

# The China Consumers Fund

*Investment Manager: Integre Advisors*

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# Executive Summary

- The investment focus is on China's emerging consumers.
- The China Consumers Strategy has a 3-year compounded annual return of 19.9%, versus 7.6% for the MSCI China Index. In 2009, the strategy appreciated 125%, compared to 58.8% for the MSCI China Index. The unhedged beta for the strategy since 2007 is 0.8 versus the MSCI China Index.\*
- The manager has a history of investing in businesses that exploit technology to deliver consumer and business services.
- The manager has seven years of experience investing in China.
- The manager employs a repeatable, resource-intensive research process, spending significant time 'on the ground' performing due diligence on current and potential investments.
- A partnership with JLM Pacific Epoch, a leading independent China-focused research firm, leverages a team of over 50 seasoned analysts and data gatherers based in Shanghai and an extensive network of researchers throughout China.

*\* The performance from 12/31/99 to 5/6/08 is for the oldest account managed by Messrs. McCarthy and Wangenstein and thereafter for the Information Technology Composite. The Composite's returns are reconciled to the custodian at the end of each calendar quarter. Both the account and the Composite are managed for growth and preservation of capital. Past performance is no guarantee of future results. Please see page 20 for full disclosures.*

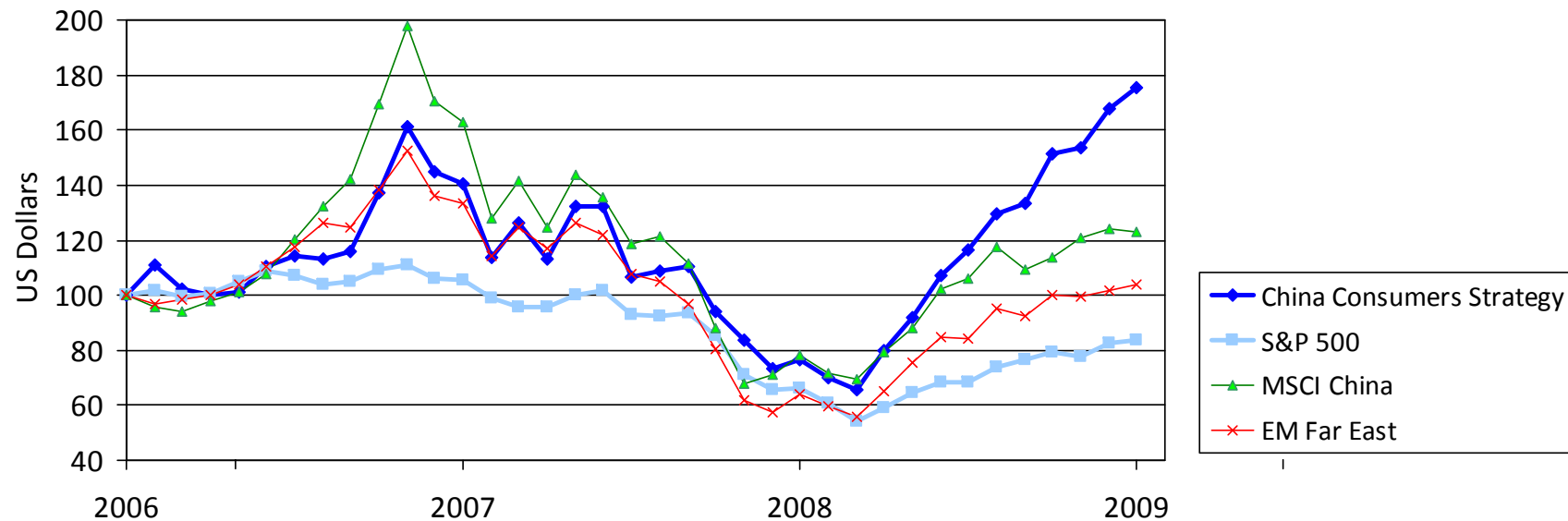
# China Track Record

## Nels Wangenstein – Integre Advisors

### China Consumers Portfolio

	2007	2008	2009	Cummulative	Compound Annual Return
The China Consumers Strategy	40.4%	-45.3%	125.4%	72.4%	19.9%
S&P 500	5.5%	-37.0%	26.4%	-16.0%	-5.6%
MSCI China	63.1%	-51.9%	58.8%	24.5%	7.6%
MSCI EM Far East	33.6%	-52.0%	66.3%	6.7%	2.2%

Cumulative Growth



Please see page 20 for disclosures. Please contact Integre Advisors for a full breakdown of fees.

