



NEWGATE

CAPITAL MANAGEMENT LLC

SUMMER 2011

VOLUME 21, 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.

Founded in 1982 on the philosophy of top-down, value oriented investing, Newgate's primary mission is to provide superior risk-adjusted performance for their clients.

### INVESTMENT REVIEW

Newgate's Global Fixed Income Portfolio gained 4.4% in the second quarter and is up 6.1% year to date, compared to 2.2% and 3.7% for the Lipper Global Fixed Income Index, respectively.

**MARKET REVIEW.** The global economic recovery continues, but at a slower pace than most economists had predicted. Employment growth in the United States has been disappointing. Washington has been unable to resolve the upcoming debt limit. The markets have assumed that the US will come up with a solution for the near term and avoid an immediate downgrade. However, there has been long term, and possibly irreparable harm done to the US dollar as a safe haven currency.

The Federal Reserve ended the current round of quantitative easing but shows little inclination to meaningfully reverse recent bond purchases or raise interest rates. As a result, Treasury bond yields have remained low and the yield curve flattened during the quarter. Longer maturity bonds have outperformed shorter dated paper. Mortgage and other real estate related assets have outperformed the broader bond market. Federal Reserve action has been particularly supportive

of mortgages as it attempts to ameliorate the damage done to the housing and commercial property markets. Even with the recent outperformance, mortgage bonds are still attractive relative to Treasuries. Mortgages have a higher yield because they are subject to prepayment risk as borrowers refinance when rates drop. However, despite low interest rates, far fewer borrowers are seeking to refinance due to the additional scrutiny and lengthy process required. Mortgage investors have reaped the benefits of higher yields without suffering the loss of principal from prepayments.

In Europe, the never ending debt crisis continues. Greece, Portugal and Ireland had their debt downgraded to junk status. Spain and Italy are now being scrutinized. Spain's debt to GDP ratio is a relatively low 65%; Italy's is much higher at 120%. With bond yields rising in these countries, the problem can no longer be considered on the European periphery. Given the severity of the debt crisis, the Euro's stability against the dollar and other major currencies remains unknown.

**PORTFOLIO REVIEW.** Portfolio returns have come from a combination of above average yields, narrowing discounts on closed end funds and increases in funds' net asset values.

Despite very real concerns about the long term health of the US Dollar, we find the best value in dollar denominated securities. Market consensus is highly suspicious of the dollar, yet there are few other currencies that do not have a structural debt problem. Other currencies considered "safe" have appreciated sharply. Emerging market currencies are up 30% from their March 2009 lows. The Australian dollar is up almost 70% during this period. Dollar based assets appear more attractive as we look outside the US for opportunities. Investment grade funds, such as the Duff & Phelps Utility and Corporate Bond Trust (DUC) yielding 7.4%, are the largest allocation (over 16%) in the Portfolio. Total corporate (non-REIT) exposure comprises 50% of the Portfolio.

Deeply discounted mortgage focused funds, such as the American Strategic Income Portfolio II (BSP) yielding 11% with an 11% discount, represent approximately 10% of the Portfolio. We have taken profits in this area; Federal Reserve activity has been supportive of this sector, but cannot be relied on indefinitely. Treasury securities were reduced to less than 4% of the Portfolio, primarily by the sale of the Alliance Bernstein Income Fund (ACG).

**OUTLOOK.** Investors have been forced by the Federal Reserve to seek income outside of Treasury securities. Closed-end funds represent an efficient way to gain access to mortgages, preferred shares, senior loans and similar aspects of the fixed income market. Funds offer much greater diversification, with lower trading costs, than is otherwise available to most investors.

In contrast to governments, corporate balance sheets entered the recent period of economic uncertainty in good shape and have only improved since then. Duration of the Portfolio has been reduced to less than 3 years. The current yield of 7.0% represents a premium over government bonds worldwide and provides a needed level of diversification given current economic uncertainty. ♦



**NEWGATE**  
CAPITAL MANAGEMENT LLC

**GLOBAL *Fixed Income* PORTFOLIO**

**RETURNS**

	<i>Cumulative Return</i>		<i>Annualized Return</i>	
	<u>NEWGATE</u>	<u>INDEX</u>	<u>NEWGATE</u>	<u>INDEX</u>
2Q11	4.36	2.22		
YTD	6.08	3.71		
1 Year	12.33	9.73		
3 Year	34.13	21.85	10.27	6.80
5 Year	30.00	37.41	5.39	6.56
7 Year	37.46	50.79	4.65	6.04
10 Year	77.83	94.80	5.92	6.89

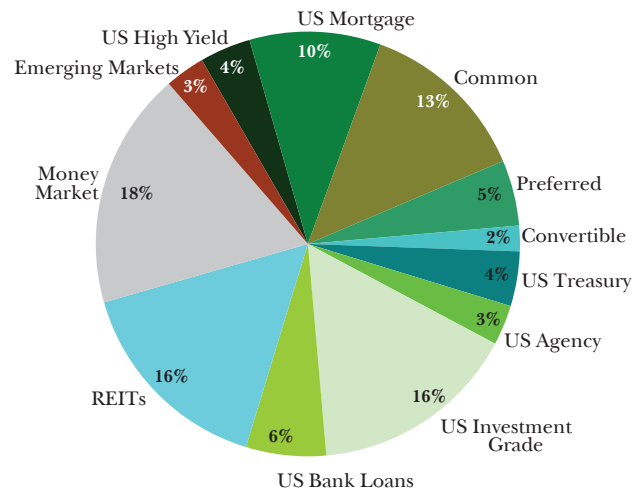
**PORTFOLIO DATA**

Yield	7.0%
Quality	BBB
Maturity	1.5 Years
Duration	2.4 Years

**PERFORMANCE**

	<u>NEWGATE</u>	<u>INDEX</u>
2010	14.81	8.01
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

**ASSET ALLOCATION**



<b>INTERNATIONAL</b>	<b>3</b>
Emerging Markets	3
<b>US</b>	<b>79</b>
Investment Grade	16
REITs	16
Common	13
Mortgages	10
Bank Loans	6
Preferred	5
High Yield	4
Treasuries	4
Agency	3
Convertible	2
<b>MONEY MARKET</b>	<b>18</b>

**MINDING THE FUTURE TODAY <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 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. © 2011

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

FOR FURTHER INFORMATION, PLEASE VISIT OUR WEBSITE AT: [www.newgatecapital.com](http://www.newgatecapital.com)