

Why asset allocation?

Asset allocation in a portfolio can be done based on the market view or pre defined methodology.

It is difficult to determine which approach is right. In our view, the objective of an investor is to select the correct asset allocation at an appropriate time.

When asset allocation is done based on the market view, individual biases come into play and more often than not, result in a sub optimal asset allocation. For such cases, a 'well defined methodology' with 'real life proven track record' could be better.

The ING OptiMix Asset Allocator Multi Manager FoF Scheme (OAA)

ING OptiMix Asset Allocator Multi Manager FoF Scheme is an asset allocation fund of fund, which allocates between equity and debt, through a well defined methodology.

The OAA can move between 0% to 100% equity and similarly 0% to 100% debt. At present ETFs are used for allocation to equities and cash funds are used for allocation to debt.

It avoids using actively managed equity funds for allocation to equities because of two reasons:-

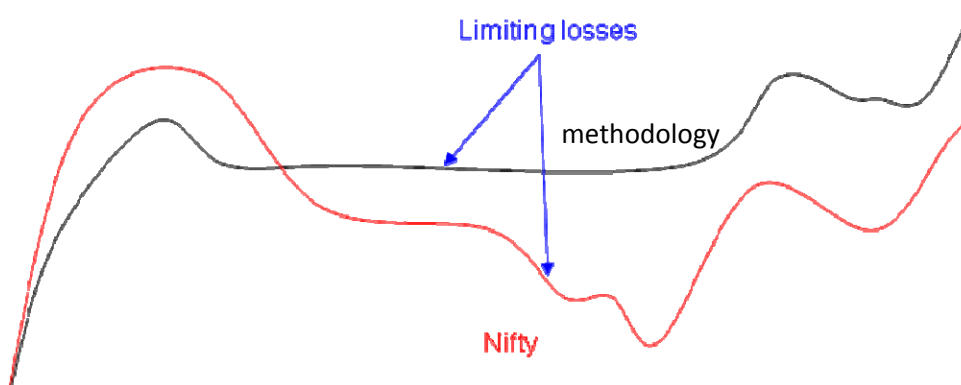
- ETFs helps intra-day rebalancing; and
- Actively managed funds at times underperform the index. Since equity allocation in the fund is determined by quantitative process, underperformance of actively managed fund could coincide with the equity allocation.

The OAA methodology

The objective of the OAA investment process is to catch the trend and allocate assets accordingly. In an upward market, the scheme increases allocation to equities and participates in the rising trend, while in a downward market, the fund exits equities and allocates to cash funds.

The allocation to equities in the upward or downward markets is in steps of 25%. e.g. in the upward market, it would increase from 0 – 25% - 50% - 75% - 100%.

A graphical representation of how the methodology could work is shown below.



Source: ING IM Internal Research

The above diagram is for the purpose of understanding the methodology and not to be construed as actual

The OAA methodology, apart from other things, also uses the moving averages and historical volatility.

Moving averages help in closing on the trends. e.g. In an increasing trend, as the markets cross the moving averages, equity allocation would be increased to participate in equities.