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# The Investment Case – Summary

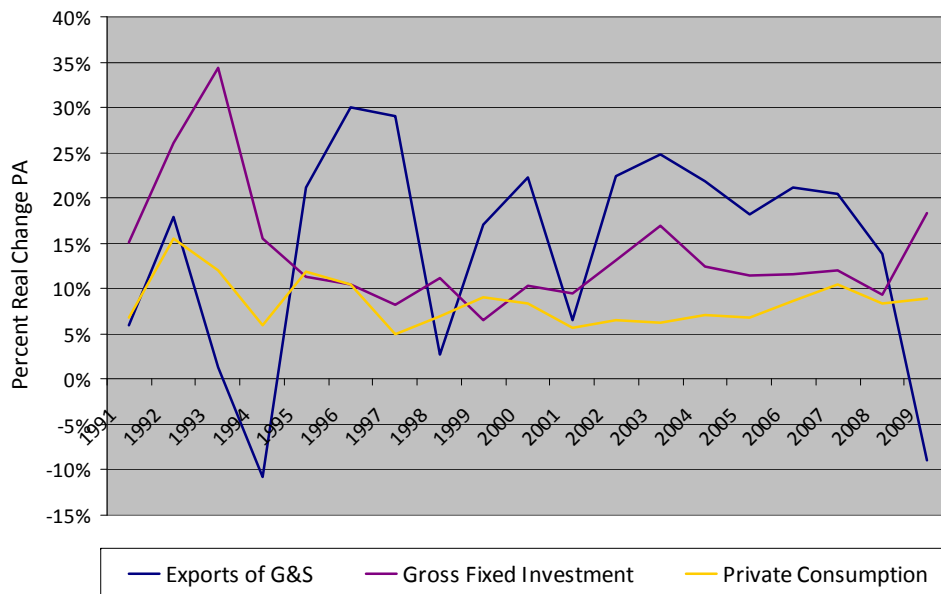
- China is about to overtake Japan as the world's second-largest economy, with the potential to surpass the U.S. as the leading economic power within twenty years.
- We believe China's growing private consumption will emerge as a driver of global growth because per capita GDP now exceeds \$3500, an inflection point at which private consumption can grow faster than GDP.
- China's 2% weighting in global indices should rise over time, enhancing the likelihood of outperformance relative to developed markets.
- We believe Consumer, IT and Healthcare will be top performers within China's market, yet those sectors collectively make up less than 5% of the FTSE China Index Fund, which is dominated by financials and commodities (84%).
- Companies using technology to deliver services to China's consumers should experience highly scalable, rapid growth.

# China's Growth Pattern is Evolving

**Exports and fixed asset investments have driven China's robust GDP growth. Now, China's economic growth strategy will shift to stimulating private consumption.**

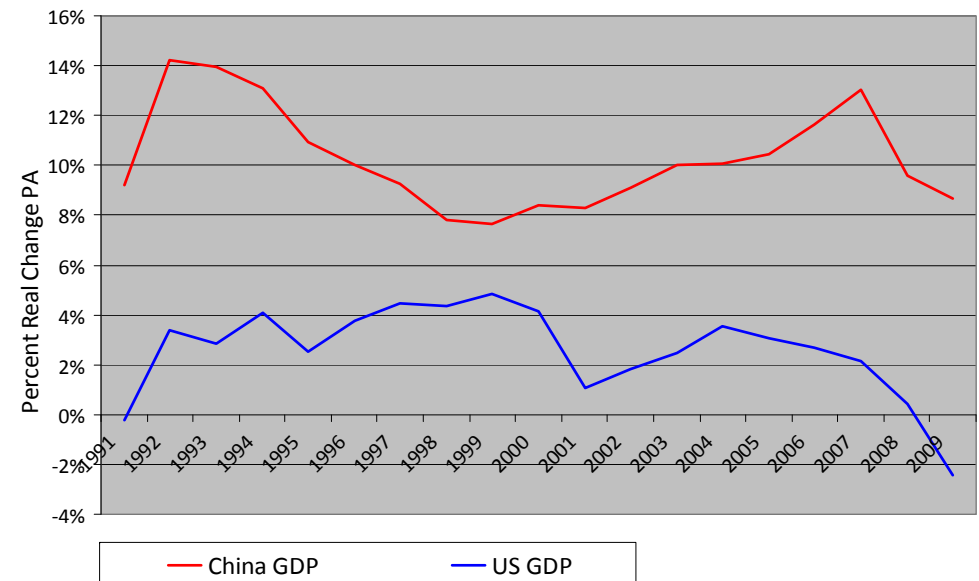
- First Stage: Export Driven
- Second Stage: Infrastructure Building
- Third Stage: Stimulate Private Consumption

