

Objective of this Statement

- The purpose of this Statement is to summarise the policies ING Investment Management has in place covering the use of derivatives, the controls on their use and the processes for assessing compliance with those controls.
- These policies and controls are intended to ensure the proper use of derivatives.

December 2006

ING INVESTMENT MANAGEMENT

Derivative Risk Statement



1. Responsible Party Name

This Statement has been prepared by ING Investment Management Limited ABN 23 003 731 959 ("ING Investment Management").

ING Investment Management provides investment services for a range of clients and acts in various capacities. In this Statement, the funds managed by ING Investment Management in each of these capacities are referred to as 'portfolios'.

2. Objective of this Statement

The purpose of this Statement is to summarise the policies ING Investment Management has in place covering the use of derivatives, the controls on their use and the processes for assessing compliance with those controls. These policies and controls are intended to ensure the proper use of derivatives.

This Statement is reviewed regularly by ING Investment Management to ensure that it remains accurate and appropriate. All persons responsible for managing, monitoring or implementing the investment processes of ING Investment Management are required to read, understand and adhere to the terms of the Statement.

3. Definition of Derivatives

For the purpose of this Statement, a derivative is defined as 'a financial asset or liability whose value depends on (or is derived from) other assets, liabilities or indices (the "underlying asset")'.

Derivative transactions are financial contracts and include a wide assortment of instruments such as forwards, futures, options, warrants, swaps, share ratios and other composites.

4. Relationship to Investment Strategy of the Portfolios

ING Investment Management uses derivatives, where permissible, in accordance with the investment strategy of that portfolio as expressed in the trust deed, constitution, investment management agreement, advisory agreement or investment mandate which governs the portfolio (the "governing document").

Derivatives are not considered in isolation but rather as part of the investment strategy of the portfolio as a whole. Exposures resulting from other assets in the portfolio are considered when investing in derivatives so that the integrity of the investment strategy of the portfolio is maintained. Therefore, the use of derivatives is subordinate to the investment strategy and is consistent with objectives of the strategy.

5. Purpose of the Use of Derivatives

Typically, it is ING Investment Management's policy to use derivatives for risk management, performance enhancement or to optimise strategy implementation.

A derivative exposure can replicate investment in a physical security but in a cheaper, more liquid and/or faster manner, and so efficiency and performance can be improved. Management of some exposures, for example volatility, can sometimes only be efficiently achieved via derivative instruments.

The market risk components of derivative positions are fully covered by cash, cash equivalents or securities unless economic leverage is explicitly allowed for in the portfolio. ING Investment Management's rationale for using derivative exposures in portfolios includes (but is not limited):

- to ensure cost effective and timely investment of cashflows and adjustments to asset allocation;
- to adjust the duration of a fixed interest portfolio in a prompt and efficient manner;

- to take or hedge currency exposure;
- to synthetically create different security, asset, or market risk;
- to arbitrage differences between derivative and physical markets; and
- to control the impact on the portfolio valuation of market movements caused by significant transactions.

6. Restrictions on the Use of Derivatives

6.1 Internal Policies

ING Investment Management has policies, procedures and controls in place to ensure derivative transactions do not breach legal or contractual obligations contained in the portfolio's governing document.

ING Investment Management ensures that all applicable reporting and valuation standards are adhered to.

The use of derivatives is prescribed by internal procedures which include reference to valuation methodology and frequency as well as purpose.

A: Investment Guidelines

Effective exposure to derivatives is measured on a delta-weighted¹ basis, in accordance with industry practice.

B Speculation

Derivatives are not used for speculation (except where it is explicitly allowed), where speculation is defined as derivatives activity which would result in:

- the net exposure of the portfolio to an asset class or security type being outside the limits imposed by the corresponding governing document at the time of a derivatives transaction;
- the portfolio being leveraged (except where economic leverage is allowed);
- the portfolio holding uncollateralised derivatives; or
- the investment strategy of the portfolio being outside the bounds of the portfolio's established investment strategy.

C Limits

All derivative transactions are required to be, on a cumulative basis, within all client mandated limits.

¹ The 'delta' of an option is the expected increase or decrease in the option premium given a small change in the value of the underlying security as defined by the Insurance and Superannuation Commission Superannuation Circular No.II.D.7 on Derivatives dated 17 February 1997.

D Liquidity

Prior to creating a derivatives position, ING Investment Management's Investment team considers whether there is sufficient depth in the market to satisfy liquidity concerns and possible contingency actions if the market's liquidity were to change adversely².

E Over-the-counter Derivatives

Over-the-counter derivatives are only traded with counterparties that have been approved by ING Investment Management's Risk Management Committee. ING Investment Management maintains a list internally of all authorised derivative instruments.

