GROWTH EQUITY PORTFOLIO REVIEW

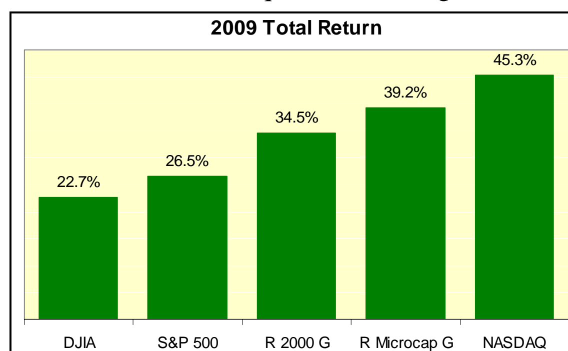
Fourth Quarter 2009

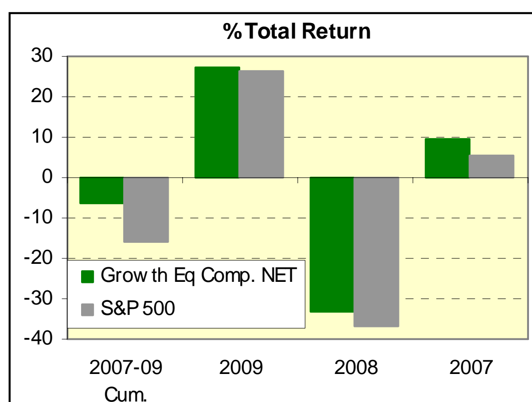
PERFORMANCE COMMENTARY

	Periods Ending December 31, 2009				
	Quarter	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite - NET	**5.4%**	**27.4%**	**-2.2%**	**1.2%**	**0.7%**
Russell 3000 Growth Index	7.6%	37.0%	-2.1%	1.6%	-3.8%
S&P 500 Index	6.0%	26.0%	-5.6%	0.4%	-1.0%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.

The last three years have seen successive waves of attraction and aversion to risk. In 2007, the easy access to credit around the world propelled riskier securities of all sorts - small stocks, stocks of companies with high debt levels, stocks of companies trading in emerging markets, and commodities such as oil and copper - to all-time highs by mid-year. With the 2008 implosion first of Bear Stearns then by other financial institutions, the credit bubble morphed into a severe credit squeeze, sending riskier securities into a stunning collapse. In 2009, with historically unparalleled monetary and fiscal support from the world's central banks and the world's governments, markets once again moved back to strongly embracing riskier securities. The graphic at right shows that the greater the risk accepted by an investor in 2009, the greater the total return generated. The returns of the Dow Jones Industrial Average and the S&P 500 (benchmarks for larger capitalization U.S. equities) were surpassed by the Russell 2000 Growth Index (a measure of small companies), the Russell Microcap Growth Index (a measure of very small companies), and the NASDAQ Composite (an index heavily weighted towards the technology sector).





Investors can be excused for any nauseous feelings after such a ride. Fortunately, as the cumulative return chart to the left indicates, Princeton Capital's Growth Equity strategy added value over the general market during each of the ups and downs of the past three years, and performed significantly better than the S&P 500 on a three year basis. Taking a closer look at 2009, Growth Equity's returns were dampened somewhat by the presence of the stocks of relatively defensive companies, which held back the strategy's performance in a year in which the markets' affections were focused elsewhere. Further, the newer names in 2009 (**Martek**, **WebSense** and **Verisign**) had stable financial results but were not rewarded by the markets which were still focused on reviving those stocks beaten down in 2008.

Given the markets' attraction to riskier stocks in 2009, it is no surprise that the largest contributors to performance for the year overall were the less defensive names that have been in the portfolio long enough to have received a good pummeling in 2008: **Adobe**, **Cerner**, **Life Technologies,** and **Microsoft**. In each case, our expectations for strong intermediate trends played out (new software release schedules in Microsoft and Adobe's case, a successful merger integration for Life Technologies, and simply greater demand via government fiat in Cerner's case), leading to substantial absolute gains. Contributors on a more modest level, but still above popular averages, include **General Electric**, **Intuitive Surgical**, **Novozymes**, **Sara Lee,** and **United Parcel Services**. All of these names benefited from positive fundamental trends, and most enjoyed both sales growth and multiples expansion during the year.

We also note that in the last two months of 2009, as the market began to expand its focus of attraction beyond the riskiest of companies, a number of the more defensive Growth Equity names began to perform well again.

RECENT PORTFOLIO ACTIVITY

Activision Blizzard (ATVI), a video game publisher with leading market positions across all categories of the rapidly growing interactive entertainment software industry, was added to client portfolios this past quarter. Activision recently released the fifth part of one of its major game series, *Call of Duty*, to stellar sales. Although many consider the gaming industry to have considerable risks, akin to the movie industry, we believe video gaming continues to be a growth industry and that Activision's business model, particularly its strategy for lowering risks associated with sales and profitability, give it a distinct advantage. Activision emphasizes the development of franchises paired with extensive pre-launch market-testing. The company focuses on introducing games that will generate a large following for their subsequent sequels. Also, Activision tends to develop and therefore own all its content. Although it does hire outside designers, artists and programmers to develop games alongside its own employees, Activision typically holds on to complete ownership of the final product, thus keeping royalty payments to a minimum.