**China's Growth**



Source: The Economist Intelligence Unit

**China vs. USA GDP**



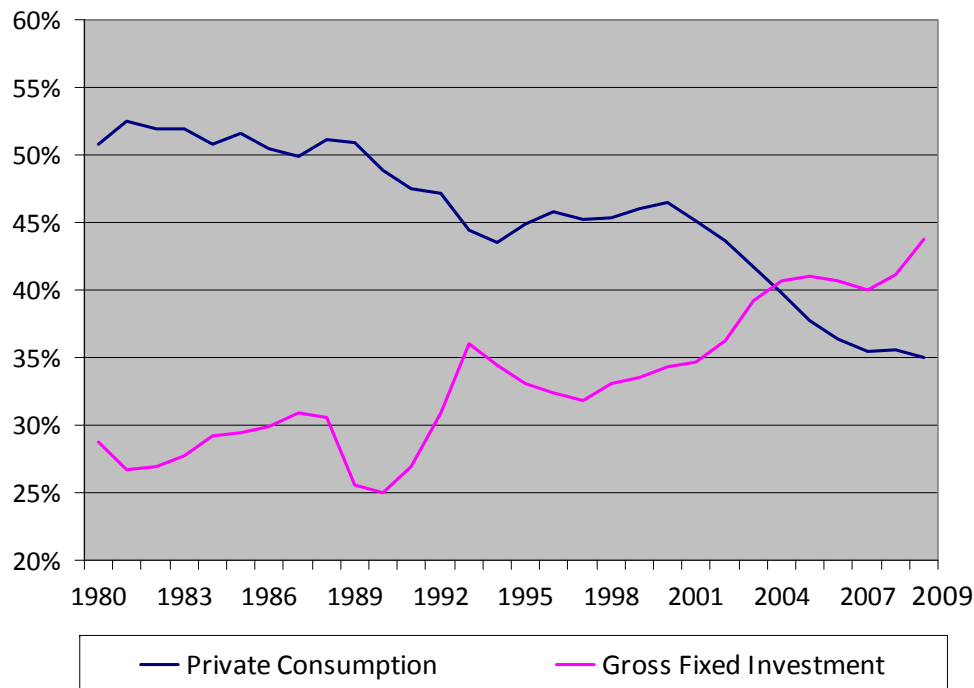
Source: Bureau of Economic Analysis, US Department of Commerce

