



MUNICIPAL *Income* PORTFOLIO

INVESTMENT OBJECTIVE

The portfolio invests in federally tax-exempt securities offering high current yields.

INVESTMENT PROCESS

Newgate uses a three-step discipline to identify and invest in tax-exempt 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 implemented through the shares of closed-end funds (CEFs) that invest in tax-exempt securities. Unlike mutual funds, CEFs typically sell at discounts from their net asset value. The ability to invest in municipal bonds at substantial discounts to market value can dramatically improve returns without increasing overall risk. Buying CEFs at discounts to their net asset value can 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, insurance companies 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

Municipal bonds rallied in the first quarter as investor demand for tax-free municipals over Treasuries continued to increase, furthering the trend that began in mid-December. Closed-end municipal bond funds, which underperformed traditional bonds last year, are now responding positively to signs of stability and recovery in the municipal bond market. Newgate's Municipal Income Portfolio gained 13.2% during the quarter, compared to 5.4% for the Lipper Municipal Index.

MARKET REVIEW. Signs of recovery are apparent in both the taxable and tax-free fixed income markets. Interest rates are coming down, evidence of loosening credit markets. LIBOR rates, the rates at which banks lend money to each other and therefore a gauge of bank confidence in each other, are an important measure. These rates rose in February and early March, but declined again by the end of the quarter on strong statements by central banks that their financial systems will not be nationalized. Credit spreads on both investment grade and high yield bonds also tightened during the quarter, but remain wide by historical standards.

Municipal bonds have also benefited from investors searching for yield, as bond prices are up and yields have fallen

slightly. Exaggerated prices for Treasury bonds still put the relationship between munis and Treasuries well above their normal range of around 0.80 to 0.90, indicating that investors still demand a larger risk premium for muni bonds. Further, the possibility of higher federal and state income taxes continues to make tax-free municipal bonds attractive.

As the fixed income markets slowly recovered, so have the closed-end muni funds. While it is true that many leveraged funds were forced to redeem a portion of their outstanding auction-rate-preferred securities to reduce total leverage, reports of the death of closed-end municipal bond funds as an investment vehicle have proven over-exaggerated. In fact, a few new closed-end municipal bond funds were successfully launched this year. Leverage on closed-end fixed income funds is a function of LIBOR rates, and the resulting steep yield curve is now proving to be a boon to the leveraged municipal funds.

PORTFOLIO PERFORMANCE. Municipal closed-end bond funds generally outperformed the broader municipal market. What is more telling is that the funds' underlying NAVs rose more than the broader muni bond market. Not only is this a positive source of return, but it also means that municipal closed-end funds continue to trade at attractive discounts even after the quarter's strong performance. Rising NAVs in leveraged funds reduces their leverage ratios, removing the pressure on many funds to deleverage. Most municipal bond funds now have earnings that are exceeding current dividends, setting the stage for possible dividend increases in the near future.

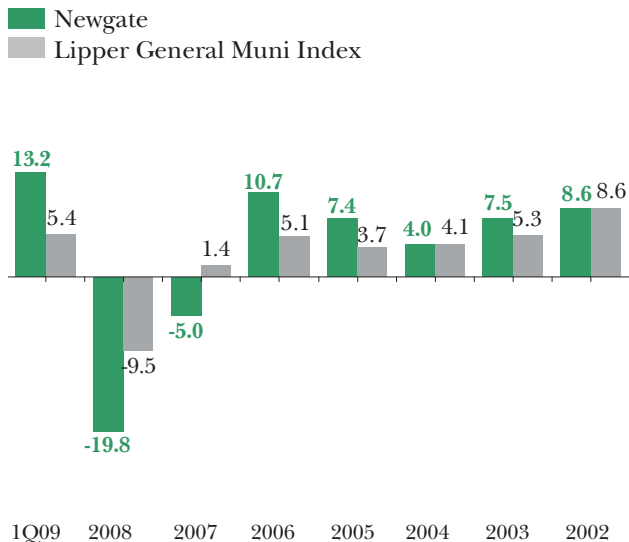
PORTFOLIO ACTIVITY. Quality of management is a vital component of investing in closed-end funds, referring both to investment management but also to the operations of the funds and transparency to the portfolios. We have invested primarily in funds from larger companies, such as Blackrock and Nuveen, that provide greater clarity on portfolio holdings and on their leverage and earnings.

We find value in some of the state specific funds. For example, the Blackrock Muniyield NY Fund (MYN) is yielding 6.5% and trades at an 18.5% discount. We find similar opportunities in some of the California state funds. The market discounts these funds because they are less diversified and because of the financial problems in some of the larger states. But we believe that the market overlooks two important factors. First, it seems unlikely that major municipalities would be allowed to default in this age of government bailouts. Secondly, any default by a major municipal issuer will have ripple impacts far beyond it and other issuers within that state. As a result, we believe that the risks of single state bond funds, while real, are exaggerated by the market.

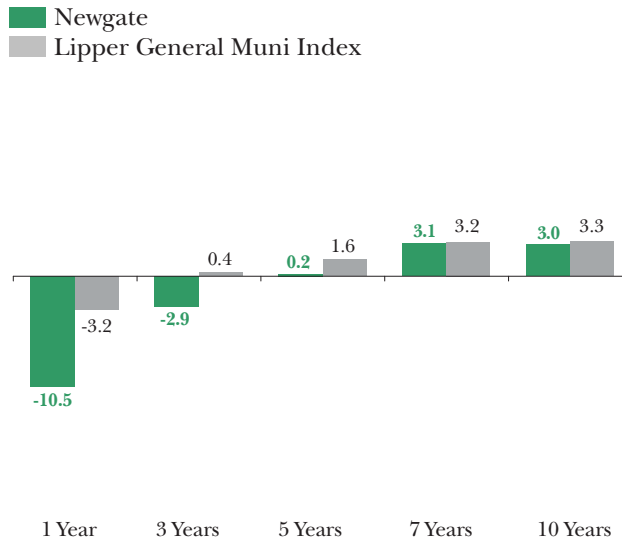
OUTLOOK. Confidence is slowly building in the credit markets, evidenced both by higher prices and increased liquidity outside of Treasury bonds. Low yields on Treasuries are driving this process. Diversification should remain of paramount concern to investors. Newgate's Municipal Income Portfolio, with 20 funds and thousands of issuers, is trading at an average 11% discount to NAV and a 6.2% yield. ♦

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PERFORMANCE



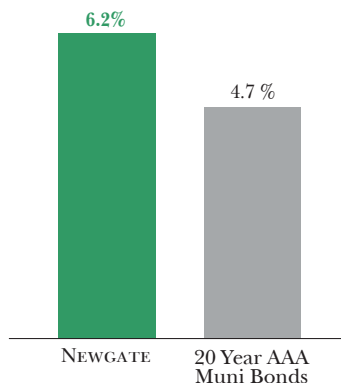
ANNUALIZED RETURNS



PORTFOLIO DATA

Yield	6.2%
Quality	AA
Maturity	16.3 Years
Duration	12.5 Years
Cash	7.0 %

YIELD COMPARISON



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 Lipper General Municipal 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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