



NEWGATE *Market* MONITOR

Investors continue to regard municipal bonds as one of the few areas where income and more importantly real, post-tax returns can be earned with an acceptable level of risk. Newgate's Municipal Income Portfolio gained 5.0% in the fourth quarter and 15.7% for the year, compared to 2.2% and 11.0% for the Lipper Municipal Income Index, respectively.

MARKET REVIEW. Municipal bonds were the surprise investment in 2011. It may have been logical to assume that the debt crisis engulfing Europe would reach American municipalities, but it didn't, at least not yet. The major municipal failures of Jefferson County, Alabama and Harrisburg, Pennsylvania have been correctly recognized as serious mistakes, and not as the first of many more to come. Municipal bankruptcies were historically low in 2011, approximately \$2 billion. A more expansive definition of municipal debt would encompass debt issued on behalf of, and guaranteed by, American Airlines. These bonds were considered in default when American and its subsidiaries declared bankruptcy in November. The amount of defaulted bonds is dwarfed given the \$3.7 trillion municipal market, as estimated by the Federal Reserve. The 30% increase in size in the second half of the year was due to a change in data providers. We point this out to highlight how the sheer size, large number of issuers (over 60,000), and an even larger number of individual bonds make the market inherently opaque and difficult to generalize.

Despite many issuers refinancing to take advantage of low interest rates, prices for bonds were supported by a modest \$287 billion in bond issuance in 2011, the lowest in ten years. The expiration of the Build America Bonds program and general fiscal conservatism are two reasons for the lack of new issues. State finances have generally improved during the year, as income and sales tax collections have been better than expected. Smaller issuers (towns, counties and various regional water and housing authorities) have seen

their finances deteriorate. These issuers depend on real estate taxes, user fees and similar revenue sources. In addition, many rely on transfers from the states. As states tighten their belts, they may be transferring financial difficulties to smaller governmental entities. State issued and general obligation bonds (backed by taxing revenue) are expected to offer higher yields and lower risks going forward.

PORTFOLIO REVIEW. Discounts on municipal bond funds have decreased substantially, hardly surprising given their high yield and relative safety compared to alternatives. However, municipal bonds still remain attractive relative to the low yield on Treasury securities. We have altered the Portfolio to take advantage of the condition of the municipal market. We have increased cash and unleveraged ETFs to decrease duration (interest rate risk) and allow for additional purchases should rates start rising. We have also invested in higher yielding, leveraged funds, such as the Nuveen Dividend Advantage Municipal Fund (NAD). The Fund yields 6.2%, with the bulk of its portfolio rated AA or better. Equally important, the Fund has a high level of Undistributed Net Investment Income (UNII). Funds with high UNII are more likely to keep dividends stable, or even increase them. During the quarter we reduced most of our holdings in single state bond funds. The yield advantage these funds once provided has largely disappeared, so there is no longer any extra reward for taking on the risk of a concentrated fund.

OUTLOOK. We believe that the long term impact of the sovereign debt crisis will be as much psychological as economic. Securities once viewed as bedrock are now considered quicksand. However, the converse is also true. Other securities, including corporate and municipal bonds, have been reevaluated – the perception of their risk has changed relative to government bonds. Newgate's Municipal Income Portfolio's 4.5% yield offers investors income, diversification and quality, a rare combination in the current uncertain environment. ♦

