

Extended Alpha Australian Equities

30 June 2010

For Institutional Investors Only

ING INVESTMENT MANAGEMENT

Strategy Brief

Investment Objective

The Extended Alpha Australian Equities strategy aims to outperform the S&P/ASX 200 Accumulation Index by 5% p.a. (before fees, charges and taxes) over rolling 3 year periods.

In seeking to achieve its investment objective, INGIM applies a long/short 130/30 strategy and will hold securities that it views will outperform the Australian equities market, and conversely will take short positions in securities that are expected to underperform.

Portfolio Characteristics

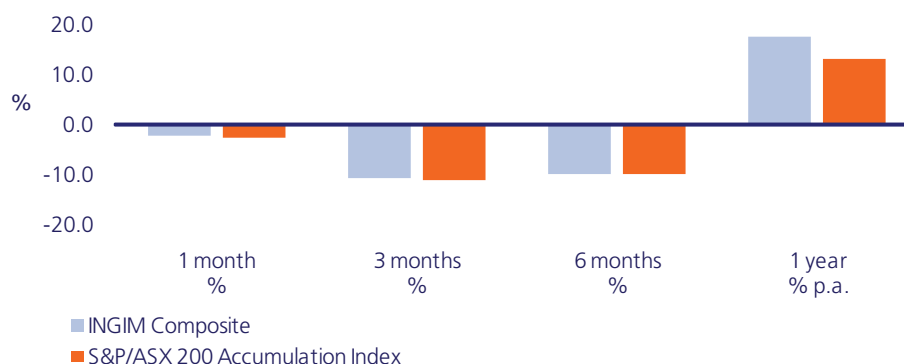
Inception	August 2008
Assets in strategy (\$m)	> 400
Target Tracking Error (ex ante)	<9% p.a.
Market Cap Bias	Large Cap
Benchmark	S&P/ASX 200 Accumulation Index

Key Benefits

- Provides investors access to an additional alpha source by capitalising on stocks expected to underperform the market as well as those that are expected to outperform
- Positive correlations between stocks are reduced through the ability to hold both long and short stock positions
- Delivers a low cost strategy by borrowing against securities to generate cash for long positions
- Leverages ING Investment Management's proven fundamental research skills and capabilities

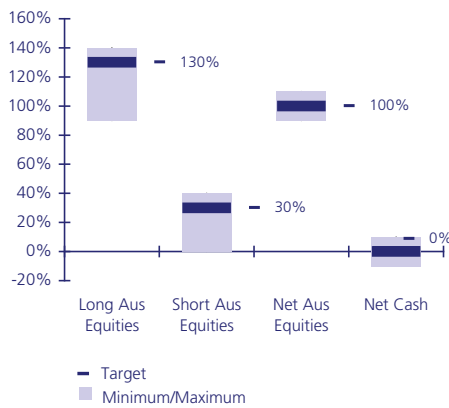
Performance as at 30 June 2010

	1 month %	3 months %	6 months %	1 year % p.a.
INGIM Composite	-2.42	-10.78	-9.90	17.42
S&P/ASX 200 Accumulation Index	-2.59	-11.14	-9.93	13.15
Value-add	0.17	0.36	0.03	4.27



Performance shown is based on the underlying ING Investment Management Extended Alpha Australian Share Composite. Performance figures have been calculated in Australian Dollars before fees, charges and taxes.

Asset Allocation



Market Commentary

Following returns of -1.3% and -7.5% in April and May respectively, the Australian sharemarket, as measured by the S&P/ASX 300 Accumulation Index, declined by 2.6% over the month of June, resulting in a loss for the quarter of 11.2%.

Sentiment was undermined early in the period when the financial fragility of a number of European countries was highlighted by a multi-notch sovereign credit rating downgrade to Greece. The subsequent announcement of a €750 billion financial rescue package by the European Union (EU) and the International Monetary Fund (IMF) for Greece and the other heavily indebted European nations served only to temporarily ease credit concerns. Specifically, it remains a point of conjecture as to whether a default on the part of one or a number of these nations will be avoided.

Regulatory concerns also weighed on market sentiment, as the Federal Government announced a proposed Resource Super Profits Tax (RSPT) on mining companies. Although the initial proposal has subsequently been amended to take the form of a Mineral Resource Rent Tax (MRRT), widespread uncertainty persists as to the scope of the tax and its implications.

Portfolio Performance

The portfolio declined by 10.7% over the quarter, outperforming the S&P/ASX 200 Accumulation Index, which declined by 11.1%. The following table summarises the performance of the portfolio over the period.

	Return %	Avg Portfolio Exposure %	Contribution to Performance %
Total Long Equities Position	-10.82	106.24	-11.55
Total Short Equities Position	-13.18	-6.24	0.82
Total Portfolio	-10.72	100.00	-10.72

Within an environment of market weakness, the portfolio benefited from a Short Equities Position (+0.82%). The table also shows the Exposure details of the portfolio. The respective Long Equities (+106.24%) and Short Equities (-6.24%) exposures are calculated on a daily basis, and are then averaged to get an overall exposure level for the quarter. Note that any portfolio cash holding is allocated to the Long Equities Position.

Outlook

From a domestic economic perspective, the growth phase in Australia appears broadly intact, and hence remains supportive of the domestic sharemarket. However, there are a number of factors that may weigh on momentum in the months ahead. Consumer spending is facing strengthening headwinds, amid the fading impact of the government’s consumer stimulus measures and the rising trend in official interest rates. Amid speculation that rates could possibly go yet higher, early cyclical stocks may come under pressure, while a flattening of the yield curve could further squeeze bank margins that are already under pressure from higher wholesale funding costs. Furthermore, sentiment within the resources sector is likely to remain fragile, pending greater clarity with regard to the taxation arrangements for these companies.

More broadly, in the US, questions are being raised as to the sustainability of the country’s economic rebound. We recognise but do not entirely share these concerns, as low business inventories and rising levels of labour utilisation underpin the outlook for industrial production. This, in turn, bodes well for domestic companies with US exposure, or whose earnings are denominated in US dollars. Indeed, this remains a key theme of our present portfolio strategy.

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