YOUNG ENTERPRISE SHARES (YES) REVIEW

First Quarter 2012

PERFORMANCE COMMENTARY

This quarter responded to a respite from negative headline news: headlines were supportive. What a difference. Geopolitically, Syria was not the "Arab Spring" of a year ago, the "Greek issue" concerns were mollified (though not resolved), and there were signs of a dawning recognition that there may be more to governing and legislating than "just say no". A tsunami did not devastate a major economy. Globally, ex a brief freeze in Eastern Europe in February, the weather was benign and downright balmy in the United States and markets shook off the traumas from the shocks of 2011.

	Periods Ending March 31, 2012				
	Quarter	1 Year	3 Years	5 Years	10 Years
YES Composite – NET*	**16.7%**	**-20.5%**	**33.9%**	**3.0%**	**4.7%**
Russell MicroCap Growth Index	16.3%	-1.3%	28.2%	0.6%	4.6%
S&P 500	12.6%	8.5%	23.4%	2.0%	4.1%

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

As one might expect in a strong quarter, YES stocks performed well. Out of twenty-two companies in the portfolio, two were up over 50%, two over 40% and almost half of the companies were up over 20%. **AXT Inc. (AXTI)** which is a recurring name in the top five contributors (either positive or negative) led the pack, up 52%. **Nektar Therapeutics (NKTR)** up 42%, **IPG Photonics (IPGP)** up 54%, **Hansen Medical (HNSN)** up 16% (another laggard from the prior quarter) and **FEI Company (FEIC)** up 20% rounded out the top five contributors. **Vical (VICL),** after being the top performer last quarter, reversed itself to lead on the downside, down 23%. There was no enterprise reason for its underperformance in the quarter. **RF Micro Devices** was down 8%, **Osiris (OSIR)** was down 4% and **Microvision (MVIS)** and **Universal Display (PANL)** both underperformed for the second consecutive quarter, down 5% and essentially flat for the quarter. However, we believe MVIS and PANL should continue to remain in the portfolio. MVIS has been delayed in introducing its Pico projector for handheld devices due to a lack of adequate supplies of true green lasers but we believe this issue to be mostly behind them. PANL should be a key holding in any long-term investor's portfolio regardless of quarterly stock price fluctuations. Their positioning in OLEDs (light emitting diodes), and the demand drivers for lower energy consuming brighter displays, should prove it to be a rewarding holding over time.

PORTFOLIO COMMENTARY

After adding Entegris and Vertex and swapping a few holdings for tax loss purposes against gains in the fourth quarter 2011, we made no changes to the portfolio this quarter. We thought a synopsis of a memo for our investment committee would be useful in discussing the current portfolio.

"We see the potential for tremendous opportunity and investment returns investing in the electronics realm based on this fundamental concept: The volume of manufacturing and consumer use rises year by year with scarce interruption. It is a phenomenon unique to this industry. Year after year, the prices of nearly every end product are competitively reduced, and functionalities increase. Contrast this with the automobile industry that changes the model every year, without significant improvements, but with price increases. In the electronics industry it is the exact opposite: improvements go up, prices go down. This has been a matter that has escaped so many observers as they view this industry in its totality.

Nowhere does functionality go up more conspicuously than in mobile communications and computing. The growth rate, virtually uninterrupted, astonishes many of the most involved professionals in the field. It is almost impossible to keep up. And, on this score, economists just do not get it. Usage begets usage. In nearly every other industry demand phenomena can be sated, at least for short periods. That has not happened yet in mobile communications and computing.

Years ago the CEO of Sun Microsystems, Scott McNealy, (among a few others) counseled that the computer is not within a device; rather, it is within the system. The whole system is the computer. All events since then have substantiated that foresight. Paul Jacobs, Chairman and CEO of Qualcomm, made this point so tellingly in some of his presentations. He said there is nothing so personal in all of the electronics realm as the personal devices in one's pocket, or in one's briefcase. As applications increase, the personal attachment to one's phone grows more intimate and sentimental.

Investing in human creativity in small companies seeking big returns most certainly incurs commensurate risks: rates of market adoption, next generation product failure or obsolescence, management failure, and the perceived risk of small company market volatility. We do all we can to minimize risk by avoiding competitive markets. The most price competitive part of the whole system is neither with critical components nor with service providers. It is with end products – end products in television, end products (large or small) in radio frequency for home or commerce, and end products in mobile phones. When giants such as Google, Microsoft, Apple, Intel, Verizon, AT&T, Comcast, Sony, Samsung, Qualcomm, etc. are fighting for the consumers' eyes and ears, this is no place for "children". The game is changing — big time — as the giants align their weaponry to go at each other to provide ever rising facilities for usage in business and in every conceivable endeavor of humans, from the automobile to managing at home. Component suppliers will be the beneficiary of competition.