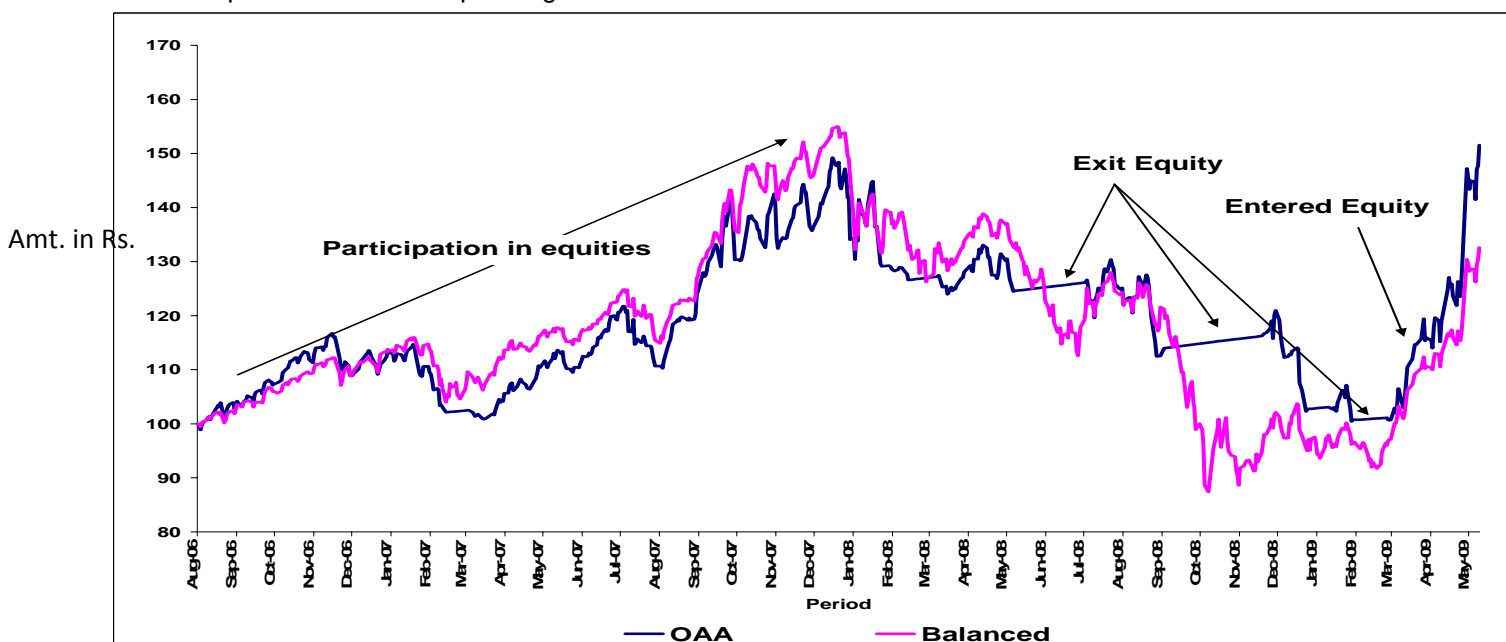
Volatility helps in identifying noise from the trends, closing on the true signals and eliminating the false signals. e.g. In highly volatile markets scenarios, significant amount of money can be lost if bought at higher levels and sold at lower levels. Volatility parameters do not help taking such decisions based on such false signals.

Fund Performance

Methodology driven products are often based on historical testing. The biggest challenge in such products have been the sampling bias.

Sampling bias means that the methodology adopted works very well in the data taken while does poorly when you take a data different from the sample data. As a result, when such methodologies are applied in real life, the results are often different and poor when compared to simulation prepared at the beginning. So, the real test of a methodology always is performance in real life.

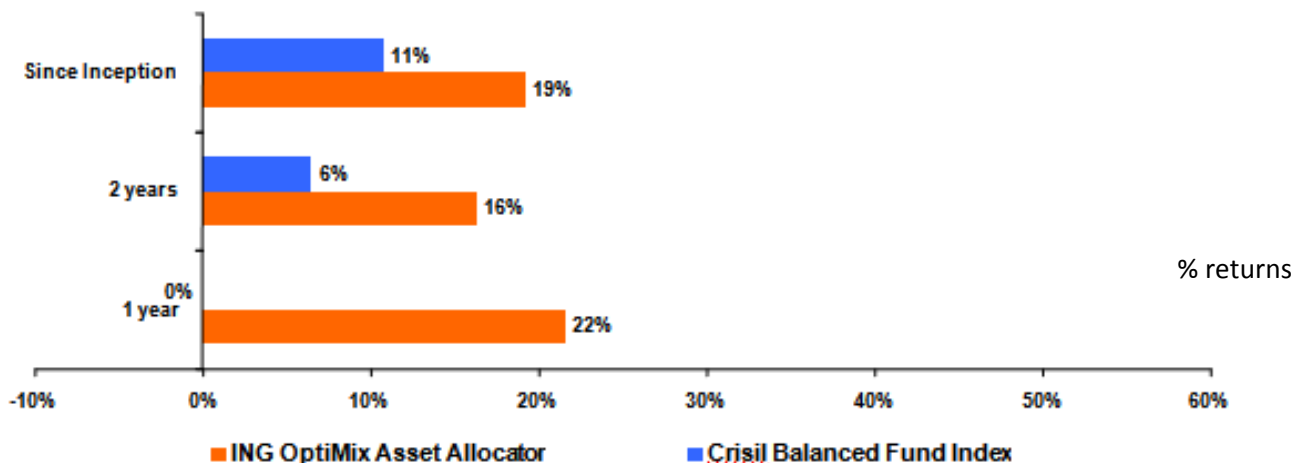
Asset Allocator process has been operating since 2006 and the results are shown in the Exhibit below:



