CORE EQUITY PORTFOLIO REVIEW

First Quarter 2011

PERFORMANCE COMMENTARY

Natural and man-made upheavals and unrest around the globe made for an eventful first three months of 2011: political uprisings swept across Egypt, Libya, Syria, Bahrain, and elsewhere in Northern Africa and the Persian Gulf region, and a horrendously devastating earthquake and tsunami clobbered northern Japan, leading to the greatest public health disaster caused by a nuclear plant accident since Chernobyl. Reactions to the news headlines in late February through mid-March derailed the U.S. equity markets from their relatively steady climb upwards since the beginning of the year…but not for long. The impressive 7.1% year-to-date gain posted by the S&P 500 Index (a measure of the general U.S. equity market) through February 18th was completely wiped out by the middle of March, yet the remaining two weeks of the month saw the market soldier on, rewarding equity investors with a 5.9% total return for the quarter. The stocks of smaller, growth-oriented companies, represented by the Russell 2000 Growth Index, did even better, generating a 9.2% return for the quarter.

	Periods Ending March 31, 2011				
	Quarter	1 Year	3 Years	5 Years	10 Years
Core Equity Composite – NET	**3.1%**	**17.6%**	**6.2%**	**6.2%**	**8.4%**
S&P 500 Index	5.9%	15.6%	2.4%	2.6	3.3%

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

Core Equity had a decent return for the quarter but lagged the S&P 500 on a relative basis. The top contributors to performance for the period – **Ametek (AME), DuPont (DD)**, **Henry Schein (HSIC)**, **John Wiley (JW-A)**, and **Novozymes (NVZMY)** - all saw share price gains of 10% or more, but their contribution to return was muted by the primary detractors for the quarter - **Activision (ATVI)**, **Life Technologies (LIFE)**, **Microsoft (MSFT)**, **Novartis (NVS)**, and **Rovi (ROVI)** - which were down between 6% and 13%.

Beyond the top and bottom contributors, there was a fairly large swath of gimpy performers in the middle, especially from our healthcare holdings. We remind you that we keep a portion of Core Equity portfolios in what we believe are more stable stocks in order to offset the growthier (and therefore more volatile) segment of the portfolio. Stocks of companies like **Duke Energy (DUK)**, **PepsiCo (PEP)**, and **Verizon (VZ)** provide welcome stability to the portfolio, retarding declines when the market drops. But at times that stability inhibits the portfolio's upside potential in stronger markets. Also this quarter, the stocks representing the growth side of the portfolio didn't grow all that much. We'll delve into the reasons why further on in the Commentary section of this letter.

STOCK COMMENTARY

The following is an update on two longer-term Core Equity portfolio holdings: **Activision Blizzard (ATVI)** and **Microsoft (MSFT)**. Both may be classified as laggards and as such are illustrative of the reality that not all holdings are clear winners or losers!

Since our initial purchase in October of 2009, the stock of Activision (a video game publisher with leading market positions across all categories of the rapidly growing interactive entertainment software industry) is down slightly, versus a very strong upward move in the market as a whole, especially over the past six months. Why did we buy it? Recall that our investment approach favors companies with a strong business model, exposure to a growth trend, and attractive valuation. In the case of Activision's business model, we were very attracted—and still are—to the Blizzard online platform of which *World of Warcraft* is the star subscription property. We particularly liked the Blizzard subscription model (in which players pay monthly in order to participate), and the growth of the Blizzard subscriber base. We were not so enamored with the Activision side of the business in which the company releases a disk costing $50 or more for the latest version of a blockbuster game such as *Call of Duty*. However, the company continues to show an ability to get new versions to market and exceed expectations, at least for the established properties. Our expectation was that the company would leverage the Blizzard online platform by moving some current Activision packaged properties to it as well as introducing new games for the platform. This dual track would provide a catalyst for further revenue growth and stability.