6.2 Client Restrictions

Clients may limit derivative usage beyond this Statement via restrictive conditions in the governing document of their portfolios. Portfolio management procedures are then extended to capture any additional limits. These procedures include:

- examination of the governing document by the Investment team upon inception and in the event of any changes;
- adjusting the pre-trade derivative limits in the order generation system; and
- monitoring of portfolio exposures relative to the governing document post investment.

6.3 Regulatory Restrictions

Regulatory requirements, licences and registrations are maintained by ING Investment Management's Compliance team. The Investment team are alerted to relevant changes in regulation and policy directly. Portfolio documents are prepared in line with regulatory requirements.

7. Risk Analysis

The use of derivatives in a portfolio gives rise to various types of risk, many of which are not necessarily peculiar to derivatives. The primary types of risk include market risk, liquidity risk, counterparty risk and operations risk. These are discussed in detail below. The use of derivatives is limited to those instruments where the associated risks can be understood, measured and adequately controlled.

7.1 Market Risk

Market risk represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied option volatility or other market variables) for the derivatives or the underlying asset, reference rate or index to which the derivative relates.

² In this regard, the relevant considerations for over-the-counter options relate to credit risk and, to a lesser extent, market depth.

Such risk is created by holding any security, physical or derivative, which creates exposure to movements in prices of a security or market. A related form of market risk that is relevant to derivative management is basis risk. This is the risk that a derivative position will not move in line with a physical position.

The following controls assist ING Investment Management to manage market risk:

- adjusting the pre-trade derivative limits in the order generation system;
- the Investment team are not permitted to use derivatives and/or physical securities to produce financial exposures that would result in a fund being geared or leveraged (except where a strategy specifically permits);
- portfolio valuations are prepared daily to ensure that each portfolio's net exposure to an asset class, including the delta-weighted exposure of derivative instruments, does not move outside its allowable range; and
- portfolios cannot hold uncollateralised derivatives³.
- Net derivative positions are monitored to ensure:
- adequate cash or readily realisable assets are maintained to cover derivative positions that create exposure; and
- holdings corresponding to the underlying assets of the derivative instrument exist within the portfolio at least to the extent of the delta-weighted exposure obtained by the position, in the case of positions that remove exposure⁴.

Stress Testing

Regular stress tests of all portfolios where derivative instruments or derivative strategies are held, and have optionality which may have significant impact on the portfolio's value, are carried out to ensure that restrictions are complied with even in adverse circumstances.

7.2 Liquidity Risk

There are generally two types of liquidity risk. The first is the risk that a responsible party may not be able to, or cannot easily, unwind or offset a particular position risk at or near the previous market price, because of inadequate market depth or because of disruptions in the market place. The second is the risk that the portfolio will not be able to meet its future financial obligations resulting from its derivative activities, such as margin calls on futures contracts.

³ As defined by the Insurance and Superannuation Commission Superannuation Circular No.II.D.7 on Derivatives, dated 17 February 1997.

⁴ Subject to any governing document permitting such positions.

In managing liquidity risk, ING Investment Management takes the following issues into consideration:

- the liquidity of the headline security, instrument, index or asset class against which the derivative position is created;
- the liquidity of the derivative position;
- the capacity of the portfolio to meet financial obligations, such as margin calls, resulting from its derivative positions; and
- the liquidity guidelines of the portfolio, which specify minimum cash levels.

7.3 Counterparty Risk

Counterparty risk is the risk that a counterparty (the other party with whom a derivatives contract is made) will fail to perform contractual obligations (ie. default in either whole or part) under a contract and that this failure occurs at a time when the contract is in-the-money. This is also sometimes referred to as "credit risk".

The ING Investment Management Risk Management Committee has established Counterparty Authority Limits which specify the level of accepted counterparty risk or acceptable counterparty risk for any given portfolio.

All counterparties are assessed by the Investment team as to their operating structure and credit-worthiness prior to approval. ING Investment Management continues to monitor counterparties to ensure they meet its credit guidelines, including minimum credit requirements for individual borrowers and average credit levels for the portfolio.

Revisions to credit ratings and aggregate exposure to each counterparty is monitored on a regular basis. Portfolio management procedures exist so that any credit limits at the portfolio level are adhered to and credit exposures monitored as applicable.

Counterparty documentation is obtained as necessary and reviewed to ensure contracts are sufficient or enforceable and that the counterparty has the legal authority to enter into the contract.

The Compliance team seeks to ensure compliance with relevant regulatory requirements.

Original documentation is stored in a secure fire-proof location.

7.4 Operations Risk

Operations risk is the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls will result in a material loss. This risk is associated with human error, system failures and inadequate procedures and internal management controls.

A Segregation of Duties and Management Controls

ING Investment Management's organisational and reporting structure ensures complete segregation of functions between the Investment Team (dealing and investment management) and the Operations Team (administration and settlement). The two departments perform distinct tasks and are separated from each other via internal controls, authority limits and coded computer access.

