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Within the Skandia Best Ideas Funds, managers only hold those stocks they really believe in or, put another way, stocks 'that they would invest in themselves'. This might sound obvious, but it isn't necessarily the case with traditional fund management where some stocks are held simply because they form a significant part of a market index.

With this in mind, we asked a selection of the managers who specialise in specific global regions for their equity outlook for 2010 and how they will be managing their Best Ideas portfolio. >>

UK | Jacob de Tusch-Lec

A MEASURED APPROACH

Is the post-March rally nothing more than a cyclical rebound in a wider, structural bear market? There is deep scepticism about the fact that companies are more profitable than expected, have recovered faster and have better margins coming out of a meltdown than they have done after any prior recession.

Yet capacity has been cut and expenses shrunk to a bare minimum – while competition has sometimes been wiped out. Not bad for the survivors. Although the outlook for profitability is decent, equity valuations are still below their 20-year average. At the same time, interest rates are very low and look likely to stay so. In short the cyclical bull market has further to run, in our view.

We are by no means convinced everything is perfect. The risk is obviously higher interest rates (sooner than expected/hoped for by markets), or some other policy mistakes. We should never underestimate policymakers' ability to 'spoil the party'. This time round, however, we are leaning towards the notion that politicians and central banks are very conscious of not taking away the stimulus before the economy has recovered for sure.

So we continue to be constructively positioned and long in risk, with overweights in cyclicals and with a relatively high element in industrials, financials and materials.

best ideas for 2010

In the Best Ideas Fund we have names such as miners Xstrata and Rio Tinto, as well as GKN on the industrials side. Of more 'risky' financials we have a Spanish bank with UK exposure, Santander, which owns the now defunct Bradford & Bingley and Alliance & Leicester. Of 'pure vanilla' defensives, the Best Ideas portfolio is happy to hold AstraZeneca.

Looking forward, we are thinking that the next theme might be domestic, rather than foreign exposure. Over the past year we have all been looking for UK companies with non-UK revenue streams. While it has been widespread to praise exposure to anything that was far away from 'Bust Britain', we wonder if that trade might have run its course – or might even reverse.

So to back this view, we have the UK retailer Next in our top 10. The company has seen continuous earnings upgrades for a long time, and yet is trading at a very undemanding valuation. What is there not to like?

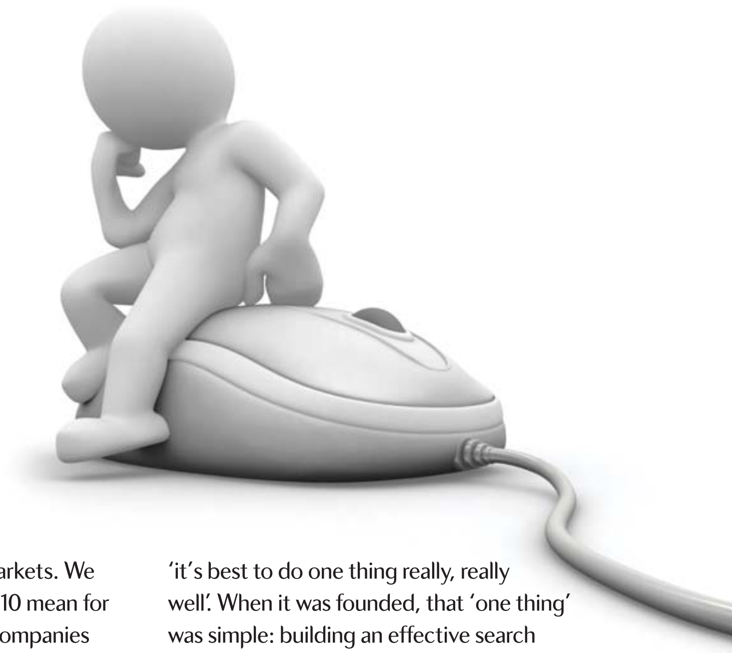
But in general, the key question remains: are markets going to be up or down? I think up. If that's right, the answer is to buy some beta, buy into EPS revisions and not worry too much about noise and swings in investor sentiment.

