



NEWGATE

CAPITAL MANAGEMENT LLC

SUMMER 2009

VOLUME 19, NUMBER 3

EMERGING *Markets* PORTFOLIO

INVESTMENT OBJECTIVE

The portfolio seeks long-term growth of capital through investments in companies operating in emerging markets or whose shares are listed on the stock markets of such countries.

INVESTMENT PROCESS

Newgate uses a top-down, relative value approach to country and sector allocation. The investment process begins with a quantitative country and sector analysis to identify under-valued economic regions, countries and sectors.

Newgate uses fundamental analysis, investment experience and professional judgment to evaluate the impact of current geopolitical and macroeconomic factors in determining the levels of investment within each country. This approach takes into account social and political developments, demographic issues, market regulations and restrictions, shareholder protection and the impact of technological innovation.

Once the top-down regional, country and sector allocations have been determined, Newgate uses both quantitative and fundamental analyses for security selection. This rigorous, bottom-up approach focuses on a combination of relative valuation analysis and strategic business evaluation.

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, health-care 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

Emerging markets equities rose 34.8% during the second quarter as global investors snapped up shares at a record pace. Year to date, the MSCI EM Index has gained 36.2%, significantly outpacing the MSCI All World and all other developed markets indexes. Newgate's Portfolio gained 27.2% during the quarter and up 27.5% year to date.

MARKET REVIEW. The total value of emerging market equities reached an all time high relative to the global markets by the end of the second quarter. According to Bloomberg, emerging markets now comprise 24% of global market capitalization, up from 18% at the beginning of the year.

Since there has been very little IPO activity this year, relative outperformance of emerging markets has been the primary driver of this increase in market share. This outperformance, combined with attractive valuations and growth prospects, spurred over \$26 billion in fund flows into emerging market equities during the quarter. Overall, emerging market economies are relatively healthier than most of the developed markets. Forecasts of a major recession in China have proven false, and the Chinese economy is reaccelerating. Economies from Brazil to South Korea and Indonesia also appear to be heading out of recession.

The US dollar is also a significant factor in emerging market psychology. Developed market central banks have cut interest rates to essentially zero and have engaged in some form of quantitative easing. Any single country instituting these policies would see its currency weaken. But when all developed nations do it, the results are unclear. Since emerging market countries have stabilized interest rates, their currencies have generally appreciated against all those in the developed markets. Emerging markets (equities, debt and currencies) have become a hedge against US dollar weakness, and are likely to remain so even if the dollar rises against other developed market currencies.

Every emerging market had positive returns during the quarter. In Asia, India had the best performance, up 60%. May elections resulted in a strong coalition dominated by the Congress Party and its allies and reduced participation by the far left. It is expected that this realignment in government will allow the implementation of much needed economic and political reforms. Chinese equities gained 36% as the economy continued to expand at a better than expected pace. Korean equities rose 25% despite increased tensions with North Korea. The Korean won, which declined dramatically last year, rose almost 10% during the quarter on rising interest rate expectations.

In Latin America, Brazil rose 41%, bolstered by higher commodity prices. Mexico, that had been lagging due to its strong economic ties to the US, rose 36% during the quarter. At the end of May, Argentina was removed from the MSCI Emerging Market Index due to capital restrictions imposed by the Fernandez de Kirchner government.

Eastern Europe also experienced a rebound during the quarter. Russia rose 38%, aided by a stronger ruble and higher energy prices. Poland, hit hard by the global credit crunch, was up 37%, though it remains the only country with negative returns year to date.

Smaller countries tended to do well in all regions. Indonesia, Colombia, Thailand and Turkey each rose more than 50%. It is not unusual for markets with less depth and liquidity to have extreme swings in price, both positive and negative.

PORTFOLIO REVIEW. China remains one of the dominant themes in the Portfolio. Not only is the economy one of the most vibrant in our universe, but it continues to have a significant positive impact across most of its key trading partners. We ended the quarter with a 26% allocation to the country, modestly reduced by profit taking in Hong Kong. China was also the single largest contributor to last quarter's returns, followed closely by Brazil. We remain underallocated to Taiwan and India. Although the recent political developments are promising, valuations in those markets are not compelling enough and we are looking for more attractive entry points.

