

FOCUS

ING (L) Invest Global Opportunities Rare sample among thousands of investment funds

The vast majority of equity funds keep to one style. ING (L) Invest Global Opportunities adds value by adopting any and every style that the managers consider worthwhile at a particular moment. We asked Tycho van Wijk, lead portfolio manager of the strategy, how his team does this. Over one billion euros is currently invested in the Global Opportunities Strategy.

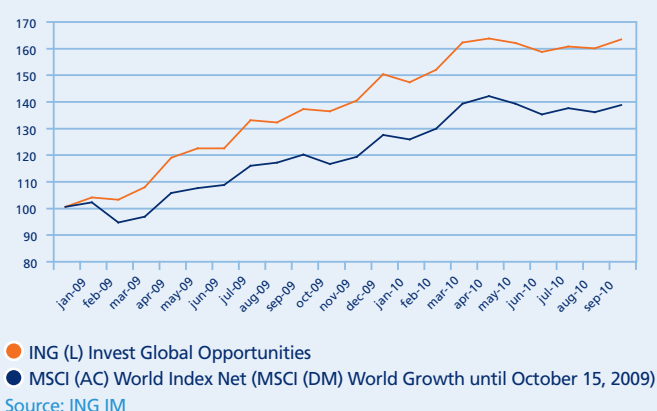


To you, as an investor in the fund, obviously only one thing matters, namely that we consistently outperform other funds. We are acutely aware that the special nature of our fund would soon lose its attraction if our performance lagged. What also makes the fund special to us are the ways in which we add value. The fund's character allows us to adopt any and every style in order to achieve optimum performance. Whichever style we use, we always have one specific goal in mind, which is to anticipate growth at specific companies.

A different definition of growth

Many equity fund managers say that they look for (profit) growth. What do we mean when we refer to 'growth'? In any case, we do not by definition mean those companies that benchmark makers include in their growth indices. With those companies you run the risk of buying past growth without knowing whether this growth will continue into the future. In our ever-changing world, it is dangerous to rely on historical ideas and comparisons. You can also see this from the fact that investors continue to differentiate between mature and emerging economies.

ING (L) Invest Global Opportunities versus benchmark
(December 31, 2008 = 100)



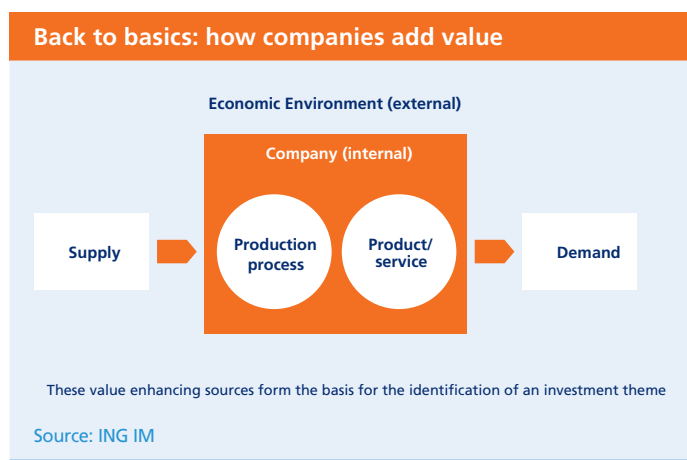
If you take a good look, you will see that the difference between the two is rapidly becoming blurred. We also avoid the fixed ideas seen in broker reports. We do not rule out any information source, but we do not see in any source the holy grail of eternal growth, either. Nor do we believe this exists: our economic reality is much too dynamic.

We carry out our own research based on the flow of information that we receive daily. We use all the available information in our own specific manner. Thus we consistently link the information that we consider relevant to the material reality of the companies. We also do this when identifying investment themes. Before we go further into our theme approach as a – to us – crucial means of detecting growth, we would first like to make clear the basis from which we start. The crucial question is how do companies in fact generate growth.

