

# ING Diversified Yield Fund and ING Regular Income Fund Update

December 2008

The following information, provided by ING (NZ) Limited (ING), is intended to supplement the annual report and the contents of the letter you have received in relation to the ING Diversified Yield Fund (DYF) and the ING Regular Income Fund (RIF), together 'the Funds'. Full details, including the terms and conditions of the proposal to be put to unitholders, are currently being finalised and will be provided as part of an information pack you will receive in the new year.

## Managed wind-up

### What has happened?

Since the Funds were suspended on 13 March 2008, there has been no improvement in credit market conditions. In fact, further volatility during October and November has reduced the likelihood that the Funds can fully recover in the near term.

In response, ING has recommended to the Trustee that a proposal allowing the Funds to be wound up over an extended period of time be put to unitholders.

### What does winding up the Funds involve?

The wind-up process involves all the assets of the Funds being sold, the final accounts prepared, all expenses and liabilities settled (including repayment of the loan if applicable), and the remaining money refunded to unitholders. Once the wind-up is complete, the Funds are effectively closed.

### What is meant by a 'managed' wind-up?

The Funds' Trust Deed currently states that, in the event of a wind-up, the assets are required to be sold as soon as reasonably practicable. However, at a meeting to be held before 31 March 2009, ING will be asking unitholders to support a resolution to amend the Trust Deed, allowing more time for the wind-up.

### Why does ING want to do this?

Trying to sell all the Funds' assets in today's uncertain and illiquid market would be unlikely to be in the best interests of unitholders. With limited buyers available, ING could be forced to accept distressed prices, which would see unitholders receiving a reduced payment.

Therefore, in order to give asset values time to recover from their current levels, and for ING to try to increase the value received through the sale of the assets, we are proposing that unitholders vote for the wind-up to take place over an extended period.

### What if the proposal isn't accepted?

If the proposal to amend the Funds' Trust Deed to allow for the managed wind-up over an extended period isn't accepted, a number of other options will then be considered. Details of these will be included in the information pack you will receive in the new year.

## Loan

### What is the \$100 million loan about?

ING wants to provide unitholders with direction, in terms of 'next steps' after suspension, and to provide them with some immediate cash. If the managed wind-up is approved, unitholders will receive a pro-rata payment of the loan proceeds, together with their share of cash available for distribution, based on the number of units they hold in the Funds.

### What are the terms of the loan?

- The loan will be paid back before any further distributions or principal payments are made to investors.
- Interest will be charged at a favourable commercial rate for the term of the loan.
- The loan will be made to the Funds; therefore investors will not be personally liable to repay the loan.

Further details about the loan will be provided in your pack.

### How much money will I get back altogether?

Given current market conditions, it is very difficult for us to specify an exact amount at this time.

We will include an outlook, based on a set of assumptions about market conditions, with the information pack that we will send you in the new year.

### Why has it taken ING so long to come up with this proposal?

We have investigated a number of proposals over the past few months and over that time came close to finalising an alternative solution.

However, the changing market environment has meant having to repeatedly revise our approach. We understand that investors want certainty and we believe this proposal will provide both direction and some immediate cash for investors.

## Market update

### What is the current status of the Funds?

FUND SUMMARY AS AT 30 NOVEMBER 2008

	DYF	RIF
Funds under management (NZ\$)	\$189.2m	\$84.3m
Number of units	427.0m	232.0m
Unit price (\$):		
As at 31 October 2008	0.5922	0.5048
As at 30 November 2008	0.4432	0.3636
As at 14 December 2008	0.4022	0.3247
Cumulative distribution since inception (\$ per unit)	0.3285	0.1960

## How have the Funds performed recently?

RETURNS AS AT 30 NOVEMBER 2008 (PRE TAX AND AFTER FEES)

	DYF <sup>1</sup> (%)	RIF <sup>1</sup> (%)
1 month	-25.16	-27.97
3 months	-30.21	-34.78
6 months	-32.96	-38.30
1 year	-50.23	-52.61
3 years (annualised)	-20.40	-23.43
5 years (annualised)	-9.70	n/a
Since inception (annualised)	-8.53	-21.86

1. Total price and distribution return

## Why have the Funds performed so badly?

The Funds invest largely in Collateralised Debt Obligations (CDOs) and Collateralised Loan Obligations (CLOs) – investments that have been subject to considerable market uncertainty, and more recently to a further and more extreme increase in volatility.

Prior to the credit crunch, the Funds' performance was in line with its objectives, as represented by the shaded returns in the charts below.

