



NEWGATE

CAPITAL MANAGEMENT LLC

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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. Newgate was established in 1982 as a research boutique focusing on top-down, quantitatively based strategies.

### INVESTMENT REVIEW

Emerging Market equities rebounded in the fourth quarter (up 4.5%), though they were still down 18.2% for the year. This was the first year since 2008 that emerging markets underperformed the developed world. Newgate's Emerging Markets Portfolio gained 4.8% during the quarter, compared to 4.5% for the MSCI Emerging Markets Index.

**MARKET REVIEW.** The dominant theme across all global markets remains the familiar "risk on, risk off" trade. Traders are buying and selling baskets of stocks seeking to capture short term gains. With their high correlation to global growth and global liquidity, emerging market equities make an ideal trading vehicle for hedge funds, proprietary trading desks and other "fast" players. This exaggerates the volatility, both up and down, for long term investors.

Performance of individual countries varied widely during the quarter. Notably, India was the worst performing major country (down 14.2%) in an otherwise positive quarter for Asian stocks. We had added modestly to our Indian holdings, but primarily in software, a sector more closely tied to the developed world rather than the local economy. Turkish equities declined the most, down 15.7%. Both countries are struggling with high inflation and uncertainty regarding future monetary policy.

Brazilian stocks rose 8.9%. Even though higher oil prices lifted the market, the biggest gains came from locally oriented businesses such as financial and consumer companies. The Brazilian economy nearly stalled in the second half of 2011; share prices had fallen sharply earlier in the year. However, a recovering global economy, combined with interest rate decreases by the central bank, caused the recent rally. The Portfolio benefited from its overallocation to Brazilian banks.

The most important country in emerging markets remains China, not only based on the size of the stock market but also on its imports of goods and services. The equity markets seem to be focused on the possibility of a "hard landing" in China. While a possibility, the much more probable outcome is that the economy may slow to 8% GDP (with a commensurate reduction in real estate prices). Data released at the end of December and early January 2012 support this opinion. The Chinese government is awash with cash, which will allow it, and therefore the overall economy, to absorb any bad loans made to development projects. This is the crucial difference between China and Greece; China self-finances its budget deficit. It does not need the outside world for investment – to the contrary, China is a net lender. Chinese shares were up 8.1% during the quarter.

Russian shares were down 6.1%. Despite higher prices for commodity companies in most countries, Russian energy and materials stocks posted losses. Russia is experiencing an unexpected degree of political unrest, and it is being compared to the Arab spring demonstrations in early 2011. Former President and now Prime Minister Vladimir Putin has been considered a popular leader, displaying a degree of strength and leadership highly valued in a country with little democratic history. However, his latest actions, technically complying with Russia's constitution while *de facto* remaining in power, and possibly running again for the Presidency, appear to be too much for many in the country. Our returns in Russia were positive, as our allocation to telecommunications outperformed the Russian market.

**PORTFOLIO REVIEW.** The biggest contributors to Portfolio performance during the quarter were Brazilian banks, Chinese materials and Russian telecoms. The Portfolio also benefited from being underallocated to India and Taiwan. Our overallocation to Chinese technology stocks and the underallocation to Korean semiconductor companies were the greatest detractors from performance.

**OUTLOOK.** We enter 2012 with a mixture of relief that one of the most difficult years in market history is over and a sense of guarded optimism. For several months there has been anecdotal evidence of an improving global economy, evidence only now being supported by statistics. Emerging markets were out of favor last year. Stock prices fell even as earnings grew, leading to valuations near the lows of 2008. We have positioned the Portfolio for better-than-consensus economic growth. This positioning was appropriate most of last year, with the exception of the European-caused growth scare of August and September. We think the Portfolio is appropriately positioned given the degree of pessimism found in global markets and believe the fears, while legitimate, are well priced into emerging market valuations. ♦



# EMERGING Markets PORTFOLIO

## PERFORMANCE & RISK • 10/31/91 to 12/31/11

	NEWGATE	MSCI EM INDEX
Annualized Return	9.37	8.90
Standard Deviation	27.66	25.09
Beta	0.86	
R <sup>2</sup>	90	
Alpha	1.73	

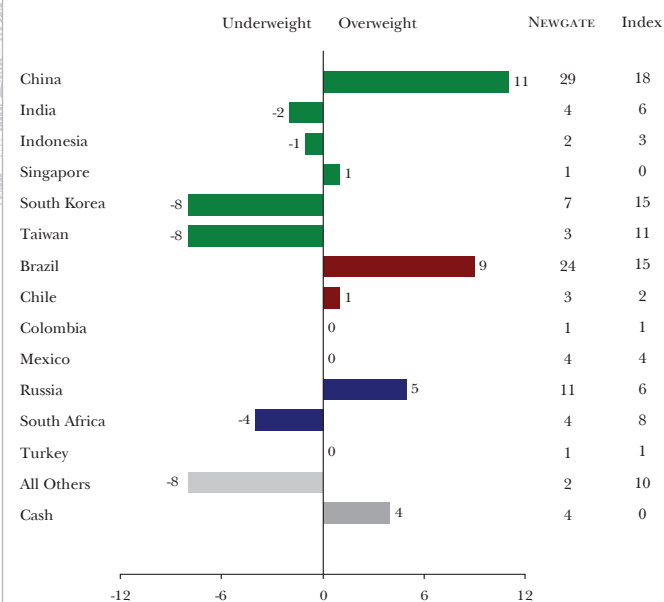
## TOP TEN HOLDINGS

Itau Unibanco Holding	Brazil	6.2
China Construction Bank	China	4.5
Vale	Brazil	4.1
Shinhan Financial Group	South Korea	3.8
CNOOC	China	3.6
Mobile TeleSystems	Russia	3.5
Las Vegas Sands	China	3.4
KB Financial Group	South Korea	3.1
Taiwan Semiconductor	Taiwan	2.9
Baidu	China	2.8

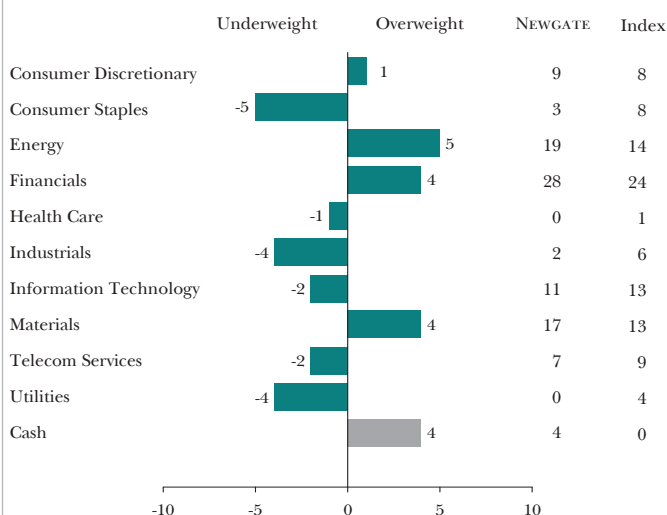
## ANNUAL PERFORMANCE

	NEWGATE	MSCI EM INDEX
4Q11	4.76	4.45
1 Year	-25.80	-18.17
3 Year	11.99	20.42
5 Year	-1.35	2.70
7 Year	6.12	10.71
10 Year	9.98	14.20
2011	-25.80	-18.17
2010	17.64	19.20
2009	60.57	79.02
2008	-51.25	-53.18
2007	36.15	39.78
2006	27.55	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 <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 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. © 2012

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