Source: ING IM Internal Research and MFI. Figures as of 29th May, 2009. Balanced is Crisil Balanced Fund Index. **Disclaimer:** The product characteristics are not necessarily reflective of the benchmark asset allocation and thus returns may differ. * Returns for the period less than one year - Absolute, Returns for the period one year and above - CAGR. Benchmark: Crisil Balanced Fund Index. Past performance may or may not be sustained in future

The process did underperform in rising market while was able to save significant amount of capital in 2008 fall by exiting equities in a secular down market. The above Exhibit is a NAV movement by taking inception date at a base of Rs. 100 for the fund and its benchmark.

Recent period returns are shown in the Exhibit below:



Source: ING IM Internal Research and MFI. Figures as of 29th May, 2009. Past performance may or may not be sustained in future

The scheme has been able to add value through its asset allocation model by outperforming the benchmark over all periods.

Risks in the fund

The fund can underperform in shorter time period and could become volatile. So, it is meant for investors who can sustain short term volatility and are willing to invest for long period and want to experience the full market cycle.



Arvind Bansal

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INVESTMENTS

www.ingim.co.in



Investment Objective: ING OptiMix Asset Allocator Multi Manager FoF Scheme: The primary objective of the Scheme is to generate capital appreciation primarily from a portfolio of equity and debt funds accessed through the diversified investment styles of underlying schemes selected in accordance with the ING OptiMix Multi Manager investment process.

Statutory Details: **Sponsor:** ING Group, **Trustee:** Board of Trustees of ING Mutual Fund, **Investment Manager:** ING Investment Management (India) Private Limited. **Risk Factors:** Mutual Funds and securities investment are subject to the market risks, and there is no assurance or guarantee that the objectives of the Schemes will be achieved. As with any investment in securities, the NAV of the units issued under the scheme can go up or down depending on the factors and the forces affecting the capital markets. Past performance of the Sponsors/ Mutual Fund or their affiliates does not indicate the future performance of the Scheme. The Sponsors and associates are not responsible or liable for any loss resulting from the operation of the Scheme beyond the initial contribution of Rs. 1 lakh made by them towards setting of the mutual fund. The name of the Scheme does not in any manner indicate either the quality of the Scheme or its future prospects and returns. The Schemes does not guarantee or assure returns. Please read the Scheme Information Document /Statement of Additional Information / Key Information Memorandum carefully before investing. A copy of the Scheme Information Document / Key Information Memorandum along with the application form can be obtained from the ISCs. Contact Call free no 1800 22 6784. **Important Disclosures:** This note is for information purpose only and does not constitute an offer of investment products nor does it constitute any prediction of likely future movements in rates/prices or any representation that any such future movements will not exceed those shown in any illustration. Professional advice should be obtained before acting on any information herein. ING Investment Management (I) Pvt. Ltd. (IIM), India & ING Mutual Fund (IMF) should not be held responsible or liable for any acts/ deeds done based on the information stated herein. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of. companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an Investment. The investment discussed or views expressed may not be suitable for all investors. IIM, India has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of opinions/in house views incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time. The recipient should take this into account before interpreting the document. This document has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of IIM, India. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither the Mutual Fund, nor the Company/Directors/Trustees or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained herein.