MONTHLY TOTAL RETURNS (PRE TAX AND AFTER FEES)

DYF

	2008	2007	2006	2005	2004	2003
Jan	-2.06%	0.87%	0.66%	0.90%	0.55%	
Feb	-8.46%	0.79%	0.53%	0.59%	0.63%	
Mar	-7.39%	0.58%	1.61%	0.93%	0.60%	
Apr	-5.28%	0.08%	0.93%	0.91%	0.65%	
May	-2.34%	0.60%	0.96%	0.67%	0.44%	
Jun	-0.33%	-1.16%	0.75%	0.62%	1.07%	
July	-0.39%	-0.19%	0.55%	1.06%	0.65%	0.45%
Aug	-3.25%	-6.54%	0.66%	0.60%	0.93%	0.52%
Sep	-1.61%	-4.37%	0.65%	0.87%	0.77%	0.70%
Oct	-5.22%	0.85%	0.66%	0.65%	0.53%	0.57%
Nov	-25.16%	-0.03%	0.75%	0.62%	0.82%	0.50%
Dec		-3.35%	0.79%	0.72%	0.77%	0.66%
DYF (YTD)	-48.51%	-11.55%	9.92%	9.53%	8.74%	3.45%

RIF

	2008	2007	2006	2005	2004	2003
Jan	-1.61%	0.75%	0.63%			
Feb	-8.67%	0.74%	-0.03%			
Mar	-4.57%	0.42%	0.88%			
Apr	-6.83%	-0.15%	0.75%			
May	-0.94%	0.28%	0.84%			
Jun	-2.03%	-2.36%	0.80%			
Jul	-0.77%	0.39%	0.61%			
Aug	-2.68%	-7.85%	0.82%			
Sep	-2.93%	-4.51%	0.54%			
Oct	-6.73%	0.19%	0.59%	1.14%		
Nov	-27.97%	-1.22%	0.67%	0.84%		
Dec		-2.97%	0.62%	0.72%		
RIF (YTD)	-51.17%	-15.47%	7.97%	2.73%		

## What has happened in credit markets recently?

The dramatic decline in October CDO prices was primarily due to an unprecedented deterioration in the global credit market. Simply put, there was a wave of credit and structured credit security sellers responding to the heightened risk of a failure in the global banking system and the expected economic downturn.

The selling was broad-based, with virtually every major credit and sharemarket experiencing record, or close to record, monthly declines in value.

At the same time, the deteriorating outlook for the global economy has prompted decisive action from governments and central banks, seeking to spur lending and unfreeze credit markets.

## What proportion of the Funds' assets have defaulted or are in danger of doing so?

PORTFOLIO QUALITY AS AT 30 NOVEMBER 2008

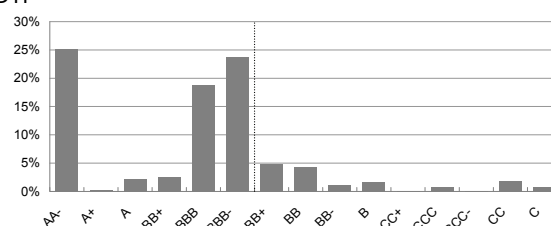
	DYF	RIF
Defaults (as a % of total fund by face value)	9.7%	8.9%
Impairments (as a % of total fund by face value)	17%	15%

## What is the quality of the assets held by the Funds?

Both Funds continue to maintain their targeted *average* credit rating for the assets held. These credit ratings represent 'investment grade' as measured by international rating agency Standard and Poor's. NB: Assets rated BBB- and above are 'investment grade' (indicated by the line in the graphs below).

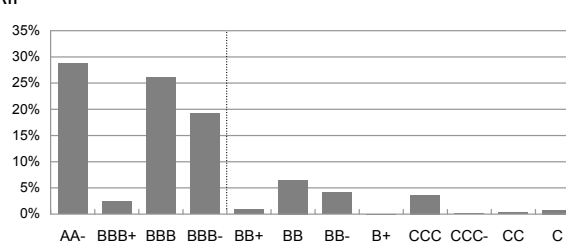
ASSET RATING PROFILE AS AT 30 NOVEMBER 2008

DYF



Does not include non-rated securities, which represent 18% of the Fund.

RIF



Does not include non-rated securities, which represent 3% of the Fund.

**If you have further questions about the Funds, please speak to your financial adviser or phone us on 0800 500 640.**



Important information on pricing accuracy: The ING Diversified Yield Fund and the ING Regular Income Fund (the Funds) are currently suspended and no further withdrawals or investments can be made at this time. The market volatility and illiquidity that have contributed to the suspension of the Funds mean that it is difficult to reliably determine a fair market value for many of the investments in the Funds. No representation or warranty is made as to the accuracy or reliability of the current unit prices, and they should be used as a general indication of market movement over time only, and not as an indication of current value.

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