This said, we remain stock pickers rather than macro-forecasters (a profession that is in any case wrong at least as often as it's right.) We continue to buy stocks that have something going for them. We don't try to be cute or read the markets too much. The Best Ideas Fund contains, as it says, what we think are the best of these stocks. I have high hopes, and reasonable expectations, for these stocks in 2010.

Jacob de Tusch-Lec is a Fund Manager at Artemis and manages a UK equities mandate within the Skandia Global Best Ideas and UK Best Ideas Funds.

US | Tom Walker

BACKING GLOBAL WINNERS



When we began managing the US element of the Global Best Ideas Fund in 2006, we believed that a focused, stock picking approach represented the best way to maximise long-term returns from investing in North America. Three and a half years and one financial crisis later, and the world looks very different.

But one thing that hasn't changed is our belief that the US offers outstanding opportunities for stock pickers. The US is brimming with first-rate global companies. The economic challenges that America faces in 2010 and beyond are well known, but it still boasts a disproportionate share of the world's most innovative and enterprising businesses.

a year of challenges

In the second half of 2009, signs of improvement in the US economy began to emerge. Robust government spending and rising exports helped push growth into positive territory. Unemployment began to fall. Despite those encouraging signs, however, the US must confront a formidable series of challenges in 2010, from high consumer debt through to a ballooning federal deficit.

In contrast, the world's less developed economies appear far better placed. But it doesn't necessarily follow that investors should shun the US and entrust their financial future to emerging markets. We focus on what the trends of 2010 mean for individual companies. Which companies have the know-how, the market positioning, the brand and the products to take advantage of the rapid emergence of vast new middle classes in countries like Brazil, India and China? Some may be listed in emerging markets; many more will not.

The earnings of US-listed companies draw on such a wide variety of economic trends that worries about the domestic US economy need not deter stock pickers. The Global Best Ideas Fund doesn't invest in the US economy – not directly, at least. Instead, it invests in just ten companies that are best placed to capitalise on the opportunities 2010 will bring. Here are two of them:

Apple – California's global giant

Apple is a global company. Its headquarters happen to be in Cupertino, California, and its shares are listed in New York, but its iPhones are bought worldwide. The majority of its sales occur outside the US. Sales of its iPhone have taken off despite the weak global economy, leading to double-digit revenue growth through the recession. It is, primarily, product design and innovation that matter to Apple – not the strength of the US economy relative to the wider world.

Google – doing one thing really, really well

Google boils down its corporate philosophy to ten pithy mottoes, one of which is that 'it's best to do one thing really, really well'. When it was founded, that 'one thing' was simple: building an effective search engine. A decade later, it does a lot more than that one thing – it provides a range of web-based applications, from online maps and e-mail through to stock quotes and video clips. Its results, however, continue to show that there is one thing that it does really, really well: making money, and lots of it. Google derives some 53% of its revenues in overseas markets. Despite the weakness of the domestic US economy, Google's net income rose by 27% in the third quarter of last year.

different opportunities; same philosophy

A lot has changed over the past three years. But our philosophy has not: we continue to believe that a high-conviction, stock picking approach will be the best way to profit from the unparalleled opportunities the US market will offer during 2010. By focusing on global winners such as Apple and Google – companies which not only survived but flourished through the recession – investors have an outstanding opportunity to generate first-rate long-term returns.

Tom Walker is a Director at Martin Currie Investment Management and manages a US equities mandate within the Skandia Global Best Ideas Fund.

Europe | James Inglis-Jones

OUTLOOK FOR GROWTH

The European stock market has enjoyed a significant rally since March, following a fairly typical pattern of recovery once investors became more confident about the scale of recession and the impact central bank and government stimulus programmes would have on future growth. In the post-war period these relief rallies have lasted on average nine months before the first significant correction and the average gain has been 60%. We have just passed nine months since the market low and the gain on the European stock market is comparable, up 56% in capital terms.

