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April 8, 2008

Dear Client:

It was a difficult first quarter for the world's capital markets as liquidity dried up causing risk premiums to increase for all asset classes. The S&P 500 declined 9%, while formerly hot emerging markets India and China declined 26% and 34% respectively. [1]

We also suffered declines. Our diversified equity composite declined 10% and our concentrated composite declined 14%. This was our worst quarter since 2002. At times like this it is worth remembering that volatility on the downside can quickly be replaced by volatility on the up: in 2003 we had returns of 34%. [2]

Our performance this quarter was driven by the fearful market's assumption that anything that could go wrong would go wrong. In addition, when three of our holdings had disappointing earnings, those companies were sold-off to valuation levels I have not seen since 1989 when the U.S. Government 10-Year Treasury bond yielded 9%. I do not believe these valuations make sense today, when the 10-Year yields only 3.6%.

On the plus side, the market's tendency to overreact gave us the opportunity to upgrade our portfolio, enabling us to buy some great franchises at discount valuations. During the quarter we bought shares in the world's largest software company, the internet's largest auction site, and a global infrastructure fund trading at a deep discount to net-asset-value. All of these companies have a global stream of revenue, clean balance sheets, and the ability to pass on inflationary costs to their consumers. In an environment where capital is king these companies should have the opportunity to make some great acquisitions.

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[1] The indexes presented are the India Bombay Exchange and the China Shanghai A Shares.

[2] 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.

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As my old boss Shelby Cullom Davis used to say, “You make your most money in a bear market, it just doesn’t feel that way at the time.” At the peak of the last cycle the dollar was strong, there were significant net inflows into domestic equity funds, valuations were high and stocks had had a great eighteen-year run. We are currently in the mirror-image of this environment. The dollar is weak. Every month there are net outflows from domestic equity funds. Valuations are low. And while we have outperformed the index, the S&P 500 has been flat for the past ten years. If an experienced investor were to design a hypothetical perfect entry point for investing in the market this might very well be it.

With all best wishes.

Sincerely,

Emanuel Weintraub, CFA
Managing Director