

January 23, 2019

Dear Investors,

In a very difficult fourth quarter for small-cap stocks, our Small-Cap Dividend Equity composite declined less than the Russell 2000 small-cap benchmark. After a 20.2% decline in the fourth quarter, the Russell 2000 ended the year down 11.0%. Our Small-Cap portfolios declined 19.9%, net of fees, and finished the year down 10.3%, net of fees.

The Small-Cap Dividend Equity portfolio is invested in a universe that has historically outperformed the Russell 2000 with less volatility: small-cap dividend paying stocks and profitable health care companies.¹ The ability for a small cap company to pay a dividend often symbolizes a certain maturity and stability in its corporate lifecycle which can greatly reduce the probability of a meaningful decline in market value while still retaining the many positive characteristics of small caps i.e. above average growth, greater market inefficiencies, limited research coverage, etc.

By actively investing in this distinct universe, our goal is to outperform the Russell 2000 with less volatility and we continued to achieve that goal in 2018. Since inception two years ago, our small-cap portfolios are up 6.9%, net of fees (versus 2.1% for the Russell 2000) and importantly the earnings of our companies have grown as well.

We continue to believe our universe of 1,400 stocks offers the best of both worlds; we can invest in underfollowed 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 75 to 100 companies that are growing or transforming in order to create a portfolio with an attractive potential return relative to the risk we are taking.

Unfortunately our universe of small caps was not immune to the fourth quarter stock market swoon. However, with small cap valuations mostly reset lower, we are more excited than ever about the future prospects of the strategy. In fact, our portfolio now trades at just 13.4x next year's earnings (versus 17.8x for the Russell 2000).

Below is a table of our five best and worst performing positions for the 4th quarter. From the table, you can see how important it is to diversify holdings when investing in small-caps. The list of top 5 contributors shows that even in a small-cap bear market some holdings will appreciate and the list of top 5 detractors shows that the combination of pessimism, tax-loss selling, and end-of-year illiquidity can lead to unreasonable mark to market losses.

4Q18 Performance of Top 5 Contributors¹

Company	Ticker	% Change
Virtu Financial, Inc. Class A	VIRT	26.0%
Shenandoah Telecommunication	SHEN	14.2%
Nutrisystem, Inc.	NTRI	18.2%
World Wrestling Entertainment, WWE		8.9%
Hawaiian Electric Industries, Inc. HE		2.9%

4Q18 Performance of Top 5 Detractors¹

Company	Ticker	% Change
Ebix, Inc.	EBIX	-46.2%
Medifast, Inc.	MED	-43.6%
Western Alliance Bancorp	WAL	-30.6%
QAD Inc. Class A	QADA	-30.6%
Boyd Gaming Corporation	BYD	-35.7%

¹Top 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); if security was purchased/sold during the quarter, performance is calculated based on purchase/sale date

Over the past 29 years I have seen many more volatile markets than calm ones. The calm ones are nice, but ultimately the volatile ones provide better opportunities to buy severely mispriced securities. In 2019 the markets may continue to be changeable, but we will remain constant in our disciplined strategy of buying the most attractive small cap dividend paying stocks.

It has now been two years since the Integre Small-Cap Dividend strategy began, and we are more convinced than ever that this is a great universe of stocks to invest in and one in which disciplined active management can make a large difference.

With all best wishes for a great winter,



Manny Weintraub, CFA
Founder and Principal

Notes: ¹Additional information about the study is available upon request.