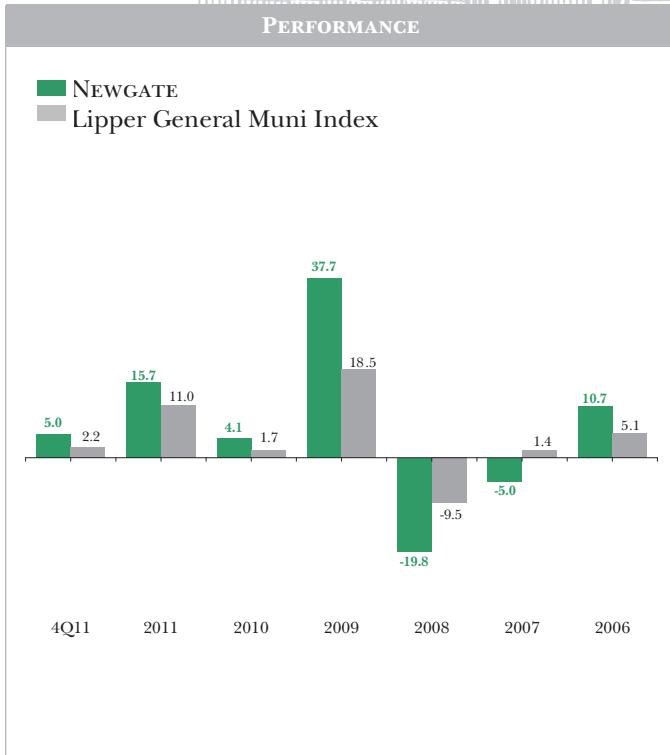
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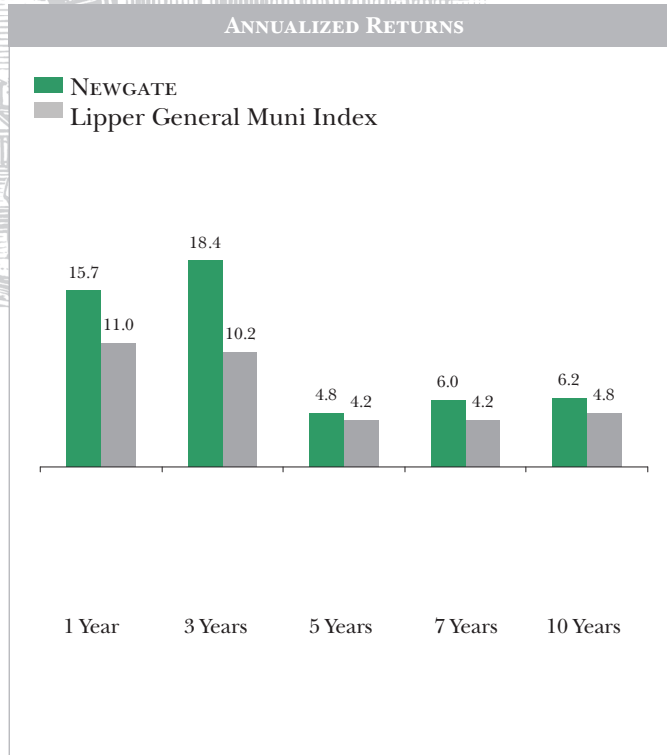
NEWGATE
CAPITAL MANAGEMENT LLC

MUNICIPAL *Income* PORTFOLIO

PERFORMANCE



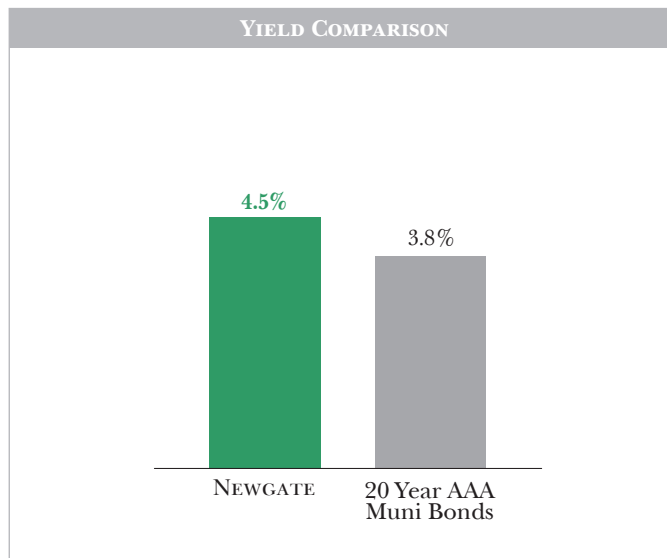
ANNUALIZED RETURNS



PORTFOLIO DATA

Yield	4.5%
Quality	A
Maturity	12.5 Years
Duration	6.2 Years
Cash	32.5%

YIELD COMPARISON



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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 Lipper General Municipal Income 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. © 2012

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