INTEGRE
ASSET MANAGEMENT

April 30, 2018

Dear Friend,

It was a good first quarter for our Small-Cap Dividend portfolio. The composite was up 1.3%, net of fees compared to -0.1% return for the Russell 2000 small-cap benchmark. Since our 1/1/2017 inception date, the composite is up 16.2%, net of fees versus an 11.5% return for the Russell 2000.

Our Small-Cap Dividend portfolio invests in U.S. small-cap dividend paying stocks, a subset of the small-cap universe that has meaningfully outperformed non-dividend paying peers over the past twenty years.[1] We believe this universe of 1,400 stocks offers the best of both worlds; we can invest in companies that are both financially strong like many mid-caps AND growing quickly like many small-caps. Every quarter we apply fundamental analysis to this quantitatively defined universe to find 80 to 100 companies that are growing or transforming in order to create a portfolio with an attractive potential return relative to the risk we taking.

The first quarter performance was gratifying at a time when some dividend oriented products were not performing well. For example, in the first quarter, the Wisdom Tree U.S. Small-Cap Dividend Fund (DES) had a -5.1% return and the S&P 500 Dividend Aristocrats ETF (NOBL) had a -2.4% return. What are some of the factors that can cause one dividend-oriented product to perform better than another?

We propose three reasons why the Small-Cap Dividend portfolio outperformed these two other dividend strategies during the first quarter.

1) *They owned too many companies where the only attraction was the yield*. A company may have a high yield because the market believes the dividend is unlikely to grow much in the future. In that case, it can trade like a long-dated bond. Those types of companies declined in value as interest rates rose in the first quarter. **We try to avoid those types of slow-growing, high yielding companies.**

2) *They owned too many food and drink companies.* The S&P 500 Dividend Aristocrats has 25% of its portfolio in consumer staples (i.e. businesses that produce products that people need to buy regardless of the economic environment). These companies are being buffeted by changing consumer habits. They may have done well in the previous 25 years, but the next 25 look harder. **We only have 4.0% of our portfolio in consumer staples and our companies are growing! Think vaping, healthful snacks and Slush Puppies.**

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3) *They are passive indexes.* Passive indexes rarely change their constituents. They do not raise or lower position sizes in response to market conditions. The 90 days of the first quarter had more days in which the market went up or down more than 1% than all 365 days of 2017. We expect that the coming year will be one filled with both volatility and opportunity for a dispassionate active investor that can profit from dislocations. **Investors in passive funds will get the volatility, but none of the opportunity.**

If you were invested in a large-cap dividend fund because you wanted safe income, this quarter's negative return should be a wake-up call. It has been a good multi-year run for these strategies, but we think now is a good time to switch some of your large-cap dividend allocation to our Small-Cap Dividend portfolio.

Below is a table of our five best and worst performing positions for the 1st quarter. Again, please note how the contributors continue to be more impactful than the detractors. That is the essence of successful risk-reward investing.

1Q18 Performance of Top 5 Contributors[1]

Company	Ticker	% Change
Medifast, Inc.	MED	49.9%
DexCom, Inc.	DXCM	29.2%
Insulet Corporation	PODD	25.6%
Virtu Financial, Inc. Class A	VIRT	80.3%
CSRA, Inc.	CSRA	37.8%

1Q18 Performance of Top 5 Detractors[1]

Company	Ticker	% Change
Winnebago Industries, Inc.	WGO	-32.4%
Nutrisystem, Inc.	NTRI	-48.8%
Sapiens International Corp.	SPNS	-26.0%
U.S. Silica Holdings, Inc.	SLCA	-21.6%
Portland General Electric	POR	-11.1%

[1]Top contributors / detractors based on percent contribution to the portfolio's performance which is impacted by both the security's performance and position size (i.e. the top contributor may not have the best performance)

Wishing you a great spring.

Sincerely,

Manny Weintraub, CFA
Founder and Principal

Note: [1]Additional information about study is available upon request.

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