Following this dramatic rerating of the stock market, progress typically becomes more difficult as economic stimulus is withdrawn and investors focus more closely on growth and the balance sheet quality of both the private and public sectors. With stock market valuations significantly higher than the low in March and well above fair value on longer-term earnings measures we believe the risk-reward for markets in the short term has become more balanced and less favourable. For our investment process, however, a return of investor focus to earnings quality and growth should benefit us. The initial stage of recovery has generally been led by lower quality, more cyclical and leveraged businesses in both the financial and industrial sectors.

We believe that the next phase will be dominated by those companies that are now capable of delivering the earnings recovery that is clearly being priced into markets. Momentum strategies that have been out of favour since the market's turn in March could perform more strongly from here as investors begin to show more preference for companies that can meet or exceed their profit expectations. Our investment process has a strong record of identifying businesses that deliver positive, unexpected earnings surprises. If the stock market repeats its historic pattern this potential could be well rewarded in 2010.

the cashflow solution

The philosophy behind our European investment process, the cashflow solution, is based on the fact that people make mistakes when forecasting. In particular, 'expert' opinion, whether drawn from economists, investment analysts, sports commentators or weathermen appears to us as frequently wrong and unreliable. Experts appear to suffer not only from the uncertainty that surrounds all forecasts but also from overconfidence. Our economic or stock market forecasts for 2010 should therefore be taken with a large pinch of salt. In fact we don't try to forecast European economic growth, inflation, interest rates or commodity prices in our investment process.

We focus our efforts on the forecasts made by company managers and the investments that support them. In our experience the scale of cash investments made by companies in support of future growth can be a very revealing indicator of when managers are likely to get their forecasts wrong. We want to own companies that are prudently managed and aware of the risk that bold forecasts often go bad. We base our own stock selections, therefore, on a careful analysis of companies' investment history and their understanding of forecast risk.

We look carefully at the historic cash flows of businesses and the value that investors in the stock market are prepared to ascribe to them. In our view the past informs the future, both in terms of the potential for historic cash flows to persist and for businesses to outperform future investor expectations. We allow for the risk that the future doesn't repeat the past exactly by building in a margin of safety, or value, into our observations. In stock selection our observations give us confidence in our ability to generate attractive returns.

For the Skandia European Best Ideas Fund we choose only the ten best examples of companies with these characteristics we look for. The positioning of the fund is therefore dictated by our underlying stock selection rather than any top down thematic bias.

James Inglis-Jones and Gary West are fund managers at Liontrust and manage a European equities mandate within the Skandia European Best Ideas Fund.

Please note that the European Best Ideas Fund is only currently available through Royal Skandia.

Asia | Peter Sartori

TREASURY ASIA ASSET MANAGEMENT

OPTIMISM ABOUND

In stark contrast to the gloom and doom that existed in financial markets at the start of 2009, Asian equities are set to complete one of their best years ever. The long term out-performance of Asian stocks over other global equity markets that began in 2003 had a hiccup in 2008, but well and truly recommenced in 2009. Can it continue in 2010? We think the answer is a resounding yes.

Many of the long term drivers of Asian out-performance are now mostly well known by investors. The world's financial strength – huge foreign exchange reserves, fiscal and trade surpluses (excluding India), healthy banking systems, low gearing levels – now lies in Asia (and other selected developing countries). The Asian region offers the world's strongest and highest quality economic growth, driven by emerging giants China and India. Asia (ex Japan) is mostly in the demographic sweet spot, in contrast to the rapidly ageing Western developed economies. Asian currencies are widely seen as being undervalued (particularly as the Chinese repegged the yuan to the US dollar in 2008). The spectacular collapse in exports in 2008, finally kick-started Asian government's to begin transitioning their economies to a more domestically driven model (away from the over-dependence on exporting to the developed Western economies).

