

July 13, 2009

Dear Friend,

It was a great second quarter for Integre Advisors. When the S&P 500 rebounded off the panic-induced levels of early March, the investments we made last winter in small-capitalization stocks increased by substantially more than the market. For the quarter, our Diversified Equity Composite increased by 24.7% compared with the S&P 500's 16.9% increase. Our Concentrated Equity Composite rose by 30.2%.¹

We are now significantly outperforming the market for the first six months of the year in both our composites. For the first six months of 2009, our Diversified Equity Composite is up 17.3% compared with the S&P 500's 3.2% increase. Our Concentrated Equity Composite is up 29.2%.

While we are always delighted to report strong returns, it is important to note that our recent outperformance has not merely been the result of a snapback in investments that underperformed the market in previous years. On the contrary, we have outperformed the market since beginning Integre Advisors five and a half years ago.

Since January 1st, 2004, our Diversified Equity Composite has achieved a compounded return of 3.9% a year compared with the S&P 500's return of negative 1.4%. Since we created our Concentrated Equity product in March of 2004, it has achieved a compounded return of 5.2% a year compared with the S&P 500's negative 1.8% return.

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 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 and may have more or less volatility and risk than an investment in the S&P 500.

What accounts for our outperformance? We believe our quantitative four-step investment process has been integral to our success, forcing us to always look down, as well as up, when evaluating any potential investment. However, that process is just one part of the work we do. As students of financial history we have a long-term base of knowledge, a deep historical perspective, and we employ that knowledge and perspective every time we consider a stock. Quantitatively a given investment may make good sense. But without qualitative judgments about how the economy is changing, and how those changes will impact a given industry as well as a company's role within it, one can easily fall prey to value traps and miss out on those investments where the most value can be created -- companies that are suffering at the moment but which will benefit from long-term economic changes. By tempering quantitative rigor with qualitative, historical analysis, we create portfolios that differ from the S&P 500 with investments that have run the gamut from small-caps to large-caps, from Chinese equities to cash. It is our goal to stay ahead of the trends; one hundred percent of our money is invested side-by-side yours.

This past quarter, our performance was driven by a number of small, cash-rich companies that we bought last winter when seemingly no one wanted to own them. At that time, it was unclear how much these companies would actually be able to earn given the poor economy. In addition, many of the larger investors who did own these stocks were dumping them as they were forced to raise cash to meet investor redemptions. To us this situation looked like a great risk/reward. As our nation's economic outlook turned from 'certain disaster' to 'less bad than feared' and our government pumped liquidity into the market, these stocks have rebounded by large margins.

Recently, as the rate of decline in employment, consumer confidence and housing prices have begun to mitigate, we have harvested a number of these positions. At the same time, we have made investments in a number of less cyclical, more stable businesses -- a pharmaceutical company, a cereal manufacturer, and a leading management consultancy -- all of whose stock prices lagged as the market surged upwards. In addition, we have bought two cyclical companies, an office-furniture company and a wall-board manufacturer, that were trading at a discount to book-value due to concerns that capital spending on real estate will remain depressed for the foreseeable future. While we happen to agree with this view, therein lies the opportunity. The valuation relative to asset value is compelling, and one only need capital spending to improve somewhat, as we expect it eventually will, for these stocks to rise.

In the medium-term, we believe that the economy will continue to recover given the massive government stimulus, 90% of which has yet to be spent. This recovery should drive better-than-expected earnings growth as corporate America has already reduced expenses severely. This round of upward earnings revisions has the potential to give the market another leg up from here. In our opinion, the prevailing mistrust of equities -- which continues in spite of, or perhaps because of, the S&P 500's recent rise -- represents pent-up demand for stocks, and could help the market rise over the next year.

Looking out to the long-term, it is important to remember that even though the market's valuation has increased since last winter, it is still cheaper than it has been in the prior nineteen and a half years. We believe that the earnings upon which this current valuation is based has the potential to expand. To reiterate what we wrote last quarter, we believe that this is the best opportunity to invest that we have seen in twenty years.

I look forward to being in touch.

Sincerely,

Manny Weintraub, CFA
Managing Director