INTEGRE
ASSET MANAGEMENT

January 17, 2019

Dear Friend,

For the final quarter of 2018, Integre Large Cap Strategy, net of fees and expenses, returned -16.4% versus -13.5% for S&P 500 index and -11.7% for the Russell 1000 Value index. For the year 2018, Large Cap Strategy net of fees and expenses returned -7.0% versus -4.4% for S&P 500 index and – 8.3% for the Russell 1000 Value index. Since inception on 6/30/2012, Large Cap Strategy returned 113.5% net of fees and expenses versus 110.9% for the S&P 500 index and 91.3% for the Russell 1000 Value index.

Volatility returned to the markets in the final quarter as fears of an inverting yield curve along with signs of sharp weakening in China and Eurozone sparked a rapid retreat in U.S. stocks. It was U.S. stocks' turn to finally catch up with the dismal performance of stocks worldwide led by China on the downside. On the trade front with China, the talks seemed to have come to an impasse with the first installment of tariffs already in place. The catalyst for the market selloff was the Fed's seemingly unyielding stance on interest rate normalization, in spite of multiple signs of stress in the global markets. Algorithm driven factor model based trading, growth of passive investing and lack of liquidity traditionally provided by market makers such as investment banks drove the market lower with breathtaking speed. The sharp decline occurred with little conclusive evidence of an impending recession.

Evidence of continued strength in the U.S. economy as shown in the jobs numbers finally turned sentiment around. The Fed also recognized the weakening global economy and seemed to relent on the progression of future rate hikes which calmed the markets further. Progress on the trade war with China also helped.

We continue to believe in the extended cycle in spite of the slowing housing market and the flat yield curve. The recovery has been one of the weakest despite following one of the most severe financial crises. We think that the cycle could continue with modest inflation in spite of the low unemployment rate. To some extent the impact of the Fed's balance sheet unwinding may have contributed to the flattening of the yield curve.

The market correction, which has been broad based and deep, has uncovered a large number of quality opportunities which we are taking advantage of. The corporate tax cut, deregulation, lower price of oil and continued strength in the job market are positive elements for the markets. A successful trade deal with China can deliver not only a more level playing field for the U.S.,

but also remove the tariff related uncertainties hanging over corporate investment decisions and help in resuming earnings growth.

Among the risks, we list the high corporate debt level financed by low interest rates as well as the risk of sharply rising interest rates. The age of the economic and market cycle is another potential risk factor. With the market correction, we are finding more attractive opportunities to invest in large capitalization companies with a margin of safety.

I wish you a happy and prosperous new year.

S. Basu Mullick
Principal