# China's Consumers Now

**We believe Chinese consumers will replace U.S. consumers as the engine of global growth.**

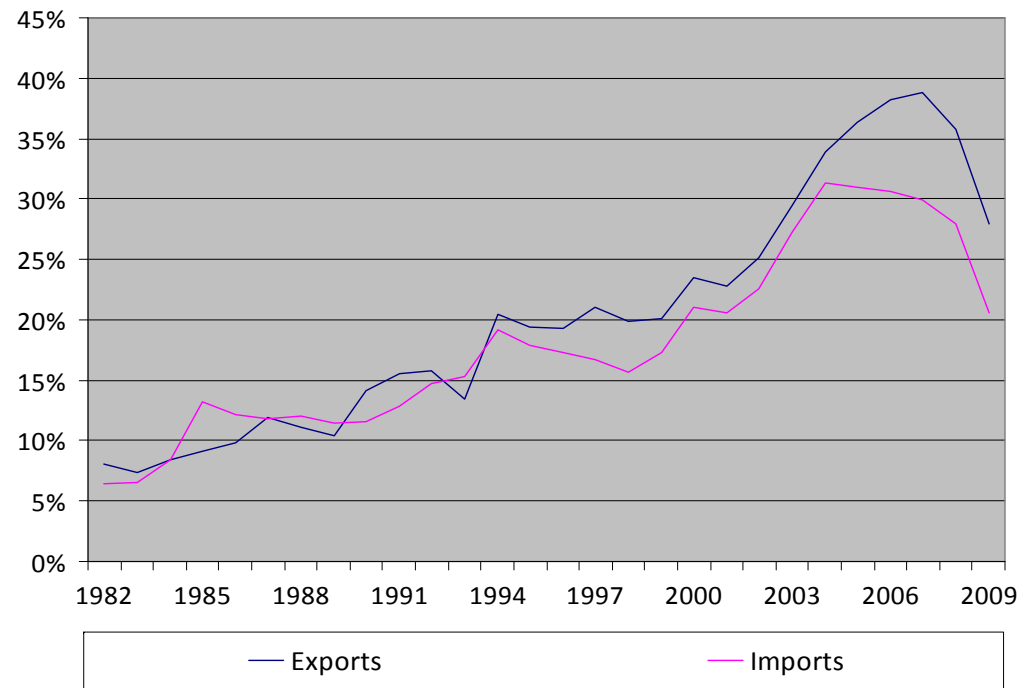
- Consumer demand for goods and services will accelerate now that per capita GDP has reached a critical level.
- China's domestic policy is shifting emphasis to the consumer.

**Private Consumption vs. Fixed Investment (% of GDP)**



Source: The Economist Intelligence Unit

**Exports and Imports of Goods and Services (% of GDP)**



Source: The Economist Intelligence Unit

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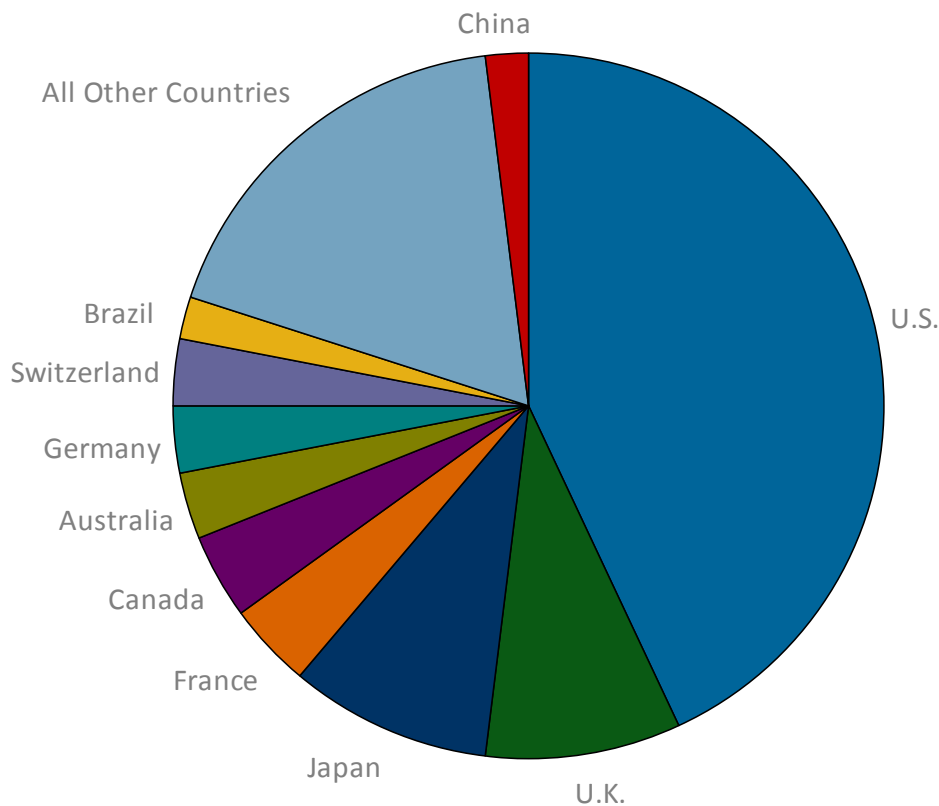
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# China's Weighting in World Indices is Low

