

January 8, 2010

Dear Friend:

It was a wonderful year for Integre Advisors. We are pleased to report that our Diversified Equity Composite returned 41.7% vs. 26.5% for the S&P 500. Our Concentrated Equity Composite returned 56.0%.<sup>1</sup>

We are always happy to outperform the market, and by such large margins, but we are particularly proud that this year's results come on the back of the previous year's, when the market dropped significantly and our Composites dropped too but by a narrower margin.

Unlike some managers who switch investment styles depending on what is happening in the market-place, we do not. We approach the market rationally and methodically, setting aside the clouded lens of our emotions. The same rigorous four-step investment process that enabled us to generate very good relative performance in 2008 is the same one that enabled us to outperform the S&P 500 by 15.2% in our Diversified Composite, and 29.5% in our Concentrated, in 2009.

Every year we look through the universe of out-of-favor companies and create not just optimistic "best-case" earnings models but pessimistic "worst-case" models as well. As a result, we saw the potential downside risk inherent in banks and financials sooner than other value managers who use price-to-earnings ratio as their main valuation tool, and instead gravitated toward technology companies that were trading very cheaply considering their franchises, global opportunities and solid balance sheets. Even though the economy was depressed, we were confident that when it improved, these stocks would go up dramatically. Did we know that would happen this year? No. Were we confident it would eventually happen in spite of all the trash-talk on the American economy? Yes.

<sup>1</sup> 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 are added to the composite on the first day of the month following our first 30 days of managing the account and must be in the composite for a full calendar quarter before inclusion. Portfolios are excluded as of the last full calendar month under management or at such prior date 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.

When we founded Integre in January 2004, we said our mission was to preserve and grow your capital. But preserving and growing capital is not just about beating the market every quarter, or even every year. It's about making money in a way that allows us to preserve your capital when doing so becomes an issue. What makes this so challenging, of course, is that no one ever knows for certain when those times will be.

For the coming year there are many who are predicting that the markets will decline as soon as the government withdraws its fiscal and monetary supports from the economy. However, we think it is far more likely that the government will not move to raise rates until the economy has recovered and therefore that the risk is that the government will do too little too late, rather than too much too soon. After all, the main focus of most politicians is getting re-elected, and the problems likely to result from our government's recent massive deficit spending are not likely to impact the country until well after the next presidential election in 2012.

The market as a whole is not overvalued and has the potential to move higher given the current low level of interest rates. However, we would not be surprised if the market pulled back once employment starts to go up thereby giving the Fed the all-clear to begin raising rates.

All this said, we at Integre take any market forecast, including our own, with a grain of salt because looking out over any ten-year period one can see how impossible it is to accurately predict the future. Who, for example, could have predicted everything that happened this past decade: September eleventh, the WorldCom/ Enron fraud, the invasion of Iraq, the Lehman bankruptcy, Bernie Madoff. Even if you had had a magic ball and had known this all in advance, your foreknowledge might have led you to put all your money in cash which would have been a mistake because in spite of all that ensued and with no tail wind, our Diversified Equity portfolio went up seventy-seven percent over the decade. One would have been similarly surprised by the tech-bubble of the '90s and the bull market of the '80s.

The only market forecast that is inevitable is that the cycle of fear and greed will continue. When people are fearful one can be certain that things will eventually get better and so much better that they will once again get greedy. Then, when people are greedy and giddy, one can be certain that things will once again take a turn for the worse. But this does not mean that one should not invest in the market. On the contrary, what we have learned from our twenty years in the investing business is that buying out-of-favor stocks is a great way to benefit from this cycle. Out-of-favor stocks have the potential to appreciate substantially if they return to favor, and if they don't, and you've assessed the strength of the underlying businesses correctly, they don't have as far to fall as much-loved stocks that might – and inevitably will -- one day go out-of-favor.

Given the recent run in the market, we have been buying stocks that are out-of-favor for company specific reasons rather than broad macro-economic ones. For example, revision to government regulations for for-profit colleges and the uncertainty surrounding what economic impact it will have on them has given us the opportunity to buy two such companies at low valuations. We also recently bought a pharmacy after its insurance subsidiary lost a large contract thereby causing the company to disappoint Wall Street's expectations. This enabled us to purchase the company at a major discount, as though it were solely a pharmacy and the insurance division – which only the day before the disappointment had represented 36% of the value of the company – was suddenly nearly worthless.

We enjoy managing money in good times and bad, but this year was particularly gratifying. We are happy that we were able to share the experience with you. With all good wishes for a happy, healthy and successful new decade.

Sincerely,

Manny Weintraub, CFA