



NEWGATE

CAPITAL MANAGEMENT LLC

October 31, 2011

## FLASH REPORT

### *Portfolio Update*

Financial markets continue to experience unprecedented volatility. The major macroeconomic issues of the day, especially the European debt crisis, continue to dominate headlines and market activity. As a result, most financial assets are well valued assuming a satisfactory resolution to these issues. October's 13.3% return for the MSCI Emerging Markets Index was the highest monthly gain since May 2009.

News regarding the Chinese economy has also impacted stock markets across the globe. As is often the case with China, observers often disagree about even the most basic points. The Chinese economy is clearly slowing, as a direct result of announced policy actions by the government. Some have viewed the 9.1% GDP as evidence of a "hard landing," with uncertain consequences for equities. Chinese stocks have fallen this year, but generally in line with emerging market equities. We continue to believe the following regarding China:

- 1) The current slowdown has been engineered by the government, which has the ability to amend policy if needed. There is always the risk of a policy misstep by the Chinese authorities, but we do not believe there is evidence of one currently.
- 2) The concern regarding overvaluation of Chinese property is misplaced. What was so devastating to the US economy was not declining property values but high levels of leverage throughout the system. This was compounded by financial engineering and securitization through CDOs. These concepts are unknown in China and in emerging markets by and large.
- 3) China is a net lender, not a creditor. It is the largest FX reserve owner, holding roughly 30% of the world's foreign exchange reserves, the bulk in US dollars and euros. China does not need assistance

from the often fickle global markets; to the contrary, US and European countries are looking to China for funds.

- 4) As a rapidly growing and urbanizing country, China is in the midst of a large infrastructure buildout. There may be isolated cases of front loading in rail, airports and roads, but by and large most projects have led to China becoming the most efficient manufacturing center globally. At some point, there will be a reallocation of assets and liabilities in China to resolve any surplus infrastructure investments. The impact of this reallocation should be limited.

Newgate's Portfolios remained nearly fully invested through this recent volatility. By doing so, we captured the rebound in the markets, up 17.39%\* in the Emerging Markets Portfolio and 21.75%\* in the Global Resources Portfolio for October, compared to 13.26% for the MSCI Emerging Markets Index and 6.62% for the DJ-UBS Commodity Index, respectively. We remain invested so as not to miss the potentially sharp and sudden recoveries and because we have conviction about what the world will look like once the headline issues subside. It's a world where people still use basic commodities to power their houses, cars and places of business, and where people in emerging nations strive for a better life. Depending on the country, that may mean a second meal at the table or a second car in the garage.

Newgate's Portfolios hold companies that are the direct beneficiaries of this pursuit. It is difficult to take a long term perspective during these periods of extreme volatility. We believe that a well managed, diversified investment in emerging markets or natural resource equity stocks has the potential to generate long-term returns. ◆

MINDING THE FUTURE TODAY™

Any opinions expressed are subject to change without notice, and any statements of fact have been obtained from, or are based on, sources considered reliable, but no representation is made by Newgate as to their completeness or accuracy. There is no assurance that estimates/forecasts will be realized. The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. This material does not constitute investment advice and should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing involving foreign economic, political, monetary and/or legal factors. International investing may not be for everyone. These risks may be magnified in emerging markets. © 2011 Newgate Capital Management LLC

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)