A couple of things have not happened. First, the company's new game introductions - either packaged or via the Blizzard platform - have mostly failed. Although Activision has been able to leverage their current game lineup via new products and services using the Blizzard platform and via direct digital download, they have not been able to generate a completely new franchise on par with existing ones. Secondly, the continued weakness in consumer spending in developed countries has not helped. Thus the revenue growth we were expecting has not materialized and the stock's price has languished. The stock's multiples including cash flow yield remain attractive, but it's difficult to see where the growth will come from.

Lastly, more than a few observers have suggested that new gaming platforms such as Facebook and mobile devices are eating Activision's lunch. We agree that some gamers' attention is being redirected to these newer, faster growing platforms, but the demographics of users of the newer platforms appear to be quite different from the classic console gamer (18 to 23 year old male) that is Activision's target market. Still, we admit the new platforms have had a negative effect.

What are we going to do with Activision? We generally allow two to three years for our expectations for a stock to unfold, unless a company or environmental event significantly changes our opinion about the company's business model or its potential growth prospects. A year and a half in, our expectations for Activision have not been met. The stock is on a very short leash. Good news in the near future should keep Activision off the chopping block. No news will likely have the same result as bad news.

Another stock on a short leash is Microsoft, a Core Equity holding since 2008. We didn't buy Microsoft as a low price/earnings play hoping for a reversion to its mean valuation - value investors do that. We were attracted to the stock's growth potential, backed by our view that the Windows 7 upgrade cycle would last longer than many others expected and that the Office 2010 cycle was going to be better than many expected. So far, our view has held up, however growth in consumer PCs has faltered of late due to Apple's iPad tablet. The tablet has also eaten into Microsoft's Netbook growth which had been fairly strong leading up to the economic slowdown. Microsoft is on the hot seat because after Windows 7 and Office 2010 there's not much to move the needle, save a big dividend increase or a company breakup. We plan on attending Microsoft's mid-summer analyst pow-wow where we hope to see something that will lead to an up-tick in growth for the giant, at least beyond Windows. After that, we will revisit our thesis in holding the stock. We're amused that in the 1980's Gates, Ballmer and Co. endlessly poked fun at IBM's management for its slow responses to market changes and remote, imperialistic senior management. Microsoft is dangerously close to exhibiting the same traits.

PORTFOLIO ACTIVITY

We said goodbye to some old Core Equity friends this quarter and introduced several new ones.

Exiting the portfolio this quarter were **Martek (MATK)** and **Sara Lee (SLE)**, both Core Equity holdings since 2009 and both subjects of a takeover or the threat of such. Martek, a company with deep research stores in algae production and processing, was purchased by DSM of the Netherlands for its food additive business and research capability. Sara Lee, which has decided to pursue restructuring options after former CEO Brenda Barnes retired due to health challenges, put itself up for sale near the close of 2010. Despite two offers, company management has concluded that a restructuring should take place before putting itself up for bid again. Our concern was that the stock's takeover premium might waste away while we wait for that restructuring to be completed. Given Sara Lee's full valuation, we felt it prudent to move on.

A new name added to Core Equity portfolios this quarter is the drug distributor **Cardinal Health (CAH)**. Our rationale for this purchase is twofold. First, we believe CEO Barrett, now in his third year at the helm, has Cardinal on the road to the kind of operational excellence we see in competitors McKesson and Amerisource Bergen, excellence that will translate into higher margins in the near future. Second, like other players in the healthcare chain, we believe Cardinal will benefit from the generic wave that will hit the industry in 2012.

In mid-March we initiated a position in **FMC Corp. (FMC)**. FMC is involved in three business lines: lithium processing, soda ash, and agricultural chemicals. Ugh…how boring you might think. Not at all! Lithium is primarily used in lithium ion batteries which currently power many portable electronic products. Lithium ion battery technology currently is the frontrunner as the portable power source likely to be used in the all-electric cars the world's auto makers have on their drawing boards. This demand promises to be large but it is well down the pike. In the mean time, portable electronics growth will more than make the segment attractive. Soda ash? It's used in all sorts of manufacturing processes ranging from glass production to water softening. While most soda ash produced around the world is synthetically - and expensively - produced, FMC is one of a few owners of a large soda ash mine in Wyoming. Mining soda ash in Wyoming and shipping it all over the world is quite profitable, especially when the dollar is weak. FMC is also well known for its line of specialty ag chemicals. We have shared in prior quarterly reviews our expectation for above average performance from the U.S. agricultural sector; FMC is well positioned to benefit from this.

