



FLASH REPORT

*Newgate Global Fixed Income Update*

As you know, Newgate's Global Fixed Income Portfolio invests primarily in closed-end fixed income funds. Quite often during times of interest rate uncertainty, these funds may under-perform the general debt markets. Such was that case over the past few months.

Newgate accounts have slipped a little over 5% since March 31st.

The good news is that these funds have value and are trading at very attractive levels. We have started to invest opportunistically, reducing cash from the recent highs of 15%.

There are three funds in the Portfolio that have fallen disproportionately in the recent market downturn. We would like to highlight some additional information for you.

The Pimco Corporate Opportunity Fund (PTY) is a fairly conventional high-yield fund holding mostly BBB and BB paper. We believe that its recent declines are just a knee jerk reaction to the general sub-prime mortgage woes. While the fund does have some plain vanilla mortgage exposure through Fannie Mae and Freddie Mac bonds, we see very little in the underlying portfolio that should warrant such a sell-off.

We hold two very similar funds from Regions Morgan Keegan (RMK), the RMK Advantage Income (RMA) and RMK Strategic Income (RSF) funds which are down substantially. While both funds are focused primarily on mortgage, asset backed and similar structured notes, only about 15% of the funds are invested in sub-prime mortgages.

Over the past few days, we have had several conversations with the managers of the two funds. There are two basic issues that we are addressing:

1) How are the assets in the fund being valued and how accurate is the reported NAV? As many of these securities are not actively traded, NAV calculation is done from a combination of models and indicative pricing from brokers. As far as we can determine, their pricing methodologies are consistent with the industry and with acceptable practices. They assured us that they are actively marking the portfolio and have been anticipating credit agency ratings changes when valuing securities held.

2) Will they cut dividends? The current yield on these funds is between 13 and 14%. Management has been very clear that, thus far, the funds are earning their dividends, and in fact earnings have actually increased this year. So for now, it looks like the dividends should be relatively stable. Bond defaults are the greatest risk to earnings, and therefore the dividend. Management recently informed us that defaults are still running in the 1-2% range, consistent with history and expectations.

Given the current level of income, we are being rewarded with high dividends until we get some price appreciation in the funds. At this point, we are satisfied that the reported NAVs are reasonable, acknowledging that it is the nature of these funds to have some margin of error. ♦

*Feel free to call with questions.*