ING Prime Rate Trust Fund

Closed-End Fund | Strategy Brief June | 2012

NYSE Symbol: PPR **Inception Date:** 5/12/88
CUSIP #: 44977W106
NAV Symbol: XPPRX

Fund Overview

Security Selection

Our fundamental credit analysis focuses on free cash flow generation, adequacy of collateral coverage, and relative value assessment both within a borrower's capital structure and against a competitive peer group

Diversification

We believe extensive diversification is a defensive strategy guarding against high relative volatility and extraordinary credit loss.

Industry Allocation

We consider several top-down factors to determine the most attractive industries, including growth prospects, supply/demand dynamics, capital availability and credit trends.

Sell Discipline

Our proprietary Research Delivery System tracks all investment management functions, enabling our team to detect potential credit deterioration. We maintain accumulate/hold/reduce ratings on all investments at all times.

Duration

Since we invest in floating rate debt with frequent interest rate resets, the portfolio will have an ultra-short duration, typically 40 to 60 days.

Yield Curve

Given the ultra short duration of the portfolio, yield curve analysis is not a significant part of our investment process.

Investment Objective[1]

- Seeks to provide investors with as high a level of current income as is consistent with the preservation of capital. The Trust utilizes financial leverage to seek to increase the yield to the holders of common shares.

Investment Strategy

- The Trust seeks to achieve its investment objective[1] by investing under normal circumstances at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in below investment grade senior loans. These loans generally offer more attractive yields and are typically secured by borrower assets. The Trust targets the top-tier of the below investment grade senior loans in order to achieve superior long term risk-adjusted returns with lower volatility, rather than seeking the absolute highest returns at the expense of significantly increased credit risk and volatility.
- Invests at least 80% of net assets in U.S.-dollar-denominated, floating-rate, secured senior loans.
- Targets top-tier, below investment grade senior loans seeking to achieve superior long term risk-adjusted returns with lower volatility.
- Uses leverage to enhance return potential.

1 There can be no assurance that the Fund will achieve its investment objective.

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Manager Commentary

Market Review

For all the volatility rippling through the financial markets during the second quarter, the global senior loan market turned in a very respectable showing. Strong supply/demand technical and fundamental conditions held sway during April, driven by investor desire for meaningful yield in the form of secured, floating rate loans. New loan supply, while varying in overall quality and consistency, generally kept pace with expanding demand, thereby providing a reasonably healthy technical balance, historically a positive catalyst for positive loan price performance.

Investor sentiment shifted significantly in May, due to growing unease over a potential material slowing of the U.S. and global economies and nervousness surrounding the early-May elections in Europe. As a result, investors generally lost their collective risk appetite and directed capital toward the so-called "safe havens" (i.e., the U.S. dollar, U.S. Treasuries and domestic investment grade debt) at the expense of both equities and high yield bonds (the S&P 500 was down 6.01% for the month, while the Credit Suisse High Yield Bond Index lost 1.32%). Loans, while not totally unscathed, did fare better (-0.68% for the Index). We believe loans outperformed due to the added protection of collateral and a compelling yield, both on an absolute basis and relative to other income-producing alternatives.

Tensions eased across global financial markets in June, as Greece's new election indicated that its exit from the euro zone was unlikely, at least in the immediate future. Also, the European leaders' decision to allow their new rescue fund to inject capital directly into banks, and not just the member states, was perceived as a positive step toward greater European integration and the goal of breaking the bank/sovereign correlation. These events supported investors' appetite for risk, benefiting the loan asset class with a +1.05% total return, almost completely recovering the prior month's loss. There were also led to better supply/demand technical conditions for the U.S. loan market, after the May set-back

Portfolio Review

The Trust outperformed the Index during the second quarter. A primary driver of performance was a continued emphasis on wider-spread new issue loans, as evidenced in part by an increase in the weighted average nominal spread of the Trust's loan assets to 4.44%, from 4.21% at the end of the previous quarter. This measure excludes the contribution to yield of each loan's base LIBOR rate or minimum LIBOR "floor" (the latter associated with 77% of the Trust's loans based on par value as of June 30), which averaged 137 basis points (bp) at quarter-end.

