INTEGRE ADVISORS 277 Park Avenue, 49th Fl., New York, NY 10172 - Phone 212.838.2300 Fax 212.207.5181

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Dear Friend,

Last year was another very rewarding year for our investors. In 2010, our Opportunistic All Cap Growth Composite had a return of 14.78%, net of fees while our China Consumers Composite had a return of 28.8%, net of fees. We are pleased with these results, especially in light of the returns of our China Consumers Composite over the past four years. Since 2007, the China Consumers Composite has had a cumulative return of 130.4% net of fees which compares to 27.4% for MSCI China and a cumulative loss of -3.3% for the S&P 500 over the same period.

2010 Review

It is said that happiness as it relates to wealth depends on how we see ourselves compared to those around us. In this light, our investors should be feeling pretty good. This, however, begs the question of why are we happy when the rest of the U.S. economy is so gloomy? Part of the answer relates to how we have focused our investment strategy, and part to the nature of the economic recovery.

United States

Last summer, employment and housing data suggested we were heading toward a double dip recession. The broader U.S. stock market responded, with alacrity, by heading south. In late August, the Fed announced a second round of quantitative easing, dubbed “QE2," meant to stimulate the economy by boosting the supply of money through the purchase of about $600 billion of U.S. Treasury bonds. Although there has been much debate about both the necessity and long term impact of so much monetary stimuli, data suggests that the economy has bottomed since the announcement, and stock market valuations have improved accordingly. The cynic might conclude that the Fed was motivated by the market. A more generous analysis suggests the Fed is rightly concerned with the issue of gloom.

The obvious cause of gloom in this case is high unemployment. The current unemployment rate is well over 9%, with little cause for optimism in sight. The economy did grow at an estimated annual rate of 2.5% during the third quarter, a substantial improvement over the second quarter’s 1.7% growth. However, this is not enough. Economic theory says we need to grow about 2.5% just to keep unemployment from rising, and we need a growth rate of over 3% to see any decline. Based on Okun’s Law, a description of the relationship between GDP growth and changes in unemployment, if GDP were to grow 4% in 2011 (an optimistic assumption) unemployment would still be around 9.2% at the end of the year. Even with healthy growth in GDP, it will take several years for unemployment to return to more “normal” levels.

For our investors, however, this modest pace of growth may actually create opportunity. In this slow growth and low interest rate environment, companies that have managed their cost structure and controlled their expenses have been able to eke out higher earnings and cash flow. Those companies that have been able to increase their earnings and cash flow by growing revenues in this penny-pinching environment have become even more highly prized. Most of our investments fall into this latter camp. We believe that companies with the best core platforms for delivering goods and services will continue to outperform the market by strategically expanding their reach and breadth of offerings.

Amazon is an example of a business model we love. It has spent years building and reinvesting in its robust computing platform and fulfillment centers. The computer platform gives consumers a marvelously efficient way to find what they want and the fulfillment centers ensure that they get it quickly and cheaply. The more we use Amazon the better it becomes, and the less likely we will need or want to shop elsewhere. This self-reinforcing dynamic is great for Amazon, its customers and its shareholders. It is not so great for the competition. Just ask the guy selling newspapers at my train station when another person shows up with a Kindle.

Over the long term, owning businesses that are growing, generating high returns on equity, and that require little incremental capital to grow should produce good investment results. One such business is Salesforce.com, a leading company in the niche of “cloud computing.” Cloud-based companies use computer technology to host software in a data center and then deliver it as a service over the Internet to its customers. Since the client no longer has to buy the software and computer hardware - or employ a large IT staff - its technology costs are significantly lowered. The downturn in the economy has increased the attractiveness of these cost and time saving services.

Challenges in 2010 to our portfolio were largely the result of a changing regulatory environment. Visa came under pressure because of potential policy changes to the fees credit card companies can charge. Although this is more of an issue for banks, the valuation of Visa and MasterCard suffered. Yet global consumers still like paying with plastic, and although the fees banks receive may change we believe it likely that a growing number of electronic transactions will ride on Visa’s and MasterCard’s networks. (At year end, in most accounts, we switched our holding of Visa to MasterCard, to record our losses in Visa while maintaining our position in a leading card processing network).

