



NEWGATE

CAPITAL MANAGEMENT LLC

WINTER 2010

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EMERGING *Markets* PORTFOLIO

INVESTMENT OBJECTIVE

The portfolio seeks long-term growth of capital through investments in companies operating in emerging markets or whose shares are listed on the stock markets of such countries.

INVESTMENT PROCESS

Newgate uses a top-down, relative value approach to country and sector allocation. The investment process begins with a quantitative country and sector analysis to identify under-valued economic regions, countries and sectors.

Newgate uses fundamental analysis, investment experience and professional judgment to evaluate the impact of current geopolitical and macroeconomic factors in determining the levels of investment within each country. This approach takes into account social and political developments, demographic issues, market regulations and restrictions, shareholder protection and the impact of technological innovation.

Once the top-down regional, country and sector allocations have been determined, Newgate uses both quantitative and fundamental analyses for security selection. This rigorous, bottom-up approach focuses on a combination of relative valuation analysis and strategic business evaluation.

THE FIRM

Newgate Capital Management LLC is a privately held global investment advisor located in Greenwich, Connecticut. The firm provides investment management services to private, corporate and public funds, educational and charitable institutions, health-care organizations and private clients.

Newgate's primary mission is to provide superior risk-adjusted performance for their clients. Founded in 1982 on the philosophy of top-down, value oriented investing, Newgate has grown to become one of the world's leading investment houses.

INVESTMENT REVIEW

Newgate's Emerging Markets Portfolio finished a strong year up 5.2% in the fourth quarter and 60.6% for 2009. Over the past decade, the Portfolio has an annualized gain of 9.5%, compared to the 1% loss for the S&P and slight 1.6% gain for EAFE.

MARKET REVIEW. The global recovery appears on track, backed by multi-government stimulus and generally loose monetary policy in both developed and developing countries. Contrary to the conventional wisdom of just a year ago, emerging markets are actually leading the global recovery. The low levels of emerging market government debt are a key to their success, as it allows them to increase government spending to stimulate their economies. While developed nations are engaging in the same policy, their huge debt levels going into the recession clearly diminishes, and may even negate, the effectiveness of further spending.

Emerging market financial institutions generally have stricter lending standards; zero money down mortgages and preapproved credit cards are strictly a developed world concept. As a result, emerging market banks are in better condition relative to many of their global peers. Therefore, emerging market countries are expected to raise interest rates ahead of developed ones. While this may boost emerging market currencies against the dollar, there is concern that these economies may falter once monetary policy tightens.

While equity performance was robust across a broad range of emerging market securities, smaller capitalization companies did significantly better. The MSCI Emerging Markets Small Cap Index rose 114%, with smaller companies in Brazil and Russia gaining over 200%. There is effectively very little liquidity in these stocks; they cannot be traded in volume without having a major market impact. Newgate only invests in companies that meet our strict criteria for liquidity. Smaller companies should not be avoided, but they do represent a different risk/reward tradeoff and introduce liquidity risk. Despite their presence in the broader emerging markets index, these smaller companies really represent a separate and distinct asset class.

PORTFOLIO REVIEW. At 25% of the Portfolio, China remains our largest position on both an absolute and index-relative basis. Chinese stocks rose 9.6% in the quarter but underperformed during the year, rising "only" 62.3%. Many of the biggest stocks in China, such as energy and telecommunications companies had modest returns, and a few actually declined during the year, resulting in additional purchases of some of these companies. Equally important, relative to other Asian markets, we believe that earnings growth expectations for China are reasonable, if not conservative.

Taiwan gained 8.1% during the quarter. We raised our allocation to Taiwanese stocks to over 10% through additional purchases of technology companies. Technology orders rose over 40% during the three months ending in November, better than expectations. Taiwan's domestic economy is improving, with unemployment falling below 6% and consumption increasing. Korean stocks lagged and were up only 2.3%. We maintained our allocation of over 14% to Korea.

In keeping with our view of a strengthening global economy, we added to commodity stocks across a number of countries and industries, including coal mining in China, nickel in Russia, and copper in Peru. Commodity producing countries generally outperformed the Index during the quarter. Russia was up 10.5% and 104% for the year. Rising commodity prices benefits Russian companies but also allows the country to replenish its Treasury that was partially depleted to prop up the economy and currency.

Brazil was the best performing major market during the quarter and year, up 12.9% and 128%, respectively. The Brazilian Central Bank recently issued more hawkish statements on inflation, foretelling the beginning of a tightening cycle in 2010. Commodities were a significant contributor to performance, but so were select financial and consumer companies. Brazil is increasingly important as a producer of grains and livestock. Companies in this sector are becoming global players, not only shipping around the world but also buying companies in other countries, including the United States.

