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Senior loans to become more attractive in rising interest environment, says leading US commentator

Growing concerns about rising interest rates and inflation will shift investors' approach to fixed income investing, says ING Investment Management's (INGIM) US based corporate loans specialist, Dan Norman.

On a recent visit to Australia, Mr Norman - who is responsible for managing over US\$10 billion in senior loans as Group Head of INGIM's Senior Loan Group - said investors need to hedge against an inevitable rise in interest rates.

"Australian investors understand all too well how rapidly monetary policy shifts can occur. The local cash rate has increased three times in the past four months with expectations it will reach 5% by year's end. And in the US the LIBOR rate is sitting close to zero compared with the 30 year average of 4.0% - that's just unsustainable," he said.

"Fixed income investors need to reconsider their investment allocation to reflect impending rate rises and look for investments that benefit from higher interest rates," he said.

Mr Norman believes senior loans will become an increasingly important investment tool as rate pressures emerge. Unlike bonds which pay a fixed rate, their floating-rate nature means interest paid incorporates interest rate increases.

A relatively unknown and under-researched asset category in the Australian market, the senior loan market has grown to nearly US\$1 trillion worldwide over the past decade and INGIM is one of the largest dedicated loan specialists in the market today. These loans are generally made to non-investment grade businesses for between \$50 million to over \$10 billion. They are not traded on any public exchange but directly among banks and institutional investors in a private secondary market.

Senior loans are attractive due to their more conservative structure, which requires them to be secured by borrower assets. For this reason they tend to have much lower default rates and higher recoveries than high yield bonds while still delivering attractive risk-adjusted returns.

"Senior loans had an incredible year in 2009 returning almost 52%. While we expect returns to normalise over the next few years, performance is expected to remain competitive. Furthermore, with the senior loans market currently trading at discount to par there is potential for further capital gains - nominal spreads have improved and default rates are declining. Overall, we are forecasting a 7-10% return per annum over the next three to five years," Mr Norman said.

As part of Mr Norman's visit to Australia, INGIM is exploring opportunities and applications for the asset class in the local market with asset consultants, researchers and institutional clients.

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ABOUT ING SENIOR LOAN GROUP

The ING Senior Loan Group is a part of ING Investment Management, the world-wide investment arm of ING Group N.V., with over 700 investment professionals managing nearly \$500 billion in assets globally. The Group is headquartered in Scottsdale, Arizona U.S.A., with an additional office in London, UK.

The ING Senior Loan Group is comprised of 28 investment professionals and 18 dedicated support staff. There are four portfolio management teams in Scottsdale, each of which is responsible for particular industries, and a European team that is responsible for European loan management. The two Group Heads, the chief credit officer and a senior credit officer comprise the Investment Committee, which approves all investment decisions. Finally, the team is supported by a highly qualified trading, operations, analytics and legal team that is dedicated exclusively to this asset class.

INVESTMENT MANAGEMENT



ING Investment Management is the specialist global investment arm of ING Group, one of the leading financial services companies in the world and with more than A\$695 billion in assets under management worldwide across different asset classes. In Australia, ING Investment Management also has a strong presence, managing around A\$35 billion of clients' assets. INGIM's clients include institutions such as superannuation funds, government agencies and charitable organisations, as well as individual investors.

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