



## NEWGATE *Market* MONITOR

### *Newgate's Global Resources Portfolio rose 11.3%...*

**N**atural resource investments had a strong finish to what proved to be a solid year. The Portfolio rose 11.3% during the 4th quarter and 60.1% for the year. The Dow Jones-UBS Commodity Index was up 9.0% in the quarter and 18.9% for the year.

**MARKET REVIEW.** The global economic recovery now appears certain, if not robust. The surge in China's natural resource-related imports has put consumption growth back to pre-crisis levels, if not higher. Even December's spike in the US dollar Index (DXY) provided some evidence of normality returning to the resource markets. A rising dollar is generally negative for commodity related investments, though outside of gold, there was relatively little market impact as the dollar reversed course.

**PORTFOLIO REVIEW.** The continued strength of base metals, mining companies and related service industries has been an upside surprise. We have taken profits several times across a broad range of these companies throughout the year. Copper, zinc and aluminum all had double digit gains during the quarter. The HSBC Global Mining Index rose almost 20% and was up over 140% for the year. By quarter's end, we had taken further reductions across diversified miners and eliminated all direct exposure to nickel.

We increased our allocation to steel stocks to capitalize on the improving economy and the increased infrastructure activity fueled by government stimulus. The small allocation to mining equipment (2%) boosted returns as these stocks gained over 50% in the quarter. Collectively, the base metals sector, including equipment and metallurgical coal used in steel production, comprises over 30% of the Portfolio.

At one point, gold rallied over 15% in the quarter but gave back half of that gain when the dollar strengthened. Gold finished the year up 24%. Silver gave up all the quarter's gain in December, but still closed the year up 49%. The XAU Index of gold mining stocks rose under 2% in the quarter and finished the year outperforming gold, up 36%. Precious metals were reduced to below 5% of the Portfolio as the dollar improved. Gold's primary value driver is as a monetary hedge. Given our views on the strengthening global economy, we would rather focus on resources with increasing demand, such as copper or energy.

Energy prices climbed this quarter, with oil and natural gas up 12% and 14%, respectively. Natural gas is one of few commodities that had price declines this year. Inventories of oil and natural gas are still high but started to decline as winter arrived. The biggest news was the purchase of XTO Energy by ExxonMobil, suggesting that at least one major player believes that natural gas will become a more strategic resource. A key for natural gas will be the expansion of its use as a transportation fuel and for increased electricity generation. Currently, the US gets 50% of its electricity from coal and 20% from natural gas. Changes to the regulatory environment, including "cap and trade," are likely to benefit gas (and gas companies) at the expense of coal.

The Portfolio has over 20% allocated to energy production companies, with an emphasis on natural gas. Servicers and drillers comprise another 12%. Refining margins have been poor; therefore we have avoided the pure refining companies. However, improvement in the margin outlook has led to increased allocations to integrated energy companies with refining capacity. We had favored the European names, but now like the US companies as the dollar strengthens relative to the Euro.

Agriculture remains an important allocation (over 15%) of the Portfolio. Fertilizer demand is strong and sugar supplies are tight, leading to strong returns in both areas. We eliminated our position in the livestock ETN to fund additional purchases of sugar and agriculture processing companies.

**OUTLOOK.** We enter the year in a generally supportive environment for the Portfolio. Increased economic growth and loose monetary policies are expected to benefit commodity prices. We believe that dedicated commodity equity investments are becoming more accepted by institutional and retail investors.