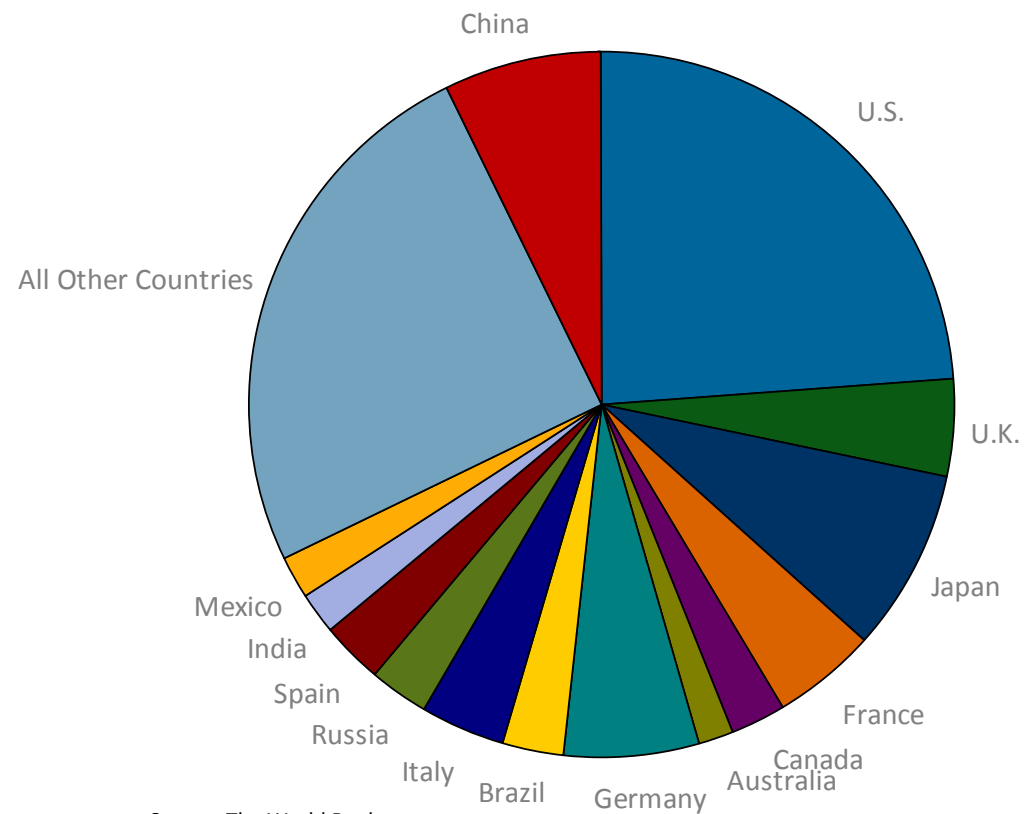
At 2009 year-end, China represented 7% of Global GDP but only 2% of equity indices.

