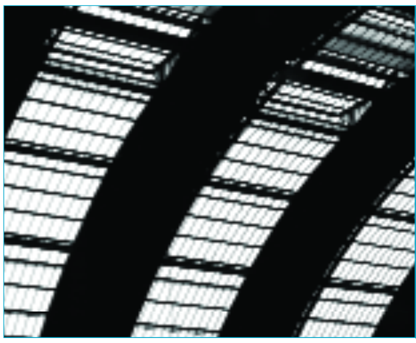


ING Alpha Plus Australian Share Fund

In a market that never sleeps, the investment team behind the ING Alpha Plus Australian Share Fund stays alert and nimble to deliver returns, writes MICHELLE BALTAZAR.

Never mind the Australian dollar. If some of the country's top-performing fund managers are to be believed, the US dollar will be back with a vengeance next year.

Gian Pandit, senior portfolio manager of the ING Alpha Plus Australian Share Fund (Alpha Plus), shares this view and tailors the fund accordingly.

"I'm a strong believer in the US dollar recovery in the fourth quarter in 2010 and US dollar acceleration in 2011 and that's important to how the portfolio is being positioned now to make the outperformance."

For example, he has bought into many US earnings-exposed stocks such as media group News Corp, insurer QBE and shareholder services provider Computershare.

"This means that the portfolio should perform through the two-year forecast period with the US providing the impetus, especially in the second year when domestic Australia may then be slowing quickly under the pressure of higher interest rates," he said.

The fund's target return of 5 per cent (before cost and fees) above the S&P/ASX100 Accumulation Index is more than double the average 2 per cent promised by most of their sector peers.

To beat the market by that much, Alpha Plus draws on a proprietary stock-picking process that's been in place at ING IM for the past seven years: the same one that saw investors get more than 5 per cent over five years (see Table 1).

"History is not an indication of future performance but what I can say in regards to keeping those numbers in the next five years is that the process and personnel are the same," he said.

Getting earnings right

Alpha Plus is a concentrated Australian equities, style-agnostic fund. That means it invests in between 15 to 35 local stocks that can either be 'growth' or 'value': the key criteria is that they outperform the market over the next 12 months.

"Our primary focus is understanding company earnings prospects, and that's very much a five-year long term horizon, but you must be cognisant of what's moving the share price in the short term and taking advantage of those movements."

"That's fairly key because we pride ourselves in getting the earnings right."

Pandit can tell to the year, to the month and to the day, which stocks he bought and why.

"Now from 1 March to 4 March last year, what we picked up was the rate of change in the leading indicator markets."

He continued, "We took a very strong view then that things we're already priced for oblivion in Australia and things were so cheap that in terms of risk/reward metrics, some of the cyclical companies which weren't broken were stand out investments for us."

This will hurt a little but Pandit momentarily dives into fund-speak when asked how his portfolio stood last year and where it will be over the next 12 months.

"We built into the first lead deep cyclicals being housing and consumer discretionary in March–April–May and also overweight in banks – being the biggest cyclical – which benefited from a rapid turnaround from 6 March to 6 October in 2009."

"Now being the early 2010, we've seen the early cyclicals move so we're looking for the lagging cyclicals to invest in."

He continued, "So we've rotated out of housing, we've rotated out of discretionary cyclicals and we're moving more towards lagging late cyclicals, such as media, engineering and construction stocks."

Pandit said Alpha Plus will live up to its name through this constant rotation to capture the most gains. The fund will act swiftly on individual stocks, too.

"It's important to realise that this is a highly concentrated fund and we take advantage of large volatility movements," he said.

"For example, when companies like Macquarie are trading at $18, trades up to $45 in a six-month period, hits our price target and our valuation for the company, we're happy to exit that position. Generally speaking, that kind of move takes two years, but in this case, it only took six months."

Time is a luxury

The way Macquarie shares sunk and soared so swiftly worked well for investors such as Pandit but the shares could have easily gone south, too.

To protect investors from this kind of worst case scenario, Alpha Plus is also big on capital preservation.

"We look at implementing capital preservation strategies in terms of when the right time is in regards to the cycle, we also use 'puts' to protect certain positions and 'calls' to enhance positions – but we never use options to gear the fund."

Pandit describes it as investing relatively, absolutely.

"The biggest difference between a core manager and a highly concentrated active manager is that we really look at the relative money that we have in an absolute way. When I mentioned to you capital preservation and alpha generation, they're the two paramount things for us."

To achieve this balancing act, Pandit has the might of ING IM's $35 billion funds management business and, more specifically, the Australian equities team of 14 staff who runs more than $8 billion in Australian equities for ING IM and have an average 16 years of industry experience.

Coming from an absolute return background for most of his career (he worked at the Consolidated Press-owned Ellerston Capital running $3 billion in a previous life), Pandit knows only full well that as an investor, you have to act decisively and quickly at all times.

"As a highly concentrated manager, you have to have a high level of belief in your valuation, a high level of understanding of the company and a high level of work done with regards to the stocks you select. That's what drives conviction."

After all, when you're only selecting 15 to 35 names, you don't have the luxury of taking a two-year view and hope the stocks deliver over that time. You've got to get the timing right, said Pandit.

"The market never sleeps. We're very much of a view that every day is a new day with regards to information coming out." ●

GIAN PANDIT

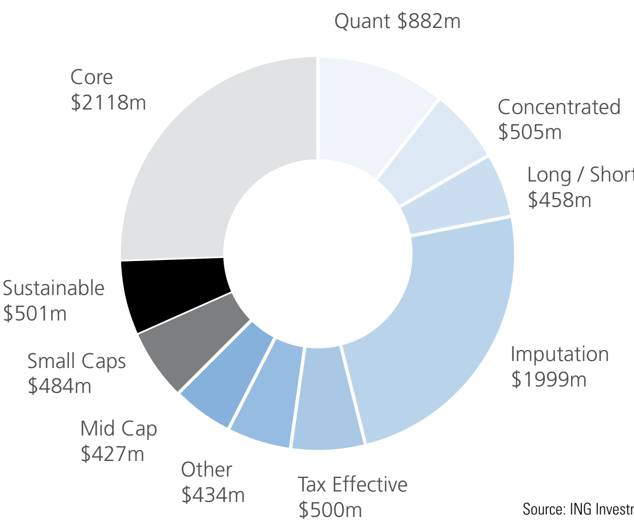
Table 1. Performance track record to 31 March 2010 of INGIM's concentrated Australian equities strategies*

	1 year	2 years p.a.	3 years p.a.	5 years p.a.
Composite Strategy Return*	43.09%	7.31%	5.08%	14.37%
S&P/ASX 100 Accumulation Index	40.81%	0.78%	-1.94%	8.28%
Value Add	2.28%	6.53%	7.02%	6.09%

*As the ING Alpha Plus Australian Share Fund is a new product, the returns above are derived from a composite of concentrated Australian equity portfolios managed by INGIM. Composites are constructed by INGIM using real portfolios with the same investment objective or strategy.

Performance is before fees, charges and taxes. Past performance is not a reliable indicator of future performance. Refer to the PDS for further information about the Fund.

Figure 1. Australian equities FUM by strategy ($8.2 billion), 31 Dec 2009



Source: ING Investment Management