There are four ways in which a company can show growth or increase its added value:

- An external change in supply can increase added value, e.g. when an oil company discovers a new exploitable oilfield
- An external change in demand for a product or service can increase added value, e.g. when a company like Nestlé benefits from the fact that Asian consumers are increasingly drinking more coffee
- An internal change can increase added value, e.g. when a company develops a more efficient production method
- An internal change can increase added value by improving the quality of the product or service, e.g. through product innovation

The graph below shows these four sources of value creation. In addition to these four sources, the environment of any individual company will naturally contribute to value creation.



Growth characteristics

Growth, it is sometimes forgotten, is a dynamic process. Growth springs up suddenly, but watch out! As soon as the majority of investors begin to view a company as a growth stock, you run a great risk of holding historical growth – already priced into the share price – rather than future growth.

Many of the reports we read discuss individual companies in depth. At least as important as detecting growth, however, is the relationship between those companies and their environment. Elements then show up that have to do with the role of the company in its sector and with the role of the company in the much broader network of companies. This includes not only potential competitors but also suppliers of raw materials, for example, and the region in which customers are located. It is our job to gain an insight into a company's own dynamics as well as the external dynamic forces that confront the company.

The investment themes that we have identified appear to be a very good tool for this. To us, investment themes are not short-term movements or hype, but long-term economic trends, which affect all companies or, at any rate, a large group of companies. The table below shows how our seven themes translate into higher added value for companies.

The 7 themes linked to the value adding sources

	Supply	Process	Product	Demand
Economic growth	x			x
Industrial innovation		x	x	
Changes in consumer behaviour			x	x
Environmental changes	x	x		
Digital revolution		x	x	
Social & political changes	x			x
Shifts in demography			x	x

Source: ING IM

What we actually work with are long-term economic trends through translating subthemes into the specific level of individual companies. Growth that is incorporated in our economic themes can be related to a specific group of shares. Growth must also be visible, thus have an appreciable impact on a sector, product or service. As already noted, our identified themes must surpass the hype and be long-lasting. That means that we expect the main themes to show up in company behaviour for two to ten years or more. The subthemes have a shorter lifespan, i.e. six months to approximately two years.

Dynamics of our themes

Themes and examples of subthemes

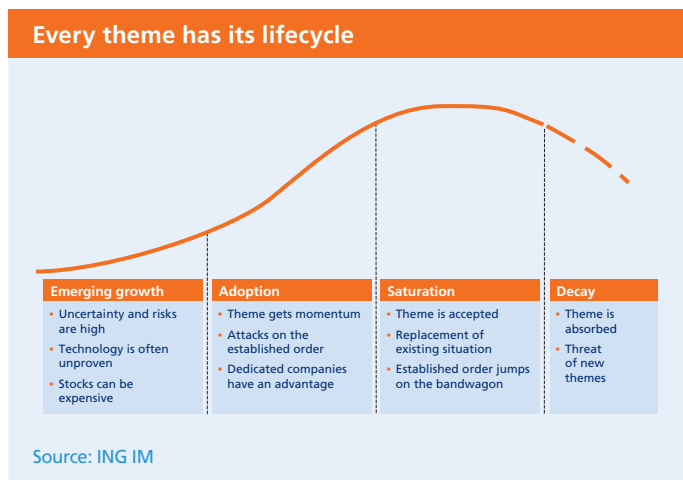
Investment themes (2-10 years)	Subthemes (<2 years)
Economic growth	The Asian consumer; commodities
Technological & industrial innovation	Robots; medical technology
Changes in consumer behaviour	Luxury goods; frugal consumer
Environmental changes	Alternative energy; 'smart' electricity
Digital revolution	Cloud computing; virtualisation
Social & political changes	Government as an active economic agent
Shifts in demography	Ageing population; Generation XYZ

Source: ING IM

Everything that is on paper consequently threatens to acquire a somewhat static character. Besides this, many of our competitors' thematic funds also see their theme as static. Those funds generally have one theme and when that theme no longer generates value, such a fund often dies a silent death in practice. With hindsight, you can then say with certainty that the theme was evidently hype. Unlike those funds, we have identified not one but seven themes. Another distinct difference with competitors' thematic funds is that we do not relate our themes to individual shares directly but via more than forty subthemes. These subthemes are a detailed expression of our more broadly defined main themes. Moreover, we see our themes as dynamic forces, not just on one level but also on the various levels of the economic reality.