**MSCI World Index, Weighting by Country**



Source: BNP Paribas

**Global GDP, Weighting by Country**

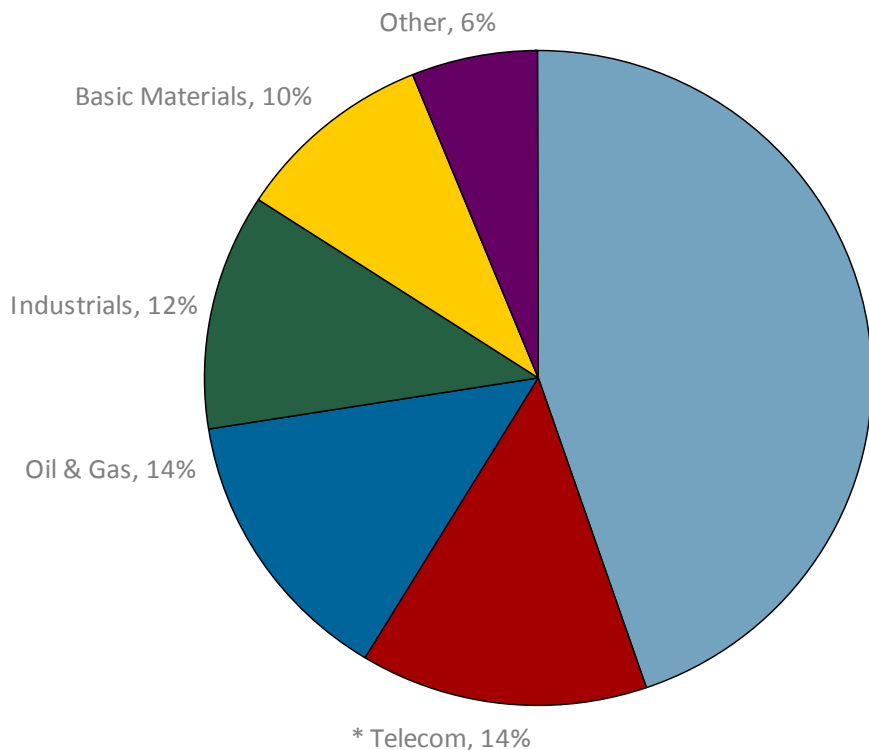


Source: The World Bank

# China's Indices Don't Represent the Consumer Economy

Index-based strategies have limited exposure to the consumer sector as those companies make up less than 4% of the FTSE China Index Fund

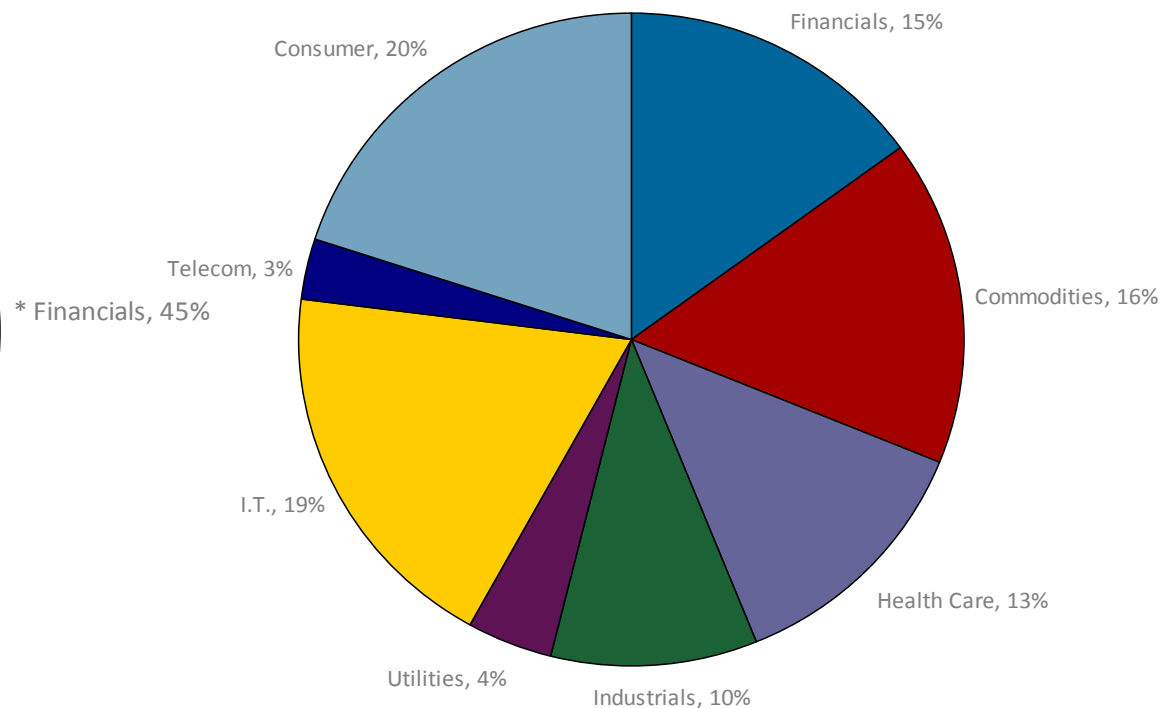
**FTSE China Index Fund, Weighting by Sector**



Source: iShares FTSE Index Fund

\* China mobile 10.5% of Index  
China Construction Bank 10.17% of Index

**MSCI USA, Weighting by Sector**



Source: Standard & Poor's

# Our Criteria Creates an Investment Filter

We narrow our investable universe to companies that share the following attributes:

