



## • NEWGATE *Market* MONITOR •

*“For the year, Newgate Emerging Markets Portfolios increased 31.7%”*

**N**ewgate Emerging Markets Portfolios rose 8.3% during the fourth quarter, as global pension plans, government investment schemes, hedge funds and institutional investors poured capital into one of the fastest growing regions in the world. Earlier concerns about rising US interest rates, surging oil prices, terrorism and fears of a bird flu pandemic were pushed to the sidelines, as emerging markets experienced the largest capital market and foreign direct fund flows on record. For the year, Newgate Portfolios increased 31.7%, the third straight year of double-digit gains.

**MARKET REVIEW.** Surprisingly strong growth in China propelled most markets, especially those in Asia, which rose nearly 9% on the quarter. South Korean stocks rocketed over 15% as consumer confidence spiked, exports soared and local investors returned. Indian shares rallied over 8% on the back of “crossover buying”— purchases from global equity managers, not merely those dedicated to emerging markets. India, the developing world’s second economic growth engine after China, drew torrents of capital from overseas. As a result, the Indian market increased 38% in 2005. Ironically, despite all the attention surrounding China, its equity market actually closed the quarter slightly lower and underperformed the MSCI Emerging Markets Index by more than 1,500 basis points for the year.

In Southeast Asia, Indonesian stocks raced ahead by over 12% after the central bank raised interest rates to stabilize the rupiah and restore investor confidence. Thailand and Malaysia continued to languish, with the Thai market rising less than 1% during the quarter and Malaysia posting a slight decline of 2%. Thailand was significantly impacted by higher oil prices. Malaysian stocks are considered fully valued and therefore not as attractive to the crossover buyers that propelled Indian and South Korean markets.

Natural resource stocks continued to climb throughout most emerging markets. The rally in commodities, especially mining shares, was most noticeably felt in the Europe, Middle East and Africa (EMEA) region. South Africa increased over 9% on the strength of gold, platinum and diversified mining stocks. Russian stocks advanced a modest 4.5% in the quarter but ended the year up over 73%, the strongest performance of any major emerging market.

Latin American markets continued to climb, adding 3.5% during the quarter, to close the year up more than 50%.

After a great three-year run, negative forces seem to be weighing in on the region. The election of a left-leaning government in Bolivia, combined with continued bellicose statements from Venezuelan President Hugo Chavez, are causing investors to question whether Latin America will continue to be a friendly place for capital. In addition, Argentina and Brazil announced early paybacks of IMF loans, with both governments stating they would no longer participate in IMF sponsored programs. During the quarter, Brazil was up just 1%, Mexico 11% and Argentina fell over 13%.

**PORTFOLIO REVIEW.** For 2005 (and 2004), the Portfolio was primarily hindered by our overweight position in Taiwan, especially in Taiwanese technology stocks. At the end of the year, these shares began to participate in the global technology rally, but not enough to compensate for relatively poor performance earlier in the year. In addition to Taiwan, our overweights to both Indonesia and Thailand reduced our relative performance, while our underweights to China and South Africa helped. Strong stock selection in South Africa and Russia, particularly in resource names, added to portfolio performance.

**OUTLOOK.** We remain bullish on Asia despite higher energy prices. We will continue to overweight Taiwan and South Korea and underweight India. Valuations in China have become very attractive, and we are considering more mainland opportunities, particularly in telecoms, financials and energy. In Latin America, we are reducing our overweight to Argentina and maintaining our exposure to Brazil.

At Newgate, we believe that the 38% annualized returns of the past three years are unsustainable. Even with greater than 6% GDP growth and valuations at just 10 times 2006 earnings, emerging market returns should regress back to their historical levels of risk premiums – 9 to 10% over S&P 500 estimates (or roughly 15-18%). Over the next three years, we expect roughly half the return of the previous three, with all, if not more, of the risk.

