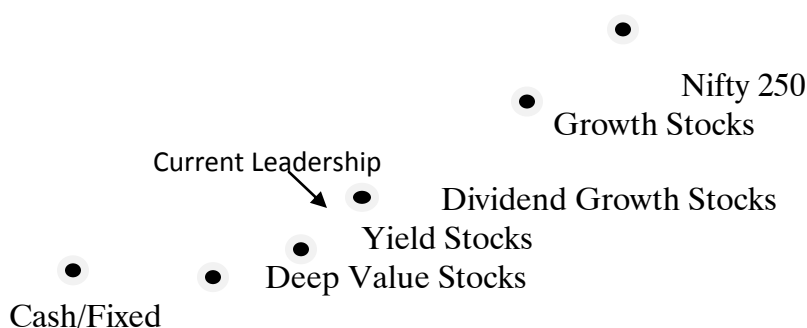


YOUNG ENTERPRISE SHARES (YES) REVIEW

Third Quarter 2013

PERFORMANCE COMMENTARY

This was another outstanding quarter and it has been a very good year to date. We will take up 40% for nine months any time. The question is, is small company investing back in favor and will we continue to see good returns, or is this one of those years when small company stocks as an asset class appear exceedingly cheap, bounce off the bottom, only to drift back out of favor (as has happened in the past few years).



Investor responses coming out of recessions typically follow the pattern as depicted above. Responses to the black swan event in 2008 have been in this pattern, only amplified by the magnitude of the damage. What we don't know is the length of time between these shifts in investor expectations and interest. We have been in a slow growth economy and expect to continue to be in a slow growth economy for an extended period. We expect to have a similar extended period of demand for growth stocks both big and small. We believe we are now entering a period where growth stocks and increasingly small company growth stocks will be in favor. The search for growth should foster this interest.

	QTR	YTD	Periods Ending September 30, 2013				
			1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Young Enterprise Shares (YES)							
Composite - NET	10.0	39.3	26.8	9.7	12.1	5.8	5.3
Russell MicroCap Growth Index	14.1	39.3	35.0	21.2	13.4	6.7	7.2
S&P 500 Index	5.2	19.8	19.3	16.3	10.0	5.6	7.6

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.

For a portfolio that was up 8.6 % in the quarter, it was an interesting quarter in terms of the mix of return. In the 28 stock portfolio, only half had a positive return this quarter. The standout winner was **Mako Surgical (MAKO)**. It was up 166% after getting a takeout bid from a much larger medical device company, Stryker Holdings. **Morphosys (MPSYF)** continued its run after the sale/licensing of two therapeutic drugs in June and was up 38% and is up 80% YTD. Another bio tech, **Osiris Therapeutics (OSIR)**, was up 65% driven by the announcement of significant

improvements in the treatment of wounds using stem cells. **FEI Company (FEIC)**, which we have owned for a number of years, continues to benefit from its position as the leading provider of extremely high end electron microscopes for scientific research holding and was up 20%. A recent addition to the portfolio, **Senomyx (SNMX)**, was up 62%.

Biolase Technology (BIOL) was down 46% in the quarter. The stock was up over 100% in the first quarter on FDA approval for new utilization of their laser surgery well beyond dental services. The company announced a disappointing quarter from a revenue perspective and now has given up all of its gain for the year. We will continue to hold the position waiting for the utilization of these new uses to drive company revenues. As with any company developing new products, **Vical (VICK)** announced a significant setback in development of a vaccine for melanoma cancer treatment causing the stock to collapse and was down 60% in the quarter. **NeoPhotonics (NPTN)**, which has helped performance (up 70% in Q2), gave back some of its gain and was down 15%. **AXT (AXTI)** continues to bounce along with little apparent investor enthusiasm and was down 13%. **IPG Photonics (IPGP)** was down 7%.

PORTFOLIO ACTIVITY

We added two positions to the portfolio this quarter. In early September, we sold our position in **OCZ Technology (OCZ)**. Our investment had not worked as well as we had anticipated both from a product offering and from a quality of management perspective. We added to our holding in the stem cell company **Cytori Therapeutics (CYTX)** and established a position in **Polypore International (PPO)**. We also sold our holding in **Cavium Networks (CAVM)** which has performed well for us. PPO is a leading filtration company specializing in microporous membranes utilized for industrial and medical filtration purposes. We are especially impressed with their solutions addressing the growing demand for energy storage in batteries. PPO membranes separate the two charging components in batteries and in particular in lithium batteries. In addition to membranes for filtering impurities in dialyzers and oxygenators, microfilter membranes are also used in a variety of filtration applications for water treatment, food and beverage industry, semiconductor, and pharmaceutical markets.

We also sold our position in Mako Surgical (MAKO) on the takeout bid by Stryker in late September and bought **Mentor Graphics (MENT)** with the proceeds. MENT is a software company providing electronic design automation software and hardware solutions. Their product offering helps automate the design, analysis, and testing of electro-mechanical systems, electronic hardware, and embedded systems software and enables companies to develop better electronic products faster and more cost-effectively.

PORTFOLIO COMMENTARY

In investing in scientifically-driven, intellectually-rich emerging-growth companies there are most often uneven patterns of growth and earnings and often a huge discrepancy between value and investor recognition of said value.