The underlying business of most natural resource companies is stable. Regardless of fluctuations in the economy, miners mine, drillers drill and farmers farm. Furthermore, demand will increase, as billions still want greater access to transportation, housing, and better food. Perhaps the most basic resource, clean water, is becoming the most discussed. The companies in Newgate's Global Resources Portfolio are both benefiting from and providing solutions for these important considerations. ♦



**NEWGATE**  
CAPITAL MANAGEMENT LLC

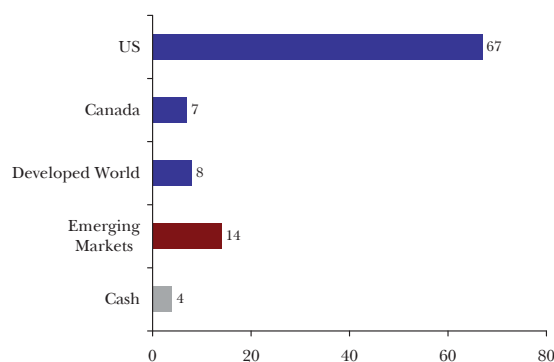
# GLOBAL Resources PORTFOLIO

## NEWGATE PERFORMANCE AS OF 12/31/09

	Cumulative Return		Annualized Return	
	NEWGATE	DJ-UBS INDEX	NEWGATE	DJ-UBS INDEX
4Q09	11.26	9.03		
2009	60.09	18.91		
2008	-56.30	-35.65		
2007	50.91	16.23		
2006	14.13	2.07		
2005	29.20	21.36		
1 Year	60.09	18.91		
3 Year	5.92	-11.06	1.94	-3.83
5 Year	56.26	10.17	9.34	1.96
Inception*	100.65	9.53	13.08	1.62

\*4/30/04

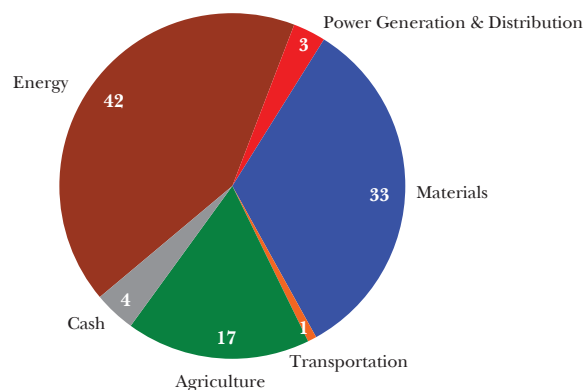
## COUNTRY ALLOCATION



## TOP TEN HOLDINGS (%)

Cliffs Natural Resources	United States	3.3
Apache	United States	3.0
Freeport-McMoRan	United States	3.0
Transocean	United States	3.0
Vale	Brazil	2.9
Southern Copper	Peru	2.9
CF Industries	United States	2.6
Consol Energy	United States	2.6
Mosaic	United States	2.6
Bunge	United States	2.5

## SECTOR ALLOCATION



<b>ENERGY</b>	<b>42</b>
Exploration/Production	21
Service/Drilling	12
Integrated Oil & Gas	4
Coal	3
Engineering/Construction	2
<b>MATERIALS</b>	<b>33</b>
Diversified Mining	13
Copper	7
Steel	4
Gold	3
Zinc	3
Machinery Equipment	2
Silver	1
<b>AGRICULTURE</b>	<b>17</b>
Chemicals	9
Operations	4
Food Products	2
Sugar	2
<b>POWER GENERATION &amp; DISTRIBUTION</b>	<b>3</b>
<b>TRANSPORTATION</b>	<b>1</b>
<b>CASH</b>	<b>4</b>

## PORTFOLIO CHARACTERISTICS

Average Number of Holdings	50-70
Average Market Cap	\$28.8 bn
Current Yield	0.9%

M I N D I N G T H E F U T U R E T O D A Y <sup>SM</sup>

Past performance is no guarantee of future results. Performance may vary across accounts. Returns are calculated using a time-weighted market value assuming reinvestment of dividends. Performance is reported net of management fees, commissions, and other direct expenses, but before custody charges, withholding taxes, and other indirect expenses. Performance shown is compared to the Dow Jones-UBS Commodity Index, a broad-based securities index that is unmanaged and not subject to fees and expenses. Investments cannot be made directly in a broad-based securities index. Any securities, sectors and markets listed are included for illustrative purposes at the time of publication and may not be held by accounts currently managed by Newgate. The securities identified do not represent all of the securities held in client accounts. It should not be assumed that any investments identified were or will be profitable. © 2010

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