GROWTH EQUITY REVIEW

Third Quarter 2012

PERFORMANCE COMMENTARY

That we are in unusual times is not disputed. So why should we be surprised to find that September was up 2.4% for the month, although traditionally the most disappointing month of the year for investors as measured by the S&P 500, and historically generating an average return of -0.5% since 1971. The third quarter, which commonly is the most disappointing quarter of the year (up 0.6% on average since 1971), was up a solid 6.4% this year.

Why the divergence? Once again the central banks in Europe and the Federal Reserve rode to the rescue with plans to provide support to troubled banks of nations under duress and/or to extend the promise of low interest rates to continue to foster the healing process. While the outcome of their responses and the time it takes to heal is uncertain, what is certain is that we are better off than we were several years ago. That is, in the minds of many market pundits and fearful investors. The sour mood and a glass-more-than-half-empty-attitude prevail despite the fact that the S&P 500 has had only one real down month in the last twelve.

There is unusual sector outperformance through the first nine months of the year as shown by the S&P, notwithstanding concerns regarding the uncertain outcome of the pending election, the looming fiscal cliff and debt crisis, and a struggling Europe and slowing Asian economies, or considering the negativity that seems pervasive and the residual bundles of financial concerns in many nations. Year to date, telecom is leading the pack (up 26%). One could argue that it is the search for yield in the face of uncertainty driving that performance. But yield oriented utilities are lagging all other sectors and are up only 4% through nine months. One can make the case that financials (up 21%) are bouncing off lows from previous years and that technology (up 21%) is Apple driven (although this quarter's 7% return was primarily driven by Google - up 30%). However, what is surprising is that consumer discretionary is up 21% while consumer staples are up only 13% so far this year.

There has been performance disparity and rotation between sectors every quarter this year. Energy, after lagging significantly the first six months, finally had its day in the sun and was up 10% to lead all sectors this quarter. Energy is still well behind all but one other sector (utilities) for the year. If investors had been astute enough to time moving in and out of sectors they would have done well, but if they had overstayed their welcome, or take a longer view, it has been a challenging year for performance versus the averages. Investors should be pleased if they are anywhere around the averages, as generalized market returns are significantly greater than historical returns.

	Periods Ending September 30, 2012					
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – NET	**4.8%**	**14.1%**	**21.0%**	**14.4%**	**3.2%**	**11.8%**
Russell 3000 Growth Index	6.0%	16.6%	29.4%	14.7%	3.2%	8.6%
S&P 500	6.4%	16.4%	30.2%	13.2%	1.1%	8.0%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.
Performance figures for periods one year and longer are annualized.

The return for our institutional (non-private) clients for the quarter was +7.1% and +16.1% YTD. Health care, arguably the broadest of sectors (ranging from hospital management companies to pharmaceuticals to medical devices to biotechnology), impacted returns for the quarter at both ends of the spectrum. For your accounts biotech was in and medical devices were out. **Cytori Therapeutics (CYTX)** was up 63% while **Google (GOOG)** and **Computer Sciences (CSC)** gained 30% each. In addition to Cytori, two other companies engaged in treating disease states, **Morphosys (MPSYF)** and **Celgene (CELG)**, were up 41% and 22% respectively. **Intel (INTC)** sagged down 14% due to concerns about slowing PC sales while three small companies **Hansen Medical (HNSN)**, **STEC (STEC)** and **Biolase Technologies (BIOL),** were all off 15%, 13% and 12%. All suffered due to delayed or lagging acceptance of product offerings. We see all three as adding significant returns to the portfolio over time. **Boeing (BA)** rounded out the bottom five down 6%.

PORTFOLIO COMMENTARY

"Patience is a virtue." This proverb or phrase has been traced back to "Piers Plowman" in 1377 by William Langland. We certainly hope we don't have to wait this long for the recognition of the inherent value we see in two of our holdings.

