Newgate
Capital Management LLC
Summer 2010 Volume 20, Number 3

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

Even as the global economic recovery slows, investors have poured new money into the fixed income markets. Newgate's Global Fixed Income Portfolio gained 1.6% during the quarter and is up 8.4% year to date, compared to 0.4% and 2.1% for the Lipper Global Fixed Income and -0.04% and -0.3% for the Barclays Capital Global Aggregate Bond Indices, respectively.

Market Review. The bond market remains buoyant despite low interest rates. Though the global economy is improving, data releases in May and June suggest a tepid, rather than the desirable "V-shaped" recovery that is more common post-recession. Interest rate increases by the Federal Reserve and other major central banks have been put off for the foreseeable future. Emerging markets are generally accelerating much faster than their developed market counterparts, with many emerging countries raising interest rates.

The market's increasing pessimism on the economy can be seen in both the flattening of the Treasury yield curve and wider spreads for corporate bonds. While spreads on A-rated bonds barely moved, spreads for B-rated bonds widened 100-200 basis points, depending on maturity. Even government agency yields rose relative to Treasuries past three year durations.

The US dollar index (DXY) rose 9% from March 31, 2010 to mid-June as fears of sovereign debt default spread from Greece to Spain and Portugal. The developed world is seen as vulnerable to credit issues, though the "debt stress" is most acute in the smaller Euro-zone countries. Many economists believe it is only a matter of time before larger nations face a funding issue. The UK is already considered highly leveraged, due in large part to the government's takeover of failing banks and mortgage companies.

Portfolio Activity. Our more neutral view on the dollar relative to other developed market currencies led us to reintroduce non-dollar investments in the Portfolio. We purchased shares of the Templeton Global Income fund (GIM) to gain exposure to both developed and emerging market bonds. We reduced exposure to TIPS though the sale of the Barclays TIPS iShare (TIP), though we maintained positions in two closed-end funds from Western Asset/Claymore that are trading at modest discounts.

US Government related assets (Treasuries, mortgages and preferred stocks) comprise approximately 50% of the Portfolio. Global investors show nearly unlimited willingness to hold Treasuries. While conceptually these securities offer little value at current rates, concerns about deflation and fear of defaults by weaker sovereign issuers have kept the market trending higher. Both mortgage and preferred securities (primarily issued by financial firms) benefit from direct and indirect support by the Federal Reserve. Even though the Fed no longer actively purchases mortgage securities, it has not divested either. Despite low yields on US government bonds, there are still value opportunities in funds like the Alliance Bernstein Income Fund (ACG), with a yield near 6% and a discount over 6%, for a fund primarily invested in Treasury and agency bonds.

Our exposure to the corporate sector remains focused on investment grade bonds, with a heavy emphasis on essential service companies in the utility sector. The Duff & Phelps Utility and Corporate Bond Trust (DUC), with a 6.8% yield, typifies the income advantage by moving beyond Treasuries. In contrast, we reduced holdings in the high yield and convertible bond sectors. While the income potential is greater in those areas, they have a higher correlation with equities and greater overall risk, both unwarranted given the economic uncertainty.

Outlook. The long awaited shift out of Treasuries has been postponed, and in some ways reversed, as the global economy struggles to recover. The Portfolio was reallocated accordingly and successfully. The increased number and specificity of new ETFs has positively impacted our ability to manage the Portfolio, allowing us to add to opportunistic themes and to be more defensive at times, with increased liquidity. There are still substantial risks in the fixed income markets, but we believe that the expanded toolbox and our relative value orientation will allow us to be successful. ◈

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NEWGATE
CAPITAL MANAGEMENT LLC

GLOBAL *Fixed Income* PORTFOLIO

PERFORMANCE & RISK • TEN YEARS TO 06/30/10

	NEWGATE GLOBAL FIXED INCOME	LIPPER GLOBAL INCOME INDEX
Annualized Return	5.65	6.22
Standard Deviation	13.36	5.81
Beta	1.50	
R^2	43	
Alpha	-3.69	

RETURNS

	Cumulative Return		*Annualized Return*	
	NEWGATE	INDEX	NEWGATE	INDEX
2Q10	1.57	0.42		
YTD	8.42	2.08		
1 Year	31.13	13.50		
3 Year	4.62	18.34	1.52	5.77
5 Year	17.35	26.70	3.25	4.85
7 Year	29.44	42.45	3.76	5.18
10 Year	73.33	82.78	5.65	6.22

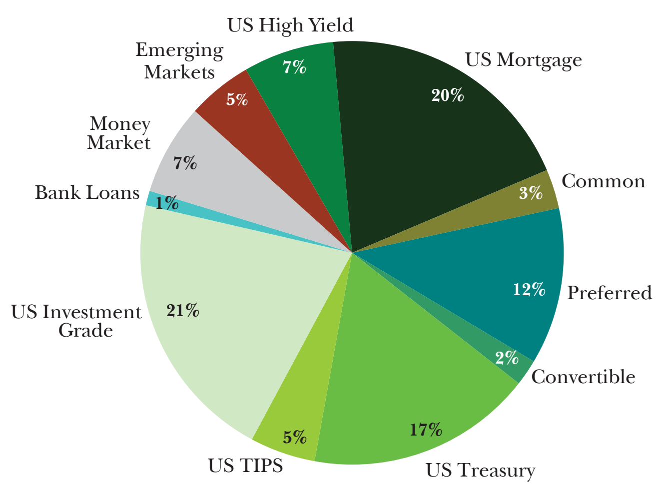
PERFORMANCE

	NEWGATE	INDEX
2009	55.08	18.00
2008	-28.13	-7.54
2007	-12.86	7.16
2006	14.07	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	6.7 Years
Duration	4.2 Years

ASSET ALLOCATION



INTERNATIONAL		5
Emerging Markets	5	
US		88
Investment Grade	21	
Mortgages	20	
Treasuries	17	
Preferred	12	
High Yield	7	
US Tips	5	
Common	3	
Convertible	2	
Bank Loans	1	
MONEY MARKET		7

• *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.

Investment products: not FDIC insured, no bank guarantee, may lose value.

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