NEWGATE
CAPITAL MANAGEMENT LLC

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• FLASH REPORT: GLOBAL RESOURCES •

Portfolio Update

Commodities and related investments declined in January. The UBS Commodity Index lost 7.3%. Commodity equities had similar performance; base metals related companies, whether miners, transporters or equipment companies, had double digit declines, with energy shares losing less. The most immediate cause of this pullback was China's change in monetary policy, requiring banks to increase loan loss reserves and making small increases in interest rates. Effectively these actions tightened money supply after a year of unprecedented bank lending. Given China's growing importance to the commodity markets, prices of almost all raw materials fell. The question that financial markets are grappling with is: "Do these changes reflect a fine tuning of existing policy or signal a change to a more restrictive policy?" Newgate believes it is premature to suggest that China is engaging in a systemic tightening of monetary policy, but this must be carefully and continually re-evaluated.

The dollar strengthened in January, generally negative for commodity prices. The dollar's rise can be attributed in part to signs of health in the US economy, but just as much to the debt problems in the developed world, particularly Greece and Portugal. Fear of default by almost any government, regardless of size, usually causes a flight to the safety of the US dollar.

The third, and in some ways most likely cause of the recent market selloff, may be profit-taking. Commodities were among the best performing asset classes in 2009; investors tend to take profits under these circumstances.

The commodity most sensitive to the dollar is typically gold. Consistent with the dollar's rally, gold fell 1.5% to end the month at $1,082. While this drop seems modest, gold fell from over $1,150 in the middle of the month, a 7% drop in less than 3 weeks. Gold stocks, which had been up sharply, lost 12% during the month. We had eliminated most of our gold positions in December, making the metal's decline a non-event for the Portfolio. We ended December with only a 3% allocation to gold and silver combined.

Given the importance of China as a buyer, it is not surprising that any hint of Chinese economic slowdown was negative for base metals. Copper fell 8.4% and the HSBC Global Mining Index lost over 14% for the month. While those are large declines, these sectors were among the best performers last year and are always subject to a high degree of volatility. While we had been reducing holdings in this area in the latter half of 2009, we used January's decline to add to positions in iron ore, steel manufacturing and dry bulk commodity shipping.

Energy related positions were a source of relative strength in January. Oil was down 8.2% and natural gas lost 7.3%, equities in this sector generally had more modest losses. The XOI Index of energy companies lost 4.8%, while the energy services companies, which tend to exaggerate movement in the sector, lost only 1.1%. Several of our bigger holdings in this sector managed a small gain. On a tactical basis we favor oil-focused companies over natural gas and have been increasing exposure to energy servicing, now 13.6% of the Portfolio. We also increased allocations to some emerging markets integrated oil companies. Overall exposure to integrated oil remains under 6%, as the outlook for refining margins is uncertain and we continue to avoid pure refining companies.

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Agriculture remains a major theme in the Portfolio with a 19% allocation. We see significant demand for fertilizers and related materials. Most importantly, underlying prices for these goods are starting to rise. Such pricing power is still relatively rare as the global economy sputters. We increased allocations to both fertilizers and seed companies during the month.