So, we threw away all of the textbook analysis that says it is advantageous to invest closest to consumer end products that are highly advertised to persuade consumers to use the product. On the contrary, in this instance you want to be further back in the supply chain with those who have critical components that are their own. Therefore, we went all the way back to gallium compound wafers, and other providers of compound semiconductors, for low voltage, high speed, smaller tolerances, in forming the functioning guts of this industry. We did not try to catch the software aspect of it, we tried to catch the physical part of it where uniqueness and innovation could effectively address the challenges of speed and of ever smaller form factor that enables satisfactory product pricing. So, in addition to AXT (AXTI), we own TriQuint (TQNT) and RF Micro Devices (RFMD). These can have a satisfactory market riding with the volume increase of mobile communications. We also have invested in the supplier of tools to the semiconductor industry

Entegris (ENTG), IPG Photonics (IPGP) and FEI Company (FEIC) as a lower risk way to ride the demand for the creation and manufacture of faster, smaller semiconductor chips. We own Cavium (CAVM) as a broad play on information transmission security. Its chips are embedded into processors to ensure content monitoring and security of data transmission. We recently bought Finisar (FNSR), as its equipment is utilized as interfaces to interconnect communication networks. Lastly, we own Fusion IO (FIO) and OCZ Technology (OCZ), which address the market for data storage and cloud computing. By investing in component suppliers we are investing in a diversified fashion on the ever rising demand for information storage, transmission, and utilization in what we see to be a relatively low risk fashion, as measured against a more competitive environment seeking to capture end users."

MARKET COMMENTARY

We have been guardedly optimistic since 2009, initially based on an uncommon valuation basis, and subsequently because we saw the incipient economic recovery improving at a faster rate than predicted by many prognosticators and market valuations. The stock market has spoken. Listen to the last two quarters. This is a demonstration of strength, worries notwithstanding. The material aspects of the marketplace are overpowering the reluctance of concerns. The message is not to put all worries aside, as there are concerns that truly linger. Perceptions (or misconceptions, as in 2011) can rule for intervals, though reality eventually prevails. Low interest rates (that will stay low for now) create a proclivity toward secure dividends from equities and toward other alternates. Equities are not generally overpriced; high quality bonds are.

As in the year past, money will continue to be abundant as supplied by (1) central banks here and in many other advanced nations, (2) the huge accumulations of cash by prosperous corporations, (3) major oil exporting sovereign states, and (4) American households, which have (in totality) been sending more money back to financial entities from their mortgage repayments than banks are obtaining with new applications. The latter has not happened since World War II; that is, households (which are categorically the largest users of credit by far) are returning money into the financial system. When central banks eventually determine to let interest rates rise naturally as the economic pace advances, rates will not rise rapidly until households begin to borrow as customarily.

Remember the so-called yen-carry in the few years preceding 2008. The extremely low interest cost of the yen led to massive borrowings by Japanese and non-Japanese financial entities which had the effect of a lifting force in all major financial centers for financial instruments and other tradable assets. If nearly zero money costs for the fourth ranking currency in those recent years could have such an observable lifting effect, what could one surmise the effect will eventually be from nearly zero costs on the top four actively tradable currencies: the US dollar, the euro, the sterling, and the yen (plus several other currencies as well). Give it time. The simple arithmetic will prevail. When money is cheapened, all other items that can be expressed in money are marked higher than these would otherwise be.

Amid a world that just will not behave according to comity of spirit nor to orderly conduct, politics have become fractionated and fractious, while commerce has rarely been so vigorous. It is necessary to look at the world in terms of the huge, prosperous, and competent multinational enterprises. These cords bind the world beyond any others. Viewing the world industry-by-industry, it is readily evident that many major industries have enduring dynamic factors driving expansion. We would cite:

- Energy (all forms, fossil and alternatively derived)
- Agriculture
- Electronics (especially facilities for communications, data processing, storage and accessing)
- Life Sciences and Human Care
- Travel and Entertainment
- Education

All of these industries are vigorous and have such massive scales that prevail over weaknesses in other industries, and withstand the gloom of attitudes and the acrid chatter and clatter of politics. For investors, these major industries abound in opportunities.

The recent flow of data has verified our reiterated perceptions that the American recovery phase has long since moved into a growth phase that is persisting (though not well rounded). The forces of expansion are prevailing over the lagging parts of the American society.

As a bottom line for equity investors, all should recognize that the unacceptably slow growth in the American economy has the effect of constraining economic improvement that could otherwise sponsor indiscriminate exuberance. Also, that this very slowness acts to keep share valuations reasonable (even cheaper) and interest rates low. Of course, these are not exact offsets to other concerns and worries that pervade societies everywhere, where social ferment is an unpredictable wild card for investors. However, these are not the regions where the world's societal wealth is a large part of the landscape, such as in Europe, in Russia, in North America, and as is rising so rapidly in Asia and in certain Latin American countries. And the inscrutable troubles from the Mediterranean eastward are not bearing so closely upon investment considerations as the factors that are herein presented, which are more relevant, and thus more forceful for decision making.

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