We added **Vodafone Group (VOD)** to the portfolio in November of 2011 when we were seeking strong balance sheet dividend paying companies as the "debt ceiling fiasco" was unfolding. VOD is a dominant global player in wireless communications that is a direct beneficiary of the powerful long term demand trend for voice and data communications and mobile media. We viewed it as cheapened by its classification as a European company and had expectations for a significant potential dividend predicated on its 45% ownership of Verizon Wireless. We have achieved the stability and downside protection we were looking for by adding it to the portfolio, as it has generally traded within a dollar of our purchase price of $27. We have enjoyed the yield we expected of 6%, so we have been paid to wait. However, we have been disappointed that the market has not recognized its inherent value with a higher valuation. We will continue to be patient, and expect to be well compensated.

We own financially strong **Cree (CREE)** to add a growth component. We believe Cree is the purest way to participate in the steadily accelerating transition to LED lighting solutions. We have owned Cree for many years in our strategy that is focused on the sciences and invests in emerging companies driven by human creativity. Cree prospers from its unchallenged leadership in silicon carbide, a high performance semiconductor substrate. The company, from its own lab, supplies wafers to others as well as for its own use, in gallium compounds and in silicon carbide. Because of its strong balance sheet and positioning it has migrated in our portfolios and became appropriate for Growth Equity.

LED white light generated from semiconductors is incredibly energy efficient, runs "cool" and is long lasting. LED-based lighting has been around for a few years in specialty applications such as traffic lights and automobile tail lights. As the cost of manufacturing has declined, LED white light technology is now being used by the general lighting industry, such as in street lamps and light fixtures. For example, an interior LED "flood light" that produces about the same amount of light as a 75-watt bulb uses only 12 watts of energy. That same 75-watt bulb has a listed useful life of 2,000 hours, while a similar LED's useful life is closer to 50,000 hours. With the cost of energy on everyone's mind, LED lighting is becoming the first choice in new commercial construction, and is quickly making financial as well as environmental sense in the retrofit market. We see the retrofit market as a huge opportunity for Cree especially as it continues to make strides in increased efficiencies and lowered costs. While Cree has a superior technology in its product line offering, we are monitoring the impact on Cree of China's support

of homegrown producers of LED's, creating a threat to Cree's place in the greater-than-one-watt LED semiconductor market. Their positioning in the industry is being eroded and that has been reflected in the continued price weakness. Since Cree is a foremost leader in penetrating a huge market, it wouldn't surprise us if a much larger global player acquires Cree in the next few years.

PORTFOLIO ACTIVITY

We took profits in two holdings, selling **John Wiley & Sons (JWA)** and **Seattle Genetics (SGEN)**, and trimmed back positions in three companies that had done well - **Celgene (CELG)**, **Bunge (BG)**, and **Vertex Pharmaceuticals (VRTX)** to add four new holdings in the quarter.

When we took our profits and sold our position in **Novozymes (NVZMY)** last fall, we mentioned that we might revisit the name at lower prices. We repurchased the shares 17% cheaper in August. Novozymes is a world leader in the development and production of enzymes with 47% market share of the global enzyme markets they address in 2011. Enzymatic reactions are an integral aspect in the functions of organisms. Using industrial biotechnology, NVZMY can potentially re-engineer thousands of everyday products to create or enhance industrial processing and efficiency. These reactions are utilized for conversion or processing purposes by numerous industries ranging from agriculture (animal feed, aquaculture and crop production) to food and beverage (baking, brewing, food processing) to bioenergy (cellulosic conversion) to pulp and paper (deinking, leaching, water treatment) to biopharma (formulation of drugs and vaccines) to household care products (detergents, cleaners) and to waste water treatment.

We also added **Abbott Laboratories (ABT)** well ahead of its year-end split into two companies. We believe splitting into two entities will help drive a more focused operating environment for both companies. The business focused on diversified medical products ($22 billion in sales) will keep the Abbott name. The other company, to be named AbbVie, will be a research-focused pharmaceutical company with $18 billion in revenue. Its leading drug (Humira) treats autoimmune diseases and continues to perform well. We want to take advantage of the investment synergies before the company splits in two.

