

January 19, 2012

Dear Friend,

It was a volatile year on Wall Street. While the U.S. economy seemed to be recovering in the first quarter, the massive earthquake in Japan and the worsening of the European sovereign debt crisis dashed hopes of a nascent turnaround. With so much anxiety in the marketplace, blue chips performed best, enabling the S&P 500 to return 2.0% for the year despite the dismal performance of many of its smaller components. As a result of the bifurcation of the S&P, the average U.S. equity fund was down 6% for the year. Our Diversified Equity Composite was down 5.0% for the year; our Concentrated Equity Composite was down 8.3%.¹

While these short-term results are disappointing, our long-term track record remains strong. Our Diversified Equity Composite has now out-performed the S&P 500 by 12% over the past 3 years, and 14% over the past 5 years. Our Concentrated Equity Composite has outperformed the S&P 500 by 31% over the past 3 years, and 22% over the past 5 years.

In 2010 there were twenty two trading days when the market was up or down by more than 2%. In 2011, there were thirty five such days. This increase in volatility has caused people to continue to pull money out of U.S. mutual funds. In 2010 investors withdrew \$96 billion from domestic equity mutual funds; in 2011, they withdrew another \$99 billion. These withdrawals have led to a decrease in the volume of securities being traded, and therefore a greater likelihood that the price of an out-of-favor security will, at some point, decline below our downside target.

¹ Preliminary performance figures are unaudited. Past performance may not be indicative of future results and every investment program has the potential for loss as well as profit. The diversified equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a diversified equity portfolio that are greater than \$250,000 in size. The concentrated equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a concentrated equity portfolio that are greater than \$250,000 in size. Accounts must be managed for a full calendar quarter before inclusion. Portfolios are excluded from a quarter if the account falls below the composite minimum, or as Integre Advisors receives notice of termination. Individual account results will vary from that of the composite based on fee structures, investment restrictions, the timing of contributions and withdrawals and other factors. Comparisons to the S&P 500 Total Return are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and may have more or less volatility and risk than an investment in the S&P 500 Total Return. Management fee information available upon request.

In times like these one must not forget that the most important determinant of future returns is not how the Euro fares, or how people feel about the market, but valuation. As portfolio managers we worry all the time, but we worry most during times when it is difficult to find investments at good valuations where we can reinvest our proceeds. Currently, our portfolio has many companies with solid balance sheets and good future business prospects which are trading at ten times next year's earnings or less.

In December we found a number of opportunities in smaller companies that were oversold and overlooked. These investments ranged from hospitals to specialty chemical companies and semiconductor manufacturers. All these companies had disappointed earlier in the year and now, whether due to tax-loss selling, company-specific issues or the overall reduced trading volume of the market, each represented a compelling risk-reward.

With the reduction in market trading volume, investment banks have been downsizing their research departments making this an opportune time for us to find smaller companies that have been overlooked by the mainstream. As smaller companies tend to be younger in their life-cycles and therefore only beginning to expand abroad, they consequently have less exposure to the troubles in Europe.

Just three weeks ago we began trading in our new Domestic Small-Cap Equity product with \$14 million in capital. The portfolio consists of fifty companies with market capitalizations of \$3.5 billion or less; more than 35% of the portfolio is in companies with market capitalizations of \$1 billion or less. As with all our products, we conduct rigorous quantitative and qualitative analysis to find growing companies with solid long-term prospects that have traded down due to what we deem short-term concerns. Because smaller companies can be extremely volatile, we have significantly more holdings in our Domestic Small-Cap Equity than we do in either our Diversified or Concentrated Equity products.

Looking forward, we are expecting another volatile year. That said, we are now in an election year and historically election years have been good for the market as the sitting president typically pulls out all the stops to get the economy humming so he can remain in office. That, combined with the high yield of stocks compared to bonds, could be a boon for equities in 2012.

Wishing you a happy, healthy and prosperous new year.

Sincerely,

Manny Weintraub, CFA