

We bring to your attention the impending change of control affecting ING Real Estate managed funds. It is hard to elaborate until we have seen the formal proposal but Resolution Capital has recently made public comments about what we would like to see in principle and have expressed them to the independent directors and senior management. Nevertheless, because of the stage at which the deal is believed to be poised it may be worth reinforcing and elaborating on what we have already said. We expect unitholders will be given the opportunity to vote on any proposal.

It is important to recognise that there are a number of vested interest at play: REIT investment managers who want the number of stocks to remain elevated in order to justify their A-REIT Property Securities Fund products; investment banks seeking the transaction fees and subsequent round of sweet-heart deals; incumbent management trying to protect their jobs; investors trying to maximise the value of their stocks for example by supporting one vehicle at the expense of another and; asset managers with conflicting interests looking to “milk the fee cow” while ring-fencing the underlying assets from potential bidders otherwise prepared to make a full bid for the assets.

The toxic result of these vested interests was at worst highlighted by the GPT-Babcock & Brown-Westfield disaster. Unitholders, particularly mums & dads did not appreciate the real risks and were not gaming the stocks involved like the institutions more focused on alpha rather than maximising investment value. The reputational damage to the industry of these deals has not been repaired and will experience another nail in the coffin if a less than appropriate deal is consummated involving the ING Real Estate platform.

The risk is that the independent directors are being corralled into believing that there are only two options: an internalisation and merger of the vehicles or selling the management rights to other parties.

This should be a decision based on what is best for unitholders and believe that all the options have not been fully explored eg winding up the funds and/or internalising and keeping them separately listed.

We would not reject a merger and internalisation *on the right terms*, a point we wish to stress.

However, **our preference** is to keep the vehicles separately listed and make them independently managed. In this way the vehicles remain attractive to a broad range of market participants and the long term value of the portfolios should be maximised. To do otherwise risks compromising the structural integrity.

Scale has been used as justification for why running the office and industrial vehicles separately is not viable. We believe this is nonsense. The pay packets and overheads of some of the mediocre A-REIT management teams are ridiculous even if one ignores the pathetic returns that many have delivered. These vehicles can be run for significantly less by more competent managers and we highlight ALE Property Group and Cromwell as two vehicles producing competitive long term results with CEO's earning approximately \$1 million pa or less with asset pools smaller than a number of the ING real estate funds. Given the reasonable quality of the properties and simplified strategies, with a realistic overhead and absence of poison pills these vehicles can produce competitive returns.

If ING were to move under the control of vehicles managed by investment banks or developer/fund managers with clear conflicts of interest then the outlook for these stocks in particular is significantly diminished. To these participants trying to secure management rights we urge the independents to reject anything short of a full takeover of the vehicles.

If they are allowed to be managed without poison pills the platforms will remain attractive for a wide range of industry participants: mums and dads, institutional investors, real estate investors and corporates domestic and global. A future takeover offer will not be jeopardised as was the case with GPT's compromised structure.

If management remains external and is passed to entities connected to investment banks and/or developer/fund manager's fees will be excessive (including those “hidden”). Conflicts will be hard to manage to benefit of ING unitholders.

Surely it is time to draw a line in the sand and demand a better future for the sector - and this is the time to do it. Our preference is to **make the vehicles “clean”!**

We say to ING and to independent directors: be patient, share your wisdom and honour your fiduciary responsibilities. Otherwise the fund management industry and individual investors must show that it will not tolerate at best mediocrity and at worst a breach of fiduciary duty. This should be an exciting and positive development for investors and a milestone for the industry.

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