INTEGRE ADVISORS

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Dear Friend,

It was a solid third quarter for Integre Advisors. Net of fees, our Diversified Equity Composite increased by 3.2%, our Concentrated Equity Composite increased by 2.3%, and our Domestic Small-Cap Composite increased by 5.9%. The S&P 500 increased by 6.4%, and the Russell 2000 increased by 5.3%.[1]

For the first nine months of the year the S&P 500 is now up 16.4%, and the Russell 2000 is up 14.2%; net of fees, our Diversified Equity Composite is up 11.0%, our Concentrated Equity Composite is up 10.7%, and our Domestic Small-Cap Composite is up 19.6%.

Despite the positive returns, it has been a volatile year thus far, and the third quarter was a microcosm of this phenomenon. The quarter began turbulently with fear that European economic problems would force not just Greece, but also Spain and Italy, to seek some form of European bailout or subsidy. Those concerns were allayed in late July when the President of the European Central Bank announced that he was committed to doing "whatever it takes" to protect the Eurozone from collapse. As a result, the market rallied for the next two months, with large-capitalization-cyclical shares in the vanguard.

We participated in these rallies, but they did not particularly favor our risk/reward style of investing. The market has stabilized because the European Central Bank is committed to buying Spanish and Italian bonds to keep borrowing costs low and the Federal Reserve is buying mortgage-backed securities for the very same reason. With rates so low, the people on the other side of these trades often put their proceeds into S&P 500-index futures and Exchange Traded Funds, but not the small- and medium-cap companies which we favor.

We buy companies where we believe the amount of money we can make if things go well at that company is significant compared with the amount of money we can lose if things go poorly. We don't buy sectors and we don't buy the broader market. We make our money on corporate

[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.

fundamentals – when a company we own reports better than expected results or puts themselves up for sale, as was the case with a medical software company which we own in our portfolios. On the last day of the quarter this company announced that it was for sale, thereby sending its stock up 14%.

Warren Buffet famously said, "You pay a high price for a cheery consensus," meaning that stocks which are in favor with the investing community often have nowhere to go but down. We agree. We have always found our best investments not in companies which are doing well but those that are out of favor with Wall Street. That said, the journey from market dog to darling can be fraught with uncertainty particularly with regards to timing.

Historically our strongest investment results have followed periods where we have had decent but not stellar returns. In the twenty-four months from January 1st, 2006 through December 31st, 2007, our Diversified Equity Composite returned 10%, underperforming the S&P 500 by 12%. But in the following thirty-six months from January 1st, 2008 through December 31st, 2010, our Composite returned 19%, outperforming the index by 27%.

Ultimately the value of a stock is determined not just by market sentiment but corporate fundamentals, which is why we always look forward to earnings season.

Wishing you a great autumn and a Happy Thanksgiving.

Sincerely,

Manny Weintraub, CFA