

October 4, 2012

Dear Friend:

We launched Mullick Value Strategy on June 30<sup>th</sup>. Our strategy is to invest in out-of-favor large capitalization companies with strong balance sheets and reasonable growth prospects. We also favor, though not exclusively, those companies that pay a growing dividend.

After a down second quarter, the markets turned in a good third quarter in spite of the looming European risks, slowing Chinese economy and the approaching fiscal cliff in the US. S&P was up 6.3% and Russell 1000 Value was up 6.5%, while net of fees the Mullick Value composite was up 6.2%.<sup>1</sup>

Relative to S&P 500, the top contributing sectors were financials, energy and consumer staples. Consumer discretionary and technology were the primary detractors. Moody's, a beneficiary of record bond issuance, was the top contributor to performance in the financial sector. National Oilwell Varco outperformed due to its rising backlog of offshore rig equipment orders and was the largest contributor to the energy sector. The market rewarded Proctor and Gamble's restructuring move to pare expenses and it was the primary contributor to the consumer staples sector. JCPenney was the largest detractor in the consumer discretionary sector. Under the new leadership of Ron Johnson, JCPenney is undergoing an ambitious but risky remake which has shaken investor confidence, ourselves included, and we exited the position. Intel was the largest detractor in the technology sector. Confusion regarding the rollout of Windows 8, success of Ultrabooks and the extent of share loss to iPad has negatively impacted the valuation of Intel. We still favor Intel for its dominant market position, high profit margin, record low valuation and high dividend yield.

<sup>1</sup> 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 Mullick Value Strategy composite is the dollar-weighted linked monthly return of those sharing the objective of the Mullick Value portfolio that are greater than \$250,000 in size. Portfolios are excluded from the month if the account falls below the composite minimum, or 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 and Russell 1000 Value are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and Russell 1000 Value and may have more or less volatility and risk than an investment in the S&P 500 Total Return and Russell 1000 Value. Management fee information available upon request.

Relative to Russell 1000 Value index, the top contributing sectors were financials and utilities. The largest detractors were consumer discretionary and telecom sectors. As noted above, Moody's led the financial sector contribution. PPL was the largest contributor in the utilities sector driven by a positive rate case settlement. Again, JCPenney constituted the largest drag in the consumer discretionary sector. Vodafone Group contributed positively but lagged the benchmark in the telecom sector. We continue to favor Vodafone with its low valuation, low debt level, and attractive base and special dividend from Verizon.

Looking ahead, we see a number of obvious risks, such as weakening growth in the US as companies are increasingly playing defense with their spending plans as well as uncertainty regarding the approaching fiscal cliff. While ECB's bond buying plan may have somewhat alleviated the crisis in Europe, the growth in China continues to slow. On the other hand, as we look further out, we see some attractive investment opportunities, as the uncertainties expose value situations.

A silver lining is recovery in US housing starts and home price stability, as well as continued recovery in sales of automobiles. These trends bode well for a whole host of housing related industries, including our holdings of Lowe's, NVR, Owens Corning, as well as financials including JP Morgan, Wells Fargo and Berkshire. Continued success in shale drilling for oil and gas has given rise to opportunities for lower cost natural gas sourced chemical feedstock as well as higher refining margins due to pipeline bottlenecks. Our holdings of EOG Resources and Occidental Petroleum benefit from the trend of rising oil production from shale drilling, while National Oilwell Varco benefits from demand for drilling equipment. Exxon Mobile benefits from the rising downstream refining and chemicals margin.

Often, investment opportunities are created out of uncertainties. For example, low interest rates as well as disintermediation of banks in Europe have resulted in strong issuance of high yield and asset backed securities. As the largest debt rating agency, Moody's, our major holding, is a prime beneficiary of this trend. McGraw Hill, which is in the process of spinning off its educational publishing business, is also a beneficiary of this trend through its ownership of Standard and Poor's.

Healthcare reform or Obamacare and generic substitution are likely to be headwinds for the pharmaceuticals, medical devices and HMOs. As a result, many of these companies have seen their valuation come under pressure. Such pressure created value opportunities in Covidian, a surgical supplies company, and United Healthcare, the largest HMO. Both should benefit from greater health plan enrollment. The falling number of prescriptions filled resulting from higher unemployment and a dispute with Walgreens pressured the valuation of mail order pharmacy leader Express Scripts. We were able to take advantage of the price dislocation. Express Scripts stands to benefit greatly from generic substitution as well as synergies from its combination with Medco.

We conclude with the thought that while we face a number of deleveraging related fiscal drag and uncertainties of leadership changes both State side and in China, there are emerging trends that present potential investment opportunities. Our commitment is to stick to our out-of-favor large capitalization value discipline and take advantage of the opportunities with an eye to preserve capital. We believe our strategy strikes the appropriate balance to outperform over a market cycle.

Thank you for your support.

S. Basu Mullick  
Principal

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