YOUNG ENTERPRISE SHARES (YES) REVIEW

Second Quarter 2014

PERFORMANCE COMMENTARY

Sometimes when composing a letter an unexpected encounter with commentary from another makes the effort easier and probably more readable. This excerpt from Byron Wien's recent commentary struck a chord, so it is a welcome relief to have some company. I have taken the liberty to include parts of it in our letter.

> *"People often ask me if I have a mentor, someone who has influenced my thinking over my career. I have had many, but over the past thirty years I have learned a great deal about investing from the person I have come to refer to as The Smartest Man in Europe. The Smartest Man earned his title over the years by recognizing important shifts early. The most important lessons he taught me were (1) that the primary force behind good performance is recognizing important changes before or just as they are starting to happen, and (2) when something significant is happening, put a lot of money behind it. Concentrate on the big ideas; don't over-diversify.*

PORTFOLIO COMMENTARY

Vertex Pharmaceuticals (VRTX) announced another positive development in the treatment of Cystic Fibrosis and the stock responded accordingly - up 45% in the quarter. **Polypore International (PPO)** gained 37% in the quarter. The company has had fluctuations in its quarterly earnings due to contractual negotiations for the membranes it provides to a large battery supplier. The stock performed poorly in the first quarter and has recouped its loss and then some, being up 26% for the first half of the year. **TriQuint Semiconductor (TQNT),** which is merging with **RF Micro Devices (RFMD),** gained 18% and **Maxwell Technologies (MXWL)** gained 17%.

Hansen Medical (HNSN) was down 50% after being up 50% in the first quarter. Adoption rates and strength of marketing seem to be their biggest hurdles so they have uneven quarters in terms of sales. An activist shareholder is now involved. We see the company as having significantly greater worth to a larger company that can help with marketing and scale. **NeoPhotonics (NPTN)** continues to struggle with adaption of its ultra high speed product offering that enhances the efficiency and speed of data transmission and was down 48%. Currently it is a very small universe using the very highest of speeds, however, as the demand for higher speeds expands, we expect the company market to expand significantly. We will continue to monitor corporate developments. **Senomyx (SNMX)** gave up some of its first quarter gain and was off 19 % in the quarter. Even so the stock is up 70% for the year. **FEI Company (FEIC)**, which is and will be a long time holding here, was off 12% and is essentially flat through six months.

PORTFOLIO ACTIVITY

We sold our position in RF Micro Devices (RFMD) and **Silicon Image (SIMG)** in early May. RFMD is merging with another holding in our portfolio – TriQuint Semiconductor (TQNT). We have owned both companies for several years to benefit from the burgeoning demand for wireless communication. Both companies are developers and manufactures of filters and semiconductor chips for companies delivering voice, data and video communications. This merger will create a stronger, better positioned company. Going into the merger we had sizeable positions in both companies. In selling RFMD, we booked a 57% return on the position we established in October 2010 and will still retain a 7.5% exposure to the new entity. At the same time we took a smaller profit and also closed out our SIMG position to raise cash to reinvest in what we deemed to be better opportunities.

We invested these proceeds in three existing holdings, Polypore International (PPO), **Sangamo BioSciences (SGMO)** and Vertex Pharmaceuticals (VRTX), and established a new position in **Unisys Corporation (UIS)**. At first blush, buying UIS might seem to be contradictory to what YES invests in - new, scientifically focused small rapidly growing companies. UIS traces its roots back to 1886 and is the combination of the old Burroughs and Sperry Univac companies, which after their merger was the second largest computer company in the world. Today its market cap is slightly over $1 billion and at first glance of financial data it seems to be very unappealing. However, we see UIS as leading with a new approach to internet security and data protection that will be transformational and disruptive to the status quo.

Unisys is a technology (IT) services provider with two offerings: services and technology. The Services segment provides outsourcing services. They manage data centers, computer servers, and end-user computing environments, as well as offer IT consulting services. The Technology segment designs and develops servers and related products as well as operating system software and middleware, and provides data center, infrastructure management, and cloud computing offerings for clients to virtualize and automate their data-center environments.

These services in and of themselves are not unique. What we believe to be special is a new approach to internet security data transmission that they are incorporating into their offerings. Today, the internet is an open operating system - anyone can access it. Firewalls are used to restrict access and to secure data. This is not the optimal strategy for cyber security, as we know from the frequency of successful cyber attacks and recurring data theft. There will always be a way around, over or through a wall to obtain access to data. We think that in the near future part of the internet will likely be a closed system with access permitted only with encrypted keys.

UIS has licensed and are early adaptors of a new patent-pending way to protect networks using certified encryption that bit-splits data into multiple slices as it moves through the network. More importantly, it enables multiple entities to share the same network while restricting outside access to data, servers, or workstations by non authorized users. In an overly simplified explanation, the new UIS technology converts usage of the internet from an open system where you blacklist bad guys to a closed system where you white list people with whom you do want to work.

Transitioning a company takes time but so does developing new technologies. We see Unisys' initiative as the prime public way to invest in a development that will be disruptive to the industry and transformative for the company as well.

MARKET COMMENTARY

The long upward advance in general market indices, as these continue to edge higher, has been accompanied with an evident increase in commentary that warn of the perils of overvaluation. Surely, the easiest of all risks to avoid is that of overvaluation — simply, by not owning these. The American Stock Market includes such a broad variety there is nearly always the overvalued, the reasonably valued, the attractively valued, and the overlooked undervalued. For all of which, the valuation vis-à-vis forward opportunities is more germane and useful than valuations relative to the historical performance. Reference to the past has some worth because it descriptively reveals effectiveness of managements and of product attributes.