The star attraction to Activision is its Blizzard unit. Anchored by both its *World of Warcraft* and *Starcraft* game series, Blizzard is the largest presence in multi-player online gaming - the biggest growth segment within the gaming industry. Nearly eleven million subscribers currently pay Blizzard about $10 per month in order to play friends and acquaintances from all over the world online. As the gaming community continues to migrate to the multi-player online format, Blizzard is well positioned to increase its dominance.

Activision's valuation until recently had been too rich for Growth Equity's tastes - a reflection of the general view that the gaming industry was recession proof. But growth did temper during the first three quarters of 2009, leading to a moderating of its stock price and a buying opportunity for Growth Equity. Looking ahead, we are expecting continued success from Activision's product rollouts in 2010, leading to higher sales and earnings.

L-1 Identity (ID) was liquidated from Growth Equity portfolios in early December. Recall that L-1 is a purveyor of technology-based security solutions involving the use of biometrics such as eye scanning for identification purposes. In addition to seeing the growth potential of the industry, we were attracted to

L-1 because of the various businesses it has accumulated and because it is run by Bob LaPenta, formerly of L-3 Communications, the big defense contractor. L-1 is applying the same formula of acquisitions used so successfully by L-3. However, after a number of acquisitions between 2006 and 2008 and some slowing of organic growth, our thought is that L-1's sales growth is going to decelerate over 2010. We are still intrigued by the technology side of the security business and may perhaps return to L-1 when both demand and acquisitions begin to pick up again.

OUTLOOK FOR 2010

Between mid-2007 and year-end 2009, we have witnessed huge swings in what the market perceives to be a fair price for stocks, from over-optimism in 2007, to pessimism in early 2009, to somewhat fair at year-end 2009. Can investors expect a respite from the huge swings we have witnessed over the past three years? And, where are we focusing our efforts to identify attractive Growth Equity opportunities?

Our expectation for 2010 is for more moderate market ups and downs, returning to an environment where stock prices are driven to a greater extent by individual company prospects than by being swept along with extreme flows into or out of the market as a whole. Our analytical efforts will continue to be focused on finding companies with strong and sustainable business models that stand to benefit from intermediate or longer-term growth trends, and whose stocks are attractively priced for the risks involved and relative to other opportunities.

Trend-wise, there are several areas of the economy percolating with development despite the ongoing economic dislocation. Honestly, the list of areas receiving cash investment by corporations is endless. Healthcare continues to be an important focus of our attentions, particularly areas of healthcare which are not subject to centralized cost administration. We also are examining areas of media and the technologies surrounding them. The internet has been no friend to entertainment content creators or distributors, but we are slowly beginning to see emerging technologies that will further the digital distribution of entertainment and perhaps provide an economic rationale for the profitable dissemination of it. And speaking of the internet, we continue to see unabated demand for security solutions and are examining companies in that area. Another area of interest is water management, distribution and treatment, as water resources continue to be of concern worldwide. And lastly, we are assessing opportunities in the electric utility industry, especially those involving companies supplying the industry. As environmental regulatory demands grow, we are likely to see investment in less environmentally invasive electricity generating capacity as well as more efficient transportation of the electricity.

Elsewhere, we see in the pricing of stocks with economic sensitivity, such as chemicals, industrials, and technology, an expectation of a normal recovery in sales levels and margins. We wonder if this is possible in a world in which incomes, especially in the developed world, will take more time than most expect to reach former levels. Additionally, we wonder if margin levels for companies (that is, profitability) can be expected to reach the levels they did in 2006 and 2007. With the major political shift in Washington from Republican to Democratic, we are assuming higher levels of taxation and regulation, such as environmental controls. Given our expectations of diminished profitability and less ebullient demand levels, we question the endurance of current stock prices in such sectors of the stock market.

As one of our partners is fond of saying, the stock market is not an asset class but a set of distinct opportunities. This is a reminder that Princeton Capital is focused on the relative attractiveness of individual companies and less on equities as an average or as an index. Despite the current "fair" value of U.S. stocks overall, our work has identified a number of overvalued situations as well as numerous opportunities that possess an attractive balance of trend, business model and valuation. We look forward to taking advantage of that latter group in 2010!

DISCLOSURES: The Growth Equity Composite is comprised of discretionary equity accounts managed for growth. Accounts are included in the composite at the beginning of each account's first full calendar month under management. Results are calculated internally using the Advent investment management software and information provided by outside custodial firms. Performance figures are net of fees and commissions. Client returns may be reduced by other expenses incurred in the management of a client's portfolio. The composite calculation has been weighted for the size of each individual account. Composite and index performance reflects the inclusion of dividends, interest and other earnings, if any. All performance figures for periods one year and greater are annualized. Valuations and returns are computed and stated in U.S. Dollars. Performance results for individual accounts may vary due to the timing of investments, fees, size of positions and other reasons. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. Further information regarding policies for calculating and reporting returns is available upon request. Composite information displayed according to the Global Investment Performance Standards (GIPS) is available upon request.

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