

January 24, 2008

Dear Client:

In the fourth quarter of 2007 our diversified equity composite declined 2.3%, net of fees, compared with the S&P 500's 3.3% decline. Our concentrated equity composite declined 1.6%, net of fees.¹ For the full year, the diversified composite ended the year flat and our concentrated composite rose 1.5% while the S&P 500 increased by 5.5%.

Since the inception of our firm on January 1st, 2004, our diversified composite has returned 49% versus 42% for the S&P 500. Our concentrated composite, which we initiated in March 2004, has returned 51% versus 40% for the S&P 500. While we are disappointed with our 2007 results, it is important not to overweight the significance of the recent past. In fact, it is that very tendency -- the tendency to assume that current trends will continue indefinitely -- which has given us so many wonderful investment opportunities over the years.

In a difficult fourth quarter for the market, our results benefited from our large cash position, as well as our investments in healthcare and food companies. In addition, when the markets rallied last August, we took the opportunity to reduce our holdings in financial and cyclical names as we believed that the U.S. slowdown would be both broader and deeper than the markets were forecasting.

Recently, we made three new non-cyclical investments: two in the healthcare sector and one in a credit-card payment device manufacturer. All three of these companies were available at low valuations due to earnings disappointments. While fire-sale prices can be justified for cyclical companies -- where one has to wait for the economic cycle to turn in order for valuations to improve -- with non-cyclical investments like these, management actually has the opportunity to fix what ails them.

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.

As you well know, it has been a very rocky start to the year for the S&P 500. It feels like we have had a year's worth of bad news in just fifteen trading days. Currently, it seems as if any stock with declining earnings estimates just goes lower, regardless of valuation. This is not atypical for a correction and reminds me of how the stock market traded in 1998 and 2002. Historically however, stocks have not traded for long without regard to their valuation and when the focus to valuation returns, the swings can be powerful. 1999 and 2003 are good examples of powerful rebounds with rallies of 25% and 35% respectively.

In times like these, we consider ourselves fortunate to be running a relatively small pool of assets and to be doing so for a client base that appreciates our focus on preservation of capital. This allows us the flexibility to retain a cash position in excess of 20% and to have limited investments in banks or brokerage firms despite the fact that they account for 18% of the S&P 500. Of course, neither of these measures can eliminate downside volatility, but they do mitigate it while we wait for sign of a bottom.

Wishing you a healthy and a happy new year.

Sincerely,

Emanuel Weintraub, CFA
Managing Director

