



NEWGATE

CAPITAL MANAGEMENT LLC

SUMMER 2009

VOLUME 19, 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 bench-mark 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

The average taxable bond fund rallied 5.3% in the second quarter, the best performance since the second quarter of 1995. Newgate's Global Fixed Income Portfolio gained 23.4% during the quarter and is up 28.2% year to date, compared to 7.8% and 6.1% for the Lipper Global Fixed Income and 1.8% and 1.9% for the Barclays Aggregate Bond indices, respectively.

MARKET REVIEW. Credit markets have continued to heal, with most sectors recovering to their pre-Lehman collapse metrics. The massive liquidity pumped into the global credit system by most central banks has resulted in low LIBOR and other short term rates. The current steepness of the yield curve clearly reflects some measure of confidence that rates will be rising in the near future. Pessimists, however, point to fears of inflation and a possible collapse in the US dollar as reason for the rise in longer rates.

While there are pundits and players on both sides of the deflation/inflation argument, the market itself seems to be finding a middle ground consistent with economic recovery. US Treasuries declined during the quarter. There are fears of rising inflation and the massive issuance required to pay for fiscal stimulus, bailouts and Obama administration proposals on healthcare and energy. Credit sensitive instruments,

including high yield bonds, traded loans and convertible bonds all rallied sharply.

The debate on the future of the US dollar (and therefore on US government bonds) as both a medium of exchange and a store of value now seems a permanent feature of the economic landscape. A number of foreign leaders, from the European Central Bank to various officials of the Chinese government, have suggested alternatives to the dollar. China has even engaged in currency swaps with Argentina, Malaysia and other countries to allow the use of the yuan in trade between their countries. This has weakened the dollar against most major currencies, and especially against commodity currencies such as the Australian dollar and the Brazilian real.

PORTFOLIO PERFORMANCE. Performance was positive across all sectors of the Portfolio. Discounts shrank for most funds, especially those holding government and higher grade corporate bonds. But returns for the Portfolio were also powered by rising NAVs as underlying fundamentals improved. Preferred stock funds and multi-strategy funds with large allocations to preferred stock were among the better performing. This sector is dominated by financial companies, which were buoyed by the successful "stress test" and repayment of TARP funds. Convertible bond funds also delivered strong results, as a rising equity market boosted their value. Funds with large allocations to US Treasury bonds and agency-backed mortgages had positive returns but did not keep pace with the more aggressive funds that are more credit-sensitive.

PORTFOLIO ACTIVITY. The sharp rise in prices during the quarter pushed a number of funds to be fairly valued, while others still have value. Several high yield funds, including the Blackrock Corporate High Yield V Fund (HYV), began to trade at or near premiums and were sold. Overall, high yield bonds now comprise less than 10% of the Portfolio. Senior loan funds, such as the Eaton Vance Floating Rate Income Fund (EFT), were increased to 17% of the Portfolio. Since they have floating interest rates, senior loans will benefit if interest rates rise. They are also a senior claim in bankruptcy and historically have had higher recovery rates than traditional bonds. We also have built an 8% position in (predominantly high grade) mortgage securities.

Exchange Traded Funds (ETFs) are increasingly becoming a significant tool for management of the Portfolio. Given current fund valuations, these represent an attractive way to express our views on the US dollar, without taking the risk of widening discounts on closed-end funds. Currency ETFs now comprise just under 6% of the total Portfolio.

OUTLOOK. The "rising tide" of the global economy and better expectations are not lifting all boats equally. While investment grade bonds and even some high yield bond funds seem fairly, if not overvalued, other aspects of the market, such as emerging market debt and senior loans are still discounted. After last quarter's strong rally, we remain cautious on the markets. ETFs and senior loans allow for participation in the recovery but also contain defensive elements. The Portfolio's 7.5% yield represents excellent value should the US Treasury market continue to sell off and force investors to rethink their core holdings. ♦



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GLOBAL Fixed Income PORTFOLIO
PERFORMANCE & RISK • TEN YEARS TO 06/30/09

	<u>NEWGATE GLOBAL FIXED INCOME</u>	<u>LIPPER GLOBAL INCOME INDEX</u>
Annualized Return	3.17	5.03
Standard Deviation	12.75	5.32
Beta	1.43	
R ²	35	
Alpha	-4.01	

RETURNS

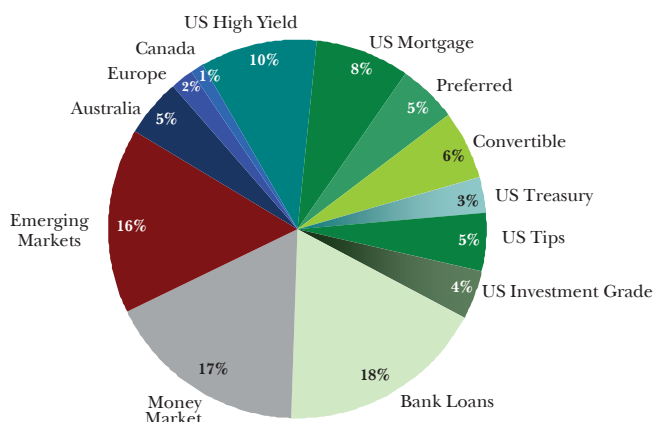
	<i>Cumulative Return</i>		<i>Annualized Return</i>	
	<u>NEWGATE</u>	<u>INDEX</u>	<u>NEWGATE</u>	<u>INDEX</u>
2Q09	23.44	7.81		
YTD	28.17	6.13		
1 Year	-9.05	-2.16		
3 Year	-11.85	10.33	-4.12	3.33
5 Year	-6.80	21.07	-1.40	3.90
7 Year	13.15	44.91	1.78	5.44
10 Year	36.60	63.41	3.17	5.03

PERFORMANCE

	<u>NEWGATE</u>	<u>INDEX</u>
2008	-28.12	-7.54
2007	-12.82	7.16
2006	14.09	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	7.5%
Quality	BBB
Maturity	6.1 Years
Duration	2.4 Years

ASSET ALLOCATION


INTERNATIONAL	24
Emerging Markets	16
Australia	5
Europe	2
Canada	1
US	59
Bank Loans	18
High Yield	10
Mortgages	8
Convertible	6
Preferred	5
US Tips	5
Investment Grade	4
Treasuries	3
MONEY MARKET	17

MINDING THE FUTURE TODAYSM

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. © 2009

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