INTEGRE ADVISORS

July 25, 2012

Dear Friend,

It was a difficult second quarter for global risk assets. Instead of creating several hundred thousand new jobs per month as had been the case in the first quarter, the U.S. is now only adding eighty thousand per month as of the last report. With the level of job creation no longer sufficient to reduce the unemployment rate, hopes that the U.S. consumer would come roaring back to lead the country and, by extension, the world, into a more economically robust period were dashed. Complicating matters further was the fact that the European Central Bank's December plan to boost liquidity by lending money to European banks so they could purchase government bonds turned out to be more Band-Aid than panacea, as yields on Spanish and Italian bonds rose once the buying ended.

As a result of all these factors, major indices declined for the quarter. The S&P 500 declined by -2.75%, and the Russell 2000 declined by -3.47%. Our Diversified Equity Portfolio declined by -6.14%, and our Concentrated Equity Portfolio declined by -8.83%. Our Domestic Small-Cap Composite declined by -5.54%.[1]

Nonetheless, due to our strong performance in the first quarter, year-to-date we are generating significant positive returns in all of our products. As of June 30th, our Diversified Equity Composite was up 6.14%, and our Concentrated Equity Portfolio was up by 8.37%. Our Domestic Small-Cap Composite was up 12.67%.

[1] 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 composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a diversified equity portfolio that are greater than $250,000 in size. The concentrated equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a concentrated equity portfolio that are greater than $250,000 in size. Accounts must be managed for a full calendar quarter before inclusion. Portfolios are excluded from a quarter 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 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 available upon request.

INTEGRE ADVISORS

Owing to the recent flight to safety, the largest U.S.-listed companies are currently outperforming the smaller ones. That said, we are not changing our investment philosophy or portfolio construction. We will continue to have a large portion of our Diversified portfolio, and nearly all of our Concentrated portfolio, invested in smaller companies for three simple reasons: smaller companies are more likely to grow than larger ones which already have greater market share; it is easier to impact the earnings of a smaller company with even one successful new product; and smaller companies are more likely to be taken over at large premiums than larger companies.

This quarter we have been making investments in companies where we believe value can accrue regardless of the sharp ups and downs of the stock market. In addition, we have tried to reduce risk in the portfolio by focusing on companies which sell lower- ticket items.

Most recently, we made investments in an auto parts retailer, the nation's most profitable intimate apparel chain and a medical software manufacturer, all of which were valued as growth companies until they encountered the kind of hiccup or stumble that happens to real companies in the real, not perfect, world. We bought the auto parts retailer because, owing to improvements in technology, cars now last longer than they used to (the current average age of a car in the U.S. is eleven years old) and due to the weak economy more owners are repairing their cars themselves or using independent repair shops, both of which benefit our investment. We bought the intimate apparel company because we believe it disappointed due to making needed investments for international growth that will ultimately benefit shareholders in the long run. Its strong brand and consistent and improving profitability give us confidence that we will get paid to wait for this international growth to materialize. Finally, we bought the medical software company because with the passage of Obamacare, the federal government is requiring that medical records become more automated and integrated. We believe that the company's next software update will either fix the issues that led to its earnings disappointment or, that the company will be purchased by another software firm that would want access to its valuable base of customers.

Looking ahead, we are cautiously optimistic for the future. Housing seems to have bottomed, oil prices seem to be coming down and while too few jobs are being created in this country, it seems that on balance jobs have at least stopped leaving the U.S. in favor of China due to its recently rising wages and a growing awareness of the risk of intellectual property theft there, a potential loss which can offset all the productivity gains one shifts manufacturing to China for in the first place.

INTEGRE ADVISORS

All that said, we are once again expecting lots of volatility. But volatility which we believe, in the end, will lead to positive returns. In a way, these first six months have been a microcosm of that. We were up, we were down; and now, at the end of all that tumult, we are up high single digits. If at the beginning of the year we had known that these would be our mid-year results, we would have been pleased.

On the corporate front we are delighted to announce that Basu Mullick, “MarketWatch Mutual Fund Manager of the Year” award winner for 2006, has joined Integre Advisors. Most recently Basu managed over $4 billion in assets at Neuberger Berman, including the large-cap value Partners Fund and the mid-cap value Regency Fund. Prior to his thirteen years at Neuberger, Basu was Managing Director and Portfolio Manager at Ark Asset Management. Prior to that, he served as General Partner at Lee Cooperman’s Omega Advisors.

At Integre, Basu will run a large-cap value strategy for individuals and institutions looking to maintain purchasing power in this period of very low bond yields. In addition to expanding our investment offerings, Basu brings his own distinctive investment style, point of view and a wealth of investment experience to our current stable of managers. When we started Integre Advisors it was our hope that one day we would recreate one of the best aspects of my previous firm by creating an environment where portfolio managers with different, but complementary strategies could share ideas and resources. With the addition of Basu to our team, we are that much closer to making that vision a reality.

With all good wishes for a great summer,

Manny Weintraub, CFA