Despite underperforming in the last two calendar years, Newgate Emerging Markets Portfolios have soared 177% during the bull market beginning September 2002. This represents a 93% upside capture ratio, our historical average. By comparison, our downside capture ratio has averaged just 76% since 1991. Capital preservation remains one of Newgate’s primary goals. ♦

• M I N D I N G T H E F U T U R E T O D A Y <sup>SM</sup> •



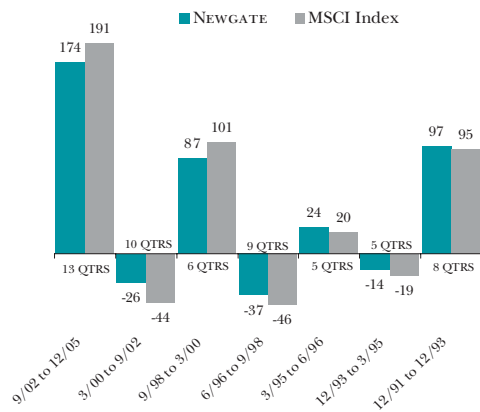
**NEWGATE**  
CAPITAL MANAGEMENT LLP

**EMERGING Markets PORTFOLIO**

PERFORMANCE & RISK • 10/31/91 TO 12/31/05

	NEWGATE	MSCI EM INDEX
Annualized Return	12.46	9.64
Standard Deviation	24.19	27.02
Beta	.84	
R <sup>2</sup>	.88	
Alpha	4.38	

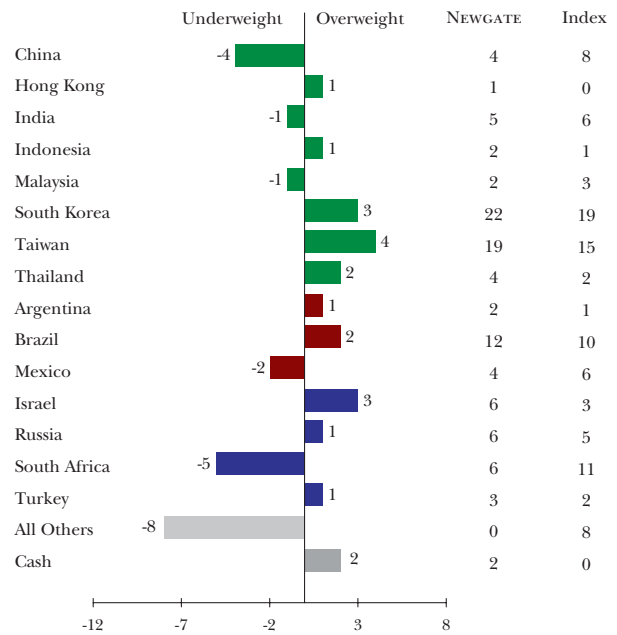
CUMULATIVE PERFORMANCE IN UP AND DOWN MARKETS



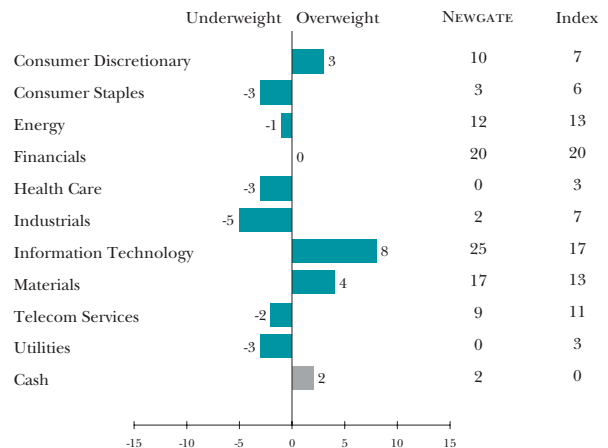
ANNUAL PERFORMANCE

	NEWGATE	MSCI EM INDEX
4Q05	8.31	7.20
1 Year	31.68	34.54
3 Year	34.45	38.35
5 Year	18.29	19.44
7 Year	18.47	15.88
10 Year	10.18	6.98
2005	32.06	34.54
2004	17.90	25.95
2003	57.34	56.28
2002	-2.45	-6.00
2001	-1.79	-2.37
2000	-17.40	-30.60
1999	72.87	66.42

COUNTRY ALLOCATION • 12/31/05



SECTOR ALLOCATION • 12/31/05



MINDING THE FUTURE TODAY <sup>SM</sup>

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