



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

Closed-end municipal bond funds continued to outpace the general bond municipal market with another strong quarter of performance. Strength in the underlying market along with a narrowing of fund discounts resulted in the Newgate Municipal Income Portfolio gaining 12.3% during the quarter and 39.1% year to date. This compares to 9.5% and 20.2% returns for the Lipper Municipal Fund Index over the same period.

MARKET REVIEW. Credit markets rallied as the global central bank driven re-liquification continued unabated. Despite some public handwringing by various officials and private sector economists, policy makers have made it clear that they will err by "too loose" rather than "too tight" monetary policy. While overall economic statistics have been mixed, measures of credit market healing, if not quite health, are apparent. The arcane statistics of credit and OIS spreads, LIBOR rates and similar measures have moved closer to normal levels, and in some cases have even moved to pre-Lehman collapse levels.

The municipal market has been a major beneficiary of the tidal wave of fresh money seeking yield. Spreads between municipal bonds and Treasuries remain attractive, but have certainly narrowed from levels so extreme that even tax-exempt investors were buying municipal debt. The temporary resolution of California's budget also boosted municipal investments

during the quarter. As typical in any rally, lower quality issues outperformed higher quality ones.

Lower borrowing costs have encouraged municipalities to issue new debt, either to refinance existing projects or to fund new ones. After modest issuance throughout the year, municipalities are now scrambling to bring new bonds to market, and some are even temporarily delaying issuance due to oversupply. The Treasury Department's Build America Bonds program alone raised over \$35 billion since its enactment in February 2009. Regardless of the wisdom of this spending, the program has met at least one of its primary goals: improved liquidity across the municipal bond market.

Discounts have narrowed across a broad range of tax-free closed-end fixed income funds not only because of improving municipal bond sentiment, but also on greater confidence in the value of the closed-end fund structure itself. Historically low, short-term interest rates have increased the attractiveness of the leverage offered by many closed-end funds. In addition, the refinancing of these leveraged funds away from Auction Rate Preferred shares using a variety of alternative methods, while not complete, has made significant progress. While the refinancing does not directly affect the holders of closed-end funds, it eliminates the stream of negative press that these funds received throughout the credit crisis.

PORTFOLIO ACTIVITY. As discounts narrowed, we deployed a number of defensive measures in the Portfolio. The average duration was reduced to approximately 8 years, thus limiting some interest rate risk should yields temporarily rise due to the over-issuance of municipal debt. In addition, during the quarter we reduced the average leverage within the Portfolio to 18.7. Both objectives were achieved by increasing the allocation to unleveraged investments, including both closed-end and exchange traded funds. Cash levels peaked in August, though we did find some attractive opportunities toward quarter's end. Even though discounts have generally narrowed, there remains ample opportunity across the municipal fund universe. For example, the Nuveen Investment Quality Fund (NQM) has a current tax-free yield over 6% and still trades at a 7% discount from net asset value. Many funds have raised dividends during the quarter, providing another source of return.

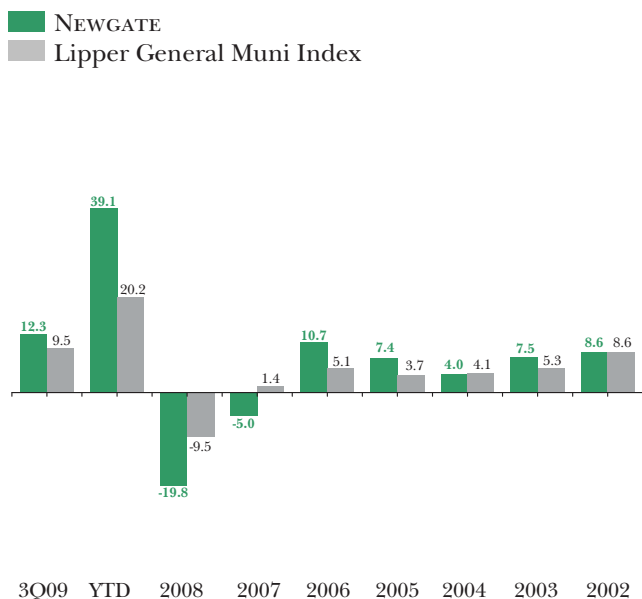
OUTLOOK. The market for municipal bonds has returned to "normal" at a much faster pace than the rest of the global debt markets. Although, credit issues remain a concern for some, the municipal market offers a unique combination of current value and attractive yields. Closed-end fixed income funds hold literally hundreds of issues, so a portfolio of closed-end funds provides tremendous diversification by issuer, geography and use of bond proceeds. We are at an inflection point in the financial markets. Growth is coming back, albeit with heavy support from global monetary authorities. Just as with a child learning to ride a bike, the markets must eventually be able to stay upright once this support is removed. At Newgate, we believe this will be the case and investors should be preparing for the next battle against rising rates, higher inflation and rising taxes. Our Portfolio, with its active management of duration and leverage, offering a 4.7% yield, provides an attractive combination of income and capital appreciation potential as the financial markets shift. ♦



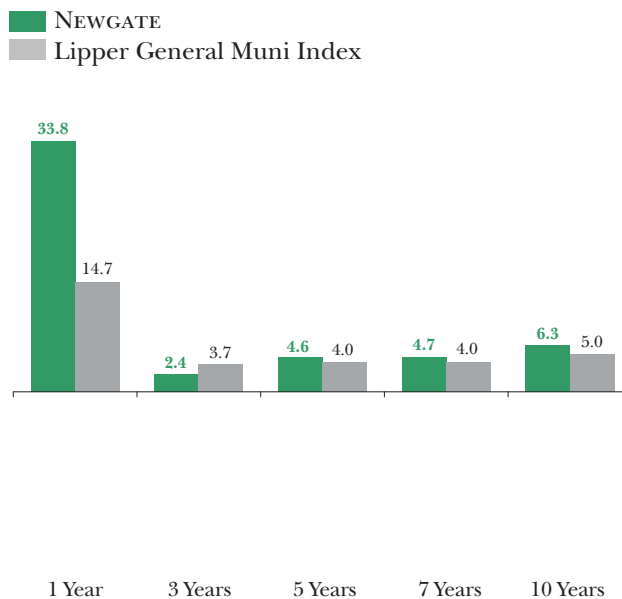
NEWGATE
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PERFORMANCE



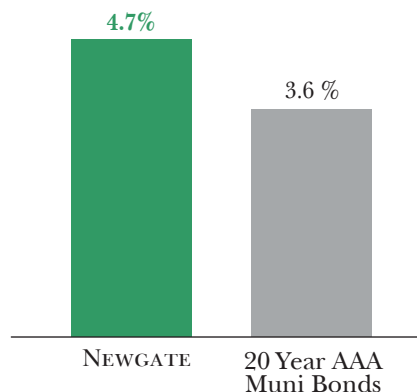
ANNUALIZED RETURNS



PORTFOLIO DATA

Yield	4.7%
Quality	AA
Maturity	13.8 Years
Duration	8.0 Years
Cash	22.0%

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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