OUTLOOK. We begin the New Year optimistic for the asset class. Emerging markets are becoming a mainstream investment, with increased emphasis by institutional investors with long term time horizons. Markets are fairly priced overall, with values still apparent in some of the bigger companies in China and other parts of Asia. The growth differential between the emerging and developed world has never been greater, which should lead to increased investor interest and strong returns for the asset class in the coming year. ♦



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EMERGING Markets PORTFOLIO

PERFORMANCE & RISK • 10/31/91 to 12/31/09

	NEWGATE	MSCI EM INDEX
Annualized Return	11.26	10.08
Standard Deviation	24.83	28.14
Beta	0.83	
R ²	89	
Alpha	2.84	

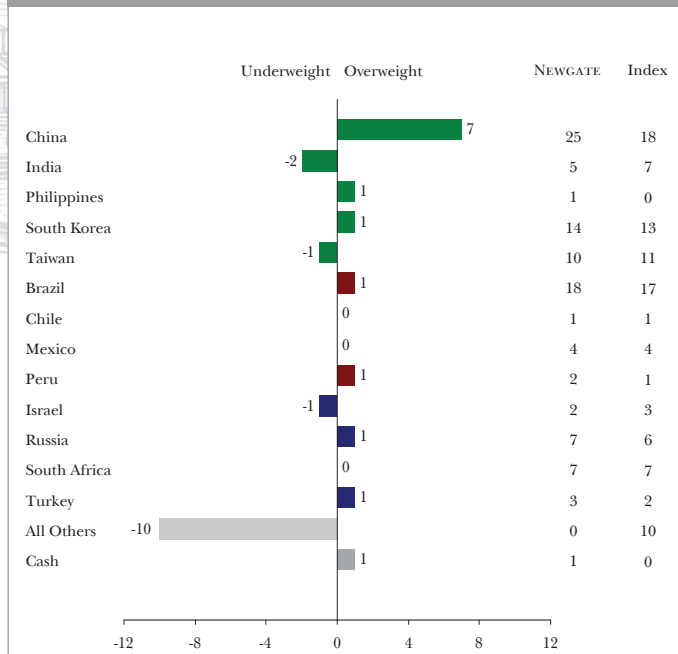
TOP TEN HOLDINGS

China Life Insurance	China	4.5
Petrobras	Brazil	4.1
POSCO	South Korea	3.5
Vale	Brazil	3.5
Taiwan Semiconductor	Taiwan	3.4
Itau Unibanco Banco Multiplo	Brazil	3.3
Lukoil	Russia	2.7
Shinhan Financial	South Korea	2.4
Gazprom	Russia	2.3
America Movil	Mexico	2.2

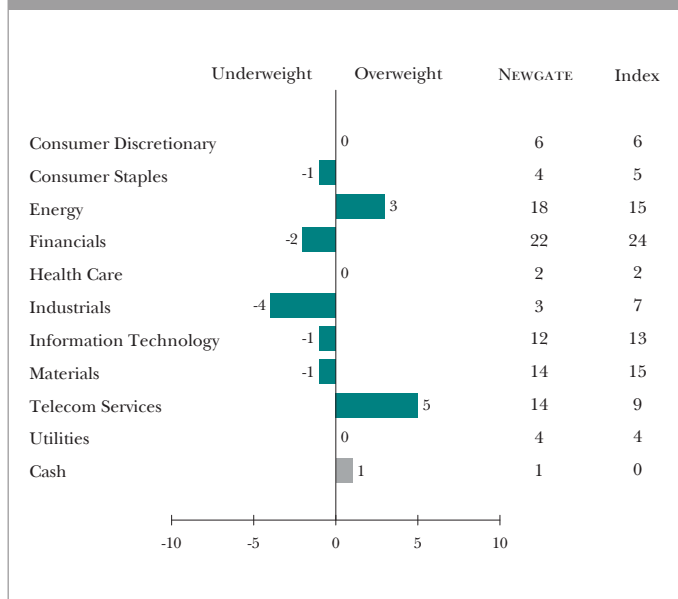
ANNUAL PERFORMANCE

	NEWGATE	MSCI EM INDEX
4Q09	5.15	8.58
1 Year	60.56	79.02
3 Year	2.15	5.42
5 Year	11.56	15.88
7 Year	18.14	22.39
10 Year	9.54	10.11
2009	60.56	79.02
2008	-51.25	-53.18
2007	36.15	39.78
2006	27.54	32.59
2005	27.19	34.54
2004	15.81	25.95
2003	60.45	56.28
2002	-8.06	-6.00
2001	-4.17	-2.37
2000	-12.06	-30.60

COUNTRY ALLOCATION



SECTOR ALLOCATION



M I N D I N G T H E F U T U R E T O D A Y SM

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 MSCI Emerging Markets 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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