If this is all well known, what can drive Asian stocks higher from here? Heading into the New Year, investment conditions will remain supportive of Asian stocks. Liquidity across the region remains abundant, with low loan-to-deposit ratios in banking systems, coupled with very low interest rates. Domestic savers are getting virtually nothing for their deposits and we expect more of this pool of money to flow into Asian stocks over time. Local Asian investors are set to become much more important players in their own markets in coming years. As Asia's economic recovery strengthens, inflation pressures will need to be monitored closely and some monetary tightening should be expected. If history is any guide this is not to be feared. Any market weakness driven by early stage monetary policy tightening in Asia has in the past created a buying opportunity.

Asian valuations are neither stretched nor necessarily cheap. However look more closely, certain sector valuations look clearly over-stretched while others are outright cheap – which can be a useful guide in future stock and sector selection. In 2010 we expect agricultural related sectors to perform strongly after lagging other commodities in 2009. Technology stocks, after suffering most of this decade, found support this year and we would expect this to continue in 2010. The telecom sector was a graveyard for investors in 2009. Look for selected telecom stocks to do better in 2010.

best ideas portfolio

The Global Best Ideas portfolio reflects the above view. The largest Asian holding is Chinese fertiliser company Sinofert. After lagging in 2009, this stock is set to perform in 2010 as the market refocuses on the Chinese rural story. Also in China, waste water treatment company Beijing Enterprise Water will deliver impressive earnings growth for the next two years as China takes a global lead in environmental issues. Taiwan is a favoured market, uniquely set to benefit from a much improved relationship with China. Taiwanese telecom company Chunghwa Telecom has large real estate holdings on its balance sheet which is being ignored by investors. This will change in 2010 as the company gets more active in both selling and developing its real estate assets. Also in Taiwan lithium battery maker Simplo Technology and finance company Yuanta Financial both look attractive.

Peter Sartori is Chief Investment Officer at Treasury Asia Asset Management and manages an Asian equities mandate within the Skandia Global Best Ideas Fund.

Japan | Nathan Gibbs

Schroders

A STOCK PICKING ENVIRONMENT

After rebounding in line with other stock markets, the Japanese market has lagged in recent months, and the structural issues facing the country have led to the market being written off by many investors and commentators. While it is certainly true that Japan's potential economic growth rate is lower than most of its Asian neighbours, the current level of valuation provides many opportunities for investment.

Japan's recent underperformance has coincided with a stronger yen which, in the short term, hurts the competitiveness of its exporters. There has also been a rash of equity financings, some of which have no apparent purpose from the perspective of an equity investor. Because Japanese companies do not grant pre-emptive rights to shareholders, hedge funds have typically been the dominant players in these issues and the short-term impact on share prices has been dramatic.

We have also had a change in government after, effectively, 55 years of LDP rule. The DPJ government has generated some uncertainty, particularly as a result of ill-advised statements on policy. As things have settled down, however, the new administration does seem to be working broadly towards its pre-election pledges. These include cancelling some of the public works projects in the previous government's stimulus package, switching funds instead towards handouts to families. Given the low level of consumer confidence and persistent deflation, this should be incrementally positive.

As a result of the negatives, the Japanese market has made little progress in 2009, despite the economic outlook being demonstrably better now than at the beginning of the year. In line with most economies, Japan's economic recovery has been earlier and stronger than anyone had hoped for at the beginning of 2009. At a time when many investors are still taking a relatively short-term view, it is important to keep in mind the extent to which expectations have changed.

Also on a positive note, and in sharp contrast to 2008, investors have become more focused on individual company valuations. While day-to-day moves have become less violent, differentials in performance between stocks have borne more relation to underlying fundamentals. This has been especially true in small caps where the extreme risk aversion seen previously has abated somewhat.

focused best ideas

The extremely focused nature of the Japanese component of the Global Best Ideas Fund is well-suited to this environment. Indeed in some cases the fund has seen large positive contributions in 2009 from the same stocks which fell sharply late in 2008. The portfolio is currently focused on stocks where we hold views which are significantly different from the consensus and, particularly, where we feel the improved economic picture is not discounted in stock prices. These include cyclical areas such as machinery, together with some technology exposure, especially companies producing components for LCD panels.