While a flow of funds analysis and the support of national (and international) monetary policy continue supportive to advances of stock prices generally, it seems increasingly important to give primary attention to the vigor and strength of well-run enterprises. And, as ever, give special attention to the specific expansive opportunities addressed by enterprises, and gauge concepts of the appropriateness of valuations accordingly. Valuation on both historical reference and on appraisal of prospects infers there are many strong enterprises that are not overvalued. Also, there are many shares significantly undervalued, especially among the middle-sized and smaller enterprises.

Market indices show that for small and early-stage enterprises, since the bubble burst of 200-1, investor interest in young emerging enterprises was much subdued. The 2007-8 debacle further traumatized investor dispositions. Persistence of such dubiousness has allowed a seemingly categorical disconnect to the relative valuations of worth. For those who select for long term holding, this spells opportunity.

Looking ahead, from the standpoint of further increases in corporate revenues, there are two nationwide huge opportunities that are supported by critically urgent needs. These are cyber security that requires extremely sophisticated products and intellect; the other, of greater scale in the use of materials, is the urgent need to improve transportation infrastructure in nearly all of its forms and aspects. This requires (literally) "down-to-earth" product analysis that begins with earth-moving equipment, stone, aggregate, and cement. In terms of a general, pervasive stimulus to the economy, this has enormous scale and geographical spread. This will include the need for many structural materials, and a variety of supervisory devices for control of transportation use. For relieving ourselves of the intolerable inconvenience and horrendous costs of inadequate facilities, an accounting (if it were done) in societal terms would show savings that much exceed financial costs, which seemingly assures the advent of rebuilding at all levels of governmental jurisdictions.

The pessimist sees inflation, imagines a bubble, and fears a bubble-bursting that will induce a collapse. Inflation, yes. It is part of the package, eventually, of a stimulative monetary policy.

Arithmetically, if money is cheapened all things of worth that can be expressed (denominated) in dollars (money) have higher than otherwise price tags. When, as now, America has entered the mature stage of the effects of stimulation and monetary policy, the broadening increases in activity become self regenerative. Circumstances now allow a retreat toward normalization, letting interest rates move in conformity as these may. Look to economic activity for guidance in visualizing the changing landscape, with major industrial and commercial enterprises leading (as evident in the last few years).

For economic stimulus, there is another very pervasive substantial influence in the prospect for a long downtrend in fossil fuel prices. This stems from discoveries of gas and oil, use of alternatively sourced fuel (wind and sun) and more careful use of fuels in America where consumption is more profligate than in other developed nations. The political support to the strong decades-long advance appears to be ebbing broadly in effectiveness. From the standpoint of corporate earnings, lower fuel costs will boost earnings for most industries other than fossil fuel providers, especially for transportation, thermally driven manufacturing processes, and many chemical companies.

For investors, it would seem to be much preferable to measure valuations according to incipient prospects than by looking over their shoulders downward to the financially precipitated depths of 2007-2009. The physical factors influencing equity prices withstood the negative noise of media commentary, which fomented fear and complaints throughout this irrepressible advance. The "show me" incredulousness is dying slowly. Seemingly, there will be increasing evidence that such doubts and fears are unwarranted.

With every good wish,

Alfred Berkeley	James Fitzpatrick	Hugh Fitzpatrick	Ken Berents	Steve Reynolds

❖ ❖ ❖

DISCLOSURES:

Princeton Capital Management, Inc., ("Princeton") is an independent investment management firm registered with the U.S. Securities and Exchange Commission based in Princeton, NJ.
The Young Enterprise Shares (YES) composite was created on January 1, 1993, representing actual separately managed taxable and tax-exempt equity client portfolios managed according to Princeton's YES strategy on a discretionary basis primarily in the equities of smaller-capitalization growth companies without client restrictions for the period(s) indicated.
Performance results are calculated internally using Advent portfolio accounting software. Accounts are included in each composite and its performance at the beginning of the first full calendar month in which the account is fully reflective of the investment strategy. Performance and index valuations and calculations include cash and cash equivalents and also include the reinvestment of 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. A client's return will be reduced by our advisory fees and other expenses a client may incur in the management of the client's portfolio. Our advisory fees are disclosed in our Form ADV 2A. Also, there is a compounding effect of advisory fees over time on the value of a client's portfolio. As an example, the deduction of investment management fees would

reduce the annualized return for the five years ended December 2013 from 22.0% to 20.4%. Actual investment advisory fees incurred by clients may vary.
The **S&P 500 Index** is an unmanaged index generally considered to be representative of the US stock market as a whole.
The **Russell MicroCap Growth Index** is an unmanaged index that measures the performance of the microcap growth segment of the US equity universe. These indices are unmanaged and include the reinvestment of dividends and earnings. Individuals cannot invest directly in any of these indices.
Performance results, and advisory fees, for individual client portfolios will vary due to the timing of investments, additions/withdrawals of funds, diversification guidelines, length of relationship, and size of positions, among other reasons. For additional information about the performance of the composite or our current fee schedules, please contact Princeton Capital Management.
Any securities listed in this material do not represent all the investments purchased, sold or recommended for client accounts by our Firm and may only be a representative list. Our investments and recommendations may and do change from time to time or at any time. Individual portfolios may have different characteristics due to a portfolio's start date, particular client needs, portfolio manager preferences, or other factors. The securities listed have been selected on an objective and non-performance based criteria. One should not assume that an investment in any of the listed securities was or will be profitable or equal the performance of the securities listed. Princeton offers to provide a list of all recommendations for the prior one year period on request.
The stocks named as the top or bottom contributors to performance for the period are based on a model portfolio structured to represent the Young Enterprise Shares (YES) composite. 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

PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE

Princeton Capital Management claims compliance with the Global Investment Performance Standards (GIPS®).