



NEWGATE

CAPITAL MANAGEMENT LLC

WINTER 2010

VOLUME 20, NUMBER 1

GLOBAL *Fixed Income* PORTFOLIO

INVESTMENT OBJECTIVE

The portfolio invests in government and corporate debt on a global basis. It earns high current yields without sacrificing overall investment quality. Our goal is to meet or exceed the returns of the benchmark index.

INVESTMENT PROCESS

Newgate uses a three-step discipline to identify and invest in taxable Closed-End Funds. The first is the use of top-down Asset Allocation which determines investment commitment and cash reserves. Secondly a Strategic Fund Evaluation that identifies the best performing funds and the third is acquiring the best values.

Newgate's investment strategy is primarily implemented through the shares of closed-end funds (CEFs), US and foreign ETF's, open-ended mutual fund and individual issues. Closed-end funds that invest in fixed-income securities offer a number of unique advantages to sophisticated investors. One of which is Higher Yields achieved by buying CEFs at discounts to their net asset value which result in higher current yields.

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, healthcare 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

Closed-end fixed income funds continued to rally in the fourth quarter, and by the end of 2009 had more than erased the prior year's decline. Global central banks have been successful in injecting liquidity back into the credit markets, although not a full measure of confidence. Newgate's Global Fixed Income Portfolio gained 6.0% during the quarter and is up 55.2% year to date, compared to 2.1% and 18.0% for the Lipper Global Fixed Income and 0.2% and 5.9% for the Barclays Capital US Aggregate Bond Indices, respectively.

MARKET REVIEW. Simply removing the fear that we were falling into a 1930s (or worse) depression accounted for a significant portion of the year's recovery. The major tension in the financial markets remains uncertainty regarding what will happen if monetary stimulus is withdrawn too early (renewed recession) or too late (hyper-inflation). For now, we appear to be within that window of economic recovery, while job creation in the developed world remains anemic.

Several major trends were broken during the quarter. After a year of decline caused by the Federal Reserve's ballooning balance sheet, the US dollar had a sharp reversal in December. At the same time, the longer end of the US Treasury curve sold off. Effectively, the markets reversed the dominant trends of 2008, with long-dated Treasury investments as the worst performing and high yield debt as the best. The fixed income market is forecasting that the Federal Reserve will raise interest rates by the middle of 2010, and the market is pricing this into the long end of the curve.

The recovery was caused not only by renewed liquidity in the fixed income markets as a whole, but also by restoration of confidence in the closed-end fund market. The widespread acceptance of exchange traded funds (ETFs) shows investor appetite for commingled vehicles to access certain segments of the market. These ETFs also provide an effective liquidity conduit to those segments where liquidity had vanished. ETFs are not only benefiting from the healing of the fixed income market, they are contributing to it. Newgate continues to add ETFs to the Portfolio in order to target selected sectors where traditional closed-end funds are either unavailable or unattractively priced. Traditional closed-end funds are also receiving greater investor interest, with the launch of two new fixed income funds in November and the reorganization of many funds to widen their appeal and increase liquidity. Fund companies also have had success unwinding auction rate preferred securities, the traditional sources of leverage for closed-end funds, and by finding additional sources of financing.

PORTFOLIO ACTIVITY. Our positive short term view on the US dollar led to trimming non-dollar exposure to 5% by year's end. We sold the Australian and Canadian currency ETFs (FXA and FXC) as well as the Templeton Global Income Fund (GIM). The mortgage market represents 13% of the Portfolio, as spreads between mortgage and Treasury securities are wide given the Federal Reserve's continued support for the market. Most of the Portfolio's exposure to mortgages comes through ETFs, which do not have the risk of leverage and widening discounts. At 20%, floating rate debt remains the largest single allocation in the Portfolio. We also increased holdings in investment grade corporate debt. Specialty funds like the Duff & Phelps Utility and Corporate Bond Trust (DUC) offer a yield near 7% with steady distributions. We also find value in multi-sector bond funds such as the Nuveen Multi-Strategy Income and Growth Fund 2 (JQC) that yields over 9% and is trading at a 14% discount.

OUTLOOK. After the recent volatility, like all investors we long for a "normal" year without booms or busts. Portfolio duration remains a low 3.0 years as we try to protect against declining Treasury prices. Our allocation to TIPS should also support the Portfolio if inflation appears sooner than expected. The Portfolio's high yield (6.8%) and high level of diversification should remain attractive as investors seek return and income in a near zero interest rate environment. ♦.



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GLOBAL *Fixed Income* PORTFOLIO

PERFORMANCE & RISK • TEN YEARS TO 12/31/09

	<u>NEWGATE GLOBAL FIXED INCOME</u>	<u>LIPPER GLOBAL INCOME INDEX</u>
Annualized Return	5.78	6.06
Standard Deviation	13.35	5.83
Beta	1.47	
R ²	41	
Alpha	-3.11	

RETURNS

	<i>Cumulative Return</i>		<i>Annualized Return</i>	
	<u>NEWGATE</u>	<u>INDEX</u>	<u>NEWGATE</u>	<u>INDEX</u>
4Q09	5.97	2.05		
1 Year	55.07	18.00		
3 Year	-2.81	16.90	-0.95	5.34
5 Year	5.95	22.93	1.16	4.22
7 Year	35.41	51.01	4.43	6.06
10 Year	75.32	80.08	5.78	6.06

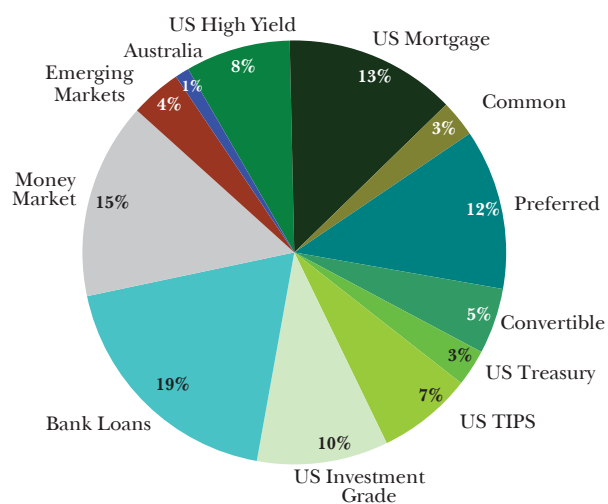
PERFORMANCE

	<u>NEWGATE</u>	<u>INDEX</u>
2009	55.15	18.00
2008	-28.12	-7.54
2007	-12.82	7.16
2006	14.09	7.21
2005	-4.43	-1.91
2004	4.90	8.51
2003	21.82	13.21
2002	8.69	11.68
2001	7.24	2.50
2000	11.09	4.18
1999	-2.06	-2.76
1998	1.15	6.34
1997	10.81	3.62
1996	11.20	10.02
1995	28.11	17.75

PORTFOLIO DATA

Yield	6.8%
Quality	BBB
Maturity	6.6 Years
Duration	3.0 Years

ASSET ALLOCATION



INTERNATIONAL	5
Emerging Markets	4
Australia	1
US	80
Bank Loans	19
Mortgages	13
Preferred	12
Investment Grade	10
High Yield	8
US Tips	7
Convertible	5
Treasuries	3
Common	3
MONEY MARKET	15

MINDING THE FUTURE TODAY 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 Lipper Global 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. © 2010

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