Large Addressable Markets	Platform Structure		
	Scalable Solutions	Multiple Growth Options	Results-Oriented Management
<p>Portfolio companies are in a position to exploit macroeconomic trends of globalization, digitization and demographics by applying information technology.</p> <ul style="list-style-type: none"><li>• Mobile Telecom</li><li>• Travel Bookings</li><li>• Advertising</li><li>• Online Entertainment</li><li>• Search Engines</li><li>• E-Commerce</li></ul>	<p>Scalable solutions allow companies to accelerate top-line growth while increasing profit margins and free cash flow.</p> <p>Reinvest earnings into:</p> <ul style="list-style-type: none"><li>• Research</li><li>• Marketing</li><li>• Development</li><li>• Acquisitions</li><li>• Return Capital to Shareholders</li></ul>	<p>Portfolio companies can grow organically and are not dependent on one source for growth.</p> <p>Look for businesses that can:</p> <ul style="list-style-type: none"><li>• Easily extend product or service to adjacent areas</li></ul>	<p>Portfolio companies tend to have management teams that have a proven ability to deliver results for the company and shareholders</p> <p>Look for management that can:</p> <ul style="list-style-type: none"><li>• Capitalize on disruptive technologies</li><li>• Cultivate strategic advantages not fully recognized by the market</li><li>• Deploy excess cash productively</li></ul>

# Our Repeatable Investment Process

**We employ a resource-intensive research and analysis process to uncover growth opportunities within the global market.**

- We spend time ‘on the ground,’ meeting companies and key industry figures to determine whether a company qualifies for our portfolio
  - *Travel in China to meet management and their competitors*
  - *Use face-to-face visits to assess a management team’s ability to create and harness growth opportunities*
  - *Gather intelligence by using external research sources to substantiate in-house analysis*
- We have a history of identifying companies with the foundation and capabilities necessary to achieve world-wide growth
  - *Many of the types of businesses we’ve owned in the U.S. have counterparts in China that are in much earlier stages of growth*
  - *We hope to own businesses for a multi-year time frame*
  - *We constantly evaluate a company’s risk/reward profile using intrinsic and relative valuation methods*
  - *We monitor competitive environment to anticipate threats or benefits to companies*

# Macro Hedging and Opportunistic Shorting

**We employ macro based hedging combined with an opportunistic, research driven shorting strategy.**

## **Hedging Strategy**

*We use macro and market based hedges designed to dampen market volatility:*

- Vehicles are primarily exchange-traded

## **Shorting Strategy**

*We seek to add alpha by selling short:*

- *Low quality managements with a history of value destruction*
- *Highly competitive industries plagued with overcapacity, high fixed costs and irrational behavior*
- *Companies suffering from potentially fraudulent or broken business models*
- *Businesses characterized by the following:*
  - *Poor free cash flow generation*
  - *Weak balance sheets*
  - *Low and falling returns on capital*

# Portfolio Manager

**Integre Advisors is an employee-owned Registered Investment Advisor with over \$300 million in assets under management.**

## **Nels Wangenstein - *Principal, Portfolio Manager***

Mr. Wangenstein received a BA from Colgate University and a MBA from New York University's Stern School of Business. He joined Integre in 2008. Mr. Wangenstein was a Managing Director and Portfolio Manager at Neuberger Berman, LLC from 1998 to 2008. Prior to that, he was a portfolio manager at Ingalls & Snyder. From 1993 to 1998, Mr. Wangenstein was Vice President of The Industrial Bank of Japan. Mr. Wangenstein was an Analyst at Bank of Montreal from 1987 to 1993, and preceding that he worked for Coopers and Lybrand.

Mr. Wangenstein has over 20 years of industry experience.

## **Sourabh Banerji - *Senior Vice President, Investment Research***

Mr. Banerji has been with Integre Advisors since its inception in January of 2004. He received a BS from the Indian Institute of Technology in New Delhi and a MBA from Columbia University School of Business. Prior to Integre, Mr. Banerji spent four years in Asset Management at Goldman Sachs and seven years in Risk Management and Fixed Income Trading at Citibank in both New York and Tokyo.

Mr. Banerji has over 18 years of industry experience.

