

Diversified Fixed Income

30 June 2010

For Institutional Investors Only

ING INVESTMENT MANAGEMENT

Strategy Brief

Investment Objective

The diversified fixed income strategy aims to provide income and achieve returns (before fees, charges and taxes) that exceed the UBS Composite Bond (All Maturities) Index by at least 1.50% per annum, over periods of three years or more.

Key Benefits

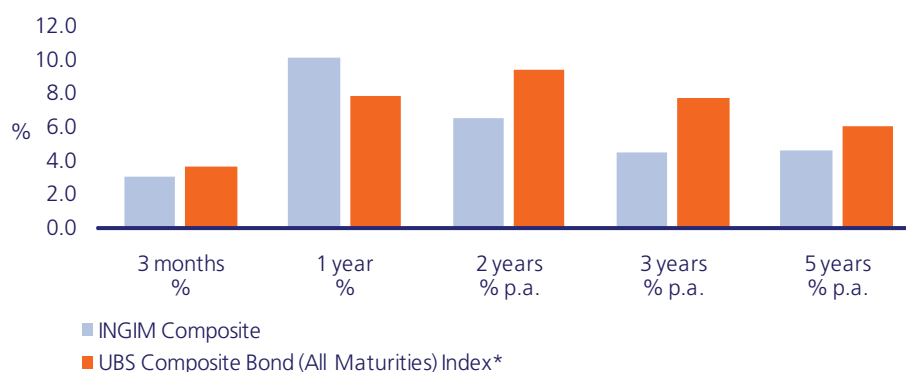
- Provides investors with an enhanced investment alternative for an Australian fixed income allocation with a low-medium level of risk.
- Investments are diversified across domestic and international fixed income opportunities, enhancing the level of confidence in providing more robust and stable returns.
- Provides access to ING Investment Management's extensive global fixed income resources, including over 100 credit specialists, who are focused on sourcing and reviewing credit opportunities.

Portfolio Characteristics

Inception	April 2001
Assets under management (\$m)	407.77
Benchmark	UBS Composite Bond (All Maturities) Index
Modified duration (years)	2.80
Alpha (3 year, %)	0.50
Beta (3 year)	0.52
Tracking error (3 year, %)	2.98
Information ratio (3 year)	-1.07
Sharpe ratio (3 year)	-0.36

Performance as at 30 June 2010

	3 months %	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.
INGIM Composite	2.96	10.05	6.44	4.48	4.57
UBS Composite Bond (All Maturities) Index*	3.60	7.86	9.33	7.67	6.05
Value-add	-0.64	2.19	-2.89	-3.19	-1.48



INGIM Composite returns are shown on a gross basis and are calculated before fees, charges and taxes.

* Prior to 20/9/05, the benchmark was a 50% Citigroup WGBI ex Australia and 50% UBSA Composite Bond (All Maturities) Index splice.

Asset Allocation



■ Australian Fixed Interest & Cash	44.8%
■ International Fixed Interest	45.8%
■ Australian & International High Yield Debt	9.4%

Market Commentary

Yields on domestic 90-day bank bills remained entrenched within a broadly rising trend over the course of the June quarter. From an opening level of 4.49%, yields rose by 43 basis points (bp) to end the period at 4.92%. The Reserve Bank of Australia (RBA) set the scene for the rise in yields, as it continued its move away from what was an extremely accommodative monetary policy setting. To this end, the RBA increased the official cash rate in 0.25% increments on 7 April and 5 May, bringing the rate to its current level of 4.50%. In contrast to the rise in shorter bank bill dated yields, longer dated government bond maturities moved lower over the quarter. The yield on the Commonwealth 10-year bond declined from 5.78% to 5.09%, while its US counterpart fell from 3.83% to 2.95%.

Within the domestic credit market, higher rated credits outperformed their lower rated counterparts over the quarter, evidenced by the respective 4bp and 16bp widening in AA+ and BBB+ 5-year spreads, as measured by CBA Spectrum relative to swap.

Following a period of inactivity in May, issuers returned to the market in June, raising \$2.2 billion in fixed rate securities and \$1.4 billion in floating rate securities. AAA-rated supranational and agency issuers accounted for the majority of supply, while the major banks also featured prominently.

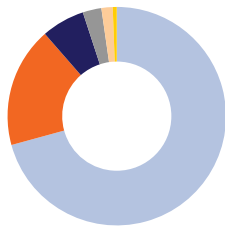
Activity within the primary sector of the asset backed securities (ABS) and residential mortgage backed securities (RMBS) markets was quiet during the initial part of the quarter, following a major issuance program in March. Subsequently in May, four securitisation transactions, with a total issuance volume of \$1.83 billion, were priced. The three RMBS transactions were the Apollo Series (\$1 billion), the FirstMac Bond Series (\$339 million), and the Resimac Triomphe Trust Premier Series (\$250 million). Within the ABS sector, Investec Bank (Australia) originated the Impala Trust No. 1 Series (\$241 million), secured by a pool of assets consisting primarily of motor vehicle loans and medical and dental equipment. In June, Liberty Financial completed a \$90 million ABS transaction backed by a pool of motor vehicle loans.

Outlook

Although we have reduced the extent of our short duration position, it remains the central theme of our current portfolio strategy. While bond yields have declined in line with deteriorating economic sentiment, we do not anticipate that this will persist for too much longer. In line with official cash rates, short dated yields in most major countries, with the notable exception of Australia, are at or near historically low levels. Accordingly, downward pressure on yields is manifesting itself particularly among long dated maturities. This is causing yield curves in countries such as the US and Germany to flatten. We anticipate the trend toward curve flattening will continue, and intend to look for opportunities to increase the portfolio's exposure to such moves.

With specific regard to the credit sector, we retain an overweight stance in this area, with a particular focus on the domestic banks. We note that the banks' funding costs in the international wholesale markets have increased lately, which has caused credit spreads on bank securities to widen. However, we contend that this is solely a liquidity issue, and does not represent an adverse reflection of the banks' underlying creditworthiness. Moreover, we expect that regulation aimed at restricting the investment activities of the US banks will serve to lower their risk profile and hence their funding costs in the medium term. A flow on effect would most likely also lead to a lowering of funding costs for the domestic banks, which would further underpin their attractiveness to holders of their debt.

Regional Breakdown



■ Australia	70.7%	■ Europe	2.8%
■ United States	17.8%	■ United Kingdom	1.7%
■ Japan	6.4%	■ Other	0.6%

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