ING Global Perspectives™ 2012 Forecast

Market Update • Forecast 2012

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Fundamentals Press on Despite Global Risks in 2012

The two primary drivers of market performance — fundamentals and global risks — acted in opposition in 2011. It is critical to understand the hierarchy of influence of these drivers in order to understand the current market and to forecast its future direction. Although spikes in global risk may make headlines and cause temporary shocks to investor confidence, the market's path ultimately comes down to the strength of the underlying fundamentals. We expect 2012 will mark the third consecutive year that fundamentals relentlessly march forward despite ample global risks.

Forecasts for 2012

Investors should remain focused on fundamentals. With U.S. corporations the primary beneficiary of global growth, we favor domestic equities. Large-cap stocks are expected to do well in 2012, but superior earnings should lead to the outperformance of mid- and small-capitalization names. The consumer discretionary sector, a consistently solid performer over the last two years, will benefit from a stronger consumer in 2012, a potential game changer at 70% of the U.S. economy. Additionally, the technology sector will benefit from the continued migration from computers to handheld devices. Global REITs will continue to experience strong cash flows from the firming commercial property sector, and global bonds offer foreign currency exposure, higher yield and lower correlation, increasing portfolio diversification.

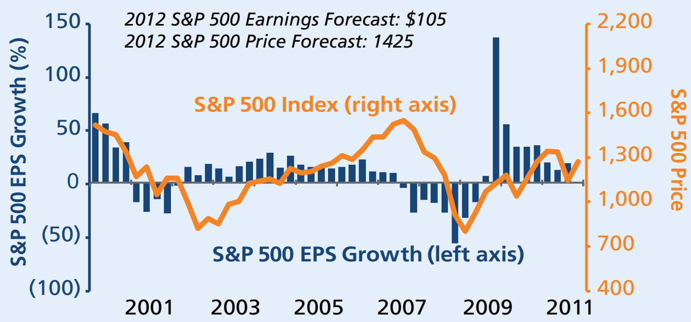
Successful investing demands a choice between prudent risk control and outright risk avoidance. Attempting to escape all the risks is capitulation, an unwise course at a time when fundamentals — the real economy — again surpassed expectations despite global risks reaching crisis levels in 2011. Notwithstanding economic, market and political histrionics, we expect compelling fundamentals to drive strong returns for broadly diversified portfolios in 2012.

Global Perspectives Model Allocation

Index	Wgt	Dec-12	QTD	2011	2010	2009	2008	2007	1 Year	3 Years	5 Years	10 Years
Equity												
S&P 500	10%	1.0	11.8	2.1	15.1	26.5	(37.0)	5.5	2.1	14.1	(0.3)	2.9
S&P MidCap 400	10%	(0.4)	13.0	(1.7)	26.6	37.4	(36.2)	8.0	(1.7)	19.6	3.3	7.0
S&P SmallCap 600	10%	1.3	17.2	1.0	26.3	25.6	(31.1)	(0.3)	1.0	17.0	1.9	7.1
U.S. REITs	10%	4.1	14.1	4.7	23.5	21.0	(41.5)	(20.2)	4.7	16.1	(6.1)	6.8
EAFE	10%	(0.9)	3.4	(11.7)	8.2	32.5	(43.1)	11.6	(11.7)	8.2	(4.3)	5.1
Emerging Markets	10%	(2.2)	4.4	(22.7)	9.8	93.5	(59.3)	59.1	(22.7)	18.0	1.2	16.8
Average		0.5	10.6	(4.7)	18.3	39.4	(41.4)	10.6	(4.7)	15.5	(0.7)	7.6
Fixed Income												
Corporate	10%	2.1	1.9	8.1	9.0	18.7	(4.9)	4.6	8.1	11.8	6.8	6.4
U.S. Treasury 20+	10%	3.4	1.8	33.8	9.4	(21.4)	33.7	10.2	33.8	4.8	11.1	9.2
Global Aggregate	10%	0.7	0.2	5.6	5.5	6.9	4.8	9.5	5.6	6.0	6.5	7.2
High Yield	10%	2.7	6.5	5.0	15.1	58.2	(26.2)	1.9	5.0	24.1	7.5	8.9
Average		2.2	2.6	13.2	9.8	15.6	1.9	6.5	13.2	11.7	8.0	7.9
60/40 Porfolio		1.2	7.4	2.4	14.9	29.9	(24.1)	9.0	2.4	14.0	2.8	7.7