The portfolio also has exposure to some domestic companies, such as discount retailers, which are capable of growing market share and profits, even if deflation persists. As we move into 2010, there are ample opportunities to buy companies with similar domestic exposure, together with larger-cap exporters if currency trends reverse.

Conversely, the portfolio has no exposure to autos and banks. The outlook for banks continues to be relatively uncertain while the huge financing requirements are necessary if the companies wish to position themselves for the likely new regulatory framework. In contrast, Japanese automakers look strong compared to their global competitors, but could nevertheless still face a difficult year as the sales incentive plans come to an end.

Nathan Gibbs is Head of Specialist Japanese Equities at Schroders and manages a Japanese equities mandate within the Skandia Global Best Ideas Fund.

Global Emerging Markets | Jonathan Asante

First State Investments

A CLOSE EYE ON RISK

Emerging market equities have performed very strongly in 2009. The MSCI Emerging Markets Index is up by 50.9% in sterling terms to the end of November. Some markets have risen steeply after the collapse of 2008. For example the MSCI India Index is up by 71.7% and Brazil has risen by 97.1%. What does the next year have in store for investors?

We are cautious about the short-term outlook for emerging markets. Valuations are no longer attractive. Stocks in Brazil, China and India are expensive again. We believe the recovery in earnings is priced in. Commodity producers such as Brazil, Mexico and Russia are particularly vulnerable to any reassessment of the world's growth prospects.

However, we remain positive on the long-term outlook for the asset class. We believe some emerging economies will deliver levels of growth well above Western economies for many years, providing companies with opportunities to boost sales and profits substantially.

Certain countries, particularly those in Latin America, are enjoying a virtuous cycle of lower government deficits and declining interest rates. With huge reserves of natural resources, Latin America is also a beneficiary of the global hunger for commodities.

Emerging market banking systems are generally in better condition than those in the West, having avoided lending to too many risky borrowers. Consumers have significantly less debt. For example Brazil and Mexico have very low levels of consumer debt, providing significant scope for banks to increase loan growth.

Corporate governance continues to improve across the asset class. There are an increasing number of well managed companies with strong business franchises.

Some long-term concerns remain. Markets are highly exposed to commodity prices and the global growth cycle. Political risk is always an issue in emerging markets. Corruption, limited media freedom and a lack of clarity on property rights are common in many countries. Democratisation is likely to be a painful process in China. The asset class has a history of poor control of public expenditure and debt binges. As governments are major shareholders in some of the largest stocks, companies are not always managed in the interests of minority shareholders.

We are particularly concerned about the outlook for global inflation following 'quantitative easing' by Western central banks and the huge government bail-outs of last year. As a result we continue to have exposure to gold as a hedge against rising inflationary pressures.

best ideas portfolio

After the rerating of emerging markets in 2009 we are defensively positioned. We have large positions in well managed, cash generative companies with strong balance sheets. We are lightly exposed to the so called 'BRIC' markets of Brazil, Russia, India and China where valuations suggest another bubble is forming.

Given our concerns about a return of inflation we place great emphasis on finding quality companies with pricing power to pass through to customers. Our largest position is Shoprite Holdings of South Africa, a leading supermarket chain. Shoprite is successfully spread its presence across Africa including the very large Nigerian market. The company exhibits many of the features we look for in an investment: a properly incentivised management team with an excellent track record, a strong balance sheet with inflation linked cash flows and excellent growth prospects. From a valuation perspective Shoprite trades at a large discount to similar businesses listed on the more popular BRIC exchanges.

Jonathan Asante is a Head of Global Emerging Markets at First State and manages a Global Emerging Market equities mandate within the Skandia Global Best Fund.

The **Skandia Global Best Ideas, UK Best Ideas** and **UK Strategic Best Ideas Funds** are available through the Skandia Investment Solutions platform and Skandia's Life and Pensions fund ranges.

For more information on the Best Ideas Funds from Skandia Investment Group visit **www.skandiainvestmentmanagement.com/funds/bi.asp**