As an example, let us outline the dynamics of the theme ‘environmental changes’. We believe that not enough action is being taken at the moment to combat global warming. There is mainly a lot of talk. But we remain convinced that the realisation is slowly dawning that action needs to be taken. We are convinced of the long-term strength of this theme and are therefore anticipating this. We regularly come across indications of the strength of this theme not only in the media, but also in the greater commitment that companies show towards the environment. For example, it was recently reported in the press that internet company Google is involved in plans to lay undersea power cables in the Atlantic Ocean. If these plans are realised, they will encourage the construction of offshore wind power plants. The realisation of these ambitious plans requires momentum. Google’s involvement illustrates the long-term importance of the theme. These are the dynamics that precede things. We must also be aware of the fact that a main theme can diverge in many different directions. Wind energy may be the favourite today, but a new discovery could soon tip the balance elsewhere. For example, if a cleaner or cheaper source of alternative energy was found, this would not change the original idea of a cleaner environment, but it would mean an adjustment to the main theme.

The dynamics of the themes also ensue from the dynamics that economic processes possess by their very definition. Just as economic cycles have an upturn and a downturn, so the themes also move in the direction of upward growth, adoption of the theme, acceptance of the theme (saturation) and finally decline. In the final phase the theme is absorbed and is threatened by new themes. These dynamics are shown in the graph below.



To identify our themes, we keep our eyes and ears open

If you think that we try to foresee future movements in the economy and share prices, then we must disappoint you; it is not our job to try to predict the future. That has always been impossible, but it has become mere fantasy in our increasingly complex and ever-changing world. One of our alternatives is to try to discover what people think about the world of the future. This concerns the ideas in the minds of investors, scientists, opinion makers and managers, journalists and consumers. We then enter the world of “memes”. A meme is a unit of intellectual or cultural information that can be shared and is transmitted from one mind to another by repetition and imitation. Like genes, memes evolve by natural selection and mutation. A meme can survive for a long time, but it can also die out. It can be regarded as a concept or an idea that can only survive if enough people support it, believe it and propagate it. The importance of a meme increases as more people feel themselves attracted to it.

Memos can spread very quickly through the (financial) world, as was the case with the report that the US investment bank Goldman Sachs published in 2001 on the rapid and long-term economic growth expected in the BRIC countries, i.e. Brazil, Russia, India and China. That BRIC meme is still very powerful. However, when important international bodies like the World Health Organisation (WHO), the US National Institute of Health and the British International Obesity Taskforce jointly publish a report on a particular topic in the media, we also see that topic as a powerful meme about which we must keep our eyes and ears open. We should perhaps see the WHO’s recent report (about 80% of new cases of cancer, diabetes and heart and vascular disease occur in the poorer parts of the world) as a new mutation of our main theme ‘changes in consumer behaviour’. However, we do not treat all memes as a main or subtheme. Assessing them is one of our major tasks.

In any case, the situation in the poorer parts of the world is undoubtedly connected to another of our identified subthemes, i.e. overweight and obesity in the world.

Overweight and obesity: a growing problem		
2005	2015	Percentage
1.6 billion people overweight	2.3 billion people overweight	+44%
400 million people obese	700 million people obese	+75%

Source: World Health Organisation (WHO)

There seems to be an acceleration in economic dynamics

Let us assume that we have no hard evidence that the dynamics in global economic processes are accelerating. If, however, we hypothesise that there is such an accelerator, then we see developments in the present economy that support this hypothesis.