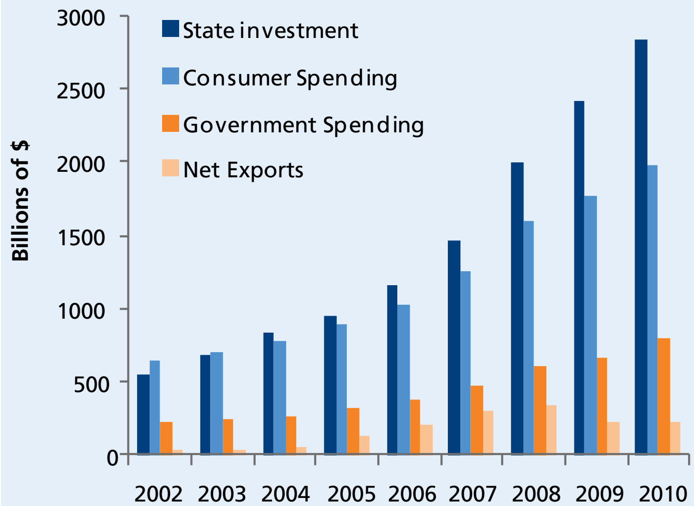
Source: MSCI, Standard & Poor's, FactSet

Corporate Profits are the Key Fundamentals of the Market



Source: Standard & Poor's, First Call, FactSet, ING Investment Management

The Possibility of a China hard Landing is a Global Risk



Source: International Monetary Fund (IMF) as of 2011, China Bureau of Statistics

2012 Market and Economic Forecasts

S&P 500 Price	1425
Dow Jones Price	14000
S&P Earnings per Share	$105
S&P 500 Price/Earnings Ratio	13.5
U.S. 10 Year Treasury Yield	2.86%
Inflation	2.50%
Unemployment Rate	8.00%
Crude Oil (NYM $/BBL)	$80
Gold (NYM $/OZ)	$1,500
U.S. GDP Growth	2.50%
Euro GDP Growth	0.25%
Global GDP Growth	3.50%

Source: ING Investment Management

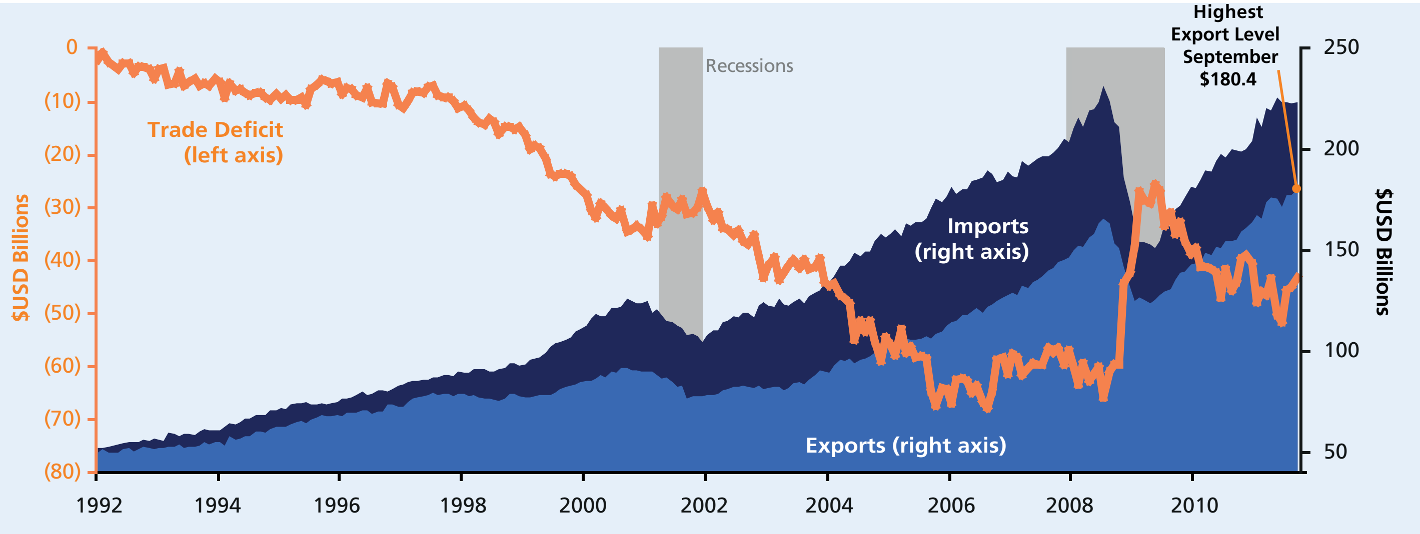
2012 Drivers — Fundamentals Continue Their March Forward in 2012

- **Advancing corporate profits.** For each of the past 10 quarters, 70%-plus of the S&P 500 have delivered positive earnings surprises. S&P 500 earnings are on target for a record $96.50 per share for full-year 2011, and our 2012 forecast — at $105 per share — sees this record eclipsed again.
- **Broadening manufacturing.** U.S. manufacturing continues to be a powerhouse. It has expanded for 28 consecutive months, driven by global trade and, in particular, emerging market growth. Meanwhile, U.S. exports surged to an all-time high of $180.4 billion in September. Recently passed free-trade agreements should help this trend to accelerate.
- **Consumer strength underestimated.** Even with unemployment at 8.6%, the U.S. consumer — responsible for 70% of GDP growth — remains a potential game changer. After seven consecutive monthly increases, U.S. retail sales are at their highest levels ever. We forecast that consumer strength will help drive unemployment down to 8%.
- **Developing economies driving global growth.** Emerging markets are a key catalyst for global growth and should help the United States avoid a recession in 2012 and Europe to experience a moderate and short-lived recession in 2012.

