

April 24, 2007

Dear Client:

What a beautiful quarter. Our diversified equity composite rose 6.43%, net of fees, compared to the S&P 500's 0.64% increase. Our concentrated equity composite outperformed even more, rising by 8.15%, net of fees.¹

In the first quarter, the price of oil soared and for the first time in ten years, home prices in the U.S. declined. In this environment, return *of* capital became as important as return *on* capital. What this meant for your portfolio was that the defensive stocks we bought last year when they were out of favor in a red-hot stock market performed quite well; safety now merits a premium. More specifically, it was our investments in such economically insensitive sectors as supermarkets, medical devices and an underwear manufacturer which carried the day.

This quarter we invested in five new companies: a utility trading below replacement cost and four defensive stocks all of which have recurring revenue, underlevered balance sheets, and strong free cash flow. The defensive stocks are currently trading at valuations which make them candidates for mergers or leveraged buyouts. Given that, we believe their valuations should either increase due to earnings growth greater than that which Wall Street is forecasting or, barring that, that the companies will not trade below their current prices. As for the utility, we bought it because it trades at a steep discount to the replacement cost of its assets. Since it is currently very difficult to add capacity to the electricity market, we expect that electricity prices will rise and that the utility will, at a minimum, eventually trade up to its replacement value.

¹ 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.

After three years of managing money for families and endowments, Integre Advisors is pleased to announce that we are now set up to manage pension assets as well. We have capitalized our firm at one million dollars, attained an ERISA bond and have achieved Qualified Professional Asset Manager (QPAM) status. We look forward to offering our commitment to the preservation and growth of wealth to these new institutional clients.

With all best wishes for a pleasant spring--

Sincerely,

Emanuel Weintraub, CFA
Managing Director