



NEWGATE
CAPITAL MANAGEMENT LLC

March 2009

FLASH REPORT: EMERGING MARKETS

Portfolio Update

No asset class has been spared from the continuing volatility in the global financial markets. While the most dangerous words may well be “It’s different this time” every financial crisis does have its own rhythm, its own causes and its own path to recovery. What has proven apparent is that too many investors saw the decline in market volatility as permanent. That faith in reduced volatility, combined with artificially low interest rates, provided the perfect environment for the growth of excess leverage.

Emerging markets investors are used to high levels of volatility. As a result, they tend to use much less leverage. The economic unrest that hit the Asian markets in the late 90s and Latin America a few years later put most, though not all, emerging markets on a path to fiscal soundness with reduced debt levels. Since the market bottom in November, emerging markets have outperformed generally, and the Newgate Portfolio in particular has benefited from a market environment that is not as heavily influenced by the panicked flight to liquidity that defined the market last fall.

Newgate remains significantly over-allocated to China, though we have traded the Portfolio to capture some of the short term swings in this market. We believe that China is one of the safest markets, given the low levels of debt at all points in the economy and the surplus of reserves. The Chinese economy has suffered due to declining export demand for manufactured goods. However, China’s domestic market is huge, and has the potential to absorb some or all of the excess capacity resulting from a decrease in exports. The Chinese stimulus plan announced last fall represents what we believe

is a first step in the shift of the Chinese economy. China’s economic success will lie not in exports, but in creation of goods that will be consumed by its own population.

Newgate’s over-allocation to China, and our position in domestically oriented companies like China Mobile and China Life, have been beneficial to the Portfolio since the market bottom. We are seeing some economic recovery already, including a re-acceleration of bank lending and an increase in commodity imports .

One of the major beneficiaries of China’s commodity restocking has been Brazil, where Newgate has been slightly over-allocated recently. Commodities have helped, but so has a thriving local market. Our positions in South Africa have also benefited from stabilization of the commodity markets.

Just as important to where we have been invested are markets that we have avoided or been substantially under-allocated. These include Poland, Hungary and the Czech Republic. These countries have been hit hard by the global credit crisis and have structural issues that limit their investment appeal for the foreseeable future. We have also been under-allocated to other Asian markets, notably India and Taiwan.

Going forward, we believe that current major positioning will be maintained for the foreseeable future. We look to broaden Portfolio exposure once there are convincing signs of economic recovery. Very recently we have been adding to positions in more defensive countries like Malaysia and Indonesia.

As always, feel free to contact us with any questions. ♦

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