In September, we added **Caterpillar (CAT)** and **Corning (GLW)** to the portfolios. CAT, a global leader in supplying heavy construction, mining equipment, turbines, engines, and diesel locomotives to industry, needs little introduction. It will be a direct beneficiary of a worldwide economic recovery, and the stock has retreated from a high of $115 earlier this year. Corning is not the Corning Glass of days gone by. GLW's position and dominance in display technology is the reason for our interest in the company. Their amazingly tough and thin "Gorilla" glass significantly lowers the cost of manufacture of end products (from large TV's to cell phones) and its light weight and durability is of real benefit to users. GLW is also developing flexible ultra thin glass substrates. Flexible glass will add a whole new dimension to their product offering. GLW is extremely well positioned to benefit from the demand for display screens - cell phones, flat panel and TV screens. GLW's attraction may not be discovered immediately, but we believe it will be "tomorrow's" winner. We see it as a fine company and a cheap stock with a decent yield of 2.3% - so we get paid to wait in the interim.

These latest two additions to the portfolio strengthen an orientation to what we believe will be the investment environment after the pending election and beyond politics. We think cheapened business cycle responsive stocks will respond relatively well in market advances in the months following the election.

MARKET COMMENTARY

From all that we read and hear, descriptions and expectations disperse very broadly, and cluster around the extremes of a negative "watch out" and a perceived prologue to an enduring uptrend following the election results of November 6 — notwithstanding the worrisome problematical Federal budgetary "fiscal cliff" as evident for early 2013. Though it would be surprising if recent advances could persist uninterrupted by a buildup in the dueling and grueling election process. Pay attention primarily to affairs of worthy vigorous enterprises whose shares are attractively priced. To our clients, this thesis is not new; indeed, it has endured for three years, and been validated in the American scene, having incorporated the helpful influences that emanate beyond America's borders.

Worry derived from this "cliff" is already reflected in the market, so to speak, as a sobering influence. That reduces the possibility that such a budgetary contretemps could arrive with a sudden impact. Moreover, there is time and much prospect for change from now until then, which is by way of saying that while worry can happen any time, appraisal needs to await the circumstances prevailing coincident to implementation. Change and conditions seem likely then to be more resilient than now, that might well level this "cliff" into arable land. We remain focused on prospects for the months and years following the election, noting the supporting evidence is how very well major enterprises are proceeding in America and elsewhere in well-ordered nations. These enterprises have more than sufficient financial resources — and can support opportunistic options as well.

The base has been prepared (nearing completion) for a decades-long advance in equity prices, which, in turn, will be the exemplification of the utmost effective aspect of monetary policy. That is the so-called augmentative wealth effect from advancing valuations of shares, and other marketable assets. This is arriving so partially, it might be said belatedly, and is arriving after the Fed's recently announced additional stimulus. This, too, seems late, and not now necessary. The economy is lagging because the recession imposed heavily upon state and local government's budgets and employment rolls, upon residential housing (owing to prior excessive financial support), and upon excessive expansion in the financial industry (which still must be tamed and trimmed into its rightful function as a service industry). Do not expect expansion in this industry in immediate years.

DISCLOSURES: The Growth Equity Composite is comprised of discretionary, separately managed taxable and tax-exempt equity accounts managed for growth. Performance results are calculated internally using Advent portfolio accounting software. Accounts are included in the performance at the beginning of the first full calendar month in which the account is fully reflective of the

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investment strategy. Performance and index valuations and calculations include dividends, interest and other earnings and are computed and stated in US dollars. All performance figures for periods one year and greater are annualized. Returns are weighted for the size of each underlying account. Net returns are reported net of management fees and commissions. Performance results for individual accounts may vary due to the timing of investments, size of positions, fees, and other reasons. Client returns may be reduced by other expenses incurred in the management of the client's portfolio. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. The S&P 500 Index is an unmanaged index generally considered to be representative of the U.S. stock market as a whole. The Russell 3000 Growth Index is an unmanaged index constructed to provide a comprehensive, unbiased, and stable barometer of the growth segment of the broad U. S. stock market. Additional information regarding policies for calculations and reporting returns is available upon request. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified or discussed were or will be profitable. The stocks named as the top or bottom contributors to performance for the period are based on a representative portfolio (Princeton Capital's oldest Growth Equity wrap account portfolio; also a member of the Growth Equity composite) and have been identified through a report generated by Princeton Capital Management's Advent portfolio accounting system. Further detail on the contribution to performance calculation, which takes into consideration the weighting of every holding in the representative account, as well as a list showing every holding's contribution to performance for the period, is available by contacting Princeton Capital Management at info@pcminvest.com.