



NEWGATE

CAPITAL MANAGEMENT LLC

January 31, 2012

FLASH REPORT

Global Resources

Commodities and natural resource equity investments maintained momentum from their strong fourth quarter performance. The Dow Jones-UBS Commodity Index gained 2.5% in January; commodity equity indices rose approximately 8%. Newgate's Global Resources Portfolio outperformed the commonly used benchmarks. This rally was not entirely unexpected. Tax loss selling, equity fund redemptions (especially from emerging markets funds) and overall macroeconomic uncertainty all led to a difficult year for commodities.

The largest contributions to performance in January came from the mining industry, especially base metals, metallurgical coal and mining equipment. These industries benefit from a global economy that is performing better than expected, as well as from merger activity. Merger activity is common in mining companies (base and precious metals), as major players naturally buy junior producers to add ore to their balance sheets. What has been different in this cycle is that companies are becoming increasingly more vertically integrated (refining companies merging with miners) and more diversified across the commodity spectrum. All companies in an industry, not just the ones being taken over, tend to benefit from these acquisitions.

Chemical companies (agrichemicals focused and diversified) were major contributors to performance in January. Low natural gas prices provide large cost savings and increase profitability.

Gold stocks outperformed gold bullion, 11.4% vs. 9.8%, respectively. For the last five years, bullion has outperformed gold equities. We have been steadily increasing allocations to precious metals companies since November, from less than 2% to over 10%. We are **not** buying gold companies as a way to participate in a run-up in gold. Rather, gold companies are inexpensive because

gold increased 22% in 2011 while major gold companies lost 11.3% and junior mining companies lost 33.4%.

Historically, Newgate has invested primarily in large mining companies. The recent market action has led us to invest in a broader spectrum of companies, diversified by capitalization and location of mines.

The price of oil was flat in January, and oil companies had modest gains. Energy drillers and servicing companies had much stronger performance, up almost 10%. These companies are sensitive to strength in the economy. However, they are just as sensitive to conditions in the credit markets. Energy exploration is a multiyear, highly capital-intensive business. Fears of a credit contraction can cause shares of these companies to trade down sharply, even if current business conditions are favorable. As the situation in Greece possibly approaches some sort of understandable resolution, a major potential worry for the market has started to recede. Should the European debt situation deteriorate and renew credit fears, equity market volatility is expected to increase.

Even as the oil market has normalized, US natural gas prices cannot find a floor, as a relatively warm winter has curtailed demand. Prices are now at levels not seen since November 2001. Only in the past few weeks have companies announced plans to reduce production. Though gas and oil tend to be reported together, their final uses are very different. Oil is used primarily as a transportation fuel, while gas is used for industrial purposes (including chemical production) and home heating. At these low prices, any "dual use" facility (industrial or utility) that can burn either gas or oil (or coal for some electric utilities) has switched to gas. The Portfolio has relatively little exposure to gas companies, or to servicing companies that specialize in gas fields. ♦

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