Thus in 2008 and early 2009, we saw shares ascending in a very short space of time from all-time lows to new highs and also saw the volatility index move from 10% to 80% and back again to 20%, also at an exceptionally fast tempo. National economic growth rates declined from 8% to -7% in just one year and then climbed back up again to estimated growth of 6% in the next year.

These sharp fluctuations, which were a result of the credit crisis, do not fit in with several economic models, which are often based on the extrapolation of historical trends. Many events are unpredictable, e.g. inventions and new technology. Furthermore, the speed at which new technology is now adopted bears no relation to the speed at which previous technology gained public acceptance. To illustrate this point, we have extracted the following data from a report. It took radio 38 years, television 13 years, and the internet only four years to be connected to 50 million people. We question the exact figures, but it is clear that there is no linear relationship between the acceptance of these successive technologies. That means both market introduction and acceptance of, for example, radio and television were unpredictable. Nobody could have foreseen any of the above.

Most interesting to us is the fact that the time between the introduction and general acceptance of new technology seems to be contracting. In the economy, too, there seem to be increasingly frequent events that cannot be linked to historical trends or relationships, but which are unpredictable. Perhaps economic processes are going to be more like the weather. We know that it is virtually impossible to accurately forecast the weather, although some patterns always recur. But we see patterns changing even in the weather, e.g. the increased frequency of hurricanes. Whether this has

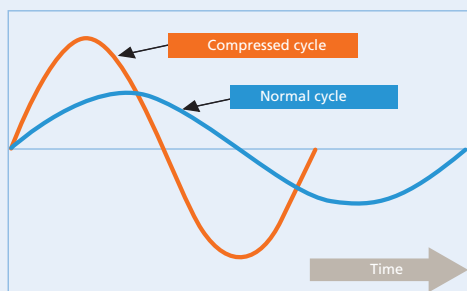
to do with global warming, a subtheme of our 'environmental changes' theme, we will not go into here. But we do see non-linear dynamic processes at work.

Effect of acceleration on the economic cycle

We think that many developments are going faster than they used to and that less time is needed before a product such as the iPhone (2008) or the Apple iPad (2010) is widely accepted. The main reason for this acceleration is probably a combination of globalisation, information technology and policy makers' quicker actions and reactions to the credit crisis and other events. It also seems that this acceleration has something to do with the ambitions of the BRIC countries. These countries want to raise their living standards immediately rather than wait until tomorrow!

Be that as it may, the acceleration in the economic reality is also apparent in the economic cycle, which lasts for a shorter time and is, as it were, compressed.

Globalisation, information technology and greater adaptability of companies, governments and investors lead to compressed cycles



Source: ING IM

The illustration shows a normal and an accelerated economic cycle. Two things happen in an accelerated cycle. First, we see higher peaks and deeper troughs and second, the time between highs and lows is shorter.

Although this model still has to be tested, we can see that it agrees reasonably well with the actual movements in several markets. As already mentioned, we have seen extreme movements in equity markets within just a short time-span.

We have the knowledge and experience to respond to the higher volatility

Experience in recent years shows that our investment themes and the way in which we translate these into stock picking for our portfolios add value. We prefer active rather than passive management – thus management based on a benchmark – and also rather than the 'buy and hold' strategy that was frequently followed in the past.

With our active and pragmatic approach to current economic and market dynamics, we are not scared of high volatility. On the contrary, we manage to consistently add value in such an environment. The way in which we respond to long-term economic trends with our thematic approach and the fact that the portfolio can be adjusted on a daily basis if necessary have proved their worth. By repeatedly linking themes and theme dynamics to the dynamic character of individual companies, we expect the strategy to continue to perform well. Last but not least, we maintain meticulous risk management, so that no concentration of themes can arise. After all, ING (L) Invest Global Opportunities wants to be a rare sample, but also it particularly wants to continue to substantiate its special character.

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