2012 Risks — Global Risks Will Continue to Compete with Global Fundamentals

- **European debt crisis.** Dramatic action by the Federal Reserve and by the "troika" of the International Monetary Fund, the European Central Bank and the European Union in September gave us the strong indication that an effective "fence" was put around the euro crisis, and we issued a "full sail" contrarian call in our September Global Perspectives monthly. A positive trajectory strengthened the "fence" in October and November, including a bank recapitalization plan and a fiscal union plan, respectively. The risk is in the implementation, and a lot could go wrong with 27 countries in the European Union required to agree in unison with any and all plans. We expect continued volatility in Europe.
- **China hard landing.** China's banks are already heavily subsidized, with rampant problem loans, an enormous property bubble and an emerging middle class that is increasingly demanding a higher standard of living. The lending excesses led to inflation, which China countered with draconian restrictions that adversely impacted property prices and the confidence of industrial purchasing managers later in 2011. Beijing ultimately reversed its tight policy by cutting the bank reserve ratio half a percentage point. China has enormous foreign currency reserves and the state rule to implement easing policies needed to counter a hard landing. With massive stimulus already in place, however, a second round may constitute a real challenge.

Trade is Leading the Way to New Economic Highs, Notably Intra-Emerging Market Trade



Source: FactSet

The Possibility of a China Hard Landing is a Global Risk

- **U.S. debt and growth crisis.** The largest economy in the world is still the most important driver of global growth. The low-growth/high-debt environment jeopardizes world growth forecasts. We are optimistic but fear excessive regulation, rising entitlement spending and lack of pro-growth economic policies.
- **Commodities bubble burst.** This could be both good news and bad news, as investors increased their allocation and exposure to a very volatile asset class (a flawed strategy we call "gaming diversification"). Gold prices will likely decline as the economy becomes more certain. Platinum in particular has fallen like a rock, down more than 20% in the past three months.

Tectonic Shifts Influencing Growth

For 2012, both fundamentals and risks will be driven from a global perspective, marked by the continued emergence of trends we believe will have a profound impact on the worldwide economy.

Trade. It is not just China that is leading the way to new economic highs. New trade routes between Asian and Latin American countries — the intra-emerging market trade — are shaping the economic landscape; it is estimated that by 2025 Asia will overtake Europe as the world's largest trading region. Evidence of this pivotal transformation in global trade abound:

- The expansion of the Panama Canal — including the opening of a new lane that can accommodate ships with three times the current maximum capacity — will significantly increase transport speed and capacity and trigger a flurry of activity to the ports of the U.S. east coast.
- The Trans-Pacific Partnership — a planned trade coalition that would include nine countries accounting for 35% of the world's global trade — could prove to be a model for future free trade agreements among multiple nations.
- Africa — apparently undeterred by problems in the euro zone — is seeking to create its own version of a common economic union to achieve greater integration and spur economic growth.

Trade is the way forward: The best prescription for growth is to encourage and promote it. This is achieved fairly simply by a globally competitive tax and regulatory environment, abundant free-trade agreements, strong rule of law for all trading partners and a strong dollar.

Energy. The global energy landscape is shifting. The U.S. is on the forefront of exploration of new non-renewables — shale oil, shale gas, oil sands and off-shore deepwater oil wells — thanks to extraordinary technological advancements. By 2020, North America will dominate energy production, and the U.S. could be the top oil and gas producer in the world. This may have a significant positive impact on employment that is not yet factored into the markets. Here are only a few of the developments in energy:

- Deepwater oil production has doubled in the last five years, now comprising 8% of total oil production. The Gulf of Mexico is the premier global hot spot of deepwater oil exploration.
- U.S. natural gas reserves have increased 63% in the last decade. The U.S. is the Saudi Arabia of natural gas. Based on the latest discoveries, the U.S. has surpassed Russia in natural gas reserves and has enough to meet demand for 90 years.
- Canada is second only to Saudi Arabia in oil reserves. Canada's oil reserves increased 3,576% since 2000, and the province of Alberta is estimated to have 170 billion barrels of reserves.

Frontier Markets. Certain countries in Africa, Eastern Europe, Southern Asia and South America represent the new breed of newly emerging or "frontier" markets. We believe that the economic activity in these frontier economies will more than make up for a potential slowdown of markets like China, India and Brazil, which at this point in their development are "emerging" in name only.

Technology. Technological innovation is unpredictable, unforecastable and unstoppable, exerting a powerful influence over every sector of the market. So much more than the laptop-to-handheld wave, technological developments are changing the overall landscape in sectors as diverse as energy, industrials, health care, consumer discretionary and utilities. Influencing consumers, governments, companies and even the success or failure of entire economies, technology can drive both top-line revenue and bottom-line profits with new products and improved productivity. ■