

October 21, 2013

Dear Client,

It was a good third quarter for Integre Advisors. Net of fees, our Diversified Equity Composite increased by 5.7%, our Concentrated Equity Composite increased by 6.3% and our Domestic Small-Cap Composite increased by 5.5%. The S&P 500 Total Return Index increased by 5.2% and the Russell 2000 Small-Cap Index increased by 10.2%.¹

Year-to-date, net of fees, our Diversified Equity Composite is now up 23.9%, our Concentrated Equity Composite is up 26.6% and our Domestic Small-Cap Composite is up 24.7%. For the same nine-month period, the S&P 500 Total Return Index is up 19.8% and the Russell 2000 Small-Cap Index is up 27.7%.²

Looking ahead, next quarter will mark our firm's ten-year anniversary. While it hardly seems possible that nearly a decade has passed since we set out to build this firm, incorporating the best practices of the institutions where we honed our skills, what a time it has been. Since inception in January 2004, our Diversified Equity Composite has increased by 134%, net of fees; by contrast, for that same period, the S&P 500 had a total return of 85%. Since we created our Concentrated Equity Composite in April 2004, the Concentrated Composite has increased by 149%, net of fees; by contrast, for that same period, the S&P 500 increased by 82%. And since we created our Domestic Small-Cap Composite in January 2012, our Small-Cap Composite has increased by 56%, net of fees; by contrast, for that same period, the Russell 2000 has increased by 49%.

Currently the U.S. stock market is doing well not because the U.S. economy is actually strong, but in anticipation of it becoming strong. Possibly hastening this hoped for turn of events is an extremely accommodative Federal Reserve. During the quarter, when the yield on the U.S. Ten-Year Treasury reached 3.0%, the Federal Reserve recommitted itself to its easy money policy, essentially buying bonds aggressively, and thereby bringing the yield back down to 2.6%.

There have also been recent positive developments overseas. In Germany, Angela Merkel's Christian Democratic party had its best election showing in twenty years, a victory which all but ensures that the European monetary union will remain intact. In China, the economy has been performing better than some had feared given that its leaders are now trying to wean it off the large infrastructure projects that up till now have fueled its growth.

Over in our small-cap universe, this bullish environment has resulted in small-cap growth stocks outperforming small-cap value stocks by more than 9% for the first nine months of this year. The reason for this is that market enthusiasm can easily increase the multiple of a company with little revenue and little-to-no earnings since it's only trading on hopes and dreams; raising the multiple

¹ See full disclosure on the next page.

² See full disclosure on the next page.

on companies with actual, quantifiable profits, assets, liabilities and book value is far more difficult since they tend to trade within reasonable bands for their industries.

While we are pleased we have been well positioned for the stock market's recent rise, it is our nature, and our discipline, to try to reduce the cyclical risk in the portfolio when things go very well very quickly. To that end, we have recently been investing in companies, including pharmaceutical and software manufacturers, which have specific non-economic issues that we believe represent attractive risk/rewards.

With the stock market high and interest rates low, we believe it is now more important than ever to invest with a manager with a long-term track record of profiting from volatility after taxes and inflation. We have successfully achieved this goal for you for nearly the past ten years, and look forward to working to achieve it again in the years that lie ahead.

With all good wishes,

Manny Weintraub, CFA

^{1,2} **Disclosure:** 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, concentrated equity and domestic small-cap composites represent the asset-weighted returns of those accounts sharing the objective of the respective diversified equity, concentrated equity and domestic small-cap strategies. As of 1/1/13, portfolios are included in a composite at the beginning of the first full month under management and stay in the composite until the end of the last full month under management. Prior to that, the composites included portfolios with a minimum of \$250,000 that were managed for a full calendar quarter before inclusion and stayed above the minimum during any quarter. 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 2000 are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and Russell 2000 and may have more or less volatility and risk than an investment in the S&P 500 Total Return and Russell 2000. Management fee information is available upon request.