China

For four consecutive years, the results of our investments in China have diverged significantly (in a good way) from the benchmarks. These results are the product of an insight we had several years ago. Basically we saw, well ahead of most, the coming emergence of a large class of Chinese consumers. Standard indices such as the MSCI China Index are comprised largely of bank, telephone, construction, and energy companies and have very little exposure to consumer companies. This is expected, since these industries still dominate China’s economy. But it is now clearer than ever that, as China’s economy transitions, consumer companies will grow their share of the economic pie and increase their percentage of market capitalization in the indices.

As many of you know, we began investing in businesses that deliver services to Chinese consumers many years ago, well before our track record shown above. Initially, our ideas met with a fair amount of skepticism. In fact, as recently as 2006, a well-known writer on this topic referred to the Chinese middle class as a “fairy tale,” claiming that China was mired in a mass of poverty and subsistence living. He was wrong. In 2008, we observed that per capita GDP had crossed an important threshold at which consumption would take off. Today, the media is ripe with tales of the emergence of China’s consumer class, an estimated 300 million people, or about 23% of the population. Don’t get caught up in the media hype: China still has vast poverty and its emerging middle class is still small and, by U.S. standards, may even be considered poor. This is actually good news for investors. The coming out of the Chinese consumer is just gaining momentum and, although progress will certainly be uneven, we think this will be one of the world’s most compelling investment themes for years to come.

We believe that our investments in China’s consumer-oriented services continue to be one of the best ways to benefit from this trend. Here too we are investing in businesses that are building platforms. Companies like Tencent, Baidu, Home Inns and Ctrip are on their way to becoming China's first non-state owned national brands. In our opinion, the increase in wages across China disproportionately benefits our companies as labor is a relatively small part of their cost structure and their customers now have more money to spend. Our investments in the travel industry illustrate this point. Up to now, revenue growth in our Chinese travel companies has largely been driven by business travelers. Now, as consumer wealth grows, we are starting to see the leisure traveler emerge as a growth driver. We are also benefiting from much of the government’s stimulative spending which is building out the travel infrastructure with highways, bullet trains and new airports.

2011 Outlook

The U.S. economy appears to be slowly improving but there are risks to the recovery. Issues which could derail it include an increase in unemployment, state or local budget crises and potential sovereign defaults in Europe. We have devoted enough ink to unemployment and we don’t have space to do justice to the others. We do, however, want to share our thoughts on one silent killer of wealth that could affect the U.S. economy and is already impacting China. We are not referring to hypertension, but to high inflation.

Today, inflation is not an issue in the U.S. But the governments of developed countries, led by the U.S., are intentionally expanding the supply of money in an attempt to stimulate economic growth and drive employment. This action effectively shrinks the value of their currencies, decreases the value of their debt obligations, and drives up commodity prices. The first to feel this are fast-growing emerging countries whose exports are suddenly less competitive at the same time as they are paying more for raw material imports. The current slack in the U.S. economy is preventing a perceptible increase in its Consumer Price Index, but it is likely that growth in the money supply will eventually lead to inflation here as well. We believe that higher inflation by the end of 2011 is possible.

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Inflation will work an uneven path through the economy. Some businesses will benefit and others will suffer. As we enter the New Year, we are very mindful of the impact of inflation on our investments.

Our investors can potentially benefit from moderate inflation by owning businesses that have pricing power and whose earnings are in a strong currency. Obviously, another benefit of our China focused investment strategy is that these companies make their money in a currency that is very likely to continue appreciating over time.

We wish all of you a happy, healthy and prosperous 2011.

Nels Wangensteen

Dan McCarthy

Performance Disclaimer:

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 Opportunistic All Cap Growth Composite is the dollar-weighted linked monthly return of those accounts sharing the objective of the Opportunistic All Cap Growth Composite Portfolio that are greater than $250,000 in size. The China Consumers Composite is the dollar-weighted linked monthly return of those accounts sharing the objective of the China Consumers Composite Portfolio that are greater than $100,000 in size. The performance for 2010 is based on total portfolio performance for the Chinese Consumer Composite. Preliminary performance prior to 2010 is based on equity asset class. Prior to the inception date of the Chinese Consumer Composite on May 7, 2008, the performance was based on the equity asset class for an account managed by Nels Wangensteen at another Investment Advisor. Both the account and the Composite are managed for growth and preservation of capital using substantially the same strategy. 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 all indexes listed above are for informational purposes only, as the composites may hold securities not in the indexes listed and may have more or less volatility and risk than an investment in any of the multiple indexes. Management fee information available upon request.