## **Dan McCarthy - *Principal, Portfolio Manager***

Mr. McCarthy received his BA and MBA from Cornell. He joined Integre Advisors in 2008, prior to which he was a Managing Director and Portfolio Manager at Neuberger Berman. He has acted as a Portfolio Manager at Ingalls & Snyder, Bank of New York, New York Life Insurance Company, Cantor Management, and Chase Manhattan Bank. Mr. McCarthy has also been a Research Analyst for F. Eberstadt & Co. and Neuberger Berman, LLC.

Dan McCarthy has over 45 years of industry experience.

# Portfolio Construction

**Number of Positions:**

Longs: Generally around 20 positions  
Shorts: Opportunistic

**Gross Exposure:**

Typically 100%, ranging up to 120%

**Net Exposure:**

Target 80% - 90%

**Investment Horizon:**

Longs: 1-3 year targets  
Shorts: 6-12 month targets

**Market Caps:**

All

**Primary Industry Exposure:**

Chinese consumer related industries

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# Risk Management

## ***Concentration:***

Average long position: 2% - 10%  
Typical long position maximum: 7% at cost  
Average short position: 1% - 5%  
Average short position maximum: 10% at market

## ***Diversification:***

Portfolio Strategy will focus on Chinese consumers.

## ***Focus Areas:***

Intense focus on holdings down 20% or more  
Shorts can increase a portfolio's risk and volatility

## ***Hedging/Options:***

ETF's and options will be used on a limited basis

# Investment Terms & Service Providers

	Fund Class A	Fund Class B
<b>Management Fees:</b>	1.5% of assets	1.5% of assets
<b>Incentive Fees:</b>	20%	15%
<b>Lockup:</b>	One year lock up – monthly withdrawals thereafter with 60 day written notice	Two year lock up – monthly withdrawals thereafter with 60 day written notice
<b>Early Withdrawal Penalty</b>	Liquidity penalty of 2% of assets	Liquidity penalty of 5% of assets
<b>Minimum Investment:</b>	\$500,000	\$500,000
<b>Expenses:</b>	Audit, legal, trading, brokerage, research and fund administration by Fund Other expenses by Management Company	
<b>Gate/High Water mark:</b>	No gate, no side pockets and standard high water mark	
<b>Legal:</b>	Warshaw Burnstein Cohen Schlensinger & Kuh, LLP	
<b>Prime Broker:</b>	Expected JP Morgan or Goldman Sachs	
<b>Auditor:</b>	To be determined	
<b>Administrator:</b>	To be determined	

The terms above are qualified in their entirety by the terms set forth in the each Fund's confidential memorandum. Prospective investors should carefully read the confidential memorandum, including the section entitled "Certain Risk Factors", in determining whether an investment in the Funds is suitable.

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# Appendices

# The Impact of Rmb Appreciation

*An example:*

Today, assume Company A earns:

Rmb eps	1.00
Rmb/\$ FX	6.88
USD eps	0.145
P/E multiple	20
USD share price	<u>\$2.90</u>

Next, assume Company A grows 20% per year for 4 years:

Rmb eps -year 4	2.07	2.07	2.07	2.07	2.07
Projected Rmb/\$ FX	6.88	5.88	4.88	4.00	3.44
USD eps - year 4	0.301	0.350	0.420	0.519	0.600
P/E multiple	20	20	20	20	20
USD share price	<u>\$6.02</u>	<u>\$7.00</u>	<u>\$8.40</u>	<u>\$10.37</u>	<u>\$12.06</u>
Stock Price Increase	2x	2.4x	2.9x	3.6x	4.15x

# China Consumer Fund – Performance Statistics

*Nels Wangenstein – Integre Advisors*

	The China Consumer Strategy	S&P 500	MSCI China
Cumulative Total Return as of 12/16/2009	76.3%	-16.5%	23.2%
Compound Annual Return as of 12/16/2009	21.1%	-5.8%	7.2%
Best Month	21%	10%	19%
Worst Month	-19%	-17%	-23%
Volatility	38%	20%	39%
Sharpe Ratio	1.09	-0.10	0.59
Beta versus		1.5	0.8
Alpha versus		44	23
Information Ratio		1.7	0.8
Upmarket Capture Ratio		168%	99%
Downmarket Capture Ratio		44%	29%

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# Disclosures

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