OUTLOOK. The Portfolio is invested in larger capitalization stocks that offer a higher degree of safety warranted in the current economic climate. While globally things are better, and better than the worst case expectations so commonly forecast, there are still risks to the global economy. Most emerging markets seem clearly in a superior position, with less debt and a simpler financial structure. At 13x earnings, valuations in emerging markets are still attractive, but are approaching historically average levels. What is not average is the growth rate differential between the developed and developing world, which should continue to attract capital into emerging market economies and reward investors with favorable returns. ♦



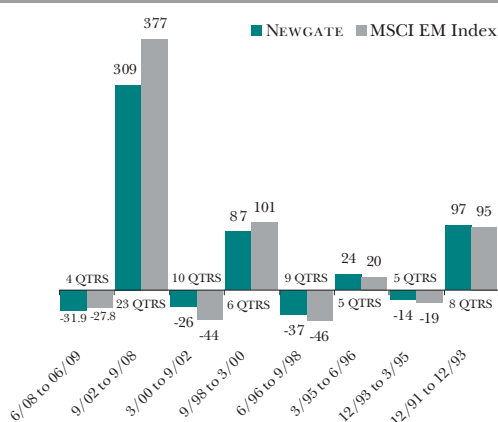
NEWGATE
CAPITAL MANAGEMENT LLC

EMERGING Markets PORTFOLIO

PERFORMANCE & RISK • 10/31/91 to 06/30/09

	NEWGATE	MSCI EM INDEX
Annualized Return	10.15	8.68
Standard Deviation	24.87	28.19
Beta	0.83	
R ²	89	
Alpha	2.91	

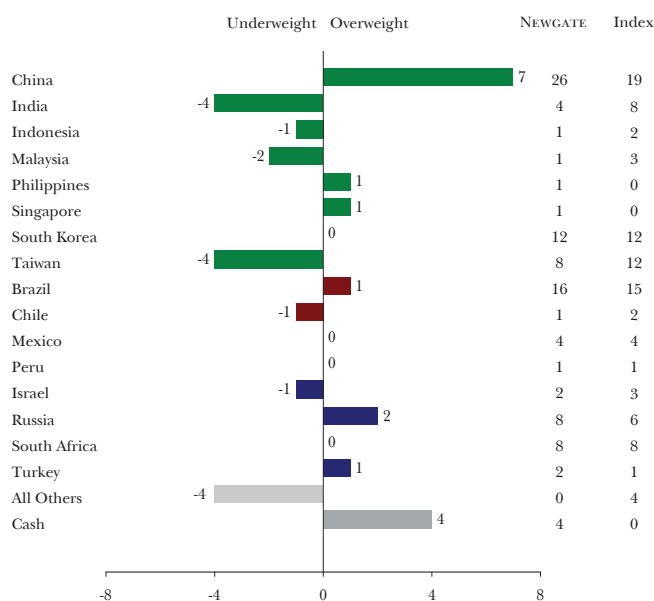
CUMULATIVE PERFORMANCE IN UP AND DOWN MARKETS



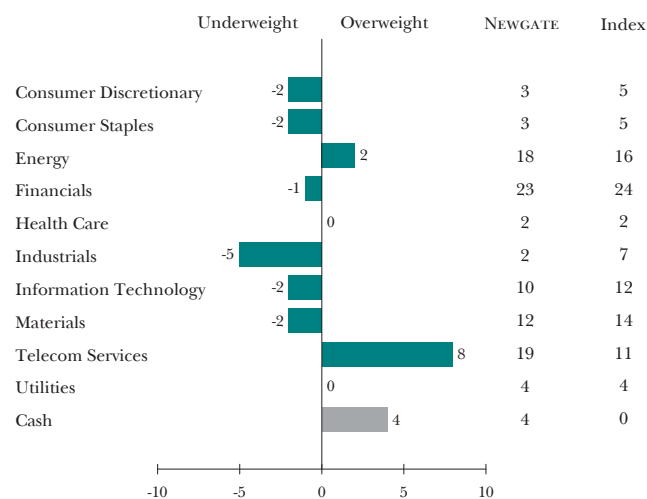
ANNUAL PERFORMANCE

	NEWGATE	MSCI EM INDEX
2Q09	27.23	34.84
YTD	27.49	36.22
1 Year	-31.88	-27.82
3 Year	0.13	3.27
5 Year	11.84	15.08
7 Year	12.72	16.33
10 Year	8.69	9.02
2008	-51.22	-53.18
2007	35.96	39.78
2006	27.52	32.59
2005	27.19	34.54
2004	15.81	25.95
2003	60.45	56.28
2002	-8.06	-6.00
2001	-4.17	-2.37
2000	-12.06	-30.60

COUNTRY ALLOCATION



SECTOR ALLOCATION



M I N D I N G T H E F U T U R E T O D A Y 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 MSCI Emerging Markets 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. © 2009

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