The Trust's performance was somewhat diminished by its intentional underweight to the lower quality component of the loan market. The CCC sub-Index posted a quarterly return of 3.91%, driven by a small number of high-beta loans that are either currently in default or will likely face some type of restructuring before their final contractual maturities (most of which reside in calendar 2014). This compares to the average single-B and double-B return of 0.61% and 0.55%, respectively, during the quarter. The Trust's continues to be sufficiently diversified in terms of individual issuer and industry sector. The average issuer position at June 30 stood at 0.39%, while the average industry exposure was 3.03%. Sector positioning did not change meaningfully during the quarter, nor did the Trust's average credit quality (as reflected by ratings from Standard & Poor's and/or Moody's).

Derivatives did not have any material impact on the Trust's performance over the past quarter.

Current Strategy and Outlook

Visibility into the balance of 2012 remains shrouded in uncertainty. The second quarter's earnings season has just started. While the initial results have been generally favorable, expectations have been ratcheted down, consistent with recent indicators pointing to at least a moderate slowdown of the U.S. economy. While the European sovereign debt crisis and questions about the sustainability of global growth will continue to weigh heavily on investors' minds, the political dynamic here in the U.S. is bound to capture an increasing share of the headlines. As we get closer to year-end, growing fears about a U.S. "fiscal cliff" in January 2013 could create more volatility given the dim chance for resolution before the November presidential election. This type of uncertainty pushes businesses to delay investment and hiring decisions, factors that cannot be easily assuaged by any central banker's monetary policy tools.

While this environment is causing wariness, at this point we view as favorable the current conditions in the loan market, both supply/demand technical and fundamental. However, we continue to guard our optimism due to the litany of concerns outlined above. The general expectation is for the U.S. loan market's default rate to drift higher over the next 12-18 months, while remaining beneath the 3.4% historical average. As of today, however, indicators remain positive, including the default rate at a record-low 0.17% at the end of June. While our full year 2012 return expectations remain intact at the year's half-way mark, we are reminded that loans, as an asset class, were following the same path at this point in 2011, until the U.S. Federal Reserve Board, by way of its now infamous anti-rate hike comments, single handedly took the wind out of the sails

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Performance

For the quarter ended June 30, 2012, the ING Prime Rate Trust returned was 0.91% based on NAV. The Trust's total market value return, based on full reinvestment of dividends, was 3.03%. For the same period, the S&P/LSTA Leveraged Loan Index had a gross return of 0.73%.

Past performance does not guarantee future results. The performance quoted represents past performance. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. The Trust's performance is subject to change since the quarter's end. Please call (800) 992-0180 or log on to www.ingfunds.com to obtain performance data current to the most recent month-end.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. The Trust invests primarily in **below investment grade, floating rate senior loans** that carry a higher than normal risk that borrowers may default in the timely payment of principal and interest on their loans, which would likely cause the value of the Trust's Common Shares to decrease. **Changes in short-term market interest rates** will directly affect the yield on the Trust's Common Shares. If such rates fall, the Trust's yield will also fall. If interest rate spreads on Trust's loans decline in general, the yield on the Trust's loans will fall and the value of the Trust's loans may decrease. When short-term market interest rates rise, because of the lag between changes in such short term rates and the resetting of the floating rates on loans in the Trust's portfolio, the impact of rising rates will be delayed to the extent of such lag. Because of the **limited secondary market** for floating rate senior bank loans, the Trust's ability to sell its loans in a timely fashion and/or at a favorable price may be limited. An increase in the demand for loans may adversely affect the rate of interest payable on new loans acquired by the Trust, and it may also increase the price of loans purchased by the Trust in the secondary market. A decrease in the demand for loans may adversely affect the price of loans in the Trust's portfolio, which would cause the Trust's NAV to decrease. The Trust's **use of leverage** through borrowings or issuance of preferred shares can adversely affect the yield on the Trust's Common Shares. The Trust may invest up to 20% of its assets in loans to borrowers in countries outside of the U.S. and Canada. **Investment in foreign borrowers** involves special risks, including potentially less rigorous accounting requirements, differing legal systems and potential political, social and economic adversity. The Trust may invest up to 15% of its assets in loans that are denominated in certain foreign currencies, however, the Trust will engage in **currency exchange transactions** to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations. Other risks include but are not limited to: **Borrowings; Preferred Shares; Diversification Risks; and Concentration Risks. These and other risks are described more fully in the Fund's prospectus and the most current annual or semi-annual report. The prospectus should be read carefully before investing. Consider the Trust's investment objective, risks, and charges and expenses carefully before investing.**