Morphosys has become a leader in the field of therapeutic antibodies, one of the fastest-growing drug classes in human healthcare. They have announced several partnerships with major pharma companies this year to develop new drugs. Subsequently the stock has appreciated over 80% year to date. An overnight success, one might ask? The answer is not really because rarely is success overnight but is usually attained after years of assiduous effort, struggle and perseverance. The Company was founded in 1992 and it was over five years before they developed a product and established an initial partnership with a pharmaceutical company. The Company went public in 1999 and subsequently the dot.com market bubble pushed the stock to over \$300. However, in reality this has not been a particularly rewarding holding for many investors. After the dot.com bubble burst in 2000, the stock did not trade much above its initial opening price of the mid thirties, trading essentially flat, at plus or minus \$15, from 2001 until late in 2012. This is despite numerous additional discoveries and disease treatment advances as well product development agreements with major pharmaceutical companies. It was not until September 2012 that the company's inherent value started to be recognized by investors. We established our position in late 2010 and while we have a 230% gain in our position we held it for almost 2 years before the stock began to move.

So what are we trying to convey in this commentary? Investing in the sciences is in reality an art and not necessarily a science. While it requires an understanding of the sciences, the art is in understanding where the company is in terms of product development, market recognition of those products, and management's capability. Successful investing in small scientifically driven companies requires not only an understanding of the value of a company's inherent intellectual property, but also an understanding of the time and patience required for stocks to be discovered or be "overnight successes". We have a number of stocks in the portfolio that continue to build value that is not reflected in their stock price. We believe that the intellectual property inherent in our holdings of AXT, Hansen Medical, Cytori and Biolase and the value add of their product offerings will be recognized. We will continue to persevere with them as long as they continue to be leaders in their respective fields. While we believe and hope that it will be sooner rather than later, the cheapness of these companies' stock prices against their inherent value certainly does vex us from time to time. Over 100 times your money is a home run as demonstrated by Morphosys, but in investing in this manner we know at times we appear to be or also might be Casey at the Bat with some of our selections.

MARKET COMMENTARY

A view of the world economies from a scanning satellite would show slow improvement in Europe, the same for Japan, a slowing in the steaming pace of China, a slowing in the exporting nations of Latin America, and encouraging persistence in the tempered pace of America and of Canada. This all condenses to a genre of slow improvement that is supportive for shares. Refractive unemployment of persons and of facilities continues to keep central banks in stimulative modes, and acts to obviate the sponsoring of overreaching viewpoints and of excessive activities nearly everywhere. Endemic to the progress underway, there is little or no need for more help from governments (and for that matter not very much is), within the powers of governments to boost activity without fostering counter forces. The key to progress is seen in the supportive interrelationships of commerce throughout the normal course of activity among societies, as by-and-large is taking place.

As always, the health and disposition of the stock market must be defined within the context of the emotional waves that emanate from the political background. As the tragic violence in Syria sent menacing clouds beyond its borders casting shadows across financial markets, the coincidental intensification of tensions that centered upon Iran's nuclear weaponry roiled national interrelationships through mid-summer weeks. The combined stress of such foreboding consequences had the effect of pressing Russia, the United States and other nations into cooperative dialogue which were fortuitously (and fortunately) timed for the eve of the United Nations' Assembly meetings in New York City. The resilience of the American stock market in the midst of Washington deliberations that proceeded to the very edge of direct military involvement (that surveys showed to be unsupported by a large majority of citizens) seems to imply there is latent, as well as kinetic, financial energy underpinning the upward market trend.

Also out of the political background of events, take special note of Mrs. Merkel's victory for its granting (as election wins do) increased degrees of freedom, and of the propitious timing in the context of German leadership for greater Europe. This gives a breeze of good hope to refresh unity of spirit throughout Europe, and beyond.

Improvements have become self-regenerative. The down cycle patterns of yesteryears no longer dominate; that is, with one looming exception. The automobile industry, which has done so well around the world, has attained a rate of output that seems unsustainable. We suspect that this very large industry will give the most conspicuous appearance of slowing as progress proceeds beyond immediate months.

After the persistent increase in America's economic activity, after so much recent-year gain in corporate earnings (especially by larger corporations), and after so much advance in equity prices, the word slow is an appropriate description for months ahead. Corporate profits are at very satisfactory levels. Accordingly, we continue to emphasize full investment positions, giving emphasis to quality, and continuing with due emphasis upon current return through dividend payments. Many observers and wannabe sages still speak in traditional literary phraseology of cycles as though a downturn is imminent, unaware that most modern economies have outgrown such cycle patterns. In contrast, we do not visualize a down cycle that would impose on equity valuations in immediate months.

All things considered, circumstances continue to be propitious for selecting shares of thriving industries.



NOTE: This material is for informational purposes only and should not be construed as an offer to sell or solicitation of an offer to purchase an interest in Young Enterprise Securities, LLC. Any such offer or solicitation will be made only to qualified investors by means of a Confidential Offering Memorandum, which provides complete information regarding the LLC's investment objectives, risks, fees and other matters of interest. Prospective investors should request a copy of the Memorandum and review all offering materials carefully prior to making an investment in the LLC. There can be no assurance that the LLC's investment objectives will be achieved. All investments involve risk, including the loss of principal, and investment results may vary substantially from year to year. The fees and expenses of the LLC may offset the LLC's trading profits.