



FLASH REPORT: EMERGING MARKETS

Portfolio Update

Emerging markets continued to rise in April, adding 1.2% to March's 8% rally, and are up 3.7% for the year. Evidence of the global economic recovery has been supportive of markets, though the overhang of the European debt crisis adds risk. Monetary policy is tightening in most countries in the developing world. There has been considerable pressure in the US to raise interest rates. Thus far, rates have remained constant, though the Federal Reserve has ended several of their more expansive policies enacted at the height of the global credit crisis.

Latin American equities were down 0.4%. Brazilian stocks lost 0.9%. The IPO market in Brazil has been softer than expected, and several major IPOs in the energy sector were scaled back or postponed. The Brazilian central bank hiked interest rates 75 basis points in April, rather than the 50 basis point increase the market had predicted. With inflation now running over 5%, the market expected a larger increase. The Portfolio is approximately 300 basis points overweight in Brazil, as we think the market has anticipated interest rate increases. Less certain will be the market's response to the election in October. The Mexican market gained 0.2%. Its economy should benefit from improvements in the US and GDP growth forecasts that have been raised recently. We have been essentially market weight in Mexico. The Peruvian market was up 1.1%. While the Peruvian index is dominated by mining companies, we have an overweight in the country through its largest financial companies.

Asian stocks were generally higher in April, though the Chinese market was down 0.4%. We have been overallocated to China since the market turmoil began in 2008. Even though China underperformed the broader emerging market index in April, Newgate was able to add value to the Portfolio through gaming stocks operating in Macau. These stocks have performed very

well recently, and we trimmed some positions in April to lock in profits. Even after these recent sales, the Macau stocks represent approximately half of our 700 basis point overweight in China.

Indian equities rose 1.9%. With inflation near 15%, the central bank is expected to continue to raise interest rates. The market is forecasting 175 basis points of rate increases, though even these predictions may prove too conservative. We believe that the Indian market is expensive, especially given the monetary backdrop and high inflation, and therefore we remain underweight there.

Turkish equities rose 7.4%. The economy has begun to rebound sharply with the broader economic revival. We are positive on the Turkish economy, though an uncertain political backdrop and limited market liquidity allow us to be only moderately overweight. We gain access to the country through large telecom stocks, but also through the (relatively) new Turkish ETF that provides exposure to financials. We reduced allocations slightly on recent strength, but maintain a modest overallocation there.

At the end of May, Israel will no longer be considered an emerging market and will formally move to "developed" status as determined by Morgan Stanley Capital International. Israel has always been an unusual market, in that a number of companies listed in Israel have few if any meaningful operations there. Newgate seldom has had large positions in the Israeli market outside of Teva Pharmaceutical, the largest Israeli stock. Therefore, its removal from the index is not meaningful when examining Newgate's country allocation. However, the removal of Teva reduces over half of the already modest (2.5%) allocation to healthcare in the index. India will now provide the largest emerging market exposure to healthcare. ♦

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