



FLASH REPORT: GLOBAL RESOURCES

*Portfolio Update*

Natural resource investments gained in November. Global economies are recovering, and the major emerging markets are doing better than expectations. In the US, most macroeconomic numbers have been strong, with unemployment statistics the glaring exception. The long anticipated announcement of the second round of “quantitative easing,” dubbed QE2 by the press, also buoyed commodity investments. The US dollar rose against most currencies, including the “commodity currencies” such as the Canadian and Australian dollars. This breaks the usual pattern whereby commodity prices and the US dollar are inversely correlated.

The major commodities, including oil, natural gas, gold and copper, traded up, as did most of the companies related to the production of these commodities. Grain prices declined during the month, causing not only the agriculture sub-index of the Dow Jones-UBS Commodity Index, but the entire index, to have a negative return for the month.

Merger and acquisition activity remains an important factor in equity securities trading. Fertilizer rumors continue, even after the potential Chinese bidder Sino-Chem dropped its bid for Potash Corporation due largely to potential political fallout. On November 15th, Caterpillar Inc. announced its takeover of mining equipment company Bucyrus. Low interest rates have allowed companies to increase leverage to make strategic investments. We believe this trend will continue and impact all aspects of the commodity sector and the Portfolio.

Oil and natural gas prices were up 3% during the month. Oil is up 6% this year, with almost that entire gain in the past two months. Gasoline prices have also begun to creep up globally. Despite increasing 8% in the last two months, natural gas prices are still down 24% this year.

As the global recovery takes hold, we have modestly reduced exposure to large integrated oil companies and have been increasing allocations to energy servicing, drilling and equipment companies. Brazilian oil companies have raised capital recently to invest in the development of deepwater oil fields, which should boost drilling and servicing stocks. There has also been increased interest in potential oil fields off the western coast of Africa. The Oil Servicing Index (OSX) gained 7.3% in November and is up nearly 16% year to date, outperforming both crude oil and integrated oil companies.

In the materials sector, we continue to favor the larger multinational mining companies with high exposure to iron ore and to copper companies. These positions comprise 20% of the Portfolio. However, we have also added to chemical companies, now benefiting from a growing global economy and low natural gas prices. We reduced exposure to mining equipment companies after the mergers were announced.

Agriculture stocks represent 15% of the Portfolio, with a high concentration in fertilizer companies. This month’s pullback in grain prices notwithstanding, food prices are higher across the globe. According to the United Nations’ Food and Agriculture Organization (FAO), food prices are now as high as they were in July 2008, before the global economic slowdown. There are some short term factors at work, such as this summer’s fires in Russia that impacted wheat production and floods in Pakistan’s agricultural region. However, there are also significant long term trends. Near term food production and long term food production capacity (with the attendant transportation and storage infrastructure) need to increase. Companies in chemicals, machinery and food technology should benefit from increased demand for their services. ♦

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PUBLISHED BY NEWGATE CAPITAL MANAGEMENT LLC • One Sound Shore Drive, Greenwich, CT 06830  
Telephone 203-661-0700 • Fax 203-661-4005 • [www.newgatecapital.com](http://www.newgatecapital.com)