for financial advisers only

the best ideas for 2009

January 2009

The Skandia Best Ideas funds allow managers the freedom to hold investments they really believe in or, to put it another way, ones they would invest in themselves.

We asked four of the ten world-class managers from the Skandia Global Best Ideas Fund™ to offer their outlooks for 2009, and how they are positioning their 'best ideas' portfolios to benefit.

Dan Hanbury

RIVER AND MERCANTILE ASSET MANAGEMENT

The condition of the UK stock market is ambiguous. Valuations are generally favourable and market trends are generally unfavourable but with tenuous signs of improvement. The economy is deteriorating and it is difficult to estimate how much further it will weaken, yet the outlook for further economic weakness is common knowledge so it may already be reflected in prices.

The ability to be comfortable with uncertainty is one of the qualities that allow good investors to function – to pursue a disciplined investment approach even when the likely direction of the market is ambiguous. The desire to create certainty out of ambiguity, to boldly take one side or another in defiance of all contrary evidence, is both tempting and foolish. Ambiguous conditions warrant a moderate investment strategy because the prospect for expected returns has to be tempered by the prospect for risk.

What is clear, however, is that the inexorable march down the road to revulsion is throwing up some truly incredible equity investment opportunities. From a bottom-up perspective, great companies are available at bargain basement prices. Is it the bottom? Possibly not, but perhaps the one consolation for investors is that the road to revulsion ends in an investment environment with unambiguously cheap assets. We intend to capitalise on this environment as it unfolds in 2009 with our best ideas.

Dan Hanbury manages a UK component within Global Best Ideas and a component of UK Best Ideas.

> "The ability to be comfortable with uncertainty is one of the qualities that allow good investors to function…"

Tom Walker

martin currie

> "...the indiscriminate selling of US stocks in recent months has created ideal conditions for stock pickers."

With the exception of Japan, the US stock market outperformed every major market in 2008. Accordingly, while investors in US equity funds are nursing losses, those losses are lower than in most other sectors.

Despite the problems that the US economy faces, the dollar remains the world's reserve currency and the default option to which investors turn in uncertain times. While a flight to safety has underpinned the dollar's rapid appreciation relative to sterling, we consider that appreciation was both well merited and long overdue.

We predicted a sharp rebound in the dollar as early as last year. But, while we continue to regard the dollar's resurgence as being well deserved, it isn't the dollar's reserve currency status that lies behind our optimistic outlook.

Instead, we believe the indiscriminate selling of US stocks in recent months has created ideal conditions for stock pickers. The diversity of the US market means that, no matter what the prevailing economic conditions, there are always companies that do well.

Investors currently have a rare opportunity to buy first-rate global growth stocks at knockdown valuations.

The global economy is slowing, but certain companies remain resilient. By identifying these companies, we believe we positioned our funds to ride out the current turbulence and benefit from the eventual recovery.

The credit crisis and economic downturn is flushing out financially distressed stocks. Because their weaker competitors will either shrink or go out of business, large, high-quality US companies – and their investors – can benefit from the economic downturn.

Tom Walker manages the US component within Global Best Ideas.

Asian equities

Peter Sartori

TREASURY ASIA ASSET MANAGEMENT

Asian stock markets have not been spared in the global financial meltdown. However, while Asia is not immune to the global economic downturn, it is much better prepared this time. Since the Asian crisis in 1997/98 governments have tightened their belts, resulting in significant surpluses. Also, seven of the top ten largest foreign reserves are held by Asian countries. These massive surpluses and reserves can be put to use to ride out the downturn, placing Asia in a much stronger position than most Western countries.

Asia's 'unsophisticated' banking system places it in better financial shape vis-à-vis global systems. Loan-to-deposit ratios are low and capital ratios way above international standards, pointing to little likelihood of financial stress.

Asia is no longer a one trick pony. It has predominantly been viewed as export dependent. However, since 1997, Asia began building other growth engines by investing in domestic infrastructure and domestic consumption. This is paving the way for a more sustainable economic model.

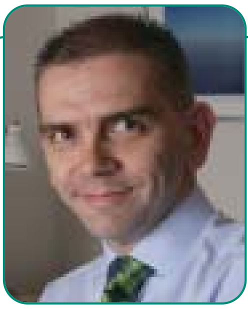
At the corporate level, business models have undergone transformation over the past decade with a change to focus on profitability and cash flow rather than empire building. Net gearing is low and interest cover high. Free cash flow is positive, leading to a significant rise in dividend payout.

With highly attractive valuations, the investment opportunity in Asia is now compelling. For the long-term investor, great Asian companies are selling for bargain basement prices.

Peter Sartori manages the Asian Pacific (ex Japan) component within Global Best Ideas.

"...while Asia is not immune to the global economic downturn, it is much better prepared this time."

Japanese equities



Nathan Gibbs

Schroders

"...contrarian ideas will, ultimately, be rewarded by the market."

The rapid deterioration of the global economy, coupled with Japan's traditional reliance on exports, has led to enormous volatility at both market and individual stock level. Conversely, the change in medium-term expectations for the economy itself has been relatively mild and we feel that Japanese equities are now far too cheap – both in an absolute sense and relative to other major markets.

In our Global Best Ideas mandate, we are currently focused on companies with visible earnings growth and in which we have a high level of confidence in our own forecasts. We are currently avoiding banks and almost any auto-related company. Over the next few months we would expect to shift a higher proportion of the portfolio towards mid- and small-cap stocks as we believe undervaluation is most extreme in these areas.

However, we are cautious about increasing our commitments to small-cap stocks too early, partly because many of the larger companies in Japan also look very good value, but also because there is no urgent need to take on the additional liquidity risk in small caps given their current volatility. Nevertheless, it is vital for us to maintain our focus on valuations for such stocks as we believe that independent research and contrarian ideas will, ultimately, be rewarded by the market.

Nathan Gibbs manages the Japanese component within Global Best Ideas.

The Global Best Ideas, UK Best Ideas and UK Strategic Best Ideas funds are available through Skandia's Life, Pensions and MultiFUNDS fund ranges and the Selestia Investment Solutions investment platform.

The linked life assurance funds will not mirror the performance of the underlying fund because of Skandia fund charges, taxation adjustments (if appropriate) and the Skandia investment process.

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