



NEWGATE

CAPITAL MANAGEMENT LLC

WINTER 2012

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

### INVESTMENT REVIEW

Newgate's Total Return Income Portfolio gained 4.0% in the fourth quarter, compared to a 1.1% gain for the Barclays Aggregate Bond Index. Continued intervention in the credit markets by central banks has resulted in artificially low government bond yields. Newgate's Portfolio focuses primarily on worldwide opportunities across all income oriented investments that can have higher yields than government or agency debt.

**MARKET REVIEW.** The fixed income markets remind us of an episode of Seinfeld. Everyone talks and talks, but not much actually happens. The European powers have engaged in over two dozen summits since the debt crisis began. While the market has reacted, at times violently, to every syllable uttered pre, post and during these summits, the net accomplishment has been hard to measure. There has been little in the way of policy change anywhere. The US Treasury yield curve looked nearly identical at the beginning and end of the quarter, with further inaction promised by the Fed for the foreseeable future. There have been intermittent signs of improvement in the global economy, most notably in the US employment market. However, fear of what may happen in Europe has resulted in

poor bond auctions in Greece and Italy and a lack of lending in the interbank market.

The combination of low interest rates and marginal improvement in the global economy led to strong performance for credit focused funds. High yield bond funds were the best performers, followed by loan funds. Returns declined proportionately as credit quality increased. The strong performance of senior loans is interesting. These securities provide protection in a rising interest rate environment and often fall in value when the forecast for future interest rates declines. Their recent rise may suggest some hedging by investors who believe that rates will rise faster than expectations, or merely that these assets are very inexpensive given the improving economy. Treasury Inflation Protected Securities (TIPS) funds were strong performers, gaining over 2% while most conventional Treasury funds were up less than 50 basis points. However, TIPS purchases announced by the Fed may have had a disproportionate impact on that notoriously thinly traded market.

The US dollar rose against most currencies, reestablishing its role as the primary safe haven in volatile markets. We have been relatively bullish on the dollar throughout the year. Despite the very real problems in the US economy, the dollar remains the best of a bad lot among the major currencies and economies. Only the market for US dollars globally is large enough to absorb the liquidity as money is withdrawn from European banks.

**PORTFOLIO ACTIVITY.** Even though the Portfolio had a strong return for the quarter, average fund discounts in the Portfolio increased, suggesting that fund valuations are better than they were at the end of September. During the quarter, the Portfolio's already modest allocations to fixed rate government and corporate debt were reduced with the sale of the Duff & Phelps Utility and Corporate Bond Trust. Mortgage and real estate related investments were reduced slightly, but still comprise almost 25% of the Portfolio. The Fed has purchased \$1.25 trillion in mortgage securities since the financial crisis and has said it will continue to reinvest in the sector as current loans get repaid. Expecting ongoing support from the Fed, we own funds like the Neuberger Berman Real Estate Securities Income Fund (NRO) with a 6.4% yield and at a 14.8% discount.

**OUTLOOK.** We believe that the long term impact of the sovereign debt crisis will be as much psychological as economic. Securities once considered bedrock are now considered quicksand. However, the converse is also true. Corporate, mortgage and other securities have been reevaluated – the perception of their risk has declined relative to government bonds. Investors are looking to corporate securities (both bonds and loans) not only to enhance return but also as protection against interest rates that will eventually rise. The Newgate Total Return Income Portfolio, with a 7.6% yield and 10.7% discount, offers an opportunity for real return in this low growth, low interest rate environment. ♦



# TOTAL Return Income PORTFOLIO

## RETURNS

	Cumulative Return		Annualized Return	
	NEWGATE	INDEX	NEWGATE	INDEX
4Q11	3.96	1.12		
1 Year	0.02	7.84		
3 Year	78.17	21.71	21.23	6.77
5 Year	11.69	37.01	2.24	6.50
7 Year	21.79	46.42	2.86	5.60
10 Year	69.16	75.35	5.40	5.78

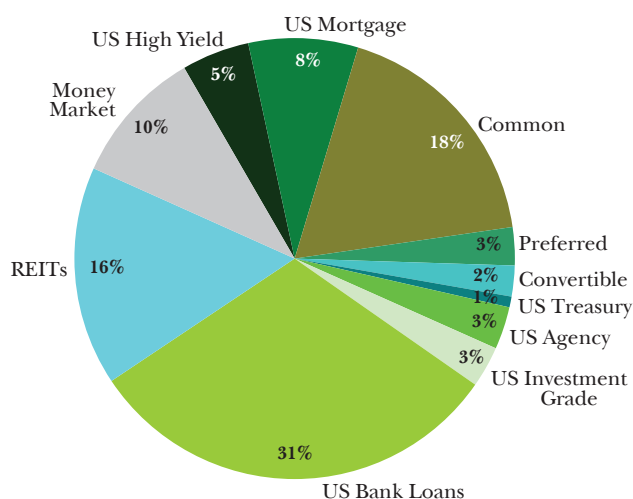
## PORTFOLIO DATA

Yield	7.6%
Quality	BBB
Maturity	3.8 Years
Duration	2.1 Years

## PERFORMANCE

	NEWGATE	INDEX
2011	0.02	7.84
2010	14.81	6.54
2009	55.08	5.93
2008	-28.13	5.24
2007	-12.86	6.97
2006	14.07	4.33
2005	-4.43	2.43
2004	4.90	4.34
2003	21.82	4.10
2002	8.69	10.25
2001	7.24	8.44
2000	11.09	11.63
1999	-2.06	-0.82
1998	1.15	8.69
1997	10.81	9.65
1996	11.20	3.63
1995	28.11	18.47

## ASSET ALLOCATION



US	90
Bank Loans	31
Common	18
REITs	16
Mortgages	8
High Yield	5
Investment Grade	3
Preferred	3
Agency	3
Convertible	2
Treasuries	1
MONEY MARKET	10

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 Barclays Capital U.S. Aggregate Bond 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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