate performance. The part of the Global Best Ideas Fund that I run has benefited from strong trading results for a number of the holdings. Software company Aveva has twice announced that results would significantly exceed market expectations, resulting in a doubling of the share price. Connaught, which provides housing maintenance to local authorities, has benefited from very

strong results and a move from AIM to the main market list.

Other companies which have had strong results include Expro, an oil services firm, Victrex, manufacturer of PEEK and Synergy Healthcare, providers of cleaning services to the NHS. The stocks in my portfolio are chosen for their medium-term prospects and can be swapped for new holdings where we consider prospects to be better.



US equities

martin
currie

'a weak Dollar, but strong growth'

Tom Walker

As housing has slumped and auto sales have fallen, the US economy has slowed. But by raising interest rates from 1% to 5.25% in the last two and a half years, the Federal Reserve (Fed) have pretty much achieved what they wanted. The global imbalances that have worried investors seem set to stabilise now the Dollar is much weakened. At \$2 to the pound, the flood of British New York-bound Christmas shoppers have all done their

bit for the US current account deficit. That is just one example of how competitive the US has become.

As UK-based investors, we have suffered from the decline of the Dollar. US-based companies will now reap some benefit, and so should we. In addition, inflation seems to be on the wane and that should allow the Fed to cut interest rates in 2007 - often a catalyst for strong equity market performance.

So what sort of gains might we see in 2007? Well, my 10 stock portfolio is avoiding the housing and auto sectors; the jury is still out on when those sectors will recover. Insurance, global consumption, low cost electricity generation, ever increasing health needs and the multi-year investment cycle to discover new energy sources - these are just some of the areas where I expect continued strong growth in 2007.

The Skandia Global Best Ideas Fund has had an impressive first six months, delivering strong returns to investors and growing to over £250 million. As we enter the New Year, we asked four of the ten world-class managers that make up Global Best Ideas for their views on 2006 and how they see 2007 developing.



Japanese equities

'actively seeking opportunities'

Nathan Gibbs

Although the Japanese market has taken some time to digest the strong rise seen in 2005, we remain positive on the outlook as corporate earnings growth continues to look robust going into 2007. However, the economy does remain more dependent on the export sector than we would have expected at this stage of the cycle. Although we believe the scenario of domestic deflation remains intact, some elements of this, in particular income growth and

a pick-up in consumption, have been slow to materialise.

Small cap shares underperformed significantly in 2006. While the shocks to the market from the Livedoor collapse in January 2006 and the arrest of the activist investor, Mr Murakami, provided the triggers for the initial declines in small caps, the persistence of their underperformance since then has been a surprise.

The Skandia Global Best Ideas Fund was set up in the midst of this small cap underperformance and, so far, we have held exclusively large cap shares within the portfolio. We now believe that investors are beginning to refocus on individual company valuations and we are actively looking for opportunities to shift the balance of the portfolio into companies which we believe offer the best rewards to independent research.



Asian equities

'fundamentally sound'

Hugh Young

Asia remains in good shape as we enter 2007. Although global growth is likely to remain influenced by the state of the US economy - which is showing signs of moderating - the region's still healthy current account surpluses and resilient domestic consumption have provided an adequate buffer.

At the company level, too, there is reason to cheer, as Asian corporates continue to be fundamentally sound, backed by decent earnings growth.

Valuations, while no longer cheap post the run up in share prices over the past three years, are still appealing, particularly on a relative basis.

The main risks therefore appear external. The correction in markets in May and June last year should serve as a reminder that Asia is not immune to a change in global investor sentiment. Although its economies have increasingly de-linked from the US, a sharper-than-expected slowdown in

the latter is bound to have an effect on the region, particularly for the more export-dependent countries. With all this in mind, the portfolio can be split between companies benefiting from the rise of the domestic consumer, such as China Mobile, Jardine and Swire Pacific, complemented by weightings in some multi-nationals, such as Samsung and Rio Tinto that should continue to be robust despite a moderation in global growth.



www.skandia.co.uk

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Selestia Investment Solutions is the brand name for Selestia Investments Limited and Selestia Life & Pensions Limited until 25 February 2008. After this date it will be the brand name for Skandia MultiFUNDS Limited and Selestia Life & Pensions Limited.

Skandia Life Assurance Company Limited, Skandia MultiFUNDS Limited, Skandia Investment Management Limited, Selestia Investments Limited and Selestia Life & Pensions Limited. Registered Numbers: 1363932, 1680071, 4227837, 4145825, 4163431 registered in England & Wales

Registered Office: Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom.

VAT Number for all companies: 386 1301 59 All companies are authorised and regulated by the Financial Services Authority for UK investment business.

FSA register Numbers: 110462, 165359, 208543, 196620 and 207977.

Royal Skandia Life Assurance Limited (an incorporated company limited by shares)

Registered number: 24916 registered in the Isle of Man. Registered and Head Office: Skandia House, King Edward Road, Onchan, Isle of Man, IM99 1NU, British Isles

Phone: +44 (0) 1624 655 555 Fax: +44 (0) 1624 611 715

Authorised by the Isle of Man Government Insurance & Pensions Authority.

Authorised and regulated by the Financial Services Authority for business conducted in the UK. Some of the FSA's rules do not apply to non-UK based insurers.

FSA Register number 142309

Selestia Investments Limited distributes an Offshore Collective Investment Bond for Old Mutual International (Guernsey) Limited. Old Mutual International (Guernsey) Limited is regulated by the Guernsey Financial Services Commission and licensed to write long-term business under the Insurance Business (Bailiwick of Guernsey) Law 2002. Registered No. 2424. Registered Office at Fairbairn House, PO Box 121, Rohais, St Peter Port, Guernsey GY1 3HE, Channel Islands.