MARKET COMMENTARY

One of the Sunday school teachers of my youth was the CFO of a major chemical company whose stories about the business world were at times as enlightening as our bible studies. I recall him sharing with us his one rule for keeping his meetings at work focused and on time: anyone around the table could say anything they wanted, even something nasty about him, but they could only say it once. He also purposely kept no guest chairs in his office. His management style may not have translated into ten minute Sunday school classes, but those classes were instructive on several fronts. I recall to this day his dislike of repetitive messages, particularly as I am about to break his rule! The following is a point I've mentioned in prior quarterly letters. But in this case I think the message is worth repeating due to its relevance to how we view the markets and are structuring portfolios.

We continue to see a bifurcation in the market's valuations of equity securities. Those companies exhibiting above-average to very high current rates of sales or earnings growth are being generously rewarded by the

market with superlative (high) valuations; those with moderate to low growth expectations sport very modest valuations. Obviously this is a blanket generalization and we recognize that there are always exceptions, but the actual valuations of the companies we follow support this observation. The market analysts who are saying that 'quality' is cheap (in other words, valuations are reasonable or low) in the U. S. markets are partially correct. Many companies with great balance sheets and awesome margins do currently sport moderate valuations, but most of those tend to have correspondingly modest measures of growth. On the other hand, we follow plenty of companies with great balance sheets and awesome margins whose growth has been strong and therefore sport high valuations. To us, the market's expectation for a company's growth is the key driver of valuation rewards currently.

The next question is twofold: 1) why is this so, and 2) how long will this last? We have to hop on the bandwagon here to explain why: the world's central banks, in an attempt to jump start economic growth in the developed countries, have expanded their balance sheets by historical proportions over the past three years. This leads, so say many, to negative real rates of return. In such an environment, it is the riskier assets and asset classes that deliver better returns, some times much better. Hence higher valuations for higher growth expectations. How long we will have a negative real rate of return environment is not so clear other than knowing that it can not last. Other than for angels, capital is neither free nor infinite. It must have a cost. When the unreality of negative real rates of return disappears, there will be competition in the securities markets for capital. When capital becomes dearer, the suppliers of such need not take as much risk. And when will we see positive real rates of return materialize? Who knows? It will probably show up in government bond rates first. We will be on the lookout.

DISCLOSURES: The Core Equity Composite is comprised of discretionary taxable and tax-exempt accounts of similar risk and investment objectives that are managed according to Princeton Capital Management's conservative, equity oriented investment strategy. Prior to 1/1/09 this strategy and its composite were marketed as Princeton Capital Management's Growth and Income investment product. While the strategy has not changed, it was renamed to reflect its intended strategic role within an investment program. Accounts are included in the composite at the beginning of the first full calendar month each account is fully reflective of the investment strategy. The S&P 500 Index is an unmanaged index considered generally representative of the U.S. stock market. Results are calculated internally using Advent portfolio accounting software and information provided by outside custodial firms. Composite and index performance valuations and calculations include dividends, interest and other earnings and are stated in US dollars. Performance figures for periods one year and longer are annualized. Composite returns are asset weighted and are reported net of fees and commissions. Performance results for individual accounts may vary due to the timing of investments, size of positions, fees, and other reasons. A client's returns may be reduced by other expenses incurred in the management of the client's portfolio. Additional information regarding policies for calculating and reporting returns is available upon request. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. 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 five contributors to performance for the period are based on a representative portfolio (Princeton Capital's oldest Core Equity wrap account portfolio; also a member of the Core 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.