Authorised Signatory Schedules exist which specify, for each asset class:

- the dealing and management staff who can initiate investment transactions; and
- the senior operational staff who can confirm and settle transactions.

No member of the Investment Team is allowed to issue an instruction to effect settlement of any investment transaction. Separately, the Compliance department independently review derivatives positions versus mandates on a daily basis.

A procedures manual covering all operational processes exists and is regularly reviewed and updated. Operations staff are adequately trained in confirmation and settlement of transactions, as well as in following up on any outstanding issues. Positions to the Clearing Broker are reconciled by the Operations team daily for futures and monthly for options. Other portfolio holdings are reconciled to the Custodian monthly.

ING Investment Management is subject to regular internal and external audit. The internal audit team is functionally distinct from ING Investment Management.

Compliance with internal controls and processes is checked on a monthly and/or quarterly basis. The Board of Directors of ING Investment Management reviews these reports and provides annual confirmation regarding internal control compliance, in line with Audit Guidance Standard 1026.

B Capability

ING Investment Management has the systems and operational processes to capture, manage, monitor, value and account for all derivatives positions. ING Investment Management also has in place a business continuity plan to enable staff to deal with systems failure effectively, with minimum disruption or risk to the business. Recovery systems are in place for all key data and processes.

C Valuation Process

ING Investment Management's derivative valuation process is consistent with current industry market practice. Derivatives are valued and reconciled at market prices and exposures are generally stated on a delta-weighted basis. For some derivative products, the use of a delta-weighted basis may not be appropriate and an alternative risk measure may be applied, in line with industry practice.

Exchange-traded derivative pricing and delta information is sourced electronically from an external service provider. Over-the-counter derivatives are priced manually and periodically checked internally or by independent sources as appropriate.

8. Currency

Foreign currency exposure will naturally arise from investment in overseas assets and this creates another dimension of portfolio risk management.

When foreign currency exposure exists in an international portfolio, ING Investment Management ensures such exposure is consistent with the investment strategy of that portfolio.

Currency hedging and active currency risk creation is also undertaken to manage exposures to exchange rates from international investments.

9. Personnel Management

9.1 Expertise and Supervision

ING Investment Management ensures all staff are appropriately qualified and trained to carry out their designated responsibilities. This is achieved via:

- thorough recruitment procedures including request for and scrutiny of past academic and professional experience;
- compensation of fees payable to a relevant professional association; and
- a regular staff appraisal process that includes comparison of performance against agreed goals, career development planning and is used as input to an objective remuneration model.

ING Investment Management specifically ensures all staff involved in implementing derivative exposures have appropriate training, understand all aspects of this Statement and are adequately supervised.

Review and discussion of this Statement together with ING Investment Management's Compliance Manual is an integral part of the staff induction process. Both of these documents are available in electronic format to all staff on ING Investment Management's intranet.

Derivative positions or strategies are not implemented unless understood by the relevant senior management and dealers. Segregation of functions between the investment and operations teams ensures staff only undertake tasks within their designated expertise and for which they have appropriate authority.

9.2 Continuing Education

Staff are encouraged to undertake formal training and education including courses offered through universities, CFA Institute or the Financial Services Institute of Australasia. Internal programs of continuing education are rolled out to staff as required.

9.3 Remuneration

All staff receive a base salary and participate at varying levels in an incentive scheme. Payments under the incentive scheme are based on the consistent achievement of both individual and team objectives and are not geared to performance driven by individual investments or transactions.

10. Assessment of Controls

Internal policies and procedures have been developed to be consistent with the ethos of this Statement and are in place to ensure adherence as appropriate. The extent of this adherence is monitored regularly and reported to ING Investment Management's Risk Management Committee and Compliance Committee, both of which are attended by key members of senior management. Discussion also takes place at these committee meetings to ensure the ongoing relevance and suitability of these internal controls.

Senior managers are alerted to any exceptions to this Statement at the time of exception, and are involved in determination of prompt and appropriate corrective action. The process of communication and resolution is promoted by ING Investment Management's corporate governance structure whereby the internal Risk Management and Compliance Committees meet each month.

Internal and external auditors regularly review the internal control environment as do external regulatory authorities. The results of these audits are monitored and procedures exist to ensure timely responses to recommendations.

Any changes to this Statement must be proposed to ING Investment Management's Risk Management Committee. Once endorsed it must be approved by ING Investment Management's Board of Directors. The Board of Directors of ING Investment Management has approved this Derivative Risk Statement and attest to its sufficiency. This attestation is reiterated as part of each external audit.

ING Investment Management's Board of Directors monitor ongoing compliance with the Derivative Risk Statement and ensures its continued adequacy via confirmation from the Risk Management and Compliance Committees.

11. Audit

ING Investment Management's external auditor will sign off on a semi annual basis that this Statement exists, that the major procedures laid down in this Statement have been followed and that any changes have been approved. The audit will be completed in accordance with Australian Auditing Standards and referenced as appropriate in letters of comfort.

12. Reporting to Trustees and Clients

This Statement is generally available to the trustee boards of ING Investment Management's superannuation fund clients.

As requested or as appropriate, regular and comprehensive reports are prepared for trustees and clients and include aggregate asset exposures and the effect of derivatives. If derivative exposures are included in these reports, exposures attributable to options are usually delta-weighted.

However it is acknowledged that delta-weighting may not always be fully appropriate and careful consideration is given to other disclosures that may be necessary.

ING Investment Management will notify the trustee boards of its superannuation clients when in its professional judgement there is a significant occurrence in relation to the use of derivatives by ING Investment Management.

13. Date of Approval of Derivative Risk Statement

This Derivate Risk Statement was approved by the Board of Directors of ING Investment Management on 19 December 2006.

APPENDIX A:

Investment activities for ING Funds Management Limited (as Responsible Entity for Optimix Trusts)

ING Investment Management undertake investment services for ING Funds Management Limited as Responsible Entity for the Optimix Trusts. A number of processes adopted by ING Investment Management in this capacity differ from the corresponding process typically adopted. These variations are detailed in this appendix.

1. Relationship to Investment Strategy of the Portfolios

ING Investment Management acting for the Optimix Trusts uses a 'Manage the Managers' investment process whereby specialist investment managers are appointed to manage particular asset classes. These specialist investment managers are then responsible via an agreed Investment Management Agreement for all investment decisions.

ING Investment Management allows derivatives to be used, where permissible, in accordance with the investment strategy of that portfolio as expressed in the Constitution, Investment Management Agreement, advisory agreement or investment mandate which governs the portfolio (the "governing document").

In addition, ING Investment Management uses tactical asset allocation to adjust allocations to each asset class. Derivative overlays may be used to implement such tactical shifts where the governing document of the portfolio permits such positions.

(Corresponding Heading in Primary Document: 4. Relationship to Investment Strategy of the Portfolios)

2. Risk Analysis

2.1 Operations Risk

A Segregation of Duties and Management Controls

ING Investment Management's organisational and reporting structure ensures complete segregation of functions between the Investment Team (dealing and investment management) and the Custodian (administration and settlement). The Investment Team and the Custodian perform distinct tasks and are explicitly separated from each other. Authorised Signatory Schedules exist which specify, for each external manager:

- the dealing and management staff that can initiate investment transactions and
- the senior operational staff that can confirm and settle transactions.

No member of the Investment Team is allowed to settle any investment transaction. Responsibility for confirmation and settlement of investment transactions resides with the Custodian. Positions to the Clearing Broker are reconciled daily by the Custodian.

B Valuation Process

ING Investment Management's derivative valuation process is consistent with current industry market practice. Derivatives are valued by the Custodian and reconciled at market prices and exposures are stated on a delta-weighted basis

(Corresponding Heading in Primary Document: 7. Risk Analysis: 7d. Operations Risk)

3. Currency

Currency management may also be undertaken by an external currency overlay manager to manage exposures to exchange rates from international investments. The Investment team receives daily currency exposure reports and the Custodian monitors daily open currency positions on a net and gross basis.

(Corresponding Heading in Primary Document: 8. Currency)

4. Personnel Management

4.1 Expertise and Supervision

A dedicated committee, the Optimix Investment Committee, is in place to review and discuss issues particular to the investment services ING Investment Management undertake for the Optimix Trusts.

The use of derivative strategies is discussed at the monthly meeting of the Optimix Investment Committee. Segregation of functions between the Investment team and the Custodian ensures staff only undertake tasks within their designated expertise and for which they have appropriate authority.

(Corresponding Heading in Primary Document: 9. Personnel Management: Expertise and Supervision)

5. Assessment of Controls

Adherence to this Statement in respect of ING Investment Management's capacity as advisor for the Optimix Trusts is regularly reported to the Optimix Investment Committee.

In ING Investment Management's capacity as advisor for the Optimix Trusts obtains the following documents on a regular basis from the appointed external Investment Managers:

- The external Investment Managers Derivative Risk Statement and audited opinion on their Derivative Risk Statement; and
- The external Investment Managers AGS 1026 Internals report and audit opinion on their AGS 1026 Internals report.

(Corresponding Heading in Primary Document: 10. Assessment of Controls).

For additional information please contact:

INGIM Compliance

Email: ingim.compliance@ingim.com.au

Website: www.ingim.com.au

ING Investment Management Limited

ABN 23 003 731 959

Level 21, 83 Clarence Street

Sydney NSW 2000 Australia

www.